



Australian Government
Department of Finance

Jane Halton AO PSM
Secretary

Secretary
Standing Finance and Public Administration Committees
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Dear Committee Secretary

I am writing in response to your letter of 4 February 2016 advising of the “Inquiry into Commonwealth Procurement Procedures – paper procurement”.

Thank you for inviting the Department of Finance to provide a written submission to the Committee.

A response addressing the terms of reference is at Attachment A.

Yours sincerely

Jane Halton
Secretary

14 April 2016



Australian Government
Department of Finance

Submission to the Finance and Public Administration Reference Committee Inquiry into Commonwealth Procurement Procedures – Paper Procurement

MARCH 2016

1. Introduction

The Department of Finance (Finance) is pleased to make a submission to the *Inquiry into Commonwealth procurement procedures – paper procurement* being conducted by the Senate Finance and Public Administration References Committee. Finance has policy responsibility for the government's procurement framework and also manages the whole of government arrangement for stationery and office supplies that provides general use office copy paper to government entities subject to the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

Finance welcomes the opportunity to clarify the considerations that entities must take into account when procuring paper.

2. Background

2.1 Procurement Framework

The Commonwealth Procurement Rules (CPRs) are issued by the Minister for Finance in accordance with S105B(1) of the PGPA Act. The CPRs govern Commonwealth procurement practices and embody Australia's international trade obligations relating to commitments regarding procurement.

In addition to imposing obligations on the Government's procurement framework, Free Trade Agreements provide Australian businesses access to international trading opportunities including other government procurement markets that could otherwise be closed or difficult with which to engage.

2.1.1 Non Discrimination

Consistent with Australia's international trade obligations, the CPRs require potential suppliers to government to be treated equitably based on their commercial, legal, technical and financial abilities and not be discriminated against due to their size, degree of foreign affiliation or ownership, location, or the origin of their goods and services.

2.1.2 Value for money

Value for money is the core rule of the CPRs. The CPRs define value for money as including, but not limited to:

- a) the quality of the goods and services;
- b) fitness for purpose of the proposal;
- c) the potential supplier's relevant experience and performance history;
- d) flexibility of the proposal (including innovation and adaptability over the lifecycle of the procurement);
- e) environmental sustainability of the proposed goods and services (such as energy efficiency and environmental impact); and
- f) whole-of-life costs.

The assessment of value for money does not include direct consideration or comparison of the multiplier effect of having products made in Australia, and benefits such as local employment and taxation revenue. Inclusion of such factors would be contrary to the international obligation that potential suppliers are not discriminated against due to their size, degree of foreign affiliation or ownership, location, or the origin of their goods and services.

Additionally, consideration of environmental sustainability in the value for money assessment does not override the non-discrimination requirement.

2.2 The Stationery and Office Supplies (SOS) Panel

The government has established whole-of-government arrangements for some goods and services, in common use by multiple entities, to deliver efficiencies and savings.

The three SOS panellists are: Complete Office Supplies Pty Ltd (COS), Staples Australia Pty Limited, and OfficeMax Australia Limited. Agreements with the panellists were executed on 7 March 2012. The initial term of the arrangement was for three years and both one-year extension options have been exercised, so the arrangement will expire on 6 March 2017.

Use of the SOS arrangement is mandatory for *non-corporate Commonwealth entities* and optional for *corporate Commonwealth entities* subject to the PGPA Act. The SOS Panel was established in accordance with the Commonwealth Procurement Guidelines (since replaced with the CPRs), taking account of the non-discrimination requirements. The value for money assessment undertaken to establish the SOS Panel included relevant financial and non-financial considerations.

Entities select one or more Panellists, whose mix of products and services best suit their business needs. Some entities have selected one panellist for their general stationery needs and a different panellist for copy paper. Non-corporate Commonwealth entities must purchase general use office copy paper through the SOS Panel.

The SOS arrangement provides other paper products such as cardboard and tissue paper products. Government expenditure on tissue paper products purchased through the SOS Panel in 2014/15 was less than \$1m.

The SOS Panel supports government environmental and sustainability policies by requiring panellists to comply with relevant environmental legislation, regulations and policy initiatives. Finance also undertakes annual audits to confirm environmental accreditations.

The SOS arrangement offers virgin fibre, recycled, carbon neutral and indigenous copy paper products, including 74 Australian made copy paper products. Entities can make selections based on their business needs.

In the 2014/15 financial year, 80% of government spend was on copy paper with recycled content and 60% was manufactured in Australia

One of the SOS panellists, COS, wrote to Ministers on 5 September 2014 advising that Australian Paper (the trading name for Paper Australia Pty Ltd) has either refused to supply COS with its 100% recycled Australian paper or has offered the product at uncompetitive pricing higher than the market price. COS advised Finance in March 2016 that this situation continues, and also prevents them from supplying paper to the Victorian Government, for which they are the sole supplier to the Stationery and Workplace Consumables State Purchase Contract.

Australian Paper is the sole provider of 100% recycled Australian paper. Entities that source their paper from COS are not able to select Australian made 100% recycled paper.

2.3 Commonwealth Copy Paper Volume Trends

The government reduced its expenditure on copy paper by \$5m (or 38%) from \$13m in 2008/09 to \$8m in 2014/15. Copy paper spend for 2015/16 is forecast to be approximately \$7m. There is a range of factors that may influence the reduction in paper consumption, including:

- the Digital Transition Policy that aims to move Australian Government entities to digital information and records management for efficiency purposes,
- the reduction in Australian Public Service staff numbers, and

- secure ‘print on demand’ solutions that can monitor print volumes and reduce the number of documents printed in error.

The Australian Government total copy paper volume in 2014/15 of approximately 4,000 tonnes is less than 1% of the Australian fine paper market of 645,000¹ tonnes per annum.

3. Progress made in relation to paper procurement

The first Term of Reference for the Inquiry is:

Progress made by the Government to address the recommendations in relation to paper procurement in the Finance and Public Administration References Committee’s report, Commonwealth procurement procedures (tabled 17 July 2014).

The Senate Finance and Public Administration References Committee *Inquiry into Commonwealth Procurement Procedures* which commenced in November 2013, considered the procurement of paper as a case study. The Committee’s report (tabled 17 July 2014) made 15 recommendations relating to aspects of the procurement framework. However, none of these related specifically to paper procurement.

As articulated in the Government’s response to the Inquiry’s report, the CPRs are not intended to target specific categories of goods or services, nor specific industries. This includes the paper industry.

The response also identified that the Government did not support the committee’s recommendations to implement initiatives that preference local suppliers when procuring goods and services valued above the procurement thresholds. Any scheme to preference local suppliers, beyond those specifically included in the CPRs, would result in inequitable treatment of suppliers, which is inconsistent with Australia’s international obligations.

¹ <http://www.adcommission.gov.au/cases/documents/006-Submission-AustralianIndustry-AustralianPaper.pdf>
dated 12/11/2013

4. Procurement connected policies

The second Term of Reference for the Inquiry is

The impact of procurement connected policies, with particular reference to the ICT Sustainability Plan and the National Waste Policy, on securing manufacturing investment and jobs in the paper sector

Procurement connected policies are policies of the Commonwealth for which procurement has been identified as a means of delivery.

In October 2015, the Government agreed to remove 14 of the 18 procurement connected policies from the Commonwealth procurement framework, including the National Waste Policy.

The SOS Head Agreements include clauses that require panellists to comply with Government Policy, including the National Waste Policy.

The key strategy of the National Waste Policy relevant to government procurement is

All governments as significant procurers of goods, services and infrastructure, will embody and promote sustainable procurement principles and practices within their own operations and delivery of programs and services to facilitate certainty in the market.

Panellists must also report annually to Finance on their compliance with government policies and use environmentally friendly packaging where practicable

The Department of the Environment was responsible for the Australian Government ICT Sustainability Plan (the Plan) 2010-2015. The plan was a procurement connected policy. It expired in July 2015 and has not been renewed.

Although there are no formal targets, Finance will continue to support chain-of-custody sources for virgin fibre content such as Forest Stewardship Council (FSC) certified sources/forests, and the Program for the Endorsement of Forest Certification (PEFC) schemes.

There are currently four procurement connected policies which can be found at: <http://www.finance.gov.au/procurement/procurement-policy-and-guidance/buying/policy-framework/procurement-policies/principles.html>. Two of these policies, namely the Australian Industry Participation Plans and the Indigenous Procurement Policy are relevant to this Inquiry.

4.1 Australian Industry Participation (AIP) Plan

AIP Plans are a procurement connected policy for Commonwealth procurements over \$20 million. AIP Plans are a requirement of a number of WoAG arrangements. The Department of Industry is responsible for the policy, which requires AIP plans to set out how companies will provide full, fair and reasonable opportunity for Australian industry to participate in projects.

As part of their tender response, SOS panellists submitted AIP plans that were considered as part of the value for money evaluation. Panellists are required to annually submit an implementation report to Finance that identifies achievements under their AIP plan.

4.2 Indigenous Procurement Policy (IPP)

The IPP is a procurement connected policy that commenced on 1 July 2015 and is managed by the Department of the Prime Minister and Cabinet. It requires Commonwealth entities to award three per cent of Commonwealth contracts (by number) to Indigenous businesses by 2020, with interim targets applying each year from 2015-16.

In addition, the IPP requires that certain contracts be set aside for Indigenous businesses and that some other contracts include mandatory minimum Indigenous employment or supplier use requirements.

The SOS arrangement provides entities with access to a range of Indigenous products, including general use office copy paper, which can contribute to meeting the IPP's targets.

5. Conclusion

This submission identifies that Government annual expenditure on copy paper is small when compared to the total Australian made copy paper market. It also shows that Government entities take into consideration environmental principles in the procurement of copy paper, with the majority purchasing paper with recycled content and/or environmental certifications. Entities are also purchasing Indigenous products.

The SOS arrangement that supplies paper products to the majority of government entities was established and is managed in accordance with the requirements of the CPRS. It delivers value for money to the Government.

The procurement framework does not allow entities to preference Australian made products above comparable alternatives, solely because they are made in Australia. Preferencing Australian made could jeopardise markets that were once closed or difficult to access. It also does not take account of broader economic benefits that Australian made products may generate.