Proposition to the City Government
City of Oslo

[municipal crest] Oslo

Oslo City Government Proposition 1004/25

Revised standard climate and environmental requirements for transport in City of Oslo procurements of goods and services

Summary:
The City of Oslo aims to cut 95 percent of its greenhouse gas emissions by 2030, and procurements are a key strategic measure in reaching this goal. A significant percentage of greenhouse gas emissions in Oslo can be attributed to transport activities from suppliers to delivery to or perform services for the City. In 2019, as part of its effort to attain the City's ambitious climate objectives, the City adopted standard climate and environmental requirements for transport activities in the City's procurements of goods and services, cf. City Government Proposition 1123/19. In this proposition, the City aims to have all vehicles be either zero-emission or biogas-fuelled by 01 January 2025.

The market for transport services has shifted to zero-emission relatively quickly. It has therefore been proposed that zero-emission or biogas-fuelled vehicles are made a contract requirement in all contracts where transport is included as part of performance. The requirement will be mandatory for all procurements of goods and services where transport is included as part of performance. It has furthermore been proposed that the contract value from which transport requirements become mandatory be reduced, from NOK 500,000 to NOK 100,000. This is based on the current entry point in procurement legislation. The requirement must now be included when transport activities occur, on average, twice per month. This means that the revised requirements will apply to more contracts than under the current requirements.

Requirements that are no longer necessary or that have had the desired effect are proposed removed.

This proposition replaces the guidelines that follow from City Government Proposition 1123/19: Standard climate and environmental requirements for transport in City of Oslo procurements of goods and services.

Presentation of proposition:

1. **Background**

The climate strategy aims to cut emissions by 95 percent by 2030. In 2019, the City Government adopted the Standard climate and environmental requirements for transport in City of Oslo procurements of goods and services (1123/ 19). The background for introducing these requirements was that road transport was (and remains) the biggest source of greenhouse gas (GHG) emissions in Oslo. Prior to 2019, almost none of the City's deliveries were made with emission-free transport methods. Imposing requirements and rewarding suppliers that were able to make emission-free deliveries was considered to be a good strategy for forcing a transition in the market.

The current requirements are formulated as a combination of minimum requirements, award criteria and contract requirements. The minimum requirements describe the mandatory characteristics of the procured product or service. Award criteria describe the elements of each tender that shall be taken into consideration to determine the winning tender. The contract requirements are the general and specific requirements that are included in the contract.

Under the current standard, a market survey shall always be completed prior to any procurement. Feedback from suppliers in the market survey determines whether the procurement in question will impose minimum requirements or use award criteria. If the market survey shows that three or more suppliers will be able to deliver using zero-emission or biogas vehicles, this will be included as a minimum requirement. If less than three suppliers will be able to deliver using zero-emission or biogas

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vehicles, award criteria shall be used to evaluate suppliers in an effort to promote the use of zero-emission or biogas vehicles.

The standard requirements shall be applied in all procurements where the annual contract value exceeds NOK 500,000, provided transport is a necessary part of performance and transport activities, on average, take place weekly through the contract period. The requirements focus on the last transport distance in connection with the delivery of goods or services to the City's locations. this is often termed "last mile".

2. Experiences from the current requirements

The current requirements were adopted in an effort to increase the percentage of zero-emission and biogas vehicles in the City's transport activities. Experiences show that the requirements have had the desired effect and have been a key contribution in the City's efforts to reduce GHG-emissions.

Since the introduction of the requirements in 2019, developments in the market have been positive. Based on statistics from the Norwegian Public Roads Administration, the percentage of electric vehicles among new vehicle registrations in Oslo has increased from 56 percent in 2019 (41 % nationwide), to 91 percent so far in 2024 (87 % nationwide). In 2019, the percentage of electric vehicles among new van registrations was 10 percent (6 % nationwide), compared to 39 percent (29 % nationwide) so far in 2024.

As for heavy vehicles (>3.5 tonnes), the development in Oslo has gone from no electric heavy vehicles in 2019 to 28 percent so far in 2024 (12 % nationwide). The percentage of biogas-fuelled heavy vehicles has also increased, from 6 percent in 2019 (2 % nationwide), to 21 percent so far in 2024 (11 % nationwide). Figures from the Norwegian Road Federation (OFV) confirms this trend, but their figures for new heavy vehicles only includes vehicles over 12 tonnes. OFV's figures show that the percentage of electric heavy vehicles registered so far in 2024 in Oslo is 15 percent (6% nationwide), whereas biogas-fuelled heavy vehicles make up 18 percent (9 % nationwide). Overall, electric and biogas-fuelled heavy vehicles in Oslo make up 34 percent of new registrations so far in 2024, compared to 15 percent nationwide.

The percentage of electric and biogas-fuelled vehicles is significantly higher in Oslo than in the rest of the country. This development is also reflected in the City's market surveys, which show that the City's suppliers have come a long way in transitioning their vehicle fleet to zero-emission and biogas vehicles. The City of Oslo's standard requirements have incentivized suppliers to invest in zero-emission and biogas vehicles. Once a supplier has invested in zero-emission or biogas vehicles, one must assume that these will be used in deliveries to other customers as well, not just the City of Oslo. The standard requirements for transport therefore yield climate gains beyond the City's own contracts. For joint purchase agreements, the City is well on its way to achieving the goal of having all vehicles either be zero-emission or biogas-fuelled and compliant with, at minimum, Euro 6/VI by 01 January 2025. This is in spite of disruptions in supply chains due to the Covid pandemic, the war in Ukraine and inflation.

As for heavy vehicles, developments have been very good for vehicles used in the distribution of goods. The requirements are most frequently applied in the goods distribution market, and this is a positive development. There are, however, some areas where the market has not made quite the same strides, and where it has proven challenging to acquire the vehicles needed for fulfilment of the contracts. This applies, among others, to vehicles used in clearing snow, and the situation disproportionately affects road maintenance contracts in the Agency for Urban Environment (BYM).

The standard requirements must be included in all of the City's relevant procurements, unless any of the exemption clauses of City Government Proposition 1123/19 apply. The adoption of the requirements among City undertakings has varied. The Municipal Audit's report 3/2024 *Grønne anskaffelser – klima og miljøkrav* shows that transport requirements are included in all of the City's joint purchase agreements and around half of the City's other procurements of goods and services. This report, however, does not take into account the exemptions allowed under the standard requirements.

3. Equal treatment of zero-emission and biogas-fuelled vehicles in the standard requirements

Under the current requirements, zero-emission and biogas-fuelled vehicles are treated equally. As early as 2019, the City of Oslo decided that zero-emission and biogas vehicles would become the minimum requirement from 01 January 2025. This restriction has been included in all contracts established prior to 01 January 2025 if the contract duration extends into 2025 or beyond.

Biogas, however, is not emission-free, and can, to some degree, have a detrimental impact on air quality. Zero-emission vehicles are therefore preferred over biogas vehicles. Nevertheless, biogas is fossil-free, contributes to increased utilization of waste resources, and has been highlighted in the climate strategy as one of the fuel technologies included in the zero-emission city. For many years to come, biogas will likely remain the better choice for some types of heavy vehicles, due to considerations of availability and operational reliability.

Zero-emission vehicles are a more expensive investment than biogas. Equal treatment of these technologies could therefore have unwanted outcomes if the suppliers also compete on price. Experiences so far, however, show that electric transport is a preferred choice in the City's goods and services contracts. This is primarily due to zero-emission technologies being much more readily available in this market. Another explanation could be that the City of Oslo's goods and services contracts often have long contract periods. This could incentivize suppliers to invest in zero-emission technology, as zero-emission vehicles cost less in a lifecycle perspective.

If the market, as a result of this equal treatment, shifts to become majority biogas, and the zero-emission market stagnates, the City will consider amending its requirements.

The requirements have led to many of the City's supplies having invested in both zero-emission and biogas vehicles in order to continue their fulfilment of City contracts even post 01 January 2025. The City of Oslo wants to be regarded as a serious, predictable and responsible procurer. It is therefore important for the City to take into consideration the suppliers who have invested in biogas vehicles in accordance with the current requirements.

On this basis, it is therefore proposed that the equal treatment of zero-emission and biogas vehicles continue.

4. Amendments and recommendations for revised requirements

4.1 New contract requirement "Vehicles and fuels"

The current climate and environmental requirements consist of minimum requirements, award criteria and contract requirements. As a result of the market developing faster than outlined in City Government Proposition 1123/19, the Agency for Improvement and Development (UKE) has carried out pilot projects, where the contract requirements only allowed zero-emission and biogas vehicles. Experiences from these pilot project have led to simplified procurement processes and high goal attainment in the form of a high percentage of fossil-free transport. Zero-emission and biogas vehicles are widely available in the market. This means that in most cases it will be possible to achieve sufficient competition even when the contracts require zero-emission and biogas vehicles.

On this basis, a simplification is proposed, where the revised requirements consist of contract requirements only. It is proposed that the current minimum requirements for zero-emission and biogas vehicles and the contract requirements for vehicle technologies (currently contract requirements I–IV) be reworked and merged into a new, joint contract requirement "Vehicles and fuels" (contract requirement I). The new contract requirement will entail that all vehicles must be emission-free or biogas-fuelled from contract start.

This requirement also includes the option for suppliers to use e-bikes in contract fulfilment. This can be removed from contracts where the use of e-bikes is not relevant.

In some contracts, the use of machinery is relevant. In these situations, the machinery shall also be included by the requirement.

4.2 Phase-in time during the contract period

In some cases, market surveys will show that suppliers will not be able to meet requirements for zero-emission or biogas for all vehicles from contract start, but they will be able to get there at some point during the contract period. This could be situations where, e.g., zero-emission or biogas technologies for relevant vehicles will become available shortly, or where the supplier cannot invest in the vehicles until they have been awarded the contract. The contract requirement "Vehicles and fuels with a phase-in period" (contract requirement II) shall be used in such situations, and the phase-in time shall be specified in all contracts. A phase-in time in the contract entails that the suppliers must meet zero-emission or biogas vehicle requirements at some point during the contract period, but not from contract start.

The phase-in time shall be as short as possible, and shall not extend beyond two years from contract start. As a norm, phase-in times shall only be used for vehicles with a maximum authorised mass exceeding 3.5 tonnes. This is because the availability of zero-emission technology is very high for vehicles under 3.5 tonnes, which means that a phase-in time will not be a relevant option for these types of vehicles.

Vehicles under this requirement, i.e. vehicles that are not emission-free or biogas-fuelled from contract start, must comply, at minimum, with Euro 6/VI, and must use sustainable liquid biofuels without palm oils from contract start. The current practice of requiring biofuels beyond the turnover requirement is continued.

The categories of vehicles for which phase-in times are used may vary from contract to contract. UKE can provide guidance on various ways to implement the phase-in requirement.

The requirement also applies to machinery, if machinery is a part of the contract.

4.3 Contract areas where the main rule does not apply

For some contracts, it will be highly uncertain whether certain vehicle types can be transitioned to zero-emission or biogas technology, even with a phase-in period. In such cases, contract requirement I or II shall be used wherever possible, i.e. for the types of vehicles where the use of zero-emission or biogas technology is possible. For vehicles where this is not possible, compliance with, at minimum, Euro 6/VI and the use of sustainable liquid biofuels without palm oils (contract requirement III) shall be required. Please note that from the time zero-emission and biogas vehicles become available for these contracts, new procurements shall include these requirements. It is furthermore important to note that climate and environmental requirements shall always be applied to transport activities, and that this is especially important in contracts where a market transition to zero-emission or biogas technologies can be challenging.

The same applies to machinery, if machinery is part of the contract.

UKE shall, in collaboration with relevant undertakings with contracts where the standard requirements are not enough to achieve a transition to zero-emission and biogas technologies, find suitable methods to incentivize the market to take steps in the right direction. New guidelines and methods shall be included in UKE's guidelines for transport requirements.

The City of Oslo shall maintain ambitious climate and environmental requirements, and it important that these requirements develop in step with market developments. In the short term, we expect to see fewer contract areas where the main principle of using zero-emission and biogas vehicles cannot be applied. In the long term, we will consider whether the City's requirements need to be updated.

4.4 Exemptions from requirements during the contract period

The contract requirement "Exemptions" (contract requirement IV) is proposed continued, with minor linguistic changes. This contract requirement allows for exemptions to be granted if the supplier can document that it is not practically possible to comply with the main requirement.

4.5 Continuation of contract requirements concerning non-compliance

The contract requirement "Non-compliance with environmental requirements" is continued, with minor linguistic changes.

Procurements subject to these requirements vary in nature, size and scope. The size of the daily penalty must therefore be decided by the client in each individual case. The size of the daily penalty shall be proportionate to the non-compliance.

4.6 Requirements proposed removed

The current standard requirements for transport include requirements and criteria where the goal has been to reduce and streamline transport activities in the City's contracts. This applies to the contract requirements "Amended terms of delivery", "Energy-efficient driving", "Idling", and "Multiple concurrent contract requirement", as well as the award criterion "Route optimization". Some of these have not worked as intended, and others have either not been applied or compliance has been difficult to monitor. In addition, some will not be relevant once zero-emission vehicles are phased in. It is therefore proposed to remove the above requirements from the standard requirements.

5. Scope of application for the requirements

5.1 Procurement value

The City of Oslo shall conduct itself in accordance with the fundamental principles of competition, equal treatment, predictability, verifiability and proportionality, cf. Section 4 of the Public Procurement Act. The contract requirements imposed by the client must be proportionate and relevant for the deliverable in order to be lawful. The smaller and simpler a procurement is, the less comprehensive requirements can be imposed. In addition, it must be possible to fulfil contract requirements.

It is proposed that the scope of application for the standard requirements for transport is expanded, by reducing the triggering value from NOK 500,000 to NOK 100,000. The new value limit is defined based on the current trigger value in procurement legislation, and it is deemed proportionate to impose standard requirements in all procurements subject to procurement legislation.

If the condition for imposing requirements on transport has been met, a justification shall be included in the contract strategy for the procurement in question. This means procurement that either have a value below NOK 100,000, where transport occurs less than twice per month on average, or where transport cannot be said to be part of contract fulfilment.

It is nevertheless encouraged that the requirements be applied insofar they are relevant, and that once considers whether to include the requirements in procurements with a value below NOK 100,000 as well. It is pointed out that the City has a universal guideline to always request biogas or zero-emission solutions.

5.2 Last mile

The transport requirements shall be included in procurements where transport is part of performance. This means procurements of goods and services where transport is necessary in order to receive the procured goods or services. The requirements focus on the last transport distance in connection with the delivery of goods or services to the City's locations. This often termed "*last mile*".

The requirements for vehicles used in contract fulfilment also apply in contracts where no goods are delivered to or no work is performed at the City's locations. This includes, e.g., passenger transport or goods transport that is part of contract fulfilment, but where the transport does not originate or end at one of the City of Oslo's locations. As an example, the transport activity can originate or end at the supplier's location. In such cases, the requirements apply to the vehicle the supplier uses to carry out this transport.

5.3 Transport frequency

The current practice is to impose transport requirements when transport activities are necessary and occur, on average, once per week over the course of the contract period. Considering that zero-emission and biogas vehicles are now widely available in the market, questions have been raised as to whether more stringent requirements should be imposed. At the same time, there must be a certain proportionality between the requirements imposed by the contract and the deliverable, see section 5.1 above. It is therefore proposed that the practice be somewhat adjusted, to make transport requirements mandatory in all procurements of goods and services where transport activities are necessary and occur, on average, twice per month or more, over the course of the contract period.

5.4 Exemption under special circumstances

In procurements where the criteria for imposing requirements have been met, but where there are special circumstances that make the application of said requirements disproportionately burdensome, exemptions may be granted upon application. The vice mayor for the relevant area is authorized to approve exemptions. Exceptionally compelling circumstances must be present to grant an exemption from imposing transport requirements. This is intended as a very narrow exception.

6. Public Procurement Regulations and weighting of climate and environmental considerations

Section 7-9 of the Public Procurement Regulations establish that climate and environmental considerations shall be weighted at 30 percent in public procurements. The award criteria can be replaced by climate and environmental requirements in the specifications if it is clear that these will lead to a better climate and environmental impact.

In City of Oslo contracts, climate and environmental requirements for transport shall be preferably be imposed as contract requirements instead of as award criteria. In the City's assessment, it is clear that the procurement can achieve a better environmental impact by imposing climate and environmental requirements for transport than by weighting climate and environmental requirements as award criteria. One must nevertheless make a specific assessment in each procurement, cf. Section 7-9 of the Public Procurement Regulations.

7. The vice mayor's assessment

While developments are moving in the right direction, one must encourage a more rapid pace of transition if the City is to achieve its adopted climate goals. The transport sector remains the most important focus area in the City's efforts to reduce its GHG-emissions by 95 percent by 2030. It is therefore necessary to revise the standard requirements for transport activities in the City's procurement of goods and services.

It has been almost six years since the current requirements were adopted. The premise on which the proposition from 2019 was based have not been fully realized in terms of technological and market developments. At the same time, developments in other areas have been faster than expected. In order for the requirements to remain relevant and accurate, they must therefore be revised.

In the vice mayor's assessment, it is important that this revision focus on making it simpler for undertakings to apply the transport requirements. Another key objective for this proposition is to increase application of the requirements in relevant procurements.

Overall, the revised requirements will entail that more procurements are subject to the climate and environmental requirements for transport, which will contribute to further reductions in direct GHG-emissions from the transport sector.

8. Assessment of the proposition's climate impact

A significant percentage of greenhouse gas emissions in Oslo can be attributed to transport activities from suppliers to delivery to or perform services for the City. This proposition will contribute to further reductions in GHG-emissions from the transport sector in the City's procurements of goods and services, in that requirements for zero-emission or biogas vehicles are implemented sooner than previously anticipated, and more procurements are subject to the City of Oslo's standard climate and environmental requirements.

9. Laws and regulations, previous decisions

National legislation:

- Public Procurement Act of 01 July 2017
- Public Procurement Regulations of 01 July 2017

Municipal regulations:

- City Council Proposition 109/2020 Climate strategy toward 2030
- City Council Proposition 432/2023 2024 budget, document no. 3 (Climate Budget 2024)
- City Government Proposition 1123/19 Standard climate and environmental requirements for transport in City of Oslo procurements of goods and services
- City Government Proposition 1091/19 Standard climate and environmental requirements for City of Oslo construction sites
- City Government Proposition 1104/17 City of Oslo procurement strategy
- City Government Proposition 1036/22 New guidelines for city governance

10. Economic and administrative consequences

The amendments proposed here continue the primary objective of City Government Proposition 1123/19 of achieving 100 percent use of zero-emission and biogas vehicles from 01 January 2025. The proposition established that from 01 January 2025, all deliverables to/contracts with the City of Oslo where transport was part of contract fulfilment would use zero-emission or biogas technologies. When City Government Proposition 1123/19 was adopted, it was believed that requiring zero-emission and biogas vehicles in contract areas where such technologies were not yet widespread could lead to increased costs.

The market is significantly more mature now than it was when the first standard climate and environmental requirements were adopted in 2019 (see description of marked developments in section 2 above). This is especially true for passenger vehicles, vans and heavy vehicles. The proposed revisions are based on these developments. For contracts where these types of vehicles are used, we do not expect any increase in costs from adopting this proposition. For suppliers, the acquisition cost for zero-emission and biogas vehicles is higher than for fossil-fuelled vehicles, especially for heavy vehicles. However, calculations show that operating costs are lower than for fossil-fuelled vehicles, and in a lifecycle perspective, zero-emission vehicles are the most cost-effective of all vehicle categories. This is a financial incentive for the market to transition. As a result, zero-emission and biogas vehicles will become more competitive, which is expected to result in reduced costs for the City.

At the same time, there are some market areas where developments have not gone as predicted in 2019. This includes some types of heavy vehicles, especially those used in road maintenance contracts, e.g. snow ploughs. In these contracts, requiring zero-emission or biogas technologies could lead to disproportionately high costs. In addition, there are other barriers associated with implementing zero-emission technology for these types of vehicles as well. For this reason, we propose separate requirements for the types of vehicles where emission-free technologies are not yet advance enough. This constitutes a softening up of requirement for these specific types of vehicles, which is why it has been specified that the requirements apply to these specific vehicles only. For other types of vehicles in the same contract, the main principle shall apply. This adjustment will entail that the City can avoid increased costs compared to the costs from the current requirements.

The proposed revisions also include a requirement for phase-in times in contracts. This requirement is intended for contracts where certain categories of vehicles are not available at the start of the contract, but it is expected that the vehicles will become available at some point during the contract period. In these situations, there is a requirement for a phase-in period, where the City does not require that the vehicles be used from the start of the contract, but that they will be put into use as soon as they become available. As a result, the City avoids increased costs compared to the current requirements.

A higher percentage of the City's procurements will become subject to the requirements when the contract value is decreased and transport requirements must be imposed if transport activities occur, on average, twice per month, compared to an average of once per week. This could potentially entail some additional work for the client and the supplier, as this has not previously been part of procurement requirements. It is unlikely, however, that the new requirements will have any significant economic consequences. This is due to the fact that contracts subject to the new requirements largely use small and medium vehicles in contract fulfilment. In addition, market surveys show that many of the City's suppliers have made great strides in transitioning their vehicle fleets to zero-emission technology, even in the parts of their fleet that has not previously been subject to the City's requirements.

In addition, the simplifications made in this proposition are expected to save the City time, as it will become easier to implement the transport requirements and easier to monitor compliance. The suppliers are also expected to save time, as there will be fewer requirements and fewer documentation requirements associated with City of Oslo procurements.

At the same time, it is necessary to test out new methods for market development as concerns vehicle categories that are not yet widely available. This could entail increased administrative costs in terms of increased work for the City.

11. Reporting

Reporting will be handled by the ordinary reporting systems, there are no propositions for a special reporting system.

12. Decision-making authority

In accordance with Section 10-2 (4) of the Local Government Act, the city council may delegate decision-making authority to the city government in all cases, if not prohibited by law. In the rules for the City Government, the City Council delegated to the City Government the authority to adopt administrative regulations that pertain to administrative support functions, cf. City Council Proposition 187/19. It has been found that the decisions pertaining to this proposition fall under the authority of the Vice Mayor.

<u>The Vice Mayor for Finance recommends that the City Government make the following decision:</u>

1. The revised standard climate and environmental requirements for transport in City of Oslo procurements of goods and services are adopted as presented in Annex 1.
2. The individual vice mayor is authorized to approve exemptions from standard contract requirements where the subordinate undertaking in a specific contract has documented a special need for an exemption.
3. The Vice Mayor for Finance is authorized to make amendments to the standard climate and environmental requirements for transport in City of Oslo procurements of goods and services as is deemed necessary to comply with relevant laws, regulations and overriding municipal decisions, as amended, as well as minor amendments of a non-fundamental nature.
4. Decision sections 1–9 of City Government Proposition 1123/19 are annulled.

Vice Mayor for Finance, on 16 January 2025

Hallstein Bjercke

<u>The City Government adopted the recommendations made by the Vice Mayor for Finance</u>

City Government, on 23 January 2025

Eirik Lae Solberg

Annex:
1. Standard contract requirements for transport in City of Oslo procurements of goods and services