

Green Procurement Initiatives by Toyota Motor Corporation

1. Toyota’s Environmental Initiatives

Toyota Motor Corporation adopted its Guiding Principles in 1992, which describe the firm’s commitment to “Dedicate ourselves to providing clean and safe products and to enhancing the quality of life everywhere through our activities.” The firm’s Guiding Principles serve as the basis for the “Toyota Earth Charter,” which contains its basic policy for global environmental preservation, as well as its action guidelines and organizational framework for environmental preservation.

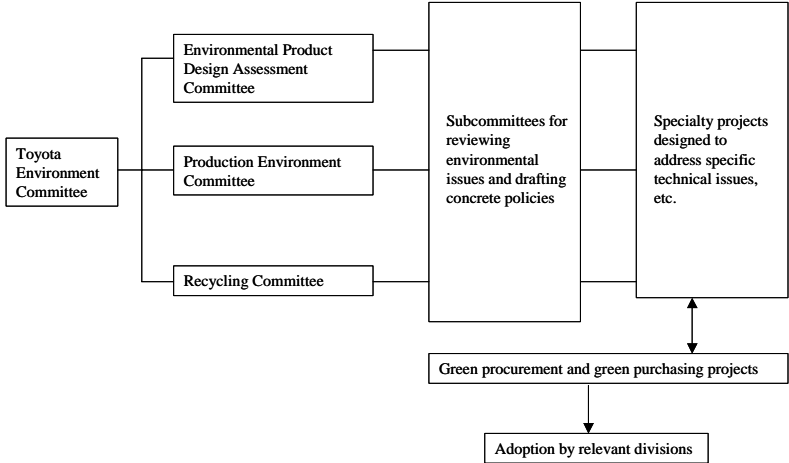
Toyota established its first “Toyota Environmental Action Plan” in 1993, as a means of implementing concrete initiatives that reflect the policy expressed in the Toyota Earth Charter. The Toyota Environmental Action Plan contains specific initiatives and targets in a variety of endeavors, and is currently in its third revision. Among other initiatives, the current Action Plan specifies that Toyota will endeavor to work more closely with suppliers and further promote green procurement and green purchasing on a global scale.

2. Organizational Framework for Environmental Initiatives

Toyota has established a Toyota Environment Committee with the aim of promoting the policies of the Toyota Earth Charter on a company-wide basis. The Committee is chaired by the President of Toyota Motor Corporation, and is assisted by separate committees related to product design, production and recycling, thereby covering the entire spectrum of activities ranging from the development of automobiles through to their disposal. The product design, production, and recycling committees are served by subcommittees that are responsible for reviewing environmental issues, drafting corresponding policies, and establishing a framework where the activities of relevant divisions can be coordinated in order to jointly promote environmental initiatives.

Toyota has also created an Environmental Affairs Div. that is involved in drafting company-wide environmental policies, and also carries out the administrative work of the firm’s various environmental committees and subcommittees. The Environmental Affairs Div. also promotes green procurement and green purchasing projects within a company-wide framework, as prescribed by the Third Toyota Environmental Action Plan. It does so by coordinating the direction of Toyota’s purchasing divisions in order to establish a company-wide framework for implementation. Once the relevant project content and framework have been established, the projects are incorporated into the work of the relevant divisions within Toyota.

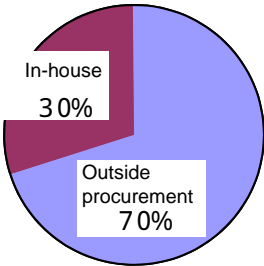
Organization Chart



3. Basic Policies for Procurement

Toyota Motor Corporation works with many suppliers to procure vehicle parts and materials such as steel. The cost of procuring vehicle parts and materials accounts for 70% of the manufacturing cost of Toyota's automobiles. Consequently, Toyota is committed to working closely with its suppliers in order to effectively promote environmental initiatives throughout the lifecycle of its automobiles, with the aim of reducing environmental impact and implementing environmental risk avoidance.

Ratio of Outside Procurement in Toyota Vehicles

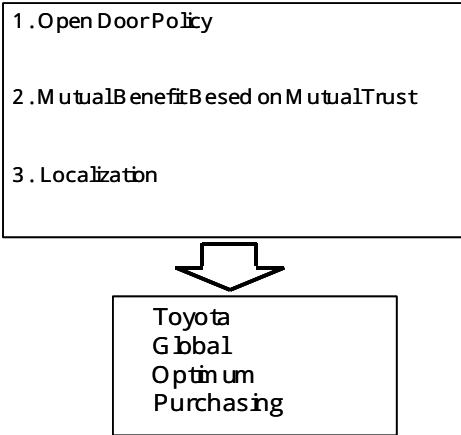


A. Principles for Procurement

Toyota considers its suppliers to be close partners in its quest to create attractive products, and has established three major principles that guide its procurement activities. The principles serve as the basis for Toyota's Global Optimum Purchasing System, which aims to procure products that are both competitive and environmentally conscious, apart from other considerations such as quality and cost.

- (1) Fair competition based on an open door policy
Toyota is open to any and all suppliers, regardless of nationality, size, or whether they have done business with Toyota before.
- (2) Mutual benefit based on mutual trust
Toyota believes in developing mutually beneficial, long-term relationships based on mutual trust.
- (3) Contribution to local economic vitality through localization: good corporate citizenship
As it increases its production outside of Japan, Toyota works to make an economic and industrial contribution in each region by purchasing from local suppliers.

Principles for Procurement

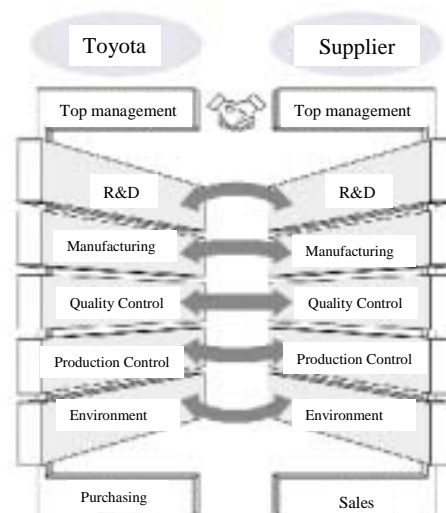


B. Framework for Liaison with Suppliers

Toyota Motor Corporation emphasizes close interaction with its suppliers as being essential to making good on its commitment to mutual trust and mutual benefit in its supplier relationships. Toyota works hand in hand with suppliers, as if the two sides were a single company, and emphasizes good communication that involves working directly with suppliers at every level. At Toyota, this concept is referred to as “Surface contact,” which notably involves maintaining the following kinds of interface with suppliers:

- (1) Top management: Senior executives at suppliers and Toyota need to come to terms on common goals and policies.
- (2) All relevant divisions: Engineers and other specialists in development, product engineering, quality assurance, and other technical sectors at suppliers need to work directly with their counterparts at Toyota.
- (3) Suppliers’ sales divisions and Toyota’s purchasing divisions: The sales people at suppliers and the purchasing people at Toyota need to take responsibility for coordinating the relationships between different divisions in their companies and for leading activities to foster expanded business between the suppliers and Toyota.

Surface Contact



4. Definition of Green Procurement Terms

Toyota uses the following terms and definitions as the basis for its green procurement and green purchasing initiatives:

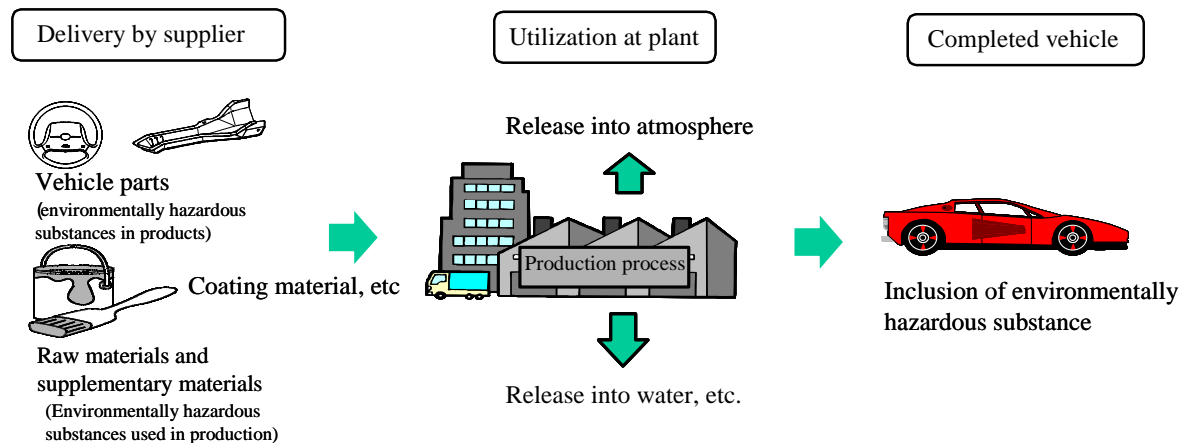
- (1) Green procurement: Buying of items related to production, including parts used in automobiles, materials such as steel, raw materials processed in plants, and supplementary materials such as cutting oil used in the processing of raw materials.
- (2) Green purchasing: Buying of office-related products and equipment

5. Green Procurement

At Toyota, environmentally hazardous substances are categorized into one of two categories, consisting of: (1) Chemical substances that have an environmental impact through release into the atmosphere or water during their use at plants, and (2) chemical substances that have an environmental impact when disposed of as part of an automobile. Toyota actively promotes green procurement by using products that have a low environmental impact, in order to reduce the environmental impact of vehicle parts as well as raw and supplementary materials used in the production of automobiles at its plants.

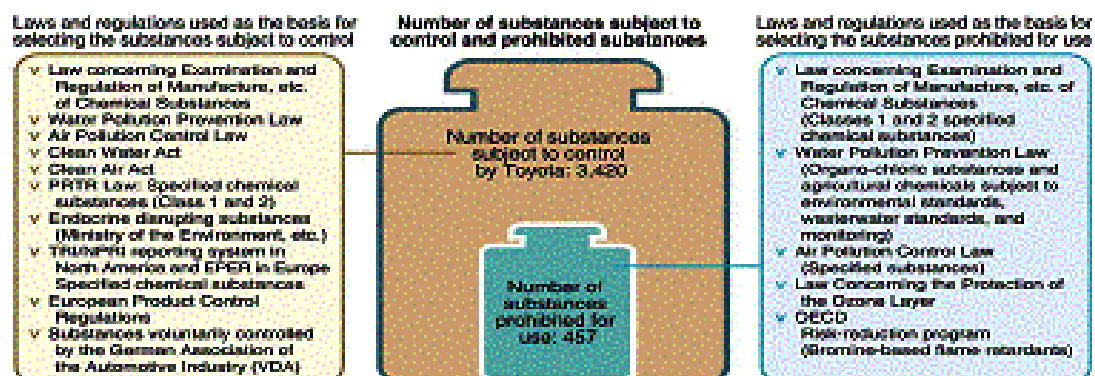
As part of its green procurement initiatives for both vehicle parts and raw and supplementary materials, Toyota practices entryway management of chemical substances by asking its suppliers to report the contents of substances of environmental concern in materials and not include prohibited-use substances.

Flow of Environmentally Hazardous Substances in Parts, Raw Materials, and Supplementary Materials



Toyota's control of chemical substances was originally applied to approximately 2,200 chemical substances, which were selected based on toxicity assessments and regulatory guidelines in Japan and elsewhere. In 2000, Toyota expanded its chemical substance control system to include approximately 3,400 chemical substances, based on the need for a global system. The revised chemical substance control list also includes approximately 460 chemical substances that are now designated as prohibited-use substances.

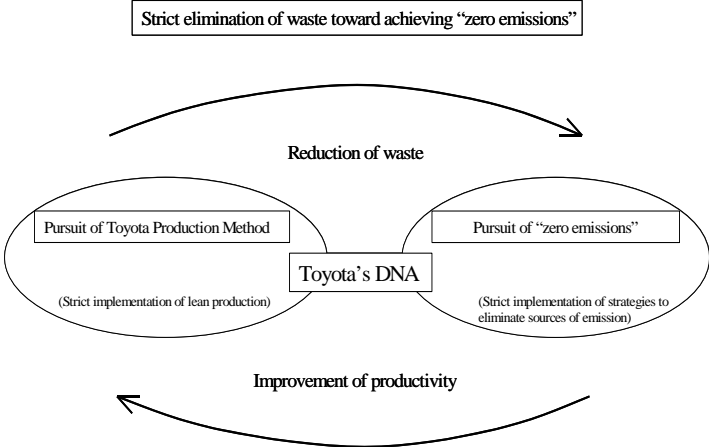
Management of Environmentally Hazardous Substances



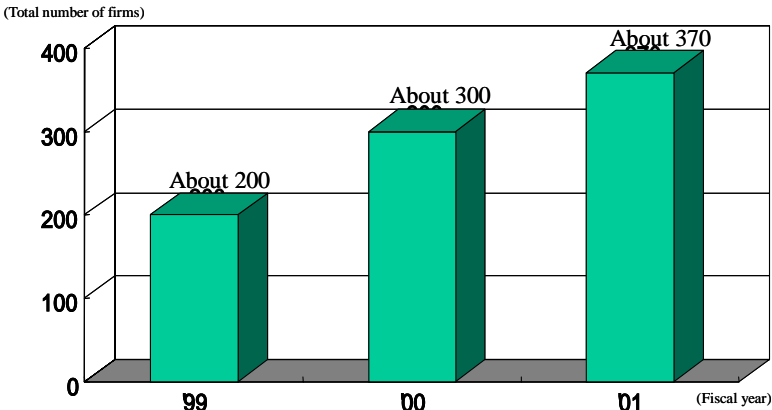
Toyota has created its own database to promote chemical substance control, which also led the firm to establish its Eco Research subsidiary in 2001. Eco Research was created in order to provide PRTR-related material composition data for firms seeking to comply with Japan’s Pollutant Release and Transfer Register (PRTR) Law, and it is also intended to support Toyota’s suppliers in the broader sense.

For Toyota’s suppliers, the implementation of Environmental Management Systems (EMS) is essential to the task of obtaining reliable data. Furthermore, the process of creating, operating, and strictly adhering to Environmental Management Systems and the challenge of achieving “zero emissions” shares many elements in common with the “Toyota Production System,” which emphasizes the strict elimination of waste and continuous improvement of productivity. Toyota recognizes that the adoption of Environmental Management Systems by its suppliers strengthens their management quality, and has requested that its designated suppliers acquire ISO 14001 certification by 2003.

Toyota Production System and “Zero Emission” Challenge

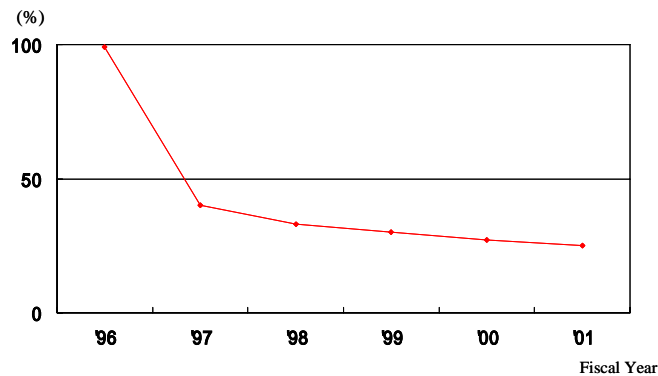


Acquisition of ISO 14001 Certification by Suppliers



In march of 1999, Toyota requested that approximately 450 suppliers acquire ISO 14001 certification.

Reduction in Lead Utilization (by Volume)



A. Green Procurement of Vehicle Parts

Toyota established the “Environmental Impact Reduction Project” in 1995, in order to serve as an organizational framework under the Recycling Committee. The Recycling Committee, which has since been renamed the SOC Task Force, originally identified approximately 300 substances to be managed for use in vehicles and vehicle parts, which formed the basis for Toyota to implement initiatives to reduce its use of such critical substances such as lead, mercury, and hexavalent chromium. As a result of its initiatives, Toyota successfully reduced its use of lead to 1/3 of the volume it used in 1996, and eliminated the use of mercury in fluorescent backlighting used in meter instrumentation.

Toyota reviewed its list of prohibited use substances in 2000, and decided to expand the list to include approximately 440 substances subject to management organized into 54 substance groups* (the number of such substances has now been increased to 460 as stated in the section 5). However, the later enactment of the European Union’s “End of Life Vehicles Directive” (ELV Directive), which is set to take effect from July 2003, effectively mandates that automotive manufacturers must gradually phase out their use of lead, mercury, cadmium, and hexavalent chromium in automobiles. Consequently, Toyota has made a critical commitment to comply with the ELV Directive, and is working closely with its suppliers by holding seminars and requesting their compliance with the ELV Directive. Toyota has specifically requested that its suppliers do the following:

- (1) Submit written declarations for non-use of dangerous substances prescribed in the EU’s ELV Directive.
- (2) Submit documentation showing that the supplier has completed measures for dangerous substances, according to the schedule specified by Toyota.
- (3) Input data into the International Material Data System (IMDS)** that describes the material composition of parts supplied to Toyota.

For Toyota’s suppliers, the enactment of the ELV Directive has resulted in different schedules for compliance from Toyota and its other customers, which Toyota recognizes as potentially having a significant affect on the production efficiency of its suppliers. Consequently, Toyota has been working closely with its suppliers in order to minimize the burden of compliance with the ELV Directive.

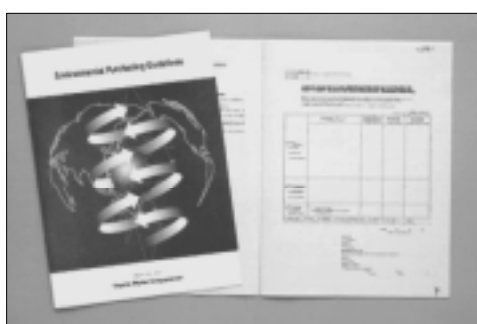
* Substance group: Refers to a substance and its compounds. Example: Lead and lead compounds.

** International Material Data System (IMDS): A database allowing for management of the material composition of vehicle parts. The IMDS is operated by the Europe-based Electronic Data Systems company.

established their own green procurement guidelines that contain Toyota's global requirements for suppliers, while also incorporating local initiatives that are unique to the country or region of operation. In August 2000, Toyota created its first green procurement guidelines for North America, which were later followed by separate guidelines for Europe. Toyota is also in the process of formulating green procurement guidelines for other countries and regions outside of Japan.

Toyota is currently revising its Guidelines in preparation for the upcoming 2003 deadline for designated suppliers to acquire ISO 14001 certification. The revised Guidelines are expected to include further requests for Toyota's suppliers, while expanding its scope to include from suppliers of parts, raw materials, and supplementary materials to suppliers of other items and materials. Toyota has also begun to implement green procurement initiatives in other areas of activity, such as its housing business.

Green Purchasing Guidelines

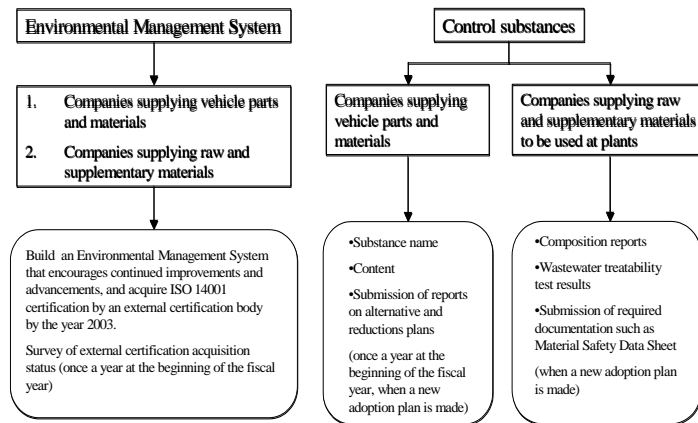


Adoption of Green Purchasing Guidelines

Region	Time frame for adoption	Source	No. of suppliers
Japan	March 1999	Toyota	Approx. 450
	May 2000 – March 2002	Body manufacturers (7 consolidated subsidiaries)	Approx. 2,200
North America	August 2000	TMMNA	Approx. 320
Europe	April 2001	TMEM, TMME	Approx. 300
Other countries and region	FY 2002 (or FY 2003 in some regions and countries)	15 consolidated subsidiaries	Approx. 1,500

In terms of control substances in vehicle parts and materials, Toyota is gradually making the switch to suppliers that comply with the European Union's ELV Directive.

Measures to be Taken by Suppliers



6. Green Purchasing

Toyota has adopted green purchasing initiatives for office supplies and office equipment in an effort to better utilize its resources, and to contribute to environmental preservation in the pursuit of a sustainable society as one with the community. In April 2000, Toyota began to implement green purchasing for approximately 2,000 office supply items and 300 types of office equipment used in its offices.

< Designated Products for Green Purchasing >

• Office suppliers:	Stationery (including writing utensils and paper products), preprinted forms, paper (general office use paper, printing paper, paper used in office equipment), files, organizing and storage supplies, etc.
• Office equipment:	Personal computers, printers, copiers, and fax machines

Toyota's basic principle for green purchasing involves the purchase of products that have a low environmental impact throughout every phase of the product lifecycle, ranging from manufacturing and usage to disposal. Toyota first establishes purchasing standards for green products, then seeks to identify and prioritize green products that it should purchase.

Basic Principles

Manufacturing	<ul style="list-style-type: none"> • High recycled content • Absence of environmental pollutants
Usage	<ul style="list-style-type: none"> • Reusable • Low energy consumption
Disposal	<ul style="list-style-type: none"> • Recyclable • Can be disassembled by material

Toyota implements green purchasing based on three priority levels. Toyota places the highest priority on the purchase of products that contain environmental labeling approved by organizations based in Japan or elsewhere, including Japan's Eco Mark and Green Mark labels. The next level of priority is given to the purchase of products included in the "Environmental Data Books" published by the Green Purchasing Network (GPN), an organization devoted to promoting green purchasing. Finally, for products that do not satisfy either of the above requirements, Toyota has established its own in-house standards to identify products that either use recycled content or contain replaceable components, or can be recycled after usage.

Toyota made the conversion to green products by asking its suppliers to propose green products any time that a supplier revised the pricing of a non-green product. The green products proposed by its supplier were evaluated based on various factors such as the performance and cost of the product, in accordance with Toyota’s policies for green purchasing. In particular, Toyota placed special emphasis on the following considerations:

- (1) To retain the same features or performance while reducing the number of product categories, in order to decrease costs by increasing the purchasing volume per category, and minimizing the frequency of single purchases.
- (2) To assess the energy consumption of office equipment during use and when idle, and to further assess the inclusion of any unnecessary features or unnecessary construction.

Consequently, Toyota was able to reduce the number of office supplies items used in its offices to approximately 1,300 categories, from a previous list of 2,000 items. In March 2002, Toyota achieved its goal of 100% green purchasing for approximately 1,300 office supply items and 300 types of office equipment.

Toyota has also improved its purchasing system by making it easier to ease. Users are now able to monitor the approval status for purchases and track deliveries at a glance.

The merging of office supply items has also helped Toyota to keep down its office supply costs. In addition, Toyota has been able to purchase suitable green office equipment at the same cost as before, due to the increasing availability of green office equipment spurred on by customer demand.

Example of Conversion to Green Product



Toyota uses mouse pads made from the remnant materials of a product process

Examples of Environmental Labeling

Eco Mark	
Green Mark	
R-mark (indicating use of recycled paper)	

Toyota is also switching to clean energy vehicles for its own use. Toyota currently utilizes 360 clean energy vehicles such as hybrid vehicles and compressed natural gas (CNG) vehicles, which account for 20% of its corporate fleet. In addition, Toyota has decided to adopt company uniforms that use materials made from recycled PET bottles beginning from April of 2003, and plans to expand its green purchasing initiatives to include new items such as lighting equipment and office furniture such as desks and chairs.