

November 30, 2022

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Mr. Michael Seaman, Chief Counsel  
SEC Division of Corporation Finance  
100 F Street, NE  
Washington, DC 20549

Mr. Gurbir S. Grewal, Director  
SEC Division of Enforcement  
100 F Street, NE  
Washington, DC 20549

Dear Ms. Jones, Mr. Seaman, and Mr. Grewal,

We write to recommend that the Division of Corporation Finance and the Division of Enforcement evaluate certain public disclosures by Procter & Gamble (“P&G”).

The Natural Resources Defense Council (NRDC) has worked to preserve primary forests and halt deforestation and forest degradation for more than twenty-five years.<sup>1</sup> In the course of our research and advocacy, we have been scrutinizing disclosures by P&G, and have become concerned about certain company statements regarding the P&G prohibition on forest degradation in its supply chains for sourcing of wood pulp.

We have concluded, based on available evidence summarized in this letter, that the Company’s assertions that it prohibits degradation are implausible. We see evidence that the disclosures are reaching and being used in the capital markets, including in ESG ratings and publications that likely affect investment, proxy voting and stewardship decision-making.

Particularly in light of current SEC and market concerns regarding ESG greenwashing, many investors consider environmental factors such as forest degradation in their investment decisions. In addition, in 2020, 67% of P&G’s investors voted in favor of a resolution asking the company “issue a report assessing if and how it could increase the scale, pace, and rigor of its efforts to eliminate deforestation and the degradation of intact forest in its supply chains.”<sup>2</sup> This is indicative of the materiality of these claims to investors.

Therefore, we believe it is appropriate for the SEC to evaluate whether the company’s public statements of a commitment to prohibiting forest degradation are materially misleading within the meaning of the securities laws.

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<sup>1</sup> NRDC (Natural Resources Defense Council) is an international nonprofit environmental organization with more than 3 million members and online activists. Since 1970, our lawyers, scientists, and other environmental specialists have worked to protect the world’s natural resources, public health, and the environment.

<sup>2</sup> “Item 5 on Procter & Gamble Company 2020 Proxy Statement: Shareholder Proposal-Deforestation,” 2020 <https://www.sec.gov/Archives/edgar/data/80424/000121465920007931/r916201px14a6g.htm>, accessed November 18, 2022.

## **The Company’s assertions regarding forest degradation**

In its Forest Positive Sourcing Policy, Procter & Gamble (P&G) has published assertions that it **“does not allow deforestation and does not permit forest degradation in [its] sourcing.”**<sup>3</sup> The company’s July 2022 Forestry Practices Update further emphasizes this claim, stating the company **“holds suppliers accountable to [its] Wood Pulp Sourcing Policy, which prohibits... Forest degradation.”**<sup>4</sup>

From P&G Forest Positive Sourcing Policy October 2021<sup>5</sup>

### **NO DEFORESTATION**

P&G does not allow deforestation and does not permit forest degradation in our sourcing. The cutoff date after which deforestation or conversion is considered non-compliant is November 1, 1994. Permanent conversion of land from forests to non-forest increases greenhouse gas emissions and has negative effects on biodiversity and the local communities that rely on them. P&G works with suppliers and stakeholders to address deforestation concerns in high-risk areas. P&G’s commitment to increasing the use of third-party certification lowers the risk of deforestation and forest degradation within our supply chain.

P&G does not support conversion of forests to non-natural ecosystems in our supply chain. In restricted situations, conversion of forest to other non-forest rare natural ecosystems such as wetlands, savannahs, and native grasslands could occur. The following conversion types are not allowed in our supply chain:

- Agricultural land including commercial crops or livestock
- Commercial and residential developments
- Tree plantations with non-native trees, heavy reliance on chemicals, or lack key elements of natural forests

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<sup>3</sup> Procter & Gamble, “P&G’s Forest Positive Sourcing Policy,” October 2021, p. 2, [https://s1.q4cdn.com/695946674/files/doc\\_downloads/esg/2021/Forestry/06/8958\\_P-G\\_WoodPulp\\_Policy\\_A-3.pdf](https://s1.q4cdn.com/695946674/files/doc_downloads/esg/2021/Forestry/06/8958_P-G_WoodPulp_Policy_A-3.pdf).

<sup>4</sup> Procter & Gamble, “Forestry Practices Update July 2022,” July 2022, p. 3, [https://s1.q4cdn.com/695946674/files/doc\\_downloads/2022/07/Forestry-Practices-Update-July-2022.pdf](https://s1.q4cdn.com/695946674/files/doc_downloads/2022/07/Forestry-Practices-Update-July-2022.pdf).

<sup>5</sup> Procter & Gamble, “P&G’s Forest Positive Sourcing Policy,” p. 2.

## Background

The International Union for Conservation of Nature (IUCN) states, “Deforestation and forest degradation are the biggest threats to forests worldwide.”<sup>6</sup> “Deforestation” refers to the conversion of forest to non-forest land such as by road building or urban development; “degradation” is defined by the Accountability Framework Initiative (AFI) (the definition P&G says it employs) as “Changes within a natural ecosystem that significantly and negatively affect its species composition, structure, and/or function and reduce the ecosystem’s capacity to supply products, support biodiversity, and/or deliver ecosystem services.”<sup>7</sup> These impacts to ecosystem services can include depletion of forest ecosystem carbon stocks and a reduction in the quality of the provision of clean water.<sup>8</sup> Degradation can harm forest ecosystems in many ways, including by threatening biodiversity and contributing to climate change.<sup>9</sup>

Beyond environmental concerns, deforestation and forest degradation are exacerbating climate change, driving biodiversity loss, and decreasing ecosystem adaptability to changing climate conditions. As such, they also are posing systemic economic risk by disrupting supply chains, including for forest products.<sup>10</sup>

### **P&G’s claim that it does not allow forest degradation appears implausible**

We see substantial evidence that P&G’s sourcing of wood pulp continues to drive degradation, despite claims to the contrary. Contrary to stated policies and commitments that it **“does not allow deforestation and does not permit forest degradation in [its wood pulp] sourcing”**<sup>11</sup> P&G’s own wood pulp disclosures show that it continues to drive the degradation of primary forests in the Canadian boreal forest. P&G utilizes three certification programs. One of the third-party standards that P&G references to support its claims of prohibiting forest degradation in its wood pulp sourcing,<sup>12</sup> the Forest Stewardship Council (FSC), provides *some*

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<sup>6</sup> IUCN, “Deforestation and Forest Degradation,” February 2021, <https://www.iucn.org/resources/issues-brief/deforestation-and-forest-degradation#:~:text=Deforestation%20and%20forest%20degradation%20are,is%20destroyed%20or%20drastically%20degraded>, accessed November 18, 2022.

<sup>7</sup> Accountability Framework Initiative, “Definitions,” <https://accountability-framework.org/the-framework/contents/definitions/>, accessed November 18, 2022.

<sup>8</sup> A. Vasquez-Grandón et al., “Forest Degradation: When Is a Forest Degraded?,” *Forests*, 2018, <https://www.mdpi.com/1999-4907/9/11/726>. “Dear Member of the European Parliament Committee on the Environment, Public Health and Food Safety,” 2022, <https://ethz.ch/content/dam/ethz/special-interest/usys/ites/ecosystem-management-dam/documents/Scientist%20Letter%20on%20forest%20degradation.pdf>.

<sup>9</sup> See, Courtenay Lewis and Ashley Jordan, “By a Thousand Cuts,” NRDC, April 2021, p. 6, <https://www.nrdc.org/sites/default/files/thousand-cuts-wood-sourcing-canadas-boreal-report.pdf>, citing Secretariat of the Convention on Biological Diversity, REDD-plus and Biodiversity; United Nations Framework Convention on Climate Change, “UNFCCC Negotiations,” <https://redd.unfccc.int/fact-sheets/unfccc-negotiations.html>.

<sup>10</sup> Diana Olick, “Climate Change Will Disrupt Supply Chains Much More Than Covid—Here’s How Businesses Can Prepare,” CNBC, August 19, 2021, <https://www.cnbc.com/2021/08/19/climate-change-supply-chain-disruptions-how-to-prepare.html>; Jacques Leslie, “How Climate Change Is Disrupting the Global Supply Chain,” *Yale Environment 360*, March 10, 2022, <https://e360.yale.edu/features/how-climate-change-is-disrupting-the-global-supply-chain>; Jonathan R. Thompson et al., “Reburn Severity in Managed and Unmanaged Vegetation in a Large Wildfire,” *PNAS* 104, no. 25, 2007, <https://www.pnas.org/doi/10.1073/pnas.0700229104>.

<sup>11</sup> Procter & Gamble, “P&G’s Forest Positive Sourcing Policy,” p. 2.

<sup>12</sup> Procter & Gamble, “Forestry Practices Update July 2022.”

forest protection, but P&G’s sourcing under the three certification systems does not prohibit or prevent all degradation. In addition, the extent of the company’s other disclosed engagement with the supply chain is inadequate to demonstrate that it is fulfilling the no degradation claim. In short, in our opinion, the available evidence demonstrates that the assertion that P&G sourcing prohibits degradation appears to be implausible. At best, the Company’s anti-degradation policies are a work-in-progress that expressly acknowledge perpetuating practices that are, by definition, degradation, so it is inaccurate to claim they prohibit degradation.

### **P&G’s continued sourcing from IFLs and boreal caribou habitat is a form of forest degradation**

P&G’s own disclosures in its July 2022 Forestry Practices Update indicate that it sources from suppliers whose managed land overlaps with intact forest landscapes (IFLs), as well as critical boreal caribou habitat.<sup>13</sup> IFLs are stretches of primary forest with a minimum area of 500km.<sup>2</sup> Primary forests are any forests that have never been industrially disturbed and have developed following natural disturbances and under natural processes.<sup>14</sup> Primary forests, inclusive of IFL’s, are recognized as being irreplaceable in terms of biodiversity, carbon storage, and provision of ecosystem services.<sup>15</sup>

### **Industrial logging in primary forests, whether in IFLs, boreal caribou habitat (a good proxy for primary forests),<sup>16</sup> or other primary forest areas, is a form of forest degradation.**

As more than 100 scientists recently wrote to the signatories of the Glasgow Leaders’ Declaration on Forests and Land Use:

“Whether examining degradation through the lens of carbon storage, native species habitat, ecological complexity, water filtration and other services, or even future timber value, the industrial logging, particularly clearcutting,<sup>17</sup> of primary forests indelibly and significantly depletes or mars the forest’s original characteristics, no matter the subsequent forest regeneration practices...As a clear and egregious example of forest degradation, the commercial logging of primary forests is incompatible with achieving the preservation of a safe climate and stable biodiversity.”<sup>18</sup>

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<sup>13</sup> Ibid, p. 2.

<sup>14</sup> Convention on Biological Diversity, “Definitions,” <https://www.cbd.int/forest/definitions.shtml>, accessed November 18, 2022.

<sup>15</sup> Julia E. Fa et al., “Importance of Indigenous Peoples’ Lands for the Conservation of Intact Forest Landscapes,” *Frontiers in Environment and Ecology*, January 2020, <https://esajournals.onlinelibrary.wiley.com/doi/full/10.1002/fee.2148>.

<sup>16</sup> See Cheryl A. Johnson et al., “Protecting Boreal Caribou Habitat Can Help Conserve Biodiversity and Safeguard Large Quantities of Soil Carbon in Canada,” *Nature: Scientific Reports*, 12, 2022, <https://www.nature.com/articles/s41598-022-21476-x>; Cheryl A. Johnson et al., “Science to Inform Policy: Linking Population Dynamics to Habitat for a Threatened Species in Canada,” *Journal of Applied Ecology*, 2020, <https://besjournals.onlinelibrary.wiley.com/doi/pdf/10.1111/1365-2664.13637>; Justina Ray, “Saving Our Caribou Forces Us to Face Tough Questions,” *The Narwhal*, May 16, 2019, <https://thenarwhal.ca/saving-our-caribou-forces-us-to-face-tough-questions/>.

<sup>17</sup> More than 90% of industrial logging in Canada is through clearcutting, National Forestry Database (Canada), “Forest Area Harvested on Private and Crown Lands,” <http://nfdp.ccfm.org/en/data/harvest.php>, accessed November 18, 2022.

<sup>18</sup> “Letter from Scientists to the Signatories of the Glasgow Leaders’ Declaration on Forests and Land Use,”

**P&G’s sourcing from suppliers engaged in this practice makes the company complicit in the degradation of these irreplaceable ecosystems and makes a claim of prohibiting forest degradation inaccurate.**

P&G has not prohibited sourcing from IFLs.<sup>19</sup> In the supplement to its 2021 *Forestry Practices Report*, P&G states that it will continue sourcing wood pulp from IFLs for its products, which include throwaway items like Charmin toilet paper and Bounty paper towels.<sup>20</sup> It stated that there is currently “uncertainty” in its ability to end sourcing from IFLs, as achieving that requires actions from other actors in their supply chains, and argued that it cannot expect its suppliers to avoid fibers from IFLs completely.”<sup>21</sup>

Furthermore, the Company’s disclosures indicate that, in Canadian forests, from which P&G sources 34% of its wood pulp,<sup>22</sup> P&G’s suppliers’ managed land overlaps with boreal caribou habitat.<sup>23</sup> Boreal caribou habitat is a good proxy for primary forests, as boreal caribou rely on undisturbed primary forest for their survival.<sup>24</sup> In a 2022 update, reflecting on statistics from the first half of 2022, P&G states, “[W]e estimate that our suppliers now have 59% undisturbed caribou habitat on lands they manage.”<sup>25</sup> This is evidence that P&G may be sourcing from primary forest areas that constitute boreal caribou habitat, tying the Company to the degradation of these forests. In addition, according to Canada’s Boreal Caribou Recovery Strategy, this level of disturbance gives the impacted herds less than a 60% chance of long-term survival.<sup>26</sup> As significant, negative changes in species composition constitute degradation, this also ties the P&G’s suppliers linked to forest degradation.

**P&G’s statements about its sourcing from IFLs are potentially misleading**

As noted above, P&G claims that, in its wood pulp supply chain, less than 1% of the area its suppliers manage overlap with IFLs.<sup>27</sup> Elsewhere on its ESG portal, P&G claims that it sources less than 1% of its wood pulp from IFLs.<sup>28</sup> These are both potentially misleading statistics, and

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November 2022, [https://www.nrdc.org/sites/default/files/media-uploads/scientists\\_letter\\_to\\_glasgow\\_declaration\\_signatories\\_nov\\_2022\\_final.pdf](https://www.nrdc.org/sites/default/files/media-uploads/scientists_letter_to_glasgow_declaration_signatories_nov_2022_final.pdf).

<sup>19</sup> Procter & Gamble, “Forestry Practices Report Supplement,” accessed November 17, 2022,

[https://s1.q4cdn.com/695946674/files/doc\\_downloads/esg/2021/8958\\_P-G\\_Forestry\\_Practices\\_Report\\_A-4.pdf](https://s1.q4cdn.com/695946674/files/doc_downloads/esg/2021/8958_P-G_Forestry_Practices_Report_A-4.pdf); Procter & Gamble, “Forestry Practices Update July 2022.”

<sup>20</sup> Procter & Gamble, “Forestry Practices Report Supplement.”

<sup>21</sup> Procter & Gamble, “Forestry Practices Update July 2022.”

<sup>22</sup> Procter & Gamble, “Data and Metrics: P&G Global Corporate—Wood Pulp,”

[https://www.pginvestor.com/esg/environmental/forestry/pulp/default.aspx#pulp\\_data](https://www.pginvestor.com/esg/environmental/forestry/pulp/default.aspx#pulp_data), accessed November 18, 2022.

<sup>23</sup> Procter & Gamble, “Forestry Practices Update July 2022.”

<sup>24</sup> See Johnson et al., “Protecting Boreal Caribou Habitat Can Help Conserve Biodiversity and Safeguard Large Quantities of Soil Carbon in Canada”; Johnson et al., “Science to Inform Policy: Linking Population Dynamics to Habitat for a Threatened Species in Canada”; Ray, “Saving Our Caribou Forces Us to Face Tough Questions.”

<sup>25</sup> Procter & Gamble, “Forestry Practices Update July 2022.”

<sup>26</sup> Environment and Climate Change Canada, Woodland Caribou, Boreal Population (*Rangifer tarandus* caribou): Amended Recovery Strategy 2019, Species at Risk Act Recovery Strategy Series, 2019, <https://www.canada.ca/en/environment-climate-change/services/species-risk-public-registry/recovery-strategies/woodland-caribouboreal-2019.html>.

<sup>27</sup> Procter & Gamble, “Forestry Practices Update July 2022.”

<sup>28</sup> Procter & Gamble, “Forestry Practices Report Supplement.”

the latter claim mischaracterizes what its supply chains analysis actually shows.

As P&G outlines, it calculated its IFL impact through “overlaying our wood pulp sourcing with IFLs.”<sup>29</sup> This entailed looking at the overlap between IFL areas mapped by Global Forest Watch and P&G suppliers’ tenures. This methodology does not provide a reliable representation of the volume of pulp P&G is sourcing from IFLs. All that the claim demonstrates is that IFLs comprise 1% of the total land its suppliers manage. Since suppliers do not source uniformly across their managed tenures, this statistic cannot make volumetric claims about how much P&G sources from IFLs. As a result, P&G cannot make a legitimate claim, based solely on this analysis, that it sources less than 1% of its fiber from IFLs.

This is a particularly noteworthy distinction given that P&G states that prohibiting its suppliers from sourcing wood pulp from IFLs would hinder its ability to acquire enough material to produce its “high-performing paper products.”<sup>30</sup> This should immediately call into question the validity of the company’s claim that it only sources a small amount of wood pulp from IFLs.

Furthermore, the 1% figure in both claims is global, not particular to Canada, which has the largest IFL area out of any country, and in 2000, contained 23.7% of the world’s global IFL area.<sup>31</sup> Other regions like the United States, from which P&G sources 28% of its pulp, have much a much smaller percentage of IFLs. In addition, P&G sources significant quantities of its pulp from plantations disclosing, for example, that 100% of its sourcing from Brazil is plantations.<sup>32</sup> As a result, P&G’s IFL statistic is a poor representation of the company’s IFL impact in geographies like Canada that still have large IFL areas.

Finally, P&G’s latest description of its statistic says that the “less than 1%” figure applies to “areas its suppliers manage.” If, in fact, P&G is only counting sourcing when it occurs from suppliers who manage their own tenures, exempting suppliers who source from the tenures of other companies, this would increase the potential for this statistic to mislead investors.

**P&G has not fully mapped where its sourcing overlaps with primary forests —despite calls for it to do so.**

**P&G also, according to its own disclosures, does not have the requisite data to make a plausible claim of prohibiting forest degradation. While P&G has maps for IFLs, as the Company notes, “A credible third party has not yet mapped primary forests in dry regions or tundra forests where P&G sources 100% of our wood pulp.”<sup>33</sup> As a result, P&G does not have information about the full extent to which it is sourcing from and degrading primary forests.**

Additionally, Canadian policy does not prohibit sourcing from primary forests. Furthermore, an October 2021 analysis of the largest Canadian pulp suppliers found that P&G, among other companies, sources wood pulp from mills that are largely failing to meet key

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<sup>29</sup> Procter & Gamble, “Forestry Practices Update July 2022.”

<sup>30</sup> P&G, “Forestry Practices Report Supplement.”

<sup>31</sup> P. Potapov et. al, “The Last Frontiers of Wilderness: Tracking Loss of Intact Forest Landscapes from 2000 to 2013,” *ScienceAdvances*, 3, no. 1, 2017, <https://www.science.org/doi/10.1126/sciadv.1600821>.

<sup>32</sup> Procter & Gamble, “Environmental,” (under “Forest Sourcing”).

<sup>33</sup> Procter & Gamble, “Forestry Practices Update July 2022.”

environmental standards, including those aimed at protecting primary forests.<sup>34</sup>

Because it lacks knowledge of the extent of its sourcing from primary forests and its suppliers do not have policies preventing sourcing from primary forests, P&G has insufficient information to make a credible assessment of the degree to which it is driving forest degradation. As a result, P&G's impact on primary forests, and therefore its degradation footprint, may be even higher than the IFL and boreal caribou habitat data in its corporate disclosures.

**P&G remains over-reliant on third-party certification systems to verify the sustainability of its supply chains.**

P&G's non-degradation claims are accompanied by disclosures stating that the company relies on certain forest certification systems to measure its success in meeting many of its forests and human rights commitments.<sup>35</sup> P&G policy requires that 100 percent of its wood pulp be certified by a third-party certification system.<sup>36</sup> It claims that all of its forestry certifications, which include FSC, the Sustainable Forestry Initiative (SFI), and the Programme for the Enforcement of Forest Certification (PEFC) "ensure forests are responsibly managed."<sup>37</sup>

However, the requirements imposed by the identified certifiers do not guarantee against forest degradation. Instead, P&G would need to find another basis in its own due diligence to demonstrate that it effectively prohibits forest degradation in its supply chain. Although the company notes in its Forest Positive Sourcing Policy that its "commitment to increasing the use of third-party certification lowers the risk of deforestation and forest degradation within our supply chain," one quarter of P&G's wood pulp is sourced from forests covered by weak, industry-dominated certification systems,<sup>38</sup> SFI and PEFC, which endorses both the SFI and Canadian Standards Association (CSA) certification systems.<sup>39</sup> SFI and CSA have been widely lambasted by environmental groups for sustainability requirements that are inadequate, vague, and risk certifying operations that violate Indigenous rights and destroy large areas of primary forests.<sup>40</sup> Several companies, including Disney, Trader Joe's, and Office Depot, have actively

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<sup>34</sup> Courtenay Lewis and Ashley Jordan, "Pulp Fiction: Canada's Largest Pulp Producers' Actions Do Not Match Their Sustainability Claims," NRDC, 2021, <https://www.nrdc.org/sites/default/files/pulp-fiction-canada-forests-report.pdf>.

<sup>35</sup> Procter & Gamble, "P&G's Forest Positive Sourcing Policy."

<sup>36</sup> Procter & Gamble, "Forestry Practices Report March 2021," March 2021, [https://s1.q4cdn.com/695946674/files/doc\\_downloads/2021/03/ForestryPracticesReport\\_3-29-21.pdf](https://s1.q4cdn.com/695946674/files/doc_downloads/2021/03/ForestryPracticesReport_3-29-21.pdf), accessed November 18, 2022.

<sup>37</sup> Procter & Gamble, "ESG for Investors," <https://www.pginvestor.com/esg/esg-overview/default.aspx>, accessed November 18, 2022.

<sup>38</sup> Ibid.

<sup>39</sup> Government of Canada, "Forest Management Certification in Canada," <https://www.nrcan.gc.ca/our-natural-resources/forests/sustainable-forest-management/forest-management-certification-canada/17474>, accessed November 18, 2022.

<sup>40</sup> Rochelle Baker, "Green Coalition Challenges Certification Claims that Canada's Forestry Products Are Sustainable," *Toronto Star*, July 27, 2021, <https://www.thestar.com/news/canada/2021/07/27/green-coalition-challenges-certification-claims-that-canadas-forestry-products-are-sustainable.html>; Ecojustice, "Calling for an Investigation into 'Sustainable' Logging In B.C.," <https://ecojustice.ca/case/calling-for-an-investigation-into-sustainable-logging-in-b-c/>, accessed September 19, 2022; Courtenay Lewis, "SFI Offers Greenwashing of Unsustainable Logging," NRDC, January 20, 2022, <https://www.nrdc.org/experts/courtenay-lewis/sfi-offers-more->

distanced themselves from SFI certification.<sup>41</sup> P&G notes that it aims to achieve 100 percent certification via the more reputable Forest Stewardship Council (FSC) by 2030.<sup>42</sup> However, even **P&G’s FSC commitment, which also allows for sourcing from forests certified under the less rigorous FSC Controlled Wood standard, does not prohibit the degradation of primary forests—neither now nor in 2030.**

It is notable that P&G competitor Kimberly-Clark similarly sources only wood pulp certified under PEFC, SFI, or FSC—yet it does not, in any of its public materials, claim to avoid degradation.

P&G’s reliance on third-party certification to guarantee its prohibition on forest degradation is also out of alignment with many due diligence best practices in the sector. For example, the Organisation for Economic Co-operation and Development (OECD) and the Food & Agriculture Organization (FAO) recently published a draft handbook on corporate due diligence procedures for forest-related risks that articulated that third-party certification can be an important source of supply chain information, but should not be a “substitute” for an enterprise’s own due diligence practices.<sup>43</sup> In addition, as discussed below, a number of pending regulations to address forest degradation in the marketplace do not consider third-party certification to be sufficient to demonstrate compliance.

Therefore, P&G’s reliance on these third-party certifications as what appears to be its principal mechanism for preventing deforestation and degradation is insufficient to support the claim that it **prohibits forest degradation in [its] sourcing.**<sup>44</sup>

### **More company disclosures are needed to understand P&G’s due diligence**

Due to the shortcomings of third-party certifications outlined above, and the inability of those certifications to ensure the fulfillment of the Company’s statement that it prohibits forest degradation, further disclosures from P&G would be necessary to allow evaluation of whether there is other due diligence being conducted by the company to ensure fulfillment of the stated commitments.

While P&G does have a grievance process for noncompliance with its policies, including a

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[greenwashing-unsustainable-logging-0](#)

<sup>41</sup> Mike Gaworecki, “Four Major US Brands to Drop Controversial Sustainable Forestry Certification Scheme, *Mongabay*, November 5, 2015, <https://news.mongabay.com/2015/11/four-major-us-brands-to-drop-controversial-sustainable-forestry-certification-scheme/>.

<sup>42</sup> P&G, “Forestry Practices Report March 2021.”

<sup>43</sup> OECD and Food and Agriculture Organization of the United Nations, “Draft OECD-FAO Handbook on Deforestation, Forest Degradation and Due Diligence in Agricultural Supply Chains,” June 2022, <http://mneguidelines.oecd.org/draft-oecd-fao-handbook-on-deforestation-forest-degradation-and-due-diligence-in-agricultural-supply-chains.pdf>.

<sup>44</sup> Procter & Gamble, “P&G’s Forest Positive Sourcing Policy,” p. 2.

public Grievance Tracker<sup>45</sup> for its wood pulp supply chain, this grievance process is insufficient to guarantee a prohibition on forest degradation. Most fundamentally, P&G would not be positioned to identify violations of this policy. This is due, first, to the fact that P&G appears to have adopted an untenable interpretation of the definition of “degradation.” The Company does not appear to deem industrial logging in IFLs and boreal caribou habitat to be mutually exclusive with a claim of “no degradation” given that it discloses its continued sourcing from IFLs and boreal caribou habitat, while, in the same document, reiterating its prohibition on degradation. This is fundamentally incompatible of reasonable definitions of the term “degradation,” which includes industrial development in these regions.

P&G’s statements that suggest that it believes its third-party certifiers prohibit degradation also indicates that the company is not applying the term “degradation” appropriately. Furthermore, in conversations with NRDC, P&G representatives clarified that they do not, in fact, treat industrial logging in primary forests, inclusive of IFLs and boreal caribou habitat, as, by definition, degradation, and communicated an interpretation of the term that did not resemble its commonly understood definition. P&G has been made aware of concerns with its interpretation, including in conversations with NRDC, but nevertheless opted to continue to articulate its claim that it prohibits degradation in subsequent disclosures.

In addition, P&G, per its own disclosures, lacks maps of primary forest areas in Canada.<sup>46</sup> Given that knowledge of the location of primary forests is a prerequisite to identifying suppliers’ impact on these forests and, therefore, degradation, P&G does not have sufficient information to identify or respond to instances of noncompliance. Given that the company has not conducted rigorous primary forest mapping, investors would need to understand how the company can support its claim that P&G is not degrading primary forests.

In addition, the grievances identified in P&G’s Grievance Tracker do not support the claim that P&G is responding to noncompliance in a way that addresses degradation.<sup>47</sup> In the three Canada-specific grievances P&G has indicated responding to with changes to their supply chains, the company does not confirm elimination from the concerned suppliers, only a “significant reduction” in sourcing. For two of the items, it also did not indicate from which suppliers it increased its sourcing to make up for the reduced sourcing from the noncompliant suppliers, meaning, from the Grievance Tracker alone, it is impossible to discern whether P&G’s new suppliers are themselves in compliance with its policy. Furthermore, given that P&G has disclosed ongoing impacts on IFLs and boreal caribou habitat, yet these do not appear in the grievance tracker as instances of noncompliance, we are highly skeptical that the company is actually fulfilling its “no degradation” commitment.

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<sup>45</sup> Procter & Gamble, “Wood Pulp Grievance Tracker,” March 2022, [https://s1.q4cdn.com/695946674/files/doc\\_downloads/esg/WoodPulpGrievanceTracker.pdf](https://s1.q4cdn.com/695946674/files/doc_downloads/esg/WoodPulpGrievanceTracker.pdf), accessed November 18, 2022.

<sup>46</sup> Procter & Gamble, “Forestry Practices Update July 2022.”

<sup>47</sup> Procter & Gamble, “Wood Pulp Grievance Tracker.”

## **Misleading claims regarding deforestation place the company's reputation at risk**

The company acknowledges reputational risk as a material concern in its 2022 Annual Report.<sup>48</sup> In fact, the Company has already attracted negative public attention from environmental organizations, civil society groups, and major media outlets for failing to distance itself from wood pulp suppliers linked to destroying climate-critical forests in Canada.<sup>49</sup> A September 2021 CBS Mornings segment, for example, featured descendants of James Gamble, a P&G founder, discussing concerns about the company's approach to sustainability issues,<sup>50</sup> and a 2022 buyer's guide and scorecard produced by NRDC gave all of P&G's at-home tissue products a grade F– the only of the three largest U.S. tissue producers with this distinction.<sup>51</sup> The report also confirmed that P&G does not avoid sourcing from primary forests.<sup>52</sup> The continued publication of new reports on P&G's unsustainable sourcing methods will only further tarnish the company's reputation as a responsible, trustworthy brand and perpetuate significant reputational risk.

In addition, the Company has disclosed the materiality of risks associated with reliance on third parties, including within the supply chain.<sup>53</sup> Although the disclosures in the Company's SEC filings on reliance on third parties do not specifically delve into the details of the company's forest sourcing policies, they imply that the reliance on third parties poses risks<sup>54</sup> to the company's brands and reputation.

Those third-party relationships are quite significant in the context of wood pulp sourcing and forest degradation. As one of the world's largest consumer goods companies, P&G is a significant financial supporter of third-party supply chain operations degrading forests through

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<sup>48</sup> Procter & Gamble, "2022 Annual Report," 2022, <https://us.pg.com/annualreport2022/>. "If the reputation of the Company or one or more of our brands erodes significantly, it could have a material impact on our financial results... The success of our brands can suffer if our marketing plans or product initiatives do not have the desired impact on a brand's image or its ability to attract consumers.... **If we are unable to effectively manage real or perceived issues, including concerns about safety, quality, ingredients, efficacy, environmental or social impacts or similar matters, sentiments toward the Company or our products could be negatively impacted, and our results of operations or cash flows could suffer....**"

<sup>49</sup> CBS Mornings, "U.S. Toilet Paper Companies Have Been Destroying World's Largest Intact Forest for Decades: Report," August 7, 2020, <https://www.youtube.com/watch?v=pYzCRHrEvjw>.

<sup>50</sup> Anna Werner, "Procter & Gamble Heirs Say Company's 'Production is Coming at a Terrible Price to the Planet,'" *CBS News*, September 29, 2021, <https://www.cbsnews.com/news/procter-gamble-relative-call-for-change/>

<sup>51</sup> NRDC, "The Issue with Tissue 2022 Scorecard," September 2022, <https://www.nrdc.org/sites/default/files/issue-with-tissue-2022-scorecard.pdf>.

<sup>52</sup> *Ibid.*

<sup>53</sup> Procter & Gamble, Form 10-K," 2022, <https://d18rn0p25nwr6d.cloudfront.net/CIK-0000080424/1a1b8ef0-7de1-4b8e-be29-46b22c2dd110.pdf> ("We rely on third parties in many aspects of our business, which creates additional risk.").

Due to the scale and scope of our business, we must rely on relationships with third parties, including our suppliers, contract manufacturers, distributors, contractors, commercial banks, joint venture partners and external business partners, for certain functions... [W]hile we have policies and procedures for managing these relationships, they inherently involve a lesser degree of control over business operations, governance and compliance, thereby potentially increasing our financial, legal, reputational and operational risk.

<sup>54</sup> See fn 50.

wood pulp, such that the claim of no degradation relying on third party actions and disclosures could be materially misleading to ESG-oriented investors concerned with systemic impacts on forests.

The Company has invested significant resources in building a reputation for sustainability<sup>55</sup> given the market demand and positioning of the company as a sustainable investment. Therefore, any misleading communications or omissions on forest degradation can be material to investors, both because of their potential impact on enterprise value and on managing the systemic risks associated with forest impacts.

P&G's Forest Positive Sourcing Policy and July 2022 Forestry Practices Update, enclosed as attachments to this letter, are important documents for ESG-oriented asset owners and managers, and ESG rating agencies including critical market intermediaries like Forest 500. As such, we believe the disclosures are an important part of the mix of information available to investors, and may have significant impact on investor decision-making. Because the disclosures have been utilized in the investing marketplace through initiatives such as Forest 500, we believe they are within the ambit of ESG investing decisions and merit close scrutiny.

As we have documented above, we believe that the statement that "P&G...does not permit forest degradation in our sourcing" is misleading in and of itself, and further that it is misleading to fail to disclose in conjunction with such statement that the referenced certification systems, which appear to be the core mechanism for enforcing that commitment, do not prevent degradation by certified supply chain companies.

These forest sourcing issues are also germane to the company's climate commitments. In September 2021, the company set a new ambition to achieve net zero greenhouse gas emissions across its operations and supply chain, from raw material to retailer, by 2040.<sup>56</sup> The Company's climate change-related disclosures<sup>57</sup> include "purchased goods and services." It is unclear from the existing reporting whether or not forest degradation from logging is included in this climate reporting. However, a recent statement from a P&G representative in the media<sup>58</sup> seems to indicate that the company does not recognize or take responsibility for emissions from logging operations, despite the fact that emissions from logging, particularly in primary forests, are significant and, in Canada, comprise more than 10 percent of the country's total annual greenhouse gas emissions.<sup>59</sup>

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<sup>55</sup> See, e.g., Procter & Gamble, "ESG for Investors."

<sup>56</sup> Procter & Gamble, "P&G Accelerates Action on Climate Change Toward Net Zero GHG Emissions by 2040," September 14, 2021, <https://us.pg.com/blogs/net-zero-by-2040/>.

<sup>57</sup> Procter & Gamble, "Climate," <https://www.pginvestor.com/esg/environmental/climate/default.aspx>, accessed November 18, 2022.

<sup>58</sup> Jessica DiNapoli, "Exclusive: P&G Faces Reckoning Over Charmin, Bounty Supply Chain," August 17, 2022, <https://www.reuters.com/business/retail-consumer/exclusive-pg-faces-reckoning-over-charmin-bounty-supply-chain-2022-08-16/>.

<sup>59</sup> Matthew Bramley and Graham Saul, "What Are the Net Greenhouse Gas Emissions from Logging in Canada?" October 2022, <https://naturecanada.ca/wp-content/uploads/2022/10/Report-What-Are-Net-GHG-Emissions-From-Logging-in-Canada.pdf>.

## **Forest impact issues are material to P&G shareholders**

A 2020 shareholder resolution at the Company put forth by Green Century Equity Fund passed by a landslide 67 percent of voting shareholders,<sup>60</sup> including BlackRock, Vanguard, and State Street. The resolution urged P&G to report on how it could increase its efforts to eliminate deforestation and intact forest degradation from its supply chains,<sup>61</sup> and was the first time a proposal related to forest impacts passed in any corporation's history.<sup>62</sup> Investors and international organizations outlined the significant market, regulatory, operational, and reputational risks P&G faces due to its ties to forest destruction and human rights abuses in its wood pulp and palm oil supply chains.<sup>63</sup>

Yet in our assessment, P&G leadership has neither significantly reduced the impact its supply chains have on forests and communities, nor addressed the liabilities outlined by investors and international groups in both the shareholder proposal and supporting materials.<sup>64</sup> Following the 2020 vote, P&G published an ESG platform<sup>65</sup> for investors, a *Forestry Practices Report*, and additional materials that outline its sourcing practices; it also updated its procurement policies.<sup>66</sup> Unfortunately, these are largely cosmetic measures that do little to reform P&G's operations or mitigate their detrimental impacts—including, as noted, P&G's impact on forest degradation.<sup>67</sup> In fact, even as mounting public evidence shows that P&G's supply chains fail to sufficiently protect Indigenous rights, threatened species, and the global climate, the company has doubled down on many of its longstanding approaches<sup>68</sup> and even rewarded board members with bonuses for laudable ESG performance in 2022.<sup>69</sup>

In addition, in the more than two years following the shareholder vote, to our knowledge, P&G has failed to invest in primary forest maps needed to know the full

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<sup>60</sup> Shelley Vinyard, "Investors' Directive to P&G: Stop Driving Deforestation," NRDC, October 14, 2020, <https://www.nrdc.org/experts/shelley-vinyard/investors-directive-pg-stop-driving-deforestation>.

<sup>61</sup> Procter & Gamble, "2020 Proxy Statement," 2020, [https://materials.proxyvote.com/Approved/742718/20200814/NPS\\_440346/?page=1](https://materials.proxyvote.com/Approved/742718/20200814/NPS_440346/?page=1).

<sup>62</sup> Shelley Vinyard, "P&G Stuck in the Past in a Shifting Tissue Marketplace," NRDC, September 15, 2021, <https://www.nrdc.org/experts/shelley-vinyard/pg-stuck-past-shifting-tissue-marketplace>.

<sup>63</sup> NRDC, "Environmental and Human Rights Groups Urge P&G Investors to Support Deforestation & Intact Forest Degradation Resolution," October 6, 2020, <https://www.nrdc.org/resources/environmental-and-human-rights-groups-urge-pg-investors-support-deforestation-intact>.

<sup>64</sup> Jennifer Skene, "P&G's Leadership Has Failed Investors on Forest Protection," NRDC, September 28, 2022, <https://www.nrdc.org/experts/jennifer-skene/pgs-leadership-has-failed-investors-forest-protection>.

<sup>65</sup> P&G, "ESG for Investors."

<sup>66</sup> Procter & Gamble, "P&G's Forest Positive Sourcing Policy."

<sup>67</sup> See, NRDC, Friends of the Earth, and Rainforest Action Network, "Brief to Procter & Gamble Shareholders re: Insufficient Action Taken by Directors to Address Forest Destruction and Human Rights Violations in Company Supply Chains," September 2022, [https://www.nrdc.org/sites/default/files/media-uploads/pg\\_investor\\_brief.2022\\_9.21.22.pdf](https://www.nrdc.org/sites/default/files/media-uploads/pg_investor_brief.2022_9.21.22.pdf).

<sup>68</sup> Ashley Jordan and Shelley Vinyard, "Evidence Mounts in P&G's Role in Degrading Intact Forests," NRDC, April 7, 2021, <https://www.nrdc.org/experts/ashley-jordan/evidence-mounts-pgs-role-degrading-intact-forests>; Shelley Vinyard, "Deflect, Distract, & Ignore: P&G's Greenwashing Continues," NRDC, March 30, 2021, <https://www.nrdc.org/experts/shelley-vinyard/deflect-distract-ignore-pgs-greenwashing-continues>.

<sup>69</sup> Procter & Gamble, "2022 Proxy Statement," 2022, [https://us.pg.com/annualreport2022/2022\\_proxy\\_statement.pdf](https://us.pg.com/annualreport2022/2022_proxy_statement.pdf).

extent to which it is driving forest degradation. Yet, there is ample evidence that the certification programs cited and utilized tolerate degradation.

**Market risk:** As consumers increasingly seek more environmentally and socially responsible choices, in the absence of meaningful action, P&G will risk ceding its competitive advantage to peers making stronger commitments to sustainability. Consider Kimberly-Clark, which aims to halve its sourcing from natural forests by 2025 and to dramatically increase its use of alternative and environmentally preferred fibers in its products;<sup>70</sup> the company now also offers its Scott Essential Standard Roll, made from 100 percent recycled content, with at least 50 percent post-consumer recycled content, online directly to consumers.<sup>71</sup> Meanwhile, the Forest 500, which ranks the most influential businesses in forest-risk commodity supply chains, ranks P&G above Kimberly-Clark and below other peers like Unilever.<sup>72</sup>

**Regulatory<sup>73</sup> and operational risk:** P&G supply chains remain exposed to potential disruption resulting from regulatory action. Emerging legislation at the state level includes the New York Deforestation-Free Procurement Act, which, if passed, will require state contractors to ensure there is no tropical or boreal deforestation or primary forest degradation in its supply chains.<sup>74</sup> In our assessment, P&G does not meet the bill's requirements for demonstrating avoidance of forest degradation. We conclude that P&G also does not satisfy the requirements of a similar, though non-binding, measure enacted by Colorado's governor through executive order this year.<sup>75</sup>

Internationally, the European Union has proposed regulations to restrict the import of agricultural commodities, including timber and derivative products, grown on land that was deforested or degraded after 2020, and operators will be required to provide strict traceability of the geographic coordinates where commodities are produced.<sup>76</sup> The Glasgow Leaders' Declaration on Forests and Land Use, which was signed by more than 140 countries in 2021, commits its signatories to take action to halt and reverse land degradation and deforestation by 2030.<sup>77</sup> As more than 100 scientists recently highlighted, this commitment to ending land degradation clearly includes ending

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<sup>70</sup> Kimberly-Clark, "Our Aspirations and Goals," <https://www.kimberly-clark.com/-/media/kimberly/pdf/esg/2030-ambition/goals-and-aspirations/kimberly-clark-2030-goals.pdf?la=en-us>, accessed November 18, 2022.

<sup>71</sup> Vinyard, "P&G Stuck in the Past in a Shifting Tissue Marketplace."

<sup>72</sup> Forest 500, "Company Rankings," 2022 <https://forest500.org/rankings/companies>, <https://forest500.org/rankings/companies>.

<sup>73</sup> Forest 500, "Procter & Gamble Co.," <https://forest500.org/rankings/companies/procter-gamble-co>, accessed November 18, 2022.

<sup>74</sup> The New York State Senate, "Senate Bill S5921A," <https://www.nysenate.gov/legislation/bills/2021/s5921>, accessed November 18, 2022.

<sup>75</sup> State of Colorado, "Executive Order: Amending and Restating Executive Order D 2019 016 Concerning the Greening of State Government," April 2022, [https://drive.google.com/file/d/1ip\\_uhAXPAJYmZ9zGysJLR0ZIFJO8ynlA/view](https://drive.google.com/file/d/1ip_uhAXPAJYmZ9zGysJLR0ZIFJO8ynlA/view).

<sup>76</sup> European Commission, "New Rules for Deforestation-Free Products," November 17, 2021, [https://ec.europa.eu/commission/presscorner/detail/en/qanda\\_21\\_5919](https://ec.europa.eu/commission/presscorner/detail/en/qanda_21_5919).

<sup>77</sup> UN Climate Change Conference UK 2021, "Glasgow Leaders' Declaration on Forests and Land Use," February 11, 2021, <https://ukcop26.org/glasgow-leaders-declaration-on-forests-and-land-use/>.

industrial logging in primary forests.<sup>78</sup>

### **Applicable Law**

SEC Rule 10b-5 states that:

It shall be unlawful for any person, directly or indirectly, by the use of any means or instrumentality of interstate commerce, or of the mails or of any facility of any national securities exchange,

(a) To employ any device, scheme, or artifice to defraud,

(b) To make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading...

Jurisprudence under Rule 10b-5 provides that, a stated or omitted fact is material if “there is a substantial likelihood that a reasonable shareholder would consider it important” in making investment or voting decisions and if there is a substantial likelihood that the disclosure or omission would have been viewed by the reasonable investor as “having significantly altered the ‘total mix’ of information made available.”<sup>79</sup>

### **Investors appear to be relying on P&G’s claims to their detriment**

We believe there is a substantial likelihood that the overstated commitments and sourcing claims by P&G are translating to distorted information reaching investors, and that such information is relevant and important to ongoing investment decisions.<sup>80</sup>

Often in making investment decisions, investors concerned with environmental risk will rely on ESG ratings or publications to make environmentally and socially responsible investment choices. Concerningly, there is evidence of some of these publications citing P&G’s unsubstantiated claims that it prohibits degradation and deforestation in their sourcing. For instance, Forest 500, a project of Global Canopy, identifies the 350 companies and 150 financial institutions with the greatest exposure to tropical deforestation risk, and annually assesses them on the strength and implementation of their deforestation and human rights commitments. P&G is ranked on Forest 500, and Forest 500 utilized the aforementioned disclosures by P&G in its rating determination. In 2021, Forest 500 rated P&G a 4/6 for its details on its commitment to protect priority forests. The website specifically cites P&G’s claim that “P&G does not allow deforestation and does not permit forest degradation in our sourcing”

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<sup>78</sup> “Letter from Scientists to the Signatories of the Glasgow Leaders’ Declaration on Forests and Land Use.”

<sup>79</sup> *Basic Inc. vs. Levinson*, 485 U.S. at 231-32 (quoting *TSC Industries, Inc. v. Northway, Inc.*, 426 U.S. at 449).

<sup>80</sup> See, Horwich, Allan, "AN INQUIRY INTO THE PERCEPTION OF MATERIALITY AS AN ELEMENT OF SCIENTER UNDER SEC RULE 10b-5" (2011). Northwestern University School of Law, Faculty Working Papers, Paper 15, <http://scholarlycommons.law.northwestern.edu/facultyworkingpapers/15>

in its explanation for the company's rating.<sup>81</sup>

From Forest 500 evaluation of P & G commitments

Commitment to protect priority  
forests

4/6

**Zero-gross deforestation**

Which certification schemes are used?: FSC; PEFC

"P&G does not allow deforestation and does not permit forest degradation in our sourcing. "; "P&G requires that 100% of the wood pulp we source is certified by one of these 3rd party certification systems (Forest Stewardship Council, Sustainable Forestry Initiative, and Programme for the Endorsement of Forest Certification) which include criteria related to protecting both environmental and social values of forests. For every tree we use, at least one is regrown. "

The Forest 500 rating system that integrated this “commitment” is utilized by various investment organizations in their own risk assessments as well as in publications made available to investors. For example, BNP Paribas Asset Management relies on Forest 500 data in its footprinting work that is utilized in ESG-related determinations. In a report, *Sustainable by Nature: Our Biodiversity Roadmap*, BNP Paribas utilized data from Forest 500 to determine the strength of a company's forest policy, commitments, and traceability.<sup>82</sup> The intention behind the report was to evaluate portfolio exposure to forest impacts.

We readily identified this pathway of the misleading information from the company to the investment marketplace. We would urge the SEC to further examine the pathways by which this information is reaching the market, and whether it is affecting the “total mix” of information in a

<sup>81</sup> <https://forest500.org/rankings/companies/procter-gamble-co>

<sup>82</sup> <https://www.bnpparibas-am.lu/professional-investor/intermediary-fund-selector/outlooks-research/sustainable-by-nature-our-biodiversity-roadmap-en/>.

manner that reaches materiality under the Commission’s interpretation of the securities laws.

### **Conclusion and recommendation**

We believe it is reasonable to conclude that P&G’s assertions that it does not allow forest degradation are affecting investment decisions.

The Company’s disclosures that relate to land areas in which supply chain activity is being allowed are sufficient to conclude that the company is not, in fact, prohibiting degradation. Neither the certification systems that the company relies upon, nor its limited disclosed due diligence, appear to contradict our conclusion that substantial forest degradation is likely occurring in the Company’s supply chain.

In short, the notion that current P&G practices currently “prohibit forest degradation” is implausible based on available evidence.

Therefore, we believe that the SEC should evaluate these disclosures and require P&G to either cease making the claim to prohibit forest degradation or provide supplementary disclosures to align with the realities of its practices. Further, P&G should be required to affirmatively disclose that the selected certification systems do not prevent forest degradation.

For the reasons outlined above, we recommend that the SEC evaluate whether these claims by P&G are materially misleading to investors as significantly altering the total mix of information within the meaning of the securities laws, consider any appropriate enforcement action, and as a minimum, require the Company to make corrective disclosures.

Thank you for your time and your review. We look forward to hearing your evaluation of the matter and would be glad to meet with you to discuss further or answer any questions.

Sincerely,



Jennifer Skene  
Natural Climate Solutions Policy Manager, International Program  
Natural Resources Defense Council

CC: Sanford Lewis, Shareholder Rights Group; Jon Moeller, Procter & Gamble; Andre Schulten, Procter & Gamble