



As You Sow filed a proposal with Procter & Gamble asking the company to issue a report assessing the feasibility of adopting a policy of extended producer responsibility (EPR) for post-consumer product packaging. EPR shifts accountability for collection and recycling from taxpayers and governments to producers. P&G and other companies that put packaging on the market would be totally or partially responsible for the financing of collection and recycling of post-consumer packaging.

The main benefit of EPR is a demonstrated ability to provide enhanced, stable funding for greatly increased container and packaging recycling rates in the U.S. In addition, EPR policies can help reduce carbon emissions and air and water pollution resulting from the company's business practices. The company – a major user of packaging worldwide – has been silent on this critical sustainability issue. As discussed in detail in this memo, the company's public statements and statement in opposition to the proposal do not provide essential basic information about responsibility for post-consumer packaging. Shareholders would benefit from a report sharing P&G's perspective on the viability of adopting EPR policies. The company faces reputational risk by not directly discussing responsibility for post-consumer packaging waste.

EPR can be confusing to understand and has been interpreted in different ways by various stakeholders. The primary focus of our proposal relates to producers taking responsibility for post-consumer collection and recycling of products and packaging. EPR is sometimes described as synonymous with the concept of product stewardship. In our view they are different concepts; when companies act on their own to take responsibility for post-consumer processing of products or packaging, it should be referred to as product stewardship or voluntary producer responsibility (VPR). As You Sow and a group of allied stakeholders view EPR as a mandated, rather than voluntary, form of producer responsibility in which all producers are required to contribute to the system.¹

In responding to our proposal submitted to several companies this year, we have noticed repeated efforts by brands to shift the discussion away from responsibility for post-consumer packaging to areas where the companies can claim more progress in hopes that analysts will accept that information as instead of requiring a focus on end-of-life. Companies often prefer to discuss progress made on reducing manufacturing waste or light weighting or otherwise reducing the volume or weight of packaging. These practices are welcome and environmentally beneficial but they do NOT address the focus of our proposal which is responsibility for financing collection and recycling of post-consumer packaging.

Issue Background

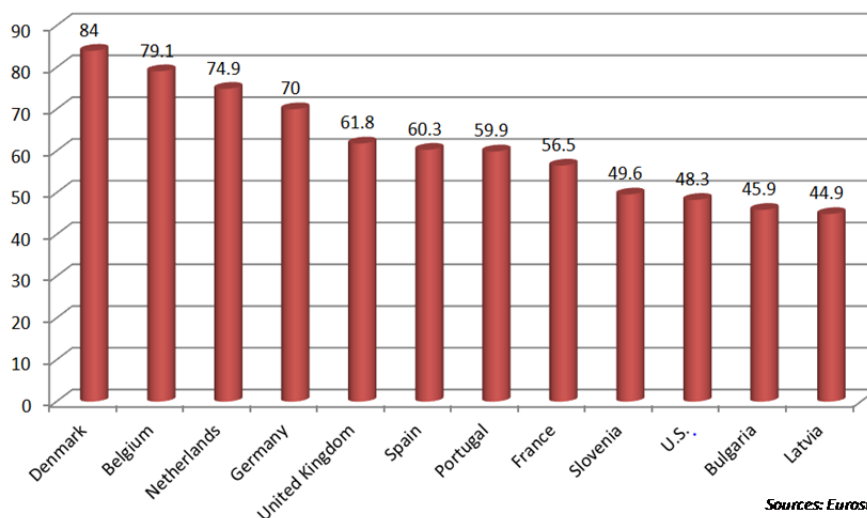
An emerging public policy debate over lagging U.S. packaging recycling levels has resulted in stakeholders, including some companies, endorsing EPR for packaging mandates. EPR packaging policies have been adopted in at least 47 countries, including the European Union countries, Brazil, Canada, Japan, Taiwan, and South Korea.

¹ As You Sow, *Unfinished Business: The Case for Extended Producer Responsibility for Post-Consumer Packaging*, July 2012, 11, <http://www.asyousow.org/sustainability/eprreport.shtml>.



The U.S. packaging recycling rate of 48% significantly lags behind that of other developed countries. Denmark's rate is 84%; Belgium 79%, the Netherlands 74%, and Germany 70% (see chart below). In the U.S., most progress on recycling packaging has been made with paper. The U.S. recycles more than 70% of paper products but paper use is declining in some sectors as magazines and newspapers move to the web. When paper and paperboard are removed from the equation, the packaging recycling rate drops to just 22%.² The recycling rate for aluminum packaging is just 36%. More than 40 billion aluminum cans, the most valuable beverage container material, are still dumped annually into landfills in the U.S., sufficient to make 25,000 jetliners, according to Alcoa³. Other kinds of packaging recycling lag further behind: 33% for glass and just 12% for the fastest growing category of packaging -- plastics⁴.

U.S. vs. European Packaging Recycling Rates



Sources: Eurostat, EPA

Slumping and stagnant packaging recycling rates represent urgent unfinished business for U.S. companies. Many companies have started down a positive path, working on product light weighting, materials use reduction and eliminating manufacturing waste but have failed to close the sustainability systems loop by addressing their post-consumer packaging. As You Sow believes post-consumer packaging is a corporate environmental externality whose funding has been borne long enough by U.S. taxpayers. Shifting responsibility to producers for packaging can lead to internalization of end-of-life costs and a switch by producers to easier to recycle materials.

² Container Recycling Institute, *Comments on Natural Logic's White Paper on EPR for Packaging*, March 2011, 3, <http://www.container-recycling.org/assets/pdfs/2011-CRIResponseToNLOnEPR.pdf>.

³ Personal communication with Beth Schmitt, Director of Recycling Programs, Alcoa, February 15, 2011.

⁴ U.S. Environmental Protection Agency, *Municipal Solid Waste Generation, Recycling, and Disposal in the United States: Facts and Figures for 2010*.



Packaging materials such as glass, paper, plastics and metals that are commonly wasted because of poor and underfunded recycling programs have significant market value. A recent assessment by As You Sow suggests wasted packaging materials represented a loss of \$11.4 billion in potential market revenue in 2010⁵ (see chart below). The size of these potential lost assets should be of material interest to shareholders and management.

Most U.S. companies who generate enormous amounts of packaging have shown scant leadership on post-consumer packaging. Until they do, their efforts to portray themselves as environmental leaders will be lacking a key component – a comprehensive waste policy.

The Value of Landfilled Packaging

Paper	\$1,294,625,417
Glass	\$97,325,060
Steel	\$285,000,000
Aluminum	\$1,446,228,571
PET	\$2,917,345,309
HDPE	\$2,854,896,000
PVC	\$136,000,000
LDPE/LLDPE	\$726,000,000
PP	\$1,273,600,000
PS	\$371,000,000
Total:	\$11,402,020,357

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A Growing Public Policy Issue

EPR has been successfully adopted in the U.S. for several problematic product categories such as batteries, carpet, electronics, paint and pesticides. Container deposit laws in 10 states are a form of EPR that have been very successful in increasing container recovery rates in those states. While the overall U.S. recycling rate for beverage containers is only about 35%, in the 10 states with deposit laws, recycling rates range from 66-96%⁷. The most notable success for EPR in the U.S. has been for end-of-life electronics; 23 states have adopted EPR laws and hardware giants like Apple, Dell, and HP are assuming financial responsibility for their end-of-life electronics.⁸

Coca-Cola and Nestlé Waters NA have publicly endorsed the concept of EPR for packaging. EPR for packaging legislation has been introduced into the Vermont legislature, and a bill calling for a study of such programs was enacted in Rhode Island earlier this year. A new NGO backed by Nestlé Waters NA plans to introduce legislation in several states later this year or early next year.⁹

P&G, the world's largest maker of consumer packaged goods, with operations in more than 180 countries, is a huge user of packaging, and needs to be more fully engaged in this debate. The lack of a duly considered public policy position on EPR even as legislation begins to be considered means the company risks not having its interests represented as the policy debate proceeds.

⁵ As You Sow, *Unfinished Business: The Case for Extended Producer Responsibility for Post-Consumer Packaging*.

⁶ Ibid.

⁷ Container Recycling Institute, *Comments on Natural Logic's White Paper on EPR for Packaging*.

⁸ Conrad MacKerron, "Moving Toward Sustainable Consumption in Electronics Design, Production and Recycling," *Utah Environmental Law Review*, 31, no.1 (2011), <http://epubs.utah.edu/index.php/jlrel/article/view/471/339>.

⁹ <http://plasticsnews.com/headlines2.html?id=12040200401&q=petsupply>.



While states and municipalities have authority for local solid waste management, state funding is now tapped out. State budget deficits grew to staggering levels during the recent recession. Fiscal 2012 cumulative state budget deficits are projected to be \$140 billion.¹⁰ A recent assessment from the Northwest Product Stewardship Council concluded, “Local governments and their ratepayers are no longer able to invest the necessary financial resources to increase the diversion of materials from disposal to recycling.¹¹” As a result, state and local governments have moved decisively to support EPR legislation. The National Conference of Mayors, National League of Cities, and National Association of Counties and municipal leagues in Minnesota and California have adopted policy statements in support of EPR legislation. “State policies currently hold local governments responsible for achieving waste diversion goals and enforcing product disposal bans, both of which are unfunded mandates,” notes the mayors’ resolution, adding that “costs to manage problematic products are currently borne by taxpayers and rate payers and these costs are increasing substantially and will continue to do so unless policy changes are made.”

Benefits and Costs to Companies and Shareholders

Benefits

EPR will reduce reputational risk to consumer packaged goods and grocery retailers whose post-consumer recycling practices annoy and alienate consumers. For example, many retailers pack goods in plastic bags. Consumers angry over the pervasiveness of single use plastic bags in commerce, which harm marine life when swept into rivers and oceans, have pressed local governments to ban them in scores of U.S. cities, most recently in Los Angeles. EPR would require recycling of plastic bags, or producers may choose to phase them out as they would likely incur extra fees by being hard to recycle. Either way, EPR would reduce reputational risk to producers, which would benefit companies and shareholders.

EPR will promote brand enhancement for producers willing to lead the way in contributing to an industry-wide solution to wasted packaging by endorsing a system where each brand pays its fair share into a system that will greatly increase the level and scope of packaging recycling. Consumers will view companies positively that are proactive on recycling and be more inclined to purchase their products. Shareholders increasingly value commitments to sustainability and will be more inclined to invest in environmentally proactive companies.

The higher level of packaging recovery will increase the availability of high value post-consumer materials such as PET plastic bottles for recycling, providing a long-term, stable supply of materials that can be processed back into new packaging. Some brands currently cannot get enough recycled materials to meet commitments they have made to boost post-consumer content in packaging.

Higher levels of materials recovery will also serve as a hedge against the volatility of virgin commodity prices. For metals and non-food agricultural items, volatility levels in the first decade

¹⁰ Danielle Kurtzleben, “10 States with the Largest Budget Shortfalls,” *U.S. News*, January 14, 2011, <http://www.usnews.com/news/articles/2011/01/14/10-states-with-the-largest-budget-shortfalls>.

¹¹ Northwest Product Stewardship Council, “Analyzing Product Stewardship Policies for Packaging and Printed Paper in Washington State,” 2011, 3, <http://www.productstewardship.net/PDFs/productsPackagingNWPSCReport2011.pdf>.



of this century were higher than in any decade in the 20th century.¹² Abundant recycling of packaging materials will help keep packaging costs low when paper, plastic, glass, or metal prices spike.

Our recent *Unfinished Business* report (p.3) summarizes more broadly the benefits of EPR for packaging to consumer brands.

Costs

An EPR system provides an equitable industry financing mechanism -- a mandated level playing field for all producers, who would pay fees to help fund collection and recycling of packaging based on the volume or materials they put on the market. Under the system being promoted by As You Sow, Nestlé Waters, and others, brands would have a significant influence in controlling costs. Each producer would pay new fees to finance collection and recycling of packaging, but the program would be coordinated by a producer responsibility organization controlled by P&G and other brands whose market savvy and economies of scale can keep costs low. The impact of new industry costs would be partly offset by industry control of the system.

On the level playing field of EPR, packaging designed to be more easily recycled will have a lower price tag than disposable or toxic products. If producers know they are liable for end-of-life costs, they will be less likely to design and place hard to recycle packaging on the market because they would result in higher processing costs.

Costs may increase marginally in some categories, but on balance less than what the consumer already pays for end-of-life product management under the existing system funded by taxes and disposal fees. Consumers will see a reduction in taxes and view companies positively for shifting the burden from consumers.

Waste is inefficient by definition. EPR is about improving efficiencies. Businesses that are financially responsible for managing their discarded products find ways to reduce waste, reduce operating costs, and positively impact their bottom line.

As noted above, since EPR would be a mandatory system, all companies would be subject to fees based on the amount of packaging they place into commerce so no companies would have to bear disproportionate costs.

The Company's Statement in Opposition

P&G's statement in opposition does not directly address the issue of responsibility for post-consumer packaging, the subject of the proposal. Most of the statement is off point, seeking to shift the discussion to waste minimization and the size of its carbon footprint. Manufacturing waste and greenhouse gas reduction policies are laudable but do not address the topic of this proposal which is responsibility for post-consumer packaging. A smaller, lighter package is still material that must be collected and recycled, composted, incinerated or landfilled.

¹² Ellen MacArthur Foundation, *Towards the Circular Economy: Economic and Business Rationale for an Accelerated Transition*, 2012, 18, <http://www.thecirculareconomy.org/>.



- The company has declined to provide basic information to shareholders such as how much packaging it generates annually or the ratio of various packaging materials.
- Unlike its peer Kraft Foods, it does not state how much of its packaging is recyclable.
- Unlike its peer Colgate-Palmolive, it has pledged to set goals for the level of its post-consumer packaging it is committed to recycle.

P&G has a goal to reduce packaging by 20% per consumer use by 2020. We applaud the company for reducing packaging volume but again this does not address the focus of our proposal – recycling of post-consumer packaging. Despite progress on package reduction, arguably 88% of the company’s plastic packaging—shampoos bottles, toothpaste tubes, laundry detergent jugs, cough syrup bottles—still ends up in landfills, based on U.S. Environmental Protection Agency data.

The company says it has set a long-term “sustainability vision” of zero consumer or manufacturing waste going to landfill. This appears to begin to address our concerns; however, (1) a “vision” suggests something less than an actual commitment, (2) the scope of what is proposed seems incredibly difficult, inappropriate and lacking context, and (3) it lacks evidence of a tactical strategy to achieve this “vision”. Further, it does not directly address our proposal as it is unclear who would bear financial responsibility for the collection and recycling of packaging if it were all to be diverted from landfills. P&G appears to be advocating that all post-consumer waste going to landfills be eliminated – worldwide, an enormous undertaking in terms of practical, political and cultural considerations. There’s no evidence the company has consulted with solid waste management officials in the more than 190 countries that would be affected to determine if this is a realistic goal and one they would support. There’s no discussion by the company of why it chose this particular goal as opposed to a more realistic initial goal of increasing recovery of post-consumer packaging in a few key countries, which would reduce the volume of packaging landfilled.

This appears to be more of an *ad hoc* “pie in the sky” idea than a serious proposal as it lacks metrics or a timeline. The company has said only that by 2020, it will conduct pilot studies to “better understand and demonstrate how we can eliminate consumer solid waste to landfill.” Taking eight years to do feasibility studies on a vaguely sketched global “vision” does not suggest a serious, near-term commitment on post-consumer packaging waste.

P&G says it is participating in “relevant efforts being led by the Association of Postconsumer Plastics Recyclers, Sustainable Packaging Coalition, Global Packaging Project, Wal-Mart’s Packaging Network, Grocery Manufacturers Association, and Consumers Goods Forum.” To our knowledge, worldwide elimination of consumer waste to landfills is not a program priority of any of these organizations. Further, the Grocery Manufacturers Association strongly opposes EPR for packaging and has produced misleading data about the potential cost of EPR systems¹³. GMA favors focusing on reducing waste generation rather than on increasing recycling of

¹³ As You Sow, *Unfinished Business: The Case for Extended Producer Responsibility for Post-Consumer Packaging*.



packaging. It favors continuing to place the burden for financing recycling on taxpayers and municipalities.¹⁴

Carbon Footprint

The company discusses the carbon impact of its packaging. It states it has published an extensive review of corporate environmental footprint and that packaging represents less than 2% of the carbon footprint. We have been unable to find this information in the public domain. We have repeatedly asked the company for several weeks to provide us with this published data, but it has not been able to make it available to us. We are concerned the company made reference to a published document in its proxy statement which it has not been able to produce. The company did provide us with life cycle data for several individual detergent brands where 70% of GHG emissions are attributable to consumer use (hot water washing). However, more than 60% of its brands do not appear to have such significant consumer use impact (Bounty, Duracell, Pampers) and so GHG emissions for packaging would have a higher relative impact than 2%.

Proponents are confident that EPR programs will reduce the carbon impact of packaging, but the impact will vary by company. However, carbon footprint is a secondary benefit; the main benefit of EPR, as stated in the proposal, is to increase recycling of packaging and conserve resources, so the extended focus by the company of carbon impact of packaging is off point.

Overall, the company's statement in opposition does not provide evidence to shareholders of thoughtful assessment of EPR or leadership on post-consumer recycling. The lack of substantive discussion of specific actions necessary to improve packaging recycling rates or to finance enhanced collection argues in favor of the report requested in the proposal, which could provide such essential information.

The company concludes its statement by stating: "Given our existing commitment to reducing solid waste from packaging and greenhouse gas emissions, the requirement of a feasibility report on EPR is unnecessary and would not provide shareholders with additional meaningful information." This statement is misleading; it conflates reducing solid waste volume and general efforts to reduce GHG emissions for all areas of production with shareholders' request to articulate a policy in regard to its responsibility for financing post-consumer recycling of packaging. Further, we disagree that a report would not provide meaningful information given the numerous data gaps cited above.

P&G Lags its Peers on Responsibility for Post-Consumer Packaging

While no major consumer packaged goods company has yet endorsed EPR for packaging in the United States, a major competitor of P&G has taken encouraging initial steps. Unilever has acknowledged some responsibility for increasing packaging recycling rates. It made a public commitment¹⁵ to increase recycling rates for packaging it uses in 14 major countries (including the U.S.) where it does business 5% by 2015 and 20% by 2020 (The company has yet to describe how it will achieve that goal or to endorse EPR).

¹⁴ Anne Marie Mohan, "SPS 2011: Preparing for the 'Perfect Storm,'" Greener Package, March 2011, http://www.greenerpackage.com/recycling/sps_2011_preparing_perfect_storm.

¹⁵ "Unilever Targets & Performance," accessed September 2012, <http://www.unilever.com/sustainable-living/wasteandpackaging/targets/index.aspx>.



Unilever's Commitment



Increase recycling and recovery rates for post-consumer packaging by, on average:

- 5% by 2015
- 15% by 2020

Further, in March 2012, As You Sow withdrew a proposal filed with Colgate-Palmolive identical to the one submitted to P&G after the company agreed¹⁶ to ensure that as much of its post-consumer packaging as possible is recycled, and to develop and disclose goals in support of this commitment within one year. P&G has not matched these modest initial steps by its peers Unilever and Colgate-Palmolive.

P&G already complies with active EPR programs in many countries in Europe by paying fees based on the amount of packaging materials it puts on the market but has made no public statements about its view of the effectiveness of such programs. A report issued in 2011 by Europen, the European packaging industry trade group of which P&G is a member, said Europe's packaging directive is working well. Managing Director Julian Carroll said the directive is "clearly one of the most successful pieces of E.U. environmental legislation," and "this success of the packaging value chain can be seen as an example of best practice for other industry sectors in their efforts to do more with less." He adds that the packaging law has diminished public antagonism to packaging waste, been responsible for a "remarkable" reduction in waste sent to disposal, and local authorities are seeing "lower costs for the public purse."¹⁷ P&G has given no indication if it agrees with Europen's findings.

¹⁶ Letter from the author to Colgate-Palmolive, March 2, 2012,

http://www.asyousow.org/publications/2012/2012res/Colgate_withdrawal_20120302.pdf.

¹⁷ "Industry Trade Organization Perspectives on Packaging EPR in Canada and Europe," Product Stewardship Institute Conference Call Series, February 15, 2011.



Since P&G has been operating in countries where EPR has been mandated since 1994, shareholders would benefit from a candid assessment by the company, based on its experience participating in these programs, of the benefits and challenges associated with EPR. The projected costs of enacting EPR programs in the U.S. is complicated to project and would vary based on a variety of economic, political and cultural factors in each state. However, valuable insights may be gained by the company by studying the effectiveness of various cost structures of many European programs underway for more than 15 years. It's unclear if the company is availing itself of this information.

In summary, we believe both shareholders and the company would benefit from the report requested by the proposal. Sharing management's perspective would inform shareholders about whether the company concurs with shareholder proponents that it has some form of responsibility for collection and recycling of post-consumer packaging and that EPR represents a promising step towards sustainable consumption for a world of 9 billion people projected by 2050. The company's statement in opposition does not clearly state a position on this issue. The company is lagging its peers in making modest initial commitments to take responsibility as Unilever and Colgate-Palmolive have done. Proponents believe that in the process of preparing the requested report, the company would be obliged to undertake a serious assessment of EPR resulting in a more defined, evolved policy position on producer responsibility for packaging.

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