Primer on the Chemical Footprint Project

Mark Rossi, Clean Production Action
Susan Baker, Trillium Asset Management
Roger McFadden, Staples, Inc.

June 30, 2015
Overview

• CFP Introduction
  – Why CFP?
  – Who is CFP?
  – What is CFP?
  – How can I participate?

• Value to retailers

• Value to Investors
Chemical Risks

BUSINESS DAY

Lumber Liquidators Chief Robert Lynch Resigns

By RACHEL ABRAMS  MAY 21, 2015

A Lumber Liquidators store in Philadelphia. The company is battling accusations that it sold laminate flooring manufactured in China, with unacceptably high levels of formaldehyde. Matt Bloom/Associated Press
“You can’t manage what you don’t measure.”
GLOBAL CORPORATE SUSTAINABILITY REPORT 2013
Founders

• Clean Production Action
• Lowell Center for Sustainable Production, University of Massachusetts Lowell
• Pure Strategies

www.chemicalfootprint.org
**Signatories:**

**Investors**
- Australian Ethical Investment
- Aviva Investors
- Boston Common Asset Management
- BNP Paribas Investment Partners
- Calvert Investments
- First Affirmative Financial Network
- Miller/Howard Investments
- Pax World Funds
- The Sustainability Group at Loring, Wolcott & Coolidge
- Trillium Asset Management
- Zevin Asset Management

**Purchasers & Retailers**
- Dignity Health
- Hackensack University Medical Center
- Kaiser Permanente
- Mercy Health
- Premier, Inc.
- San Francisco Department of the Environment
- Staples, Inc.
- St. Joseph Health
- Trinity Health

**The Right Chemistry**

The $1.1 trillion question: What’s your chemical footprint?

Mark Rossi
Friday, June 19, 2015 - 2:30am
What are Signatories agreeing to do?

- Encourage companies in your sphere of influence to participate in the Chemical Footprint Project.
- Be listed on the Chemical Footprint Project website.
- Provide feedback on how to improve implementation of the Chemical Footprint Project.
Signatories & Responders

- Signatories ask suppliers & stakeholders for the CFP score
- Signatories are: investors, retailers, & institutional purchasers

- Responders use the Assessment Tool to get a CFP score
- Responders are brands, manufacturers, & suppliers
- Active sectors in CFP are: apparel, beauty/personal care, building products, cleaning/laundry, electronics, medical devices, toys
CFP Assessment Tool

Assessment Tool: 20 Questions - 100 pts
Pilot of the Assessment Tool

- 11 Brands
  - Beauty/personal care
  - Building products (interior products)
  - Cleaning products
  - Electronics
  - Medical devices
  - Toys
- Fall 2014
- Online questionnaire
- Debrief on questions & response options
- Revisions

a project of Clean Production Action
Pilot: Lessons Learned

- Provides a **systematic approach** for evaluating chemicals management
- Facilitates conversations across silos within organizations: R&D, production, supply chain management, & C-Suite
- Enables **gap analysis**: self assessment identified opportunities for improvement and information needs
- Provides motivation to **formalize chemical policies and procedures** across an organization
- **Create standard** for measuring performance in chemicals management
Example: Scores by Sector

CFP scores by company within sector

<table>
<thead>
<tr>
<th>Company</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company A</td>
<td>66%</td>
</tr>
<tr>
<td>Company B</td>
<td>65%</td>
</tr>
<tr>
<td>Company C</td>
<td>63%</td>
</tr>
<tr>
<td>Company D</td>
<td>62%</td>
</tr>
<tr>
<td>Company E</td>
<td>61%</td>
</tr>
<tr>
<td>Company F</td>
<td>60%</td>
</tr>
<tr>
<td>Company G</td>
<td>51%</td>
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<td>Company H</td>
<td>41%</td>
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<tr>
<td>Company I</td>
<td>32%</td>
</tr>
<tr>
<td>Company J</td>
<td>31%</td>
</tr>
</tbody>
</table>
Example: Scores by Individual Company

Company scores by category

- **Management Strategy**: 64%
- **Chemical Inventory**: 73%
- **Footprint Measurement**: 40%
- **Public Disclosure**: 33%
Management Strategy (M) (20 POINTS)

M2. Does your company have a chemicals policy that in addition to avoiding chemicals of high concern includes a preference for the use of safer alternatives? (4 points)

Response Options
a. Products: has a chemicals policy preferring safer alternatives that is applicable to our products
b. Products: if yes to “a,” our policy is publicly available on our website
c. Manufacturing: has a chemicals policy preferring safer alternatives for manufacturing operations
d. Manufacturing: Not applicable (we have no manufacturing operations)
e. Manufacturing: if yes to “c,” our policy is publicly available on our website
f. Supply Chains: has chemicals policy for supply chains
g. Supply Chains: if yes to “f,” our policy is publicly available on our website
h. Packaging: has a chemicals policy preferring safer alternatives for our primary packaging
i. Packaging: if yes to “h,” our policy for packaging is publicly available on our website

Intent
This question seeks to understand the scope—products, manufacturing, supply chain, packaging—of your company’s chemicals policy in regards to a preference for safer alternatives to hazardous chemicals and whether it is publicly available.

Explanation
The Chemical Footprint Project defines a safer alternative as a chemical that due to its inherent chemical and physical properties, exhibits a lower propensity to persist in the environment, accumulate in organisms and induce adverse health and environmental effects. Please note whether your policy focuses on chemicals in your products, manufacturing operations, supply chains, and/or primary packaging. In addition, please note whether you share your chemicals policy publicly. See M1 guidance for more information about a chemicals policy.

In answering this question, note that you can check all that apply.

Examples
For an example of “a” and “e” see Walmart’s [Policy](#).
12. What actions does your company take to develop a Beyond Restricted Substances List and determine their presence in your products? (5 points)

**Response Options**

Check all that apply. Our company:

a. reviews various sources of chemical hazard information to identify chemicals of concern beyond our Restricted Substances List

b. engages external stakeholders such as non-governmental organizations (NGOs), business customers and consumers in the development of our Beyond Restricted Substances List

c. collects data on chemicals in our products and evaluates against our Beyond Restricted Substances List or hazard criteria

d. updates our Beyond Restricted Substances List at minimum on an annual basis

e. publicly discloses its Beyond Restricted Substances List
Chemical Footprint: the total mass of chemicals of high concern in: products, manufacturing, supply chain, and packaging
Chemicals of High Concern (CoHCs)

- carcinogen, mutagen, or reproductive toxicant (CMR)
- persistent, bioaccumulative and toxic substance (PBT)
- any other chemical for which there is scientific evidence of probable serious effects to human health or the environment that give rise to an equivalent level of concern
- a chemical whose breakdown products result in a CoHC that meets any of the above criteria

California Candidate Chemical List
CFP Assessment Tool

Chemical Inventory

Management Strategy

Footprint Measurement

Public Disclosure

Disclose

• Chemicals in products

Disclose

• Participation in CFP

Disclose

• Responses

Verification

• Independent body
Test and iterate, but don’t let the perfect be the enemy of the good.
Timeline -- 2015

Jun 19: online Assessment Tool launched
Sep 30: online Assessment Tool closed
Dec 8: release CFP Annual Report

Be a Signatory
Engage as a Responder

go to chemicalfootprint.org to register for news,
to download Guidance
SRI and Trillium Overview

• Strong investor interest in socially and environmentally-conscious diversified portfolios or Sustainable and Responsible Investments (SRI)

• SRI assets increased 76% to $6.6 trillion or 18% of professionally managed assets

• Trillium: Sustainable and Responsible Investment since 1982 ($2.4 bil)

• Goal: deliver both impact and performance

• Active Shareholder Engagement: Dialogue, Proxy Process and Public policy work to influence corporate practices on environmental issues

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Value Proposition to Investors

• Better identify Companies employing active or passive chemicals policies

• PwC/INSEAD study found Companies lost 0.7% of total revenue and 12% of stock’s market value from supply chain disruptions linked to sustainability issues

• Active Strategy - requiring supplier disclosure of CoHC - can mitigate disruptions/ moderate data collection costs when new regulation introduced *(Seagate Technology)*
Value Proposition to Investors

- Value to Universal Owners - CFP addresses inputs that can add costs to economy (higher healthcare costs/lost work time)

- 3.5% of U.S. healthcare costs ($76.6 bil) spent on diseases of environmental origin in children (2010 NIH report)

- In Europe $175 billion of healthcare spending linked to endocrine disruption chemicals (March 2015 JCEM)

- Presents potential drag on shareholder returns for the diversified institutional investor who holds a large slice of the economy
How Investors Anticipate using Results

– Fill data gaps and reveal potential risks and opportunities
  » Reformulation risk
  » Product and worker safety
  » Capacity to innovate using safer chemicals

• Platform for substantive shareholder engagement
• Encourage action on CoHC & creating markets to meet demand for safer alternatives
• Promote continuous improvement of data quality and disclosure
Chemical Footprint Evaluation
Value to Retailers, Brands and Consumers

Roger McFadden
Vice President, Senior Scientist
Staples, Inc.

roger.mcfadden@staples.com
Value of Strong Brands

• Strong brand organizations have a higher market share.

• Build a positive corporate image.

• Create differentiation.

• We choose brands because we **trust** them.
Brand Risk

- Anything that threatens brand equity or brand differentiators and influences consumers to choose one product or service over another.

- Anything that threatens the sustainability of current and future demand for a company’s product or service.
Reputational Risk

It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently.

(Warren Buffett)
Chemicals are a key element of a retailer’s supply chain

• The introduction of new chemicals over the past few decades has provided significant value to product designers and retailers.

• New chemicals have helped improve the quality, efficiency and convenience in our workplaces, homes and communities.
BUT.... all chemicals are not created equal

- Hazard traits
- Human health & eco-toxicity endpoints
- Exposure routes
- Degradation & combustion by-products
- Pollution potential

*One chemical can cause cancer; another chemical can help treat or prevent cancer*
Origins of Consumer Perception*

• First-hand experience plus consumer’s social networks.

• Consumers perceive messages the brand publishes as less credible than those from other consumers.

• Relatively small number of online consumers can provide the prevailing information to the population at large in connection with a brand.

• Too often, consumers understand social media better than the businesses trying to engage them.

Age of Information and Transparency

• Businesses aren’t expected to be perfect, but they are expected to be honest.
• Consumers are seeking greater accountability.
• Social media has become a powerful tool for business, brand and consumer.
• Consumer will dig, discover and divulge any and all information across the web.
• Consumer will find out if your business is truthful or not, then blog it, tweet it, and share it on Facebook.
Wide Range of Business Approaches to Managing Chemicals

Basic Compliance

- Value Creation

- Don’t get in legal trouble

- Basic Compliance

  • Regulatory compliance
  • Oversight by legal and EHS team.
  • Reduce fines and penalties
  • Focus on lagging indicators.
  • Strengths: Regulatory compliance
  • Weaknesses: Reactive

Social Responsibility

- Leadership

- Be a good corporate citizen

- Basic Compliance CSR Reporting

  • Regulatory compliance plus CSR
  • Oversight by legal, EHS and CSR teams.
  • Strengths: Regulatory compliance and social responsibility reporting
  • Weaknesses: Minimal brand value creation

- Identify and offer new sources of value

- Basic Compliance CSR Reporting Consumer Brand Value

  • Regulatory compliance, CSR and clear chemicals in products policy
  • Integrated into business strategy
  • Written chemicals policy
  • Strengths: Proactive Approach. Assures compliance, sustainability reporting and focuses on leading key performance indicators creates consumer brand value
  • Weaknesses: Can always do better.

- Don’t get in legal trouble

- Be a good corporate citizen

- Identify and offer new sources of value
Wide Range of Business Responses to Consumer Concerns About Chemicals in Products

- **BASIC COMPLIANCE RESPONSE** – “Our business is in compliance with all current laws and regulations.”

- **DEFENSIVE or OBSTRUCTIVE RESPONSE** -- “Our business only makes safe products and therefore does not see the need nor the value of sharing chemicals in products information”

- **ACCOMMODATING RESPONSE** – “Our business respects our customers and will take steps to accommodate their demands for chemicals in products information when it is requested.”

- **PROACTIVE RESPONSE** – “When there is credible evidence that a chemical in a product may result in harm to human and/or environmental health, we will take action, strive to eliminate the chemical and replace it with a quality, affordable, safer and more sustainable alternative.”

[Staples logo] easy on the planet
Managing Chemical Footprint Lessons Learned

- Knowing is better than not knowing.
- Action is better than inaction.
- Eliminating chemical hazard at design is better than managing exposure.
- Transparency and disclosure is better than vagueness or obscurity.
- Orderly proactive transition is better than abrupt reactive change.
Why Chemical Footprint Project is Important to Staples

• Tells us where we are now and measures progress towards safer chemicals
• Identifies suppliers that are leaders
• Recognizes and rewards suppliers for doing what matters most to us and our customers
• Creates greater accountability across supply chains
• Encourages chemical information sharing
• Provides a metric to compare and measure continuous improvement of suppliers
Safer Chemicals in Consumer Products Helps to Safeguard Our Brands

• Eliminates hazards where possible and reduces risk to brand.

• Creates shared value for consumer, community and company.

• Rewards suppliers for innovative solutions.

• Helps protect human health and wellness

• Helps protect natural and built environment both now and in the future.
THANK YOU!

Susan Baker  
Vice President, Shareholder Advocacy  
Trillium Asset Management  
sbaker@trilliuminvest.com

Roger McFadden  
VP, Senior Scientist  
Staples, Inc.  
roger.mcfadden@staples.com

Mark Rossi  
Interim Executive Director  
Clean Production Action  
mark@cleanproduction.org