



Abbott Laboratories Shareholder Resolution Brief

Executive Summary

As You Sow has asked Abbott Laboratories to identify and label all food products it manufactures or sells that contain genetically modified (GM) ingredients. Abbott uses genetically modified ingredients in products in its nutritional lines, including its Similac Soy Isomil infant formula.

As You Sow took this action because Abbott and the major food industry trade association in which it has membership now support federal GMO labeling. Abbott has the opportunity to be perceived as a leader, gain first mover advantage, and increase shareholder value.

Resolution

RESOLVED: Shareholders request that unless long-term safety testing demonstrates that genetically engineered crops, organisms or products thereof are not harmful to humans, animals and the environment, the company's board of directors adopt a policy to identify and label, where feasible, all food products manufactured or sold under the company's brand names or private labels that may contain genetically engineered ingredients and report to shareholders, at reasonable cost and excluding proprietary information, on such policy and its implementation by October 31, 2014.

SUPPORTING STATEMENT: We believe that GMO technology involves significant social, economic, and environmental risks and that labeling of GMOs in the USA is inevitable. Our company should take a leadership position by clearly identifying products containing genetically engineered crops to give consumers the right to choose. Failure to do so could leave our company financially liable and at risk of damage to its brand and reputation, should detrimental effects to public health or the environment appear in the future.

Shareholder Gain from GMO Labeling

Shareholders will gain value from GMO labeling for several reasons. First, GMO labeling is almost universally supported by other food companies, the major food industry trade association, regulators, consumers, and lawmakers, and is law in 64 countries. Second, changing labeling has negligible costs. Third, Abbott will gain first mover advantage by voluntarily labeling its products before its competitors.

The Industry Supports Labeling

- According to Louis Finkel, Executive Vice President of Government Affairs for the Grocery Manufacturers Association (GMA), the food industry trade association is



petitioning the FDA and lobbying Congress to enact federal labeling laws for GMO and non-GMO foods.¹

- Walmart, PepsiCo, ConAgra and others have been pushing for federal labeling of GMOs since January 2013² as they see a patchwork of state laws being inevitable.

Industry's Support of Labeling Has Several Causes

- A July 2013 New York Times poll shows 93% of citizens want GMO labeling.³
- Connecticut and Maine have already passed GE labeling laws that will trigger when other New England states including New York do likewise.⁴
- In 2013, nearly half of all U.S. states introduced bills requiring GMO labelling.⁵
- Ballot initiatives in California and Washington nearly succeeded, failing by a few percentage points each after biotechnology companies and the Grocery Manufacturers Association (GMA) spent over \$70 million in opposition.⁶
- In January 2014, four U.S. lawmakers joined with more than 200 food companies, organic farming groups, health and environment organizations and other to urge President Barack Obama to require manufacturers to label food products that contain genetically engineered ingredients.⁷
- Companies that have contributed to political campaigns opposing GMO labeling have experienced boycotts and negative brand press.⁸
- Sixty-four countries, including the European Union, Australia, China, Japan, India, and Russia require GMO labeling.⁹
- After shareholder pressure resulted in Whole Foods labeling all house brand products for GMOs, in March 2013 they announced that all foods in their stores would be labeled for GMOs by 2018.¹⁰ They recently provided an update¹¹ about the progress they have made working with their many food producers. They see this as an enormous brand differentiator and clear win for investors and customers.

¹ Reuters, Jan. 13 2014, "U.S. food makers to seek single federal standard for GMO labeling", <http://www.reuters.com/article/2014/01/13/usa-gmo-labeling-idUSL2NOKN1NX20140113>

² New York Times, Jan. 31 2014, "Genetic Changes to Food May Get Uniform Labeling", <http://www.nytimes.com/2013/02/01/business/food-companies-meet-to-weigh-federal-label-for-gene-engineered-ingredients.html?pagewanted=all&r=1&>

³ New York Times, July 7 2013, "Strong Support for Labeling Modified Foods", <http://www.nytimes.com/2013/07/28/science/strong-support-for-labeling-modified-foods.html?r=2&>

⁴ Heartland Institute, July 12 2013, "Connecticut, Maine Pass GMO Labeling Laws", <http://news.heartland.org/newspaper-article/2013/07/12/connecticut-maine-pass-gmo-labeling-laws>

⁵ Center for Food Safety, 2014, "State Labeling Initiatives", <http://www.centerforfoodsafety.org/issues/976/ge-food-labeling/state-labeling-initiatives>

⁶ Reuters, Jan. 13 2014, "U.S. food makers to seek single federal standard for GMO labeling", <http://www.reuters.com/article/2014/01/13/usa-gmo-labeling-idUSL2NOKN1NX20140113>

⁷ Reuter, Jan. 16, "Organic Food and Farm Groups Ask Obama to require GMO Food Labels", <http://www.reuters.com/article/2014/01/16/us-usa-gmo-labeling-idUSBREA0F10H20140116>

⁸ Organic Consumers Association, Nov. 15 2012, "Take Action: Join the Boycott", http://www.organicconsumers.org/articles/article_26620.cfm

⁹ Center for Food Safety, 2014, "International Labeling Laws", <http://www.centerforfoodsafety.org/issues/976/ge-food-labeling/international-labeling-laws>

¹⁰ Whole Foods Market, March 8 2013, "GMO Labeling Coming to Whole Foods Market", <http://www.wholefoodsmarket.com/blog/gmo-labeling-coming-whole-foods-market>

¹¹ Whole Foods Market, Sep. 18 2013, "GMO Labeling Update", <http://www.wholefoodsmarket.com/blog/gmo-labeling-update>



Dispelling Myths of Labeling Being Expensive

- Companies currently print and apply labels to packages. Changing text or an image on them is not expensive especially if phased in over a reasonable time. No company has ever complained that this cost would be a burden.
- In the Economic Assessment of Prop 37, Emory University Ph.D. Joanna Shepard-Bailey found that, “the relabeling expenses associated with the redesign of package labels and display of placards at grocery stores shows little or no change in consumer food process as a result of these relabeling expenses.”¹²
- In Europe, the introduction of GMO labeling produced no increase in food costs. David Byrne, former European Commissioner for Health and Consumer Protection of the European Parliament, stated that when Europe introduced GMO labeling in 1997, “it did not result in increased costs, despite the horrifying (double-digit) prediction of some interests.”¹³

First Mover Advantage

- As described in business and economic theory, first mover advantage is the advantage gained by the initial significant occupant of a market segment. One example of such an advantage is the avoidance of switching costs, which are extra resources that late entrants must invest to attract customers away from the first-mover firm.¹⁴
- Abbott can gain a competitive advantage over its competitors by becoming the first to voluntarily label products with GMO ingredients. Polls show that consumers have a significant and growing preference for transparency, and consumers will remember Abbott’s decision.
- Abbott Laboratories has claimed that there is not enough non-GMO soy in North America to produce non-GMO infant formula, and thus it is certain that Abbott and its competitors will eventually be selling infant formula that is labeled to contain GMO ingredients. If Abbott is the first to disclose this information, consumers will remember and recognize the Abbott brand as one that cares about customers and listens to their preferences. Just like the announcement by Whole Foods Markets, this differentiation will improve the brand value, and thus shareholder value.

Response to Abbott’s Proxy Statement in Opposition

The Abbott Board of Directors recommends that shareholders vote against the proposal because Abbott labels its food products in accordance with all applicable laws and regulations.¹⁵ The proposal contends that GMO labeling in the food industry is inevitable and now universally supported; the major trade association, the largest food companies, consumers, shareholders, and other groups have all called for it. Abbott’s decision to label its products as containing

¹² Alliance for Natural Health, 2012, Economic Assessment: Proposed California Right to Know Genetically Modified Engineered Food Act (Prop 37) Likely to Cause No Change in Food Prices, Minor Litigation Costs, and Negligible Administrative Costs, <http://www.anh-usa.org/wp-content/uploads/2012/08/GE-Food-Act-Costs-Assessment.pdf>

¹³ European Commissioner for Health and Consumer Protection, Sep. 11 2001, “Proposal for Regulation of GM Food and Feed”, http://ec.europa.eu/dgs/health_consumer/library/speeches/speech114_en.pdf

¹⁴ Lieberman et al, 1988, First-Mover Advantages (Strategic Management Journal), http://www.uni-oldenburg.de/fileadmin/user_upload/wire/fachgebiete/entrepreneur/download/Artikel_Internetoekonomie/Lieberman_First_Mover.pdf

¹⁵ Abbott Laboratories, 2014, Board of Directors Statement in Opposition – Shareholder Proposal on Genetically Modified Ingredients



GMOs now will increase brand reputation and market share, gain the company first mover advantage, and increase shareholder value.

The Board argues that labeling would cause Abbott to expend resources.¹⁶ As demonstrated above, this is a false premise; based on case studies from the EU, labeling has almost no impact on cost. The board argues that GMO is an undefined standard.¹⁷ However, the U.S. Food and Drug Administration “supports voluntary labeling that provides consumers with this information and has issued draft guidance to industry regarding such labeling.”^{18 19}

The Board argues that proponents “base their call for labeling GMO ingredients on a perceived health risk” identified by a study that was “retracted in November 2013 due to significantly flawed data.”²⁰ This is incorrect for two reasons. First, proponents filed this resolution based on the universal support for GMO labeling, which includes the support of many food companies, the major food industry trade association, regulators, consumers, and lawmakers. Second, when the study in question was retracted by the Journal Food and Chemical Toxicology, the Editor-in-Chief stated only that the sample size was too small and that “the results presented (while not incorrect) are inconclusive.”²¹

Conclusion

The resolution should be supported with a recommendation of a YES vote. If Abbott makes the changes requested in the resolution it will be a benefit to shareholders as they will be perceived as leaders that care about their customers.

¹⁶ Id.

¹⁷ Id.

¹⁸ U.S. Food and Drug Administration, Apr. 7 2013, “Questions & Answers on Food from Genetically Engineered Plants”, <http://www.fda.gov/food/foodscienceresearch/biotechnology/ucm346030.htm>

¹⁹ U.S. Food and Drug Administration, Jan. 2001, Guidance for Industry: Voluntary Labeling Indicating Whether Foods Have or Have Not Been Developed Using Bioengineering”, <http://www.fda.gov/Food/GuidanceRegulation/GuidanceDocumentsRegulatoryInformation/LabelingNutrition/ucm059098.htm>

²⁰ Abbott Laboratories, 2014, Board of Directors Statement in Opposition – Shareholder Proposal on Genetically Modified Ingredients

²¹ Elsevier, Nov. 28 2013, “Elsevier Announces Article Retraction from Journal Food and Chemical Toxicology”, <http://www.elsevier.com/about/press-releases/research-and-journals/elsevier-announces-article-retraction-from-journal-food-and-chemical-toxicology>