2016 Shareholder Proposal to Dr Pepper Snapple
Adopt Beverage Container Recycling Goals

Executive Summary

- Sales of beverage bottles and cans grew 22% in the decade from 2000 to 2010 while the container recycling rate for those materials declined, according to the Container Recycling Institute. **Nearly two-thirds (63%) of beverage containers continue to end up landfilled, incinerated, or littered.**

- Recycling beverage containers can reduce millions of tons of carbon dioxide emissions and capture billions of dollars of value embedded in post-consumer materials, reducing the amount of virgin materials required for production.

- Dr Pepper Snapple's (DPS) major competitors, Coca-Cola, Nestle Waters NA and PepsiCo, committed many years ago to set **aggressive** quantitative take back goals; they are taking proactive steps to collect bottles and cans on their own as well as to work with peers to improve overall recovery rates.

- In February 2016, DPS set a takeback goal of 60% for bottles and cans by 2030. These goals are not aggressive or even challenging. The timeline set lags competitors by 6 years! (PepsiCo agreed to an industry recycling goal in 2010 of 50% for bottles and cans by 2018.)

- As You Sow is pursuing the proposal because (a) the company did not set recycled content goals as requested, and (b) we do not it believe it has complied with the request for an **aggressive** recycling goal timeline.

- By setting a timeline a decade later than competitors, the company sends a signal to the rest of the industry to relax rather than intensify efforts to recycle.

Resolution Summary

The proposal asks the company to adopt an **aggressive** recycling strategy for beverage containers sold by the company and prepare a report on the company's efforts to implement the strategy. The strategy should include quantitative recycled content and container recovery goals for plastic, glass and metal containers. The strategy should include **aggressive** quantitative recycled content goals, and container recovery goals for plastic, glass and metal containers.

AS YOU SOW

Why This Is Important

Sales of beverage bottles and cans grew 22% in the decade from 2000 to 2010 while the container recycling rate for those materials actually declined, according to the Container Recycling Institute (CRI). The amount of wasted containers increased from 59% to 63%, so nearly two-thirds of beverage containers continued to end up landfilled, incinerated, or littered. The scrap value of these wasted containers during the last decade is $22 billion.[1]

Every beverage container that is not recycled must be replaced with a container usually derived from virgin raw materials. Replacing wasted containers with new containers consumes substantial amounts of energy, water, and other natural resources and creates greenhouse gases and other pollutants. Recycling beverage containers can reduce millions of tons of carbon dioxide emissions and the amount of virgin materials required for production. If all bottles and cans that were wasted in 2010 were instead recycled, it would have saved enough energy to supply the needs of 2.3 million homes and eliminated 11.6 million tons of greenhouse gas emissions, according to the Container Recycling Institute.

Even with its announcement of a recycling goal in February 2016, Dr Pepper Snapple significantly lags its peers on post-consumer packaging recycling and recycled content policies.

Coca-Cola agreed in 2007 to recycle 50% of its own PET, glass bottles, and aluminum cans by 2015. Nestlé Waters North America agreed in 2009 to an industry recycling goal of 60% of PET bottles by 2018. PepsiCo announced an industry recycling goal in 2010 of 50% of PET, glass bottles and aluminum cans by 2018. Walmart, one of the company's major customers, announced its intent to increase use of recycled plastic resins in products and packaging by 3 billion pounds by 2020.[2]

On the issue of recycled content, Pepsi committed to use an average of 10% recycled PET plastic in all of its plastic bottles. Its Naked Juice brand bottle uses 100% recycled resin. Nestle Waters uses 50% recycled resin in select markets. DPS has disclosed only minimal use of recycled resin and no metrics.

In addition to these commitments, these competitors are expending significant resources to meet their goals. Coca-Cola and PepsiCo purchase hundreds of thousands of pounds of used plastic bottles annually. Pepsi placed reverse vending machines and recycling bins in thousands of locations. Nestle Waters pressed its peers to shift financial responsibility for financing recycling from taxpayers to brands to provide badly needed resources so that municipalities can modernize recycling infrastructure and increase recycling rates.

Increased recycling could reduce the company's carbon footprint. Nestlé Waters found that recycling a bottle reduces that bottle's greenhouse gas impact by 25%. Coca-Cola says packaging

[1] *Bottled Up: Beverage Container Recycling Stagnates* (2000-2010), Jenny Gitlitz, Container Recycling Institute, October 2013.
[2] Walmart, "How to Make a Difference - Closing the Loop in Plastics," www.walmartsustainabilityhub.com/app/answers/detail/a_id/191.

is the largest contributor to the carbon footprint of several of its products.[3] The packaging used by these companies is virtually identical to that used by DPS.

Statement in Opposition

The company opposes the proposal because it says it "is launching and expanding programs that will substantially meet the goals of this proposal."

We disagree. The first main goal was for the company to set an **aggressive** bottle/can recovery goal. The goal is weak and regressive, with a 14 year timeline. Its competitor PepsiCo has an eight-year goal it has been working on for six years to recycle 50% of bottles and cans by the end of 2018; Dr Pepper Snapple Group says it will take 14 years to reach 60%! By setting a timeline a decade longer than later than competitors, the company sends a signal to the industry to relax rather than intensify efforts to recycle.

The company says it "drew on publications outlining the challenges currently faced by the recycling market and rate projections into the future to form our rationale," but declines to provide specific sources and data supporting establishment of such a weak goal.

It implies that one factor in the long time frame is that the American Beverage Association's method for calculating recycling rates, which is weight-based, indicate rates have not grown substantially since 2010. The company does not mention that many questions have been raised about the validity of this method. Nearly all beverage makers have dramatically light-weight bottles and cans over the last decade, with the result that the average weight of bottles has shrunk dramatically. For example, Coca-Cola says that in the past two years, it cut the weight of its 20-ounce PET plastic bottle by more than 25 percent; 12-ounce aluminum can by 30% and 8-ounce glass bottle by more than 50%. One recent study that compared weight and volume measurements of recyclables in Ontario found that plastics accounted for only 6% of the total measured by weight, but 23% measured by volume. Yet recycling measurement has not shifted from weight-based to volume-based to compensate. As long as measurement is weight based, many millions more bottles are likely being collected but not recorded because it takes many more bottles to accrue a ton of recyclables than previously.

PepsiCo is still committed to raising recycling rates by 10% in three years, and Nestle Waters is still pushing for a 20% increase in plastic bottle recycling by 2018. Sometimes large increases can happen quite rapidly. The U.S. Environmental Protection Agency's most recent report on recycling indicates that the recycling rate for electronics jumped a full 10% in one year -- from 30 to 40% -- between 2012 and 2013.

DPS seems to be arguing that since the rate lagged over the last decade, it will also lag over the next 10 years. That reasoning does not align with the company's new announced investment in the Closed Loop Fund, whose goal is to provide $100 million in loans to **accelerate** lagging recycling rates. As a result of such investments in the Closed Loop Fund, the Recycling Partnership and other separately funded state initiatives, recycling of bottles and cans should

[3] Unfinished Business, As You Sow, 2012, p. 12. http://www.asyousow.org/sustainability/eprreport.shtml

reasonably be expected to increase by 20 points in far less than 14 years. Why don't DPS' goals reflect this increased activity and momentum by the industry?

The second request was for recycled content goals. The company did not propose recycled content goals, and offered no explanation why it did not. Competitors Pepsi use 10% recycle PET plastic in all plastic containers, and Nestle Waters uses 50% in plastic containers in selected markets. Setting a goal means committing resources and strategy to meeting it; if no goal is set, there's no incentive for the company to develop a strategy or to provide resources to substantially increase recycled content.

Conclusion

- The company argues that it has substantially complied with the proposal. We disagree. Its recently announced goal and timeline for increasing bottle and can collection rates is weak and regressive, lagging competitor commitments by more than a decade as noted above. Further, it did not set any minimum amount of recycled content goals as requested, thus the company cannot assert substantial implementation. Supporting the proposal sends a message to management that its goals are not sufficiently strong, or complete.

- The company says recycling rates have stagnated over the last decade without mentioning that much of that alleged stagnation could be attributed to outdated measurement techniques as discussed in detail above.

- The company has ignored significant recent industry actions and signals that prioritize recycling and suggest that faster progress on boosting recovery rates is likely.

- In addition to conserving valuable resources, stronger recycling goals and use of recycled content could substantially reduce the company's carbon footprint.

- We believe the requested report is in the best interest of Dr Pepper Snapple and its shareholders. Stronger performance in this area will bring the company in line with peers, protect its iconic brands and improve its reputation for transparency and environmental leadership.