

Alex Schenck

To Whom it May Concern,

PepsiCo is submitting on behalf of several members of the Consumer Goods Forum.

Best,

Alex Schenck
Senior Manager, Environmental Policy



September 4, 2020

Director Laura Watson
Washington State Department of Ecology
300 Desmond Drive SE
Lacey, WA 98503

Dear Director,

Thank you for the opportunity to provide feedback on the *'Recommendations for Managing Plastic Packaging Waste in Washington'*. We appreciate your hard work and applaud your dedication to circularity and enhancing recycling systems in Washington State. Our membership shares your concern over the impacts of plastic waste and the challenges facing recycling systems. To that end, we are committed to investing our energy and resources into the enhancement of recycling systems worldwide.

As a group of 7 leaders in the packaged goods value chain, our companies have taken a leadership position to develop and endorse design principles for optimal Extended Producer Responsibility (EPR) programs. As the endorsing companies under the umbrella of the Consumer Goods Forum's Plastic Waste Coalition of Action, we agree that EPR can be an effective system for managing recycling systems.

High-functioning EPR systems with industry support achieve strong environmental outcomes and promote circularity. Further, they are convenient for consumers and account for multiple materials in the waste stream.

The undersigned companies worked together to develop a collective industry view on the optimal design of such EPR programs, which can be found here:

<https://www.theconsumergoodsforum.com/environmental-sustainability/plastic-waste/key-projects/extended-producer-responsibility/>

We encourage your organization to review our principles and key design parameters, which are built upon years of experience and considerable analysis. We were pleased to see agreement on many of the same design principles including:

- 1) Setting measurable recovery rates by material type
- 2) Defining the scope of products to residential packaging (excluding commercial or other sectors)
- 3) Including all material types of packaging (plastic, paper, glass, aluminum)
- 4) Supporting management of the program through Producer Responsibility Organizations

Our members have learned through decades of experience that EPR systems can be a highly effective way of managing recycling systems. A successful EPR system benefits greatly from its simplicity from stakeholder participation to cost management. Incorporating features from other models can disrupt collection rates, increase costs, and mitigate environmental benefits.

We encourage your organization to continue engaging with stakeholders and discussing the recommendations relating to financial responsibility. EPR systems function best when the cost of collection, recovery and recycling are shared across the value chain. This should include municipalities, manufacturers, importers, converters and others. A clear understanding of the roles and responsibilities of each party will be critical in ensuring that one sector does not absorb the full financial responsibility of managing the system.

We would appreciate the opportunity to elaborate on these risks in the coming weeks as you continue to develop your final recommendations to the state.

While our co-developed set of guidelines has a global focus designed to foster EPR in markets worldwide, we hope that you find them useful as you continue developing recommendations to the State. While there is no EPR system for packaging currently operating in the United States, we hope that Washington State adopts the EPR concepts outlined in our paper.

We stand eager and ready to assist you and the State of Washington in your efforts.

Sincerely,

Ancor
Coca Cola
Nestle
PepsiCo
SC Johnson
Unilever
Walmart

Please direct replies to this submission to:

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Plastic
Waste

Building a Circular Economy for Packaging:

A View from the Consumer Goods Industry on Optimal Extended Producer Responsibility

A paper endorsed by members of The Consumer Goods Forum's Coalition of Action on Plastic Waste

www.tcgfplasticwaste.com

AUGUST 2020



About the Consumer Goods Forum's Coalition of Action on Plastic Waste

The Consumer Goods Forum (“CGF”) Coalition of Action on Plastic Waste was founded in 2020 with the aim of developing a more circular approach to the development and processing of plastic packaging in the consumer goods industry. The development of the Coalition builds on the CGF’s 2018 endorsement of the Ellen MacArthur Foundation’s New Plastics Economy. As a CEO-led group of 36 committed and innovative retailers and manufacturers, the Coalition’s vision of accelerating progress towards the New Plastics Economy is embodied by its central aims for members to work towards implementing impactful measures through multi-stakeholder collaborations that will help make circularity the norm in the industry.

About

To progress towards a circular economy, the performance of waste management and recycling systems throughout the world needs to urgently improve. As leading manufacturers and retailers of consumer packaged goods, we believe that Extended Producer Responsibility (EPR) programmes for packaging can accelerate this progress and provide critical and effective support to recycling, particularly when the right conditions are in place for a given market. This paper reflects our view on the guiding principles and key design parameters of such optimal EPR programmes. It supports a proactive stance across our industry to deliver constructive recommendations when such programmes are being pursued or developed while fostering pre-competitive collaboration at the local level.

Introduction

As leaders in the manufacturing and retailing of packaged goods and members of the Consumer Goods Forum's Plastic Waste Coalition of Action, we seek collective and individual actions to address the challenge of packaging waste, especially the critical issue of plastic pollution. Packaging is essential to safely and efficiently meeting the needs of consumers for a wide variety of products, but it has no place in the environment. Our packages are one of a number of contributors to waste and pollution, yet they are often the face of the problem because of the visibility of our brands, which are recognised around the world. We understand that we have a unique responsibility to take action.

A circular economy for packaging is built on the principles of resource efficiency and a low-carbon footprint. We start with the reduction of packaging material and reusable packaging wherever possible. For essential packaging that cannot be reused, recycling is a critical solution to enabling a circular value chain for the materials. Despite some of our successes to advance recycling, the performance of these systems—from collection and sorting to the sale of recycled materials—needs to improve throughout the world. To this end, our companies have made significant commitments, including designing our packaging to be recyclable, using more recycled and renewable content, and supporting recycling systems through multi-stakeholder and industry-wide platforms that work to advance sustainable packaging and the circular economy. We work together—market by market—to advance progressive initiatives and policies that increase collection and recycling rates.

All companies along the value chain have a responsibility to contribute to the success of these systems, including producers such as consumer goods manufacturers and retailers (specifically in relation to their private brands). Our consumers also have a critical role in supporting the circular economy. By making recycling convenient and easy to understand, optimal collection systems can foster active and enthusiastic consumer participation while promoting the view that packaging after use is no longer waste but a valuable resource.

As well, governments have a responsibility to ensure waste management systems are in place to provide a foundation on which recycling and a circular economy can be built. Under the right conditions, we favour systems that are encouraged and enabled by government but left to producers to govern and manage, especially in cases where industry is providing substantial funding. A range of policy options may be used to increase recycling rates. Of these policies, EPR offers the potential to sustainably finance the collection for recycling of a wide array of packaging after use. It can be adapted to the priorities of both developed and transitional markets while leveraging industry expertise to help design efficient approaches.

Principles to Guide EPR

To demonstrate leadership, we have developed the following global principles and parameters for EPR policies that serve as a starting point for productive multi-stakeholder engagement and dialogue in markets around the world. Our principles and parameters are informed by experience in both developed and transitional markets. They have global application and set the stage for our industry's participation in the development and improvement of these programmes. We balance a variety of factors and point to ideal policy outcomes while recognising that advocacy in any specific market will be shaped by and reflect local circumstances and exigencies. Importantly, the policy outcomes we prefer should meet the following general principles:

- **Strong environmental outcomes;**
- **Efficient, cost-effective, transparent and accountable;**
- **Shared financial responsibility;**
- **Convenient for consumers;**
- **Long-term financial sustainability;**
- **Allow producers to secure material for closed loop recycling; and**
- **Social inclusiveness and fairness, especially in transitional markets with informal sector involvement.**

Pre-requisites and Conditions Needed for Optimal EPR

Our preferred policy outcomes for EPR depend on critical pre-requisites and conditions. In any given market, waste management legislation and infrastructure must be in place to handle the waste stream. Packaging is one element of waste, and the overall costs of municipal waste management cannot be borne disproportionately by producers. Complementary policies may be helpful to enable EPR and drive greater recovery of packaging materials. Options include, for example, government mandates for (and enforcement of) the separation of recyclable materials from waste, landfill bans for recyclable materials, and targeted measures such as deposit return systems, which can achieve high rates of collection and recycling for specific packaging types.

EPR should always be part of a broad solution in which the roles and responsibilities of all actors are properly attributed and fulfilled, and all material types should bear a fair share of the costs. Basic enabling legislation is needed for all recycling systems, including those supported by EPR, ensuring consistent implementation across the jurisdiction as well as harmonisation between jurisdictions wherever possible. Transparent and accurate reporting, monitoring and independent auditing of systems are necessary to eliminate discrimination, ensure compliance, drive cost efficiency and provide a level playing field for materials and producers. This includes fair processes for setting fees as well as transparency around collected material flows, costs, tendering procedures and the overall financial health of the system. All fee revenue raised should stay within the system. The long-term financial sustainability of the EPR programme is necessary to enable strategic investment decisions. Market-based and/or informal recycling systems also exist at significant scale in some parts of the world with little to no enabling legislation. A local perspective is needed to determine the relevant scope of regulatory policy.

EPR in Transitional Markets

EPR has been shown to work effectively in markets with well-developed waste management policies and infrastructure. In markets where this is not the case, defined here as “transitional”, the essential elements of EPR may be adapted to offer solutions, especially where there is an immediate need to increase collection rates and eliminate leakage to nature. A key consideration is the inclusion of the informal waste sector. Specific support and incentives may be required to aid the establishment and growth of more formal recycling systems in a way that fosters the inclusion of informal recyclers over time.

To this end, long-term programmes should be considered to address the needs of informal workers consistent with local goals for social inclusion and economic development, including goals and objectives to monitor progress and encourage accountability. Consideration needs to be given to working and living conditions and respect for human rights, including but not limited to responsible recruitment and no child or forced labor. These considerations are relevant to both industry-led voluntary programs as well as EPR programmes underpinned by regulatory policy.

Key Design Parameters

The following aspects of EPR design should inform the development of EPR programmes as they are being considered in different markets. They reflect critical components of optimal EPR but are not exhaustive.

- **Collection for Recycling Targets:** The overall target should be measurable, achievable and cost effective while seeking strong environmental performance. EPR programmes need to find the optimal balance between material collection for recycling and cost. Based on existing systems in advanced markets, 50-60% collection for recycling across material types is a reasonable benchmark in the early phase of EPR implementation and has been exceeded cost-effectively in some jurisdictions. Higher targets in the range of 60-80% may be warranted over time, though marginal increases in collection may not be cost-effective based on local factors, such as population density. In other words, as collection rates increase, costs may increase exponentially. Material-specific targets for all different plastic types, glass, metals, fibers, etc. may also be warranted and should reflect the local waste stream as well as viable end markets for the material. Revision of targets should be carried out at appropriate intervals taking into account previous achievement levels as well as technological and organizational advancement. Accurate and reliable data based on clear monitoring, reporting and verification procedures should be used for the calculation of performance against targets.
- **Scope of Covered Materials:** All major consumer goods packaging materials (all plastics, fibers, glass, and metals) should be collected. At the outset, collection for recycling may need to focus on a targeted set of materials but with a clear plan to expand to full coverage, recognising that all producers would be paying fees into the system and investments may be required to improve system capabilities. Different materials have different handling costs as well as differing market values for the recyclates, and each material should “pay its own way”, meaning the cost of including a given material in the programme needs to be assigned to that material and therefore the producers who use it. Once the programme is established, consistency in the covered materials should be maintained across the jurisdiction, including clear on-pack labelling to help consumers understand which materials to place in the recycling bin. The program should only cover consumer packaging waste and no other wastes. The most successful EPR programmes are predicated upon some degree of separate residential collection of waste to improve the quantity and quality of materials collected for recycling.
- **Programme Management:** Management of an EPR programme should be commensurate with how the financial responsibilities are assigned. When responsibility to achieve a recovery rate and the associated costs are imposed on industry, then industry should have sufficient oversight over the process to gauge performance, ensure compliance, and promote efficient systems for the circular use of materials and strong environmental performance. In that respect, we favor programs that are governed by producers through an industry-run Board of Directors. When launching an EPR programme, the programme should be managed by a professional Producer Responsibility Organisa-

tion (PRO) operating on a not-for-profit basis and covering the entire jurisdiction, which helps foster broader coverage and deter “free riding”. The PRO develops and implements a plan to achieve the programme goals, developed in consultation with other stakeholders and usually mapped out over five to seven years to provide confidence and clarity for stakeholders and investors. After plan approval, the PRO sets fees for producers following a set of cost parameters, implements needed recycling system changes, establishes funding and reimbursement arrangements related to the net cost of collection and sorting of materials, evaluates and reports on performance, and markets recycled materials. As an EPR programme matures, the market for EPR services could be opened to new entrants to help drive greater efficiency and innovation.

- **Definition of Included Costs:** Activities for which producers are financially responsible should be clearly identified and limited to an appropriate share of post-consumer collection and sorting costs for the residential sector, including multi-family housing. Collection and sorting of materials from industrial, commercial and institutional (ICI) locations are the responsibility of ICI generators and should be addressed separately from the EPR programme due to added complexity and inefficiencies. Other areas that should be outside the scope of a packaging EPR programme are agricultural operations as well as public spaces that are serviced by municipalities, such as parks.
 - **Programme management:** Included. The overhead costs of running the PRO, including costs associated with oversight and enforcement, should be included in the programme and embedded in the producer fees.
 - **Consumer education and awareness:** Included. Investments in consumer education and awareness result in improved quantity and quality of recovered materials, thereby improving the overall environmental benefit and cost effectiveness of an EPR programme. Promotion of consumer education should not be limited to EPR financing and should be complemented by public agency programs, which play a critical role in advancing the understanding of and participation in recycling.
 - **Treatment of residual waste:** Not included. Some material that gets collected and sorted cannot be recycled in practice due to the lack of processing capability, end markets and cost. Consequently, once proper material sortation has occurred, EPR programs should not be expected to pay for the treatment of residual wastes.
 - **Litter clean up:** Not included. Litter is a significant societal problem that stems from many factors, involves a broad range of products and materials, and requires broadbased solutions. Public waste collection and general waste management are outside of industry control, and a producer’s responsibility under an EPR programme should be focused on the actions required to meet recycling targets, which can help to prevent litter.

- **Distribution of Cost:** Broad distribution, or shared financial responsibility, including municipalities and consumers. The cost of collection and sorting should be shared among producers and municipalities and potentially other value chain actors where appropriate so that the costs to any single company and other stakeholders are minimised because all critical stakeholders pay a share. A clear definition of the roles and responsibilities of all actors will help to share the costs among parties.
- **Material Revenue:** “Net cost” principle. Revenue from the sale of collected materials should always be credited to the system to offset the collection obligation. EPR fees paid by producers should reflect the actual cost of collection and sorting as well as material revenue differentiated by material type, meaning costs and revenues are allocated back to specific materials and crosssubsidization of materials is avoided. Because costs and commodity values change over time, fees should typically reset once per year. Producers should have fair and privileged access to the purchase of recycled materials in support of closed loop recycling.
- **Incentives for Sustainability:** Because EPR fees should reflect both collection and sortation costs as well as revenues for each material, they incentivise design for recyclability and the use of materials with strong end markets. Additionally, through an approach known as “ecomodulation”, fees can be decreased or increased based on positive or negative environmental attributes of a package, respectively. Divergence of incentives across markets may inhibit economies of scale in the design and production of sustainable packaging, however, and ecomodulation adds complexity that needs to be properly accounted for in the program budget, including updates to the fee structure at regular intervals. When eco-modulation provides clear, predictable and harmonised incentives, it can be an important mechanism for driving the development of sustainable packaging. EPR programmes and their fee structures also need to consider and avoid unintended environmental impacts, and reusable packaging could be exempted from the programme altogether.

Overview of Recommended Approach to Establishing EPR

In any market that is seeking to set up a new EPR programme for consumer packaging, especially transitional markets that may have significant challenges with infrastructure and other enabling conditions, a phased approach should be taken, as follows:

Phase 1 – Scoping: This phase should seek to: a) take lessons learned from how EPR has performed in comparable markets; and b) establish a comprehensive understanding of the waste management landscape in the focus market, including engaging in knowledge-building initiatives.

Phase 2 – Stakeholder engagement and set up: This phase should a) engage industry in discussions and clearly set out key parameters of the programme, including but not limited to defining the producer, scope of materials covered, and reporting protocols for the producers; b) form a PRO; and c) run commercial scale pilots.

Phase 3 – Formalisation: Establish enabling policies for EPR, engaging with government in a manner most appropriate to the local context.

List of Endorsers

This paper supports a proactive stance across our industry to deliver constructive recommendations about optimal EPR when programmes are being pursued or developed while fostering pre-competitive collaboration at the local level.

- Amcor
- Bel Group
- Carrefour
- The Coca-Cola Company
- Colgate-Palmolive
- Danone
- Essity
- GSK Consumer Healthcare
- Grupo Bimbo
- Jerónimo Martins
- Land O’Lakes, Inc.
- Loblaw
- Mars, Incorporated
- Mondelēz, International
- Nestlé
- PepsiCo
- Reckitt Benckiser
- REWE Group
- SC Johnson
- SIG Combibloc
- Tetra Pak
- Unilever
- Walgreens Boots Alliance
- Walmart





About the Consumer Goods Forum

The Consumer Goods Forum (“CGF”) is a global, parity-based industry network that is driven by its members to encourage the global adoption of practices and standards that serves the consumer goods industry worldwide. It brings together the CEOs and senior management of some 400 retailers, manufacturers, service providers, and other stakeholders across 70 countries, and it reflects the diversity of the industry in geography, size, product category and format. Its member companies have combined sales of EUR 3.5 trillion and directly employ nearly 10 million people, with a further 90 million related jobs estimated along the value chain. It is governed by its Board of Directors, which comprises more than 50 manufacturer and retailer CEOs. For more information, please visit: www.theconsumergoodsforum.com.



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