

CHALLENGES OF COMMERCIALIZATION OF KENAF PAPER GOVERNMENT SALES - A CASE STUDY

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INTRODUCTION

This paper reflects the experience of KP Products Inc. doing business as Vision Paper in selling kenaf paper to the government. While this discussion is specifically dealing with paper, it is worth noting that similar roadblocks exist for other new product concepts. There is an understandable effort on the part of existing industries to hold onto their existing market share and to block the introduction of new competing products. A number of USDA/AARC^[i] companies have experienced similar roadblocks, and with the demise of the AARC corporation, little, if any, advocacy for new crops and new uses exists in Washington to help affect policy.

Background

The Federal Government represents a very large market opportunity for many products, including paper. The General Services Administration (GSA), the nation's landlord and a major supply and purchasing agency for the Federal Government, acquires more than \$40 billion in goods and services from the private sector annually. GSA represents sales of over \$200 Million annually of over 1,000 recycled paper products.

State and local level governmental entities regularly copy the purchasing practices and guidelines of the Federal Government. Government contractors are frequently required to follow federally defined procurement guidelines. These guidelines regularly find their way into the private sector's purchasing practices. Thus the Federal Government represents a significant market segment, especially for a new product concept. In the case of recycled paper, when the government began specifying its use, it bolstered the market, which caused increased production, and subsequently lower prices.

Federal purchasing of paper is governed by a host of regulations and agencies; a short list of which includes; the GPO, or Government Printing Office, which produces or administers by way of contracts and awards, the production of a vast majority of the printed material generated by various agencies. The GSA, or General Services Administration provides the office paper for most government entities. The JCP, or Joint Committee on Printing is made up of members of the House and Senate, and they oversee the process of defining which types of paper, and the technical specifications required for government purchasing. This committee was formed in response to printing contract scandals in the distant past, and it is currently being phased out, with its responsibilities falling to the GPO.

Additionally, FPPA and FAR's which are the Federal Procurement Policy Act, and The Federal Acquisition Regulations define procurement policy for GPO, GSA, and agency purchases. These are the regulations most applicable to government purchasing agents at most agencies and at most levels and they define competitive bidding and lowest price regulations. Recently the Environmental Protection Agency (EPA) has been charged with identifying recycling goals and Environmentally Preferable Purchasing guidelines.

The Food, Agriculture, Conservation and Trade act of 1990 was amended as a part of the 1996 Farm Bill, to give purchasing preference to AARC companies. This amendment was hard fought for but was ultimately meaningless in its effect. The Competition in Contracting Act is problematic when you are the first company trying to introduce a new product, since you have no competition.

There are also Executive Orders (EO'S), which are issued by the President from time to time, particularly towards the end of a second term. A few relevant and recent EO's are discussed later. The Resource Conservation and Recovery Act (RCRA) originally defined government's intent to support recycling and energy conservation. And there is the U.S. Code - which governs many aspects of doing business in the U.S. Additionally, there are innumerable specific acts of Congress, such as the Jacob/Javitts bill, which gives purchasing preferences to industries that provide jobs for the blind. Under this act, NIB, the National Industries for the Blind produces paper pads, business cards, and other paper and non-paper items for government sales.

This case study

In 1992 KP Products Inc. produced the very first commercial scale kenaf paper that was made from 100% virgin kenaf fiber, U.S. grown, and totally chlorine free. At the time, none of the previously mentioned regulations or agencies acknowledged the possibility that paper could be made without trees or cotton.

In support of our initial efforts, Dan Kugler prompted the USDA to buy a skid (40 cartons of 10 reams each, approximately 2,000 pounds) of our first production run. This was our first experience with selling anything to the Government. Looking back, it was one of the easiest government transactions we've ever encountered.

In August of 1993, with the support of Chuck Taylor of Kenaf International, the proceedings from the First Biomass Conference of the Americas were printed on 100% kenaf paper. The printing contract was issued through the GPO, and coordinated by the National Renewable Energy Laboratory in Golden, Colorado. GPO does not actually buy paper, rather they purchase finished print jobs. GPO issues contracts to printers, and it is the individual printers who procure the paper. GPO's bid request specifies the paper stock to be used, and since our paper was an unknown product (it hadn't yet been specified by the Joint Committee on Printing), it required very diligent follow-up, on a daily basis, by a number of people, in order to get this order. In the end, the printer required a size that was nonstandard, and the fulfillment involved two 24-hour days to convert the paper to the required size at great cost and aggravation.

On October 20, 1993, President Clinton issued an Executive Order, EO 12873, titled "Federal Acquisition, Recycling, and Waste Prevention." This EO changed the rules regarding paper purchasing, and required government to buy paper that had a minimum 20% post consumer recycled content. EO 12873 was both good news and bad news. The good news was that it created a function called the Federal Environmental Executive. The Federal Environmental Executive is charged with establishing within EPA, guidance on the acquisition of environmentally preferable products and services. The bad news was that the kenaf paper we were making was 100% virgin fiber, and thus did not qualify for purchase by the government because it did not contain the 20% post consumer recycled pulp required by the EO language.

On July 1, 1994 - the Joint Committee on Printing issued technical specification JCP A150, titled Uncoated Vegetable-Fiber Book. This specification identified that paper made from nonwood vegetable fibers was permitted for government purchasing. While JCPA150 is a cumbersome specification, it served the purpose of introducing to government purchasing the notion that paper could be made from something other than trees or cotton.

The company secured an equity investment from the USDA/AARC Corporation in October 1994. Because of this investment relationship, the company was required to explore and develop marketing opportunities with various segments of the USDA and Federal Government.

On May 31, 1995, the Federal Acquisition Regulations (FAR's) were adjusted to allow consideration of Environmentally Preferable Products. The guidance issued by the EPA allows for "consideration of broad environmental factors in acquisition decisions." Then in September 1995, EPA released a preliminary report on environmentally preferable products and purchasing.

In late December of 1995 the Environmental Defense Fund (EDF) released its "Paper Task Force Report" on Environmentally Preferable Paper. This report was a cooperative effort led by the Environmental Defense Fund, and consisting of Duke University, Johnson & Johnson, McDonald's, The Prudential Insurance Company, and Time, Inc.

In its recommendations, EDF did not consider kenaf paper to be Environmentally Preferable, preferring paper made from intensively managed tree farms instead. "Where climatic and soil conditions allow one to choose between growing annual crops and trees, current research suggests that trees on this land would be preferable from an environmental perspective. These studies indicate that the fiber yields on non-wood plants do not appear to be significantly greater than those of fast-growing hardwood and softwood trees grown under intensive management regimes when one compares the yield of fibers with similar performance properties."^[ii] Prior to the EDF's release of this report, Vision Paper, and others, notified and provided data to EDF contrary to their finding. EDF choose to ignore this input, and issued an error filled report.

Coincidentally, on December 14, 1995 Vision Paper proposed that the 1996 farm bill be printed on Mississippi farm grown kenaf paper with farm grown soy ink, to the U.S Government Printing office, with unanimous support of Mississippi and New Mexico congressional delegates. The initial proposal was positively accepted by GPO, and indications were that it would be done. Then on January 25, 1996 the Government Printing office reversed its position. Francis W. Biden, Director, Office of Congressional, Legislative, and Public Affairs wrote a letter saying “it would be against the law” to print the farm bill on paper made from kenaf, because; a) it would require approval of the JCP; b) it must contain post consumer fiber; c) the inks used must be soy; and d) the paper must contain an alkaline reserve to assure longevity. Items a, b, and d were all previously addressed with GPO, and item c was irrelevant to the paper. However, by the time the objections could be answered, the farm bill was already printed.

On September 14, 1998, another Executive order, EO 13101 titled “Greening the Government Through Waste Prevention, Recycling, and Federal Acquisition” was issued. This EO upped the recycled content requirement to 30% post-consumer content and began the recognition and definition of Bio-Based Products. According to our current understanding, kenaf paper is included in the Bio-Based products preferential language.

In Spring of 1999, the Environmental Protection Agency’s “Environmentally Preferable Purchasing” group decided to use kenaf/recycled paper for its newsletter, to highlight papers that EPA has determined to have certain positive environmental attributes. They specified kenaf paper on their procurement contracts, and referenced JCPA150, and had assurances from GPO that the job would be printed on kenaf paper. In the copy of the newsletter, they included an article about the kenaf paper, and a general description. Somehow, during the contracting process, the kenaf paper requirement disappeared, and the print job came back printed on regular wood based paper. This prompted EPA to issue an "oops" postcard, mailed to the original mailing list, printed on kenaf paper, acknowledging the error. EPA also ordered a reprint (1,000 copies) on kenaf paper.

The postcard mailing received more attention than the original newsletter mailing, at least from the American Forest and Paper Association, and the Environmental Defense Fund (EDF). Both groups called EPA within a day to discourage EPA's use of kenaf paper. EDF's criticism relied upon the findings of the Paper Task Force and its "Nonwood Plant Fibers as Alternative Fiber Sources for Papermaking (White Paper #13). The attention eventually led to a meeting in September 1999, with EPA, USDA, USDA/AARC and Vision Paper to discuss the EDF report and its faulty findings.

The faulty information contained in the EDF's White Paper #13 includes, among other things, the representation that a short ton (2,000 pounds) is equal to 1.1 metric tons (2,204 pounds x 1.1 = 2,406 pounds), that the density of softwood was equal to 60 tons per cubic foot, and that the density of hardwood was 40 tons per cubic foot. They also reported on fertilizer applications of 17 tons per acre per year on tree farms. These inexplicable errors call into question whether the report could have been reviewed as represented.

Based upon the information reviewed at the EPA meeting, EPA acknowledged that the report was flawed, and that its findings could not be relied upon. EPA, in conjunction with USDA, has claimed the intention of initiating a panel of experts to evaluate the environmental attributes of kenaf. An official announcement of the panel is expected in the near future.

CONCLUSIONS

The complexities of selling commodity paper to the government are vast. The resistance encountered comes from inside and outside the government. Insiders are resistant to change in any and all forms. This includes resisting changes to work flow, paper work processes, and procedures. Outside forces work to maintain existing supply channels, and limit competitive entry.