



Plastics and plastics recycling: a material issue for investors

In 1869, the first synthetic plastic was made. Its inventor was motivated by the promise of \$10,000 for the creation of a substitute for ivory.¹ Ironically, as demand for ivory was devastating the world's population of wild elephants, plastic was praised for its ability to “protect the natural world from the destructive forces of human need.”² Plastics have since become ubiquitous in our society. But they are certainly no longer praised for their effect on the natural world.

The growing impact of plastics pollution

Plastic has significantly contributed to the planet's environmental degradation for two main reasons:

- the single-use nature of many plastic products
- the amount of time it takes for plastic products to break down

Recycling, although beneficial, offers an imperfect solution. Despite recycling efforts, most plastics end up in landfills or in the environment. In fact, of the estimated nine billion tons of plastic that have ever been produced, **only nine percent has been recycled.**³

Recently, awareness of this issue has garnered significant media attention, with a focus on the discarded plastics that have made their way into our oceans. The headlines are numerous and shocking, with images of the “Great Pacific Garbage Patch” and animals trapped in plastic rings. The

numbers are equally alarming. Some scientists estimate that by 2050 there will be more plastic than fish in the ocean (by weight). Others claim that there is currently anywhere between 150 million and 300 million tons of plastic floating in oceans, with eight million additional tons entering the water each year.⁴

Given the severity and scope of the issue, action on plastics pollution is being taken globally. For example:

- The UN Environment Program launched the Clean Seas Campaign in February 2017, with the goal of dramatically reducing marine litter.⁵
- Ocean plastics pollution was at the centre of discussions at the 2018 G7 Summit.⁶
- Countless businesses and governments, at all levels, are making commitments to ban single-use plastics.⁷

In part, this action is in response to rising global sensitivity to plastics pollution, resulting in changing consumer preferences and regulatory pressure. In RBC Global Asset Management's (RBC GAM) view, the prominence of this environmental issue has significant implications for investors. RBC GAM has now seen this discussion move into the boardrooms of our investee companies.

Investors speak out

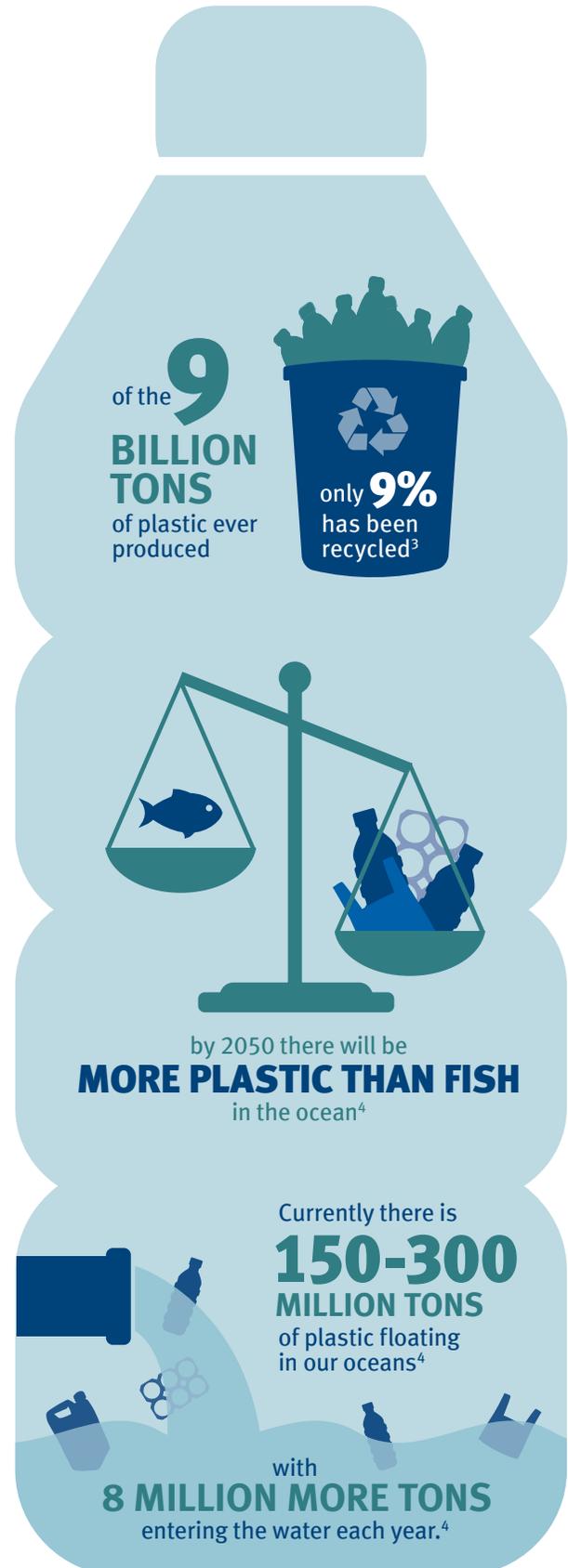
Perhaps galvanized by public sentiment and regulatory developments, investors have been swift to take action on plastics pollution. Recently, investors have been filing prominent shareholder proposals in North America calling on companies to consider the impact of their product packaging on the environment. Proponents cite material financial, environmental, reputational and operational risks as reasons for support. They are asking the companies in which they are invested to report on how they are managing these risks. Indicative of public sentiment on the issue, shareholder proposals related to sustainable packaging have been receiving high levels of support – well above the average support level traditionally seen for environmental and social shareholder proposals.⁸

So far in 2018, RBC GAM has encountered four such shareholder proposals on sustainable packaging with our investee companies. RBC GAM evaluates such proposals on a case-by-case basis. We will generally support proposals related to enhanced disclosure in an area that represents a real risk or opportunity for the company. In the case of the four proposals RBC GAM has seen, we determined that all warranted support as they were calling for additional disclosure on material risk at our investee companies.

The risks for business

As more companies and governments announce reduction targets related to plastics pollution, or even outright bans of plastic products, the risks associated with the use of non-sustainable packaging also increase. The UN Environment Program's 2018 report on single-use plastics found that:

- 52 countries have some form of ban on single-use plastics at the national level
- 24 countries have a levy on single-use plastics at the national level (e.g. charging five cents for a plastic bag)
- A further 18 countries have regions with some form of levy or ban.⁹



Starbucks, McDonald's, Ikea, American Airlines, Disney and American Express are just some of the companies that have announced high-profile bans on plastic straws. A number of companies have also committed to researching and developing a more sustainable solution. And more than 40 UK companies have signed the UK Plastics Pact. This agreement is focused on three main areas:

1. Increasing the amount of reusable, recyclable or compostable plastic packaging.
2. Ensuring a greater percentage of plastic packaging is effectively recycled or composted.
3. Generally taking action to eliminate single-use packaging by 2025.¹⁰

The other side of the plastics pollution equation is the supply side. The packaging industry has been or will be subject to developing industry trends, including:

- shifts in consumer behaviour
- changing cost structures
- the global trend of increased environmental regulation
- the rise of e-commerce.

In 2017, during the U.S. holiday season, online shopping exceeded in-store purchases for the first time. It is estimated that by 2020, online shopping could account for nearly 15% of all global retail sales.¹¹ Accordingly, consumer preference for online shopping could significantly increase demand for packaging. Additionally, the growth in emerging markets has led to increased consumption in those same markets and a greater need for packaging.¹²

The negative social and environmental consequences of the packaging required to meet the world's increasing demand has been met with resistance from consumers who are demanding improvements in safety and environmental impacts. In addition, the packaging industry faces increasing costs. Overall, significant investments may be required for suppliers both to meet consumer demand for sustainable packaging and to improve their environmental performance.

Managing plastics risk

In summary, plastics pollution and sustainable packaging have become a material issue for investors. This is due to the forces of changing consumer preferences, environmental regulations, pressure from industry peers making headline-grabbing, anti-plastic commitments, and trends pressuring the packaging industry amidst a period of global sensitivity to plastics pollution. Significant reputational, financial, regulatory and operational risks are now associated with corporate contributions to this global issue.

RBC GAM and its Corporate Governance and Responsible Investment (CGRI) team are committed to understanding and evaluating this evolving issue. The CGRI team, formed in 2014, engages our investee companies on ESG-related issues and oversees all of RBC GAM's proxy voting. It also advances the integration of ESG principles into investment analysis by RBC GAM's investment teams, collaborates with like-minded investors and engages with lawmakers or regulators.

Managing and reducing plastic waste advances the following United Nations Sustainable Development Goals (SDGs):



SDG 3:
Good Health
and Well-being



SDG 6:
Clean Water and
Sanitation



SDG 11:
Sustainable Cities
and Communities



SDG 12:
Responsible
Consumption
and Production



SDG 13:
Climate Action



SDG 14:
Life Below Water



SDG 15:
Life on Land

The 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015, provides a shared blueprint for peace and prosperity for people and the planet, now and into the future. At its heart are the 17 Sustainable Development Goals (SDGs), which are an urgent call for action by all countries – developed and developing – in a global partnership. They recognize that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth – all while tackling climate change and working to preserve our oceans and forests.

¹ <https://www.sciencehistory.org/the-history-and-future-of-plastics>

² <https://www.sciencehistory.org/the-history-and-future-of-plastics>

³ UN Environment Program, “Single-use plastics: A roadmap for sustainability.”

⁴ World Economic Forum, “The new plastics economy: Rethinking the future of plastics.”

⁵ <http://www.cleaneas.org/about>

⁶ <https://g7.gc.ca/en/g7-presidency/themes/working-together-climate-change-oceans-clean-energy/>

⁷ UN Environment Program, “Single-use plastics: A roadmap for sustainability.”

⁸ Harvard Law School Forum on Corporate Governance and Financial Regulation, “Environmental and Social Proposals in the 2017 proxy season.”

⁹ UN Environment Program, “Single-use plastics: A roadmap for sustainability.”

¹⁰ <http://www.wrap.org.uk/content/what-uk-plastics-pact>

¹¹ MSCI ESG Research LLC, “Paper, packaging, and forest products: Decline of print, rising costs, and increased pressure to improve sustainability.”

¹² MSCI ESG Research LLC, “Paper, packaging, and forest products: Decline of print, rising costs, and increased pressure to improve sustainability.”

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