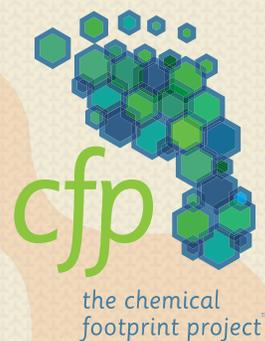


the chemical footprint project

2016 Annual Report



Executive Summary



Executive Summary

In a world where chemical regulations and market demands for safer chemicals are on the rise, how can investors know which firms are most at risk from these emerging trends and which are best positioned to capture new markets with safer products? How can institutional purchasers know which suppliers are taking the systematic steps necessary to identify and reduce chemicals of high concern in products and supply chains? And how can companies demonstrate to purchasers and investors their leadership in chemicals management when they lack an objective, third party metric that recognizes their efforts?

The Chemical Footprint Project sets a new standard for evaluating and comparing companies on their policies, programs, and practices for managing chemicals. By assessing companies on their overall progress in avoiding chemicals that can cause adverse health effects such as cancer, birth defects, and learning disabilities, along with using safer alternatives, the Chemical Footprint Project adds the “H” of human Health to Environmental, Social, and Governance (ESG) factors—thereby filling a critical missing gap in the sustainability mosaic. Signatories to the Chemical Footprint Project include investors

Signatories to the Chemical Footprint Project include investors and institutional purchasers with over \$2.3 trillion in assets under management and \$70 billion in purchasing power.

Chemical footprinting is the process of assessing progress toward the use of safer chemicals and away from chemicals of high concern to human health or the environment.

and institutional purchasers with over \$2.3 trillion in assets under management and \$70 billion in purchasing power.

This first annual Chemical Footprint Project report highlights the financial risks that companies face due to chemicals of high concern (CoHCs) to human health and the environment in their products and supply chains. The report features key findings from the 2015 survey, including an assessment of how companies manage the potential liabilities posed by hazardous chemicals and opportunities for improvement.

Chemical Risks

In his Foreword, Matthew Patsky of Trillium Asset Management highlighted three different types of chemical risks companies face: regulatory, reputation, and redesign.

Regulatory risks are the potential costs from current and future regulations. The liabilities associated with current regulations emerge from the failure to comply with them. For example, from 2011–2013, six retailers in the United States paid almost \$200 million in fines for failure to comply with hazardous waste regulations.¹ Companies are also at risk from significant additional costs due to new chemical substance regulations, which are increasing faster than for any other environmental issue, including climate change.



The Chemical Footprint Project provides a window into corporate regulatory risk management by examining key policies and practices. Companies that track global chemical restrictions reduce the risks of product recalls and fines for non-compliance by incorporating restricted substances lists (RSLs) into supplier contracts, auditing suppliers, and routinely testing supplier parts for compliance. Similarly, companies that create corporate policies and RSLs that go beyond current laws can reduce costs associated with future regulations.

Reputation risks are the potential costs of being exposed publicly with hazardous chemicals in products or supply chains. For example, Lumber Liquidators' stock plummeted by 70% and its chief executive officer (CEO) resigned after non-governmental organizations (NGOs) revealed elevated levels of formaldehyde in its products.² Lower sales, reduced market valuation, decreased customer loyalty, and lawsuits are among the costs related to reputation risks.

The Chemical Footprint Project provides insights into how companies manage these reputation risks. Companies that integrate chemicals management into business strategy incentivize employees and senior management to reduce hazardous chemical use, and provide authentic disclosure on chemical use and reduction efforts will reduce their reputation risks when compared to less proactive firms.

Redesign risks are the potential costs related to the continued use of hazardous chemicals in

products and manufacturing processes and not redesigning products before regulations change or markets shift. Sony, for example, incurred over \$150 million in redesign and recall costs when it failed to remove cadmium from its Playstation products.³ Redesign risks include losing market share to a competitor or being forced to make product changes under crisis conditions.

Using the Chemical Footprint Project lens to examine redesigning goods provides companies with strategies to reduce this risk. Companies that know the hazard profile of chemicals in their products and have scientifically robust criteria for evaluating potential substitutes and identifying safer alternatives will be better equipped to develop and expand markets for safer products.

Chemical Footprint Project

In 2015, the Chemical Footprint Project along with Signatory investors and purchasers reached out to leading manufacturers and brands to participate in the first annual business survey. Outreach focused on downstream users of chemicals because they bear disproportional risks due to the hidden liabilities associated with hazardous chemicals in their products and supply chains.⁴

A diverse group of 24 companies participated in the first annual survey. Respondents include both privately- and publicly-held companies from seven sectors: consumer durables & apparel, household & personal products, health care equipment & services, capital goods, technology hardware & equipment, consumer services, and food, beverage & tobacco.⁵ Of the 24 participating companies, 22 agreed to be named publicly (see sidebar). Participation in the first annual survey reflects each company's leadership in chemicals management and its openness to opportunities for improvement.

The 2015 Chemical Footprint Project survey included 20 questions scored to a total of 100 points, covering four key performance categories:

- **Management Strategy:** the policies and strategies companies put into place to manage chemicals.
- **Chemical Inventory:** the information companies collect on chemicals in products and supply chains.
- **Footprint Measurement:** the baseline data companies have on chemicals of high concern



in products and their tracking of progress to safer alternatives.

- **Disclosure and Verification:** the sharing of information on chemicals in products with the public, disclosure of participation in the Chemical Footprint Project, and steps taken to verify responses to the Chemical Footprint Project survey.

The survey challenged companies to report on their policies, programs, practices, and progress in developing comprehensive chemicals management systems. In the first year, we did not ask respondents to publicly report their scores. Rather, we asked companies to publicly identify their participation and report their responses. In future years, we will encourage participating companies to report their scores publicly.



Participants in the 1st Annual Chemical Footprint Project Survey

Becton Dickinson & Co.
 Beautycounter
 California Baby
 Clorox Company
 Construction Specialties, Inc.
 Forms+Surfaces
 GOJO Industries, Inc.
 Hanseatic Bedding Products, Inc.
 Humanscale Corporation
 Interface, Inc.
 Jasper Group
 Johnson & Johnson
 Kimball International, Inc.
 KYOCERA Corporation
 Levi Strauss & Co.
 Radio Flyer, Inc.
 Seagate Technology, PLC
 Sealed Air Corporation
 Shaw Industries Group, Inc.
 Standard Textile Company, Inc.
 SYSCO Corporation
 WaterWipes (a division of Irish Breeze Ltd)

Key Findings from 2015 Survey

The findings provide the first ever evaluation of the current landscape of chemicals management among a diverse set of companies selling formulated products and articles, based on a common set of questions and scoring developed by an independent third party. Company scores ranged from 12 points to 89 points, with an average score of 41 points (see Figure ES-1, p. 4). Across

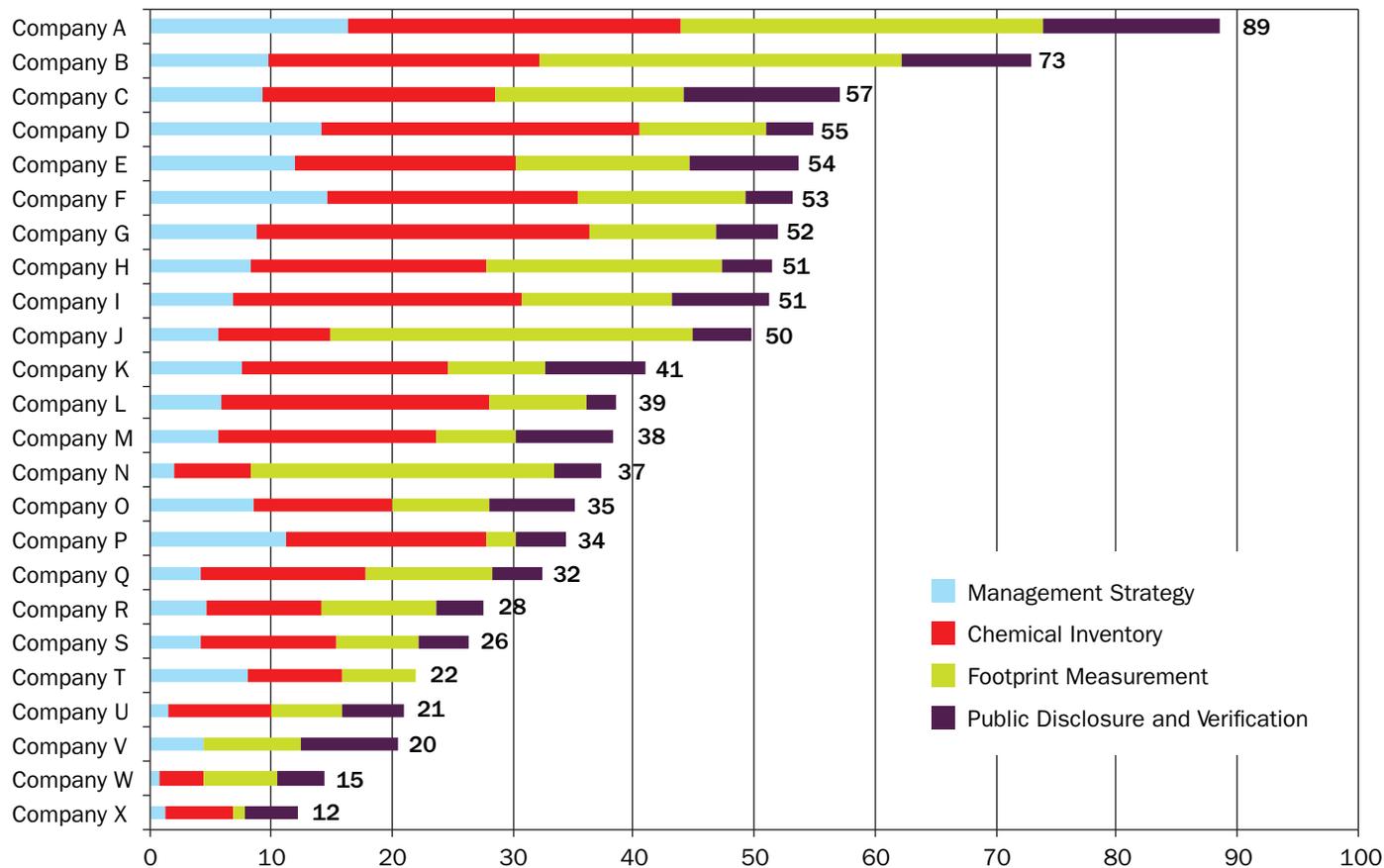
The 29% of firms with board level oversight or senior management compensation for chemicals management performed better overall than firms with no such accountability.

the four key performance categories, average scores were highest for Chemical Inventory and lowest for Disclosure & Verification. The wide range in scores reflects the new reporting standard set by the Chemical Footprint Project, the diversity of corporate chemical management programs, along with the variety of participating companies in terms of size, sector, and business strategy.

The results from the first annual survey highlight that:

- **Senior leadership matters:** From a senior management accountability standpoint, the 29% of firms with board level oversight or senior management compensation for chemicals management performed better overall than firms with no such accountability.
- **Chemicals in products are the priority:** Corporate policies focus primarily on chemicals in products rather than on manufacturing, supply chains, or packaging. Almost 90% of the participating companies have a policy to avoid CoHCs in products, whereas only 54% of policies address CoHCs in supply chains. Similarly, 67% of policies address a preference for safer alternatives in products, while 42% include a preference for safer alternatives in supply chains.

FIGURE ES-1 Chemical Footprint Project Survey: Points Scored by Each Company



- **Disclosure lags practice:** Across every category companies have more practices in place than they share publicly. For example, while 79% of participating companies have a legally restricted substances list, only 17% of those companies make their RSL public.
- **“Design for Health” strategies drive the leading edge of performance:** “Design for Health” companies, defined as those that implement safer chemical policies, procedures, and practices into all elements of the business, averaged 62 points out of 100, well above the 41 point mean score for all responders.
- **Chemical footprint measurement is new and challenging:** In 2015, the Chemical Footprint Project asked each participating company to quantitatively assess its overall chemical footprint, defined as CoHCs in all products sold (with a CoHC specified as a chemical on the California Candidate Chemicals List).⁶ Responders found this measurement challenging, and thus on

average garnered slightly more than a quarter of possible points for quantifying their chemical footprint.

Opportunities for Improvement

The first annual survey results reveal multiple opportunities for improving chemicals management systems, including:

- **Establish comprehensive chemicals policies:** Firms can begin by establishing a corporate-wide policy to avoid CoHCs and prefer safer alternatives in manufacturing, supply chains, products, and packaging.
- **Engage senior management and/or boards of directors:** Senior management engagement is central to integrating chemicals policy into business strategy.
- **Increase chemical knowledge:** Many companies start their chemicals management programs by creating a list of legally restricted substances lists (RSLs) and then proceed to collect more



complete chemical ingredient information in products. Engaging suppliers in avoiding restricted substances, identifying safer alternatives, and assuring compliance with policies is critical to success.

- **Measure footprint performance:** The survey found that companies in general do not know the number of CoHCs or overall mass of CoHCs in their products. Once companies begin to quantitatively measure their chemical footprint, they can track progress over time.
- **Improve transparency:** The survey results reveal significant opportunities to narrow the gap between current business practice and the demand for greater transparency from

consumers, institutional purchasers, and investors.

The firms that participated in the 2015 Chemical Footprint Project represent the vanguard in corporate chemicals management. With comparative data on performance and a clear set of improvement options identified, these pioneering companies are better prepared to manage their chemical risks and achieve the reputation and market benefits that come with improved chemicals management. We commend their participation and look forward to engaging with them again and a broader array of companies in 2016.



Join us!

The Chemical Footprint Project welcomes Signatories and Responders.

Signatories are investors and institutional purchasers who outreach to companies to participate in the survey. Responders are brands, manufacturers, and suppliers who participate in the annual Chemical Footprint Project survey.

www.chemicalfootprint.org



the chemical
footprint project™

our vision

The Chemical Footprint Project envisions a world where chemicals are healthy for people and the environment; where chemically related disease rates for cancer, infertility, asthma, and learning disabilities are low; and where consumer, government, and business demand drives the widespread supply of safer products.

our mission

The mission of the Chemical Footprint Project is to transform global chemical use by measuring and disclosing data on business progress to safer chemicals.

www.chemicalfootprint.org

