



Brief to Shareholders of Procter & Gamble re: Proposal to Improve the Sustainability of its Forest Supply Chains

Recommended: Vote FOR Item #5 for Procter & Gamble to report on its efforts to eliminate deforestation and the degradation of intact forests in its supply chains.

October 6, 2020

Dear Procter & Gamble Shareholder,

Procter & Gamble (P&G) has received ongoing negative attention in recent years for the way its forest supply chains drive deforestation, forest degradation, and human rights abuses. P&G’s sourcing of palm oil is linked to deforestation and human rights abuses,ⁱ including forced labor practices in Malaysia,ⁱⁱ and the wood pulp it sources for Charmin and its other flagship tissue brands contributes to the degradation of climate-critical intact forests like the Canadian boreal forest.ⁱⁱⁱ Nearly 400,000 citizens have signed petitions urging P&G leadership to commit to stop fueling deforestation or intact forest degradation.^{iv} P&G’s sourcing practices have illuminated numerous risks, detailed below, that must be addressed to protect shareholders’ investments.

Therefore, the above eight organizations urge you, as a major P&G shareholder, to vote in favor of the shareholder resolution (Item #5) regarding P&G’s forest supply chains.

Last year, the Natural Resources Defense Council (NRDC) and over 135 other organizations, including Greenpeace, Sierra Club, and 350.org, wrote to P&G CEO David Taylor that the company’s role in driving clearcut logging in the Canadian boreal forest threatens Indigenous Peoples’ rights and ways of life, risks the future of boreal caribou and other wildlife, and releases carbon that has been stored in trees and soils, fueling the climate crisis.^v Moreover, forthcoming new analysis of P&G’s wood pulp sourcing from the Canadian boreal will reveal that key P&G pulp suppliers in Ontario and Quebec are operating in ways that are degrading large areas of Canada’s boreal forest.

NGOs globally have informed P&G of these supply chain impacts, as well as issues regarding its sourcing from a long list of palm oil companies associated with deforestation and human rights

abuses in Indonesia and Malaysia.^{vi} So far, the company has failed to adopt and implement policies that adequately address these issues, even as competitors make significant commitments to achieve deforestation-free supply chains, operate with transparency, and reduce their overall use of virgin forest fiber. As a result, P&G's forest supply chains have earned the company a reputation as an international laggard in sustainability and demonstrated that its shareholders are exposed to significant risk due to the company's inaction. Specifically:

- 1) **Market risk:** P&G is ceding competitive advantage to its peers as it fails to meet its no-deforestation commitment and continues to use 100% virgin forest fiber in its tissue products while competitors report progress toward greater sustainability in their supply chains. As consumers increasingly name product sustainability as a key factor in purchasing decisions, it is critical that P&G stop deforestation and intact forest degradation in its supply chains, lest it lose market share to competitors.
 - a) Several of P&G's peers have strong commitments that, if implemented, will mitigate their deforestation and intact forest degradation risk. Kimberly-Clark, one of the world's largest buyers of tissue pulp, has committed to halving its sourcing from natural forests by 2025, and dramatically increasing its use of alternative and environmentally-preferred fibers.^{vii} Unilever has committed to deforestation-free supply chains by 2023, including palm oil and paper/board,^{viii} and the company has a clear and transparent grievance procedure for resolving both social and environmental issues in its palm oil supply chain.^{ix} Rather than ensuring greater transparency and accountability in its own sustainability goals and reporting, P&G has legitimized industry-controlled forestry certification schemes like Sustainable Forestry Initiative (SFI), by referring to SFI as a leading third-party certification group that "helps ensure that the forests from which pulp is sourced are responsibly managed,"^x even as many forest experts have made it clear this is not the case,^{xi} and other companies have actively distanced themselves from SFI certification.^{xii}
 - b) P&G was rated below its peers by both Forest 500^{xiii} and CDP Forest^{xiv} in terms of the strength of their commitments, reporting, and implementation in ensuring deforestation-free supply chains. Within the Forest 500, P&G's score may be inflated. The company's average is boosted by virtue of its strong written commitments,^{xv} but there is evidence those commitments are not being implemented in practice.^{xvi} Furthermore, comparing P&G to its peers solely on the basis of its pulp sourcing, its ranking falls far below comparably-sized companies.
 - c) At Costco's annual shareholder meeting this year, shareholders urged the major retailer to stop selling products that fuel forest destruction, specifically pointing to P&G's toilet paper and paper towel brands, Charmin and Bounty.^{xvii} Should retailers like Costco act to avoid their own public criticism, P&G may find its products' visibility in stores displaced by competing brands that are acting to address deforestation and intact forest degradation in their supply chains.

- 2) **Regulatory and operational risk:** P&G supply chains have been tied to forced labor, land grabbing, illegal deforestation,^{xviii} and the destruction of at-risk species habitat, exposing the company to a series of regulatory risks. This may pose further potential losses to shareholders should these supply chains be interrupted as a result of regulatory action and enforcement.
- a) Under the Tariff Act of 1930, U.S. Customs and Border Protection (CBP) is required to deny entry to goods that arrive at U.S. ports if there is reasonable cause to believe they contain materials made with forced labor, putting P&G at risk of supply chain interruption from regulatory action and enforcement. In 2019, Rainforest Action Network (RAN), Global Labor Justice-International Labor Rights Forum (GLJ-ILRF), and SumofUs filed a Tariff Act complaint with CBP seeking to stop the importation of palm oil products produced by FGV Holdings Berhad (FGV), one of Malaysia’s largest palm oil companies and a joint venture partner and major palm oil supplier to P&G.^{xix} The complaint cites significant evidence of forced labor and human trafficking on FGV-owned palm oil plantations across Malaysia, including major media stories, academic research, and independent audit reports.^{xx} In November 2019, Freedom United, an anti-slavery organization, launched a petition campaign alongside RAN, GLJ-ILRF, and SumofUs calling on CBP to block imports from FGV, which has collected 127,534 signatures.^{xxi} Ultimately, on September 30, 2020, CBP issued an import ban on palm oil from FGV. As a CBP official describes, “U.S. consumer goods giant [P&G]...should take the ban ‘seriously’ if it is an importer of its palm oil products.”^{xxii}
 - i) In January 2020, the Roundtable on Sustainable Palm Oil (RSPO) resuspended FGV’s Sawit Serting mill after “unsatisfactory” findings from audits. The RSPO’s Principles & Criteria sets standards for members to protect workers’ rights and prevent human trafficking and forced labor in accordance with international laws.^{xxiii} RSPO audits found that pay and work conditions were not aligned with domestic labor laws and that FGV had failed to prevent migrant workers from paying exploitative recruitment fees and that workers were not adequately informed of their working conditions.^{xxiv}
 - ii) On September 24, 2020, Associated Press published a major investigation that uncovered chronic and widespread human rights abuses in the Malaysian palm oil industry, including human trafficking, child labor, and allegations of rape.^{xxv} Malaysian government-run palm oil company Felda and FGV – their commercial arm – were both implicated in the abuses unearthed by the Associated Press. Notably, in contrast to P&G, Unilever has stated that it suspended its contract with the supplier.^{xxvi}
 - b) Canada’s federal and provincial governments are facing increased pressure by Canadian civil society to protect threatened boreal caribou, after years of allowing their

habitat to disappear due to industrial logging. Indigenous Peoples and non-governmental organizations have brought litigation against the federal^{xxvii} and provincial government^{xxviii} for failing to protect threatened herds and undermining environmental protections, respectively. Given that multiple P&G boreal pulp suppliers are sourcing from boreal caribou habitat that is disturbed beyond the Government of Canada's proposed minimum threshold of 65% undisturbed habitat,^{xxix} P&G has a closing window to comply with these proposed protections.^{xxx} Failing to do so could put P&G's boreal pulp supply at risk of disruption, should governments choose or be required to protect boreal caribou habitat.

- 3) **Reputational risk:** By not addressing the substantial concerns raised by international NGOs over the last several years, P&G faces increasing negative public attention for its ties to deforestation, forest degradation, human rights abuses, and destroying threatened species habitat. This tarnishes P&G's reputation as a responsible company, which poses harm to shareholders' investments.
- a) Resolute Forest Products, a P&G boreal pulp supplier, has a long history of seeking to intimidate civil society organizations, including a failed 2018 attempt to stop Greenpeace and Stand.earth (formerly Forest Ethics) from continuing to advocate for better management of the Canadian boreal. As of April 2020, Resolute had been ordered to pay nearly \$1 million dollars to Greenpeace to cover costs associated with this failed litigation.^{xxxi} Actions by Resolute to silence criticism of its environmental record may pose further reputational risk to P&G due to its supply chain ties to Resolute, as P&G faces its own ongoing public criticism.
 - b) Over 135 organizations wrote to P&G in a public letter decrying its role in driving clearcut logging in the climate-critical Canadian boreal forest.^{xxxii} Major media outlets, including CBS This Morning,^{xxxiii} Bloomberg,^{xxxiv} and Financial Times,^{xxxv} have reported on P&G's role in forest degradation, the company's failure to account for the vast majority of its supply chain climate emissions, and public concerns over the company's misleading claims about its product sustainability.
 - c) P&G received unfavorable media coverage in major outlets like Reuters for failing to meet its 2020 zero-deforestation palm oil goal.^{xxxvi} Risk analysis platform Chain Reaction Research calculates P&G's related potential reputational losses at \$41 billion, or 14 percent of equity, which "dwarfs the cost of solutions."^{xxxvii} The analysis by Chain Reaction Research attributes P&G's failure to fully implement its 'No Deforestation' policy to the following factors:
 - i) The bulk of P&G's procurement of palm oil products comes from sources that are non-certified by RSPO.
 - ii) P&G's list of palm oil mills from which it sources features 15 companies that had active forest or peatland clearance in their owned or affiliated landbanks in 2016-2019, and the company has not updated this list since 2018.

- iii) P&G does not address cases of non-compliance in its supply chain, but relies on actions taken by its direct suppliers, thereby failing to take full responsibility for mitigating its supply chain risks.
- d) More than 380,000 people have signed petitions asking P&G CEO David Taylor to commit to stop fueling deforestation and intact forest degradation in its supply chains and instead make products that are planet-safe,^{xxxviii} and more than 160,000 people have signed petitions to P&G calling on the company to end modern day slavery in its palm oil supply chain and business partnerships.^{xxxix}

P&G’s current policies and reporting on deforestation, intact forest degradation, and human rights in its supply chains have proven grossly insufficient to address the risks outlined above. The company’s opposition statement to Item #5 in the 2020 proxy statement fails to alleviate concerns about the company’s management of its supply chain, as it suggests P&G’s existing commitments and efforts are adequate in the face of mounting public evidence to the contrary. As the environmental and social impacts of forest destruction and rising consumer concerns become more pronounced, P&G faces significant business risks if it fails to remove deforestation, intact forest degradation, and adverse human rights impacts in its supply chains.

Reporting on P&G’s ability to increase the scale, pace, and rigor of its efforts to eliminate deforestation and degradation of intact forests, as well as the associated human rights abuses in its supply chains, is an essential first step in mitigating these company-specific risks. Until then, the above organizations and others will continue to spotlight the company’s role in jeopardizing human rights, the world’s last intact forests, and the global climate.

Shareholders are urged to vote FOR the proposal asking P&G to report assessing if and how it could increase the scale, pace, and rigor of its efforts to eliminate deforestation and the degradation of intact forests in its supply chains. For more information, contact Ashley Jordan (ajordan@nrdc.org) or Shelley Vinyard (svinyard@nrdc.org).

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ⁱⁱ Margie Mason And Robin McDowell, “Palm Oil Labor Abuses Linked to World’s Top Brands, Banks,” AP News, September 24, 2020, <https://apnews.com/article/virus-outbreak-only-on-ap-indonesia-financial-markets-malaysia-7b634596270cc6aa7578a062a30423bb>.

ⁱⁱⁱ Shelley Vinyard, “The Issue With Tissue 2.0,” NRDC, June 24, 2020, <https://www.nrdc.org/experts/shelley-vinyard/issue-tissue-20>.

^{iv} NRDC, “Tell Charmin: Nature’s Calling, and She Wants Her Forests Back!”, accessed September 26, 2020, <https://act.nrdc.org/letter/boreal-charmin-190220>.

^v NRDC, “139 Groups Tell P&G to Stop Turning Canada’s Oldest Trees into Toilet Paper,” October 8, 2019, <https://www.nrdc.org/media/2019/191008>.

^{vi} RAN, *Keep Forests Standing: Exposing Brands and Banks Driving Deforestation*; Mason and McDowell, “Palm Oil Labor Abuses Linked to World’s Top Brands, Banks.”

^{vii} Kimberly-Clark, “2030 Ambition”, <https://www.kimberly-clark.com/esg/2030-ambition>.

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- ^{xii} Stand.earth, “These Businesses Made the Right Decision for Forests: They’ve Moved Away From SFI,” accessed September 26, 2020, <https://www.stand.earth/page/past-achievements/great-bear-rainforest/these-businesses-made-right-decision-forests-they%E2%80%99ve>.
- ^{xiii} Forest 500, “Procter & Gamble Co,” 2019, <https://forest500.org/rankings/companies/procter-gamble-co>
- ^{xiv} Ling Sin Fai Lam, Emma Amadi, and Christie Clarke, “No Wood for the Trees: Which Consumer Goods Companies Are Addressing Deforestation Issues?,” CDP, November 2019, <https://www.cdp.net/en/investor/sector-research/consumer-goods-report-2019>.
- ^{xv} Forest 500, “Procter & Gamble Co.”
- ^{xvi} Richa Naidu, “Nestle, P&G Say They Will Miss 2020 Deforestation Goals,” Reuters, September 27, 2019, <https://www.reuters.com/article/us-consumer-goods-deforestation-idUSKBN1WC1WC>.
- ^{xvii} Shelley Vinyard, “Costco, Don’t Be Complicit in Selling Forest Destruction,” NRDC, January 22, 2020, <https://www.nrdc.org/experts/shelley-vinyard/costco-dont-be-complicit-selling-forest-destruction>.
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