



## **Brief to Procter & Gamble Shareholders re: Insufficient Action Taken by Directors to Address Forest Destruction and Human Rights Violations in Company Supply Chains**

**Recommended:** Vote NO to the re-election of Jon Moeller, Angela Braly, and Patricia Woertz to Procter & Gamble's (P&G) board of directors for leading the company's inadequate response to a 2020 shareholder resolution calling for P&G to report on how it can eliminate deforestation, forest degradation, and human rights abuses from its supply chains.

### **Key points:**

- P&G has failed to adopt concrete, time-bound commitments to meaningfully address deforestation, forest degradation, and human rights violations in its supply chains, two years after shareholders demanded the company take action on these issues.
- Under the guidance of board chair Jon Moeller and members of the Governance & Public Responsibility Committee, Angela Braly and Patricia Woertz, P&G has responded to the 2020 resolution with greenwashing, misleading talking points, and cosmetic measures that largely maintain P&G's harmful forest sourcing practices.
- For years, Moeller, Braly, and Woertz have, in their respective board roles, failed to address reputational, regulatory, and market risks within P&G's wood pulp and palm oil supply chains and have ignored key opportunities for the company to embrace growing markets for more sustainable products, calling into question their ability to transform P&G into a global leader in sustainable business.

September 21, 2022

Dear Procter & Gamble Shareholder,

At Procter & Gamble's (P&G) 2020 shareholder meeting, a landslide 67 percent of voting shareholders<sup>1</sup> passed a resolution requesting that the company report on how it can increase the scale, pace, and rigor of its efforts to eliminate deforestation, the degradation of intact forests, and associated human rights abuses from its pulp and palm oil supply chains.<sup>2</sup> Two years later, and despite the clear directive from shareholders, **P&G's leadership team has failed to take substantive action to meaningfully evaluate and address the company's role in driving forest destruction and human rights violations. The company has instead embraced greenwashing, misinformation, and denial of responsibility regarding the environmental and human rights impacts of its forest products supply chains, leaving it exposed to significant reputational, market, and regulatory risks.** P&G's Chairman of the Board, as well as key members of the Governance & Public Responsibility Committee, bear significant responsibility for this continued exposure to risks and failure to take meaningful action.

**For this reason, as a major P&G shareholder, you are urged to vote against the re-election of current board chair and former vice-chair Jon Moeller, as well as two longstanding members of the Governance & Public Responsibility Committee, Angela Braly and Patricia Woertz.**

The 2020 shareholder vote was a clear message to P&G leadership that the company's impact on climate-critical primary (also known as intact) forests was an environmental and financial liability, and in the two years since, the imperative to address these impacts has only grown. The international scientific community has made clear that rapid, transformative action to protect primary forests, alongside ending global reliance on fossil fuels, is vital to meeting international climate targets.<sup>3</sup> Consumers<sup>4</sup> seeking ways to mitigate their own environmental impact are increasingly pushing corporations to address their role in fueling the climate crisis. Additionally, both policymakers and the marketplace are taking greater strides to create more sustainable supply chains, adopting new standards and implementing unprecedented regulations.

Even so, P&G has maintained harmful forest sourcing practices that increasingly put it out of step with both science and responsible sourcing standards. These practices have not meaningfully changed in the last two years in the wake of the 2020 shareholder vote. The company has not adopted time-bound commitments to eliminate its role in driving the destruction of climate-critical primary forests. Furthermore, P&G's own disclosures indicate that it fails to adhere to its claims that it prohibits forest degradation within its supply chains. It also continues to source palm oil from suppliers linked to deforestation, including in IFLs, in contravention of its 2015 commitment to prohibit deforestation. The company does not adequately implement its requirement that suppliers ensure the right to Free, Prior and Informed Consent of Indigenous Peoples and local communities, and it continues to do business with corporate groups associated with gross human rights abuses in the forestry and agribusiness sectors. Unlike the time-bound goals the company has set to reduce its fossil fuel footprint,<sup>5</sup> P&G's forest sourcing commitments have been limited, predominantly cosmetic, rooted in misleading talking points and claims, and out of step with new international commitments on forests and climate.

P&G's leadership team is at fault, and Moeller, Braly, and Woertz, specifically, must be held accountable for failing to effect substantive policy changes that address the company's detrimental forest sourcing practices and the substantial risks to investors these practices pose, as requested by shareholders.

### **Jon Moeller, Chairman of the Board, President, and Chief Executive Officer**

As board chair, Jon Moeller is responsible for aligning P&G operations with approved shareholder resolutions—the same operations that he oversees as CEO.<sup>6</sup> Allowing a single individual to occupy a dual CEO-chairman role opens the door to reduced objectivity at the management level, as well as potential conflicts of interest. As the *Harvard Business Review* noted in an argument against CEO duality, “splitting the CEO and board chair jobs between two people can help strengthen the quality of questions the corporation asks itself. When those questions remain weak, the organization is less likely to develop strategies that mitigate risk.”<sup>7</sup> For this reason, a growing number of U.S. companies, including Foot Locker, Renault, and Wells

Fargo, are disjoining these two positions.<sup>8</sup> The percentage of S&P 500 companies with an independent board chair grew from 31 percent in 2018 to 37 percent in 2022.<sup>9</sup>

Moeller has also been deeply entrenched with P&G leadership for more than two decades, most recently as Vice Chairman, Chief Operating Officer, and Chief Financial Officer.<sup>10</sup> He worked closely with former P&G CEO David Taylor, whose disregard for longstanding sustainability concerns led to the passage of the 2020 shareholder resolution.<sup>11</sup> Moeller appears to be taking a similar approach as his predecessor, refusing repeated invitations to meet with NGOs and P&G family members to discuss environmental supply chain concerns and pursuing tactics to placate investors rather than meaningfully change corporate practices.<sup>12</sup> This will almost certainly lead to missed opportunities for capitalizing on marketplace shifts toward more sustainable products, in addition to perpetuating risks for the company.

Moeller's eight-year board role at Monsanto,<sup>13</sup> the former agrochemical corporation notorious for producing environmentally harmful and potentially carcinogenic products,<sup>14</sup> also does not track with someone who prioritizes corporate responsibility or scientific integrity. During his tenure, Monsanto went to extraordinary lengths to influence and undermine scientific research to protect its image and products, even at the expense of human health.<sup>15</sup>

Moeller's dual role as CEO and board chair simply exacerbates his regressive approach to environmental innovation and sustainability. By replacing Moeller with an independent board chair, P&G board and executive leadership will be more apt to respond when the company fails to meet its mandate or that of shareholders, as well as to implement corrective measures and proactively embrace changes in consumer and marketplace expectations.

### **Angela Braly, Chair of the Governance & Public Responsibility Committee and member of the Audit Committee**

Last year, shareholders were urged to vote against the re-election of Angela Braly, chair of P&G's Governance & Public Responsibility Committee, due to her and the company's inadequate response to the sustained environmental and human rights violations in P&G's supply chains, as identified in the 2020 shareholder resolution.<sup>16</sup> Now, two years after the resolution and one year since Braly began to receive criticism for her inaction, P&G's continued inertia is an indication that Braly is ineffective in and unfit for the leadership role she occupies.

Braly's ineffectiveness on P&G's board is of a kind with criticism she has received in her roles with other companies for environmental inaction and mismanagement. Braly has sat on the board of ExxonMobil since 2016,<sup>17</sup> and in 2020, as chair of its Public Issues and Contributions Committee, was deemed by major ExxonMobil shareholder BlackRock to have made "insufficient progress" in addressing climate-related risk.<sup>18</sup> (That Braly is a leading figure at one of the largest climate science-denying fossil fuels companies in the world should alone cast doubt on her ability to credibly guide P&G's response to sustainability concerns.) In 2012, she was pressured to resign from her role as CEO of insurance company WellPoint Inc. (now Anthem) by investors who cited managerial blunders.<sup>19</sup>

As chair of P&G's Governance & Public Responsibility Committee since 2016, and a board member since 2009,<sup>20</sup> Braly has had ample opportunity to prove herself capable of effectively

guiding board decisions pertaining to the company's sustainability policies and practices. Instead, under her watch, P&G has cemented a reputation as an environmental laggard for its forest impacts. It has embraced greenwashing and a strategy of misinformation around its ecological impacts that bear striking similarity to ExxonMobil's climate denial tactics.<sup>21</sup> In an August 2022 Reuters article, P&G's Vice President of Family Care Communications and P&G Responsible Sourcing is quoted as saying, "The pulp supply chain starts generating greenhouse gases once the trees are loaded on to trucks and processed,"<sup>22</sup>—a dangerously misleading assertion that reveals the company's failure to understand that land conversion and forest clearance are major sources of greenhouse emissions<sup>23</sup> and to take responsibility for those climate impacts. That P&G enables these kinds of misleading public statements and fails to have systems in place to ensure it is aligning with scientific consensus ultimately demonstrates the Governance & Public Responsibility Committee's inability to accept basic climate science, let alone industry best practice.

### **Patricia Woertz, Chair of the Audit Committee and member of the Governance & Public Responsibility Committee**

Patricia Woertz has served on P&G's board since 2008 and is a member of the Governance & Public Responsibility Committee<sup>24</sup> responsible for addressing issues of environmental sustainability—a questionable appointment considering her 29-year career in the fossil fuel industry, predominantly with Chevron Corporation, where she held key executive positions from the 1990s until 2006,<sup>25</sup> during the height of the company's climate denial.

Indeed, in the late 1990s—around the time Woertz helmed Chevron International Oil Co. and Chevron Products Co.—oil and gas giants including Chevron crafted a successful disinformation campaign to instill doubt about climate science in the American public and lawmakers, with the aim of nixing the United States' ratification of the Kyoto Protocol, an international treaty to reduce greenhouse gas emissions.<sup>26</sup> As the Union for Concerned Scientists notes, "Chevron and other fossil fuel producers knew their products would cause the climate change damages we're now experiencing...First, these companies failed to warn the public despite studying the problem privately. Then, they actively denied the problem, spread disinformation, and blocked attempts to prevent the damage."<sup>27</sup> P&G's failure to address environmental and human rights abuses in its supply chains, as well as its continued adherence to industry misinformation about its supply chains' impact on forests, the climate, and communities, echo Chevron's behavior during Woertz's tenure.

Woertz also has a prior reputation for complicity in the clearcutting of tropical forests and violation of human rights in Southeast Asia in her role as chairman, president, and CEO of agricultural trader Archer Daniels Midland (ADM).<sup>28</sup> During her 2006 to 2014 tenure, ADM received significant public criticism for its ties to unsustainable palm oil sourcing for biofuels.<sup>29</sup> While Woertz publicly claimed ADM's palm oil was derived in a sustainable way,<sup>30</sup> she was also at the helm when ADM's Board of Directors recommended a vote against a shareholder proposal the company implement a sustainable palm oil policy.<sup>31</sup> The Rainforest Action Network also personally rebuked Woertz on numerous occasions for ADM's sourcing of palm oil from endangered forests, and included her on its 2008 list of CEOs that had "made the most significant contribution over the past year to the development and dissemination of fossil fuel-related pollution."<sup>32</sup> Woertz's extensive ties to environmentally irresponsible companies should

call into question the influence she brings to a board committee that oversees sustainability issues.

**Under the guidance of Moeller, Braly, and Woertz, the following P&G supply chain issues continue to pose a substantial risk to shareholder investments:**

**Contrary to stated policies and commitments, P&G’s own disclosures, along with evidence stemming from its pulp and palm oil supply chains, show it continues to drive deforestation and the degradation of primary forests in the Canadian boreal and tropical rainforests.** The 2020 shareholder resolution called on P&G to assess how it could eliminate deforestation and the degradation of intact (also known as primary) forests in its supply chains. Primary forests, which are forests that have never been industrially disturbed,<sup>33</sup> are irreplaceable and play a pivotal role in maintaining biodiversity and in carbon sequestration, storing 30 to 50 percent more carbon than previously logged forests.<sup>34</sup> As the International Union for Conservation of Nature makes clear, “we cannot resolve the climate or biodiversity crises without prioritizing the protection of primary forests.”<sup>35</sup> Recent Intergovernmental Panel on Climate Change reports similarly indicate that primary forests are critical to both climate change mitigation and adaptation.<sup>36</sup>

**P&G pulp supply chain issues:** Thirty-four percent of P&G’s pulp comes from Canada,<sup>37</sup> including from the boreal forest, which is the world’s largest remaining primary forest. The boreal stores twice as much carbon per acre as tropical forests,<sup>38</sup> provides critical habitat for species such as threatened woodland caribou, and is the homeland of hundreds of Indigenous communities.<sup>39</sup> P&G purchases approximately 3% of wood pulp produced in Canada.<sup>40</sup> Canada, contrary to its reputation for sustainability, clearcuts more than a million acres of boreal forest each year, much of this in primary forest, and, across most of the country, has no adequate protections for primary forests, at-risk species, and Indigenous rights. In fact, Canada ranks third globally in its rate of loss of Intact Forest Landscapes (IFL),<sup>41</sup> which are primary forests that are at least 500 square kilometers. Demand for pulp is a major driver of this forest clearance.<sup>42</sup>

- Based on the company’s own disclosures, P&G’s claims that it prohibits primary forest degradation in its wood pulp supply chains are inaccurate.** Although P&G states in its Wood Pulp Sourcing Policy that it “does not permit forest degradation in [its] sourcing,”<sup>43</sup> P&G’s own disclosures in its July 2022 Forestry Practices Update indicate that it sources from suppliers whose land they manage overlaps with IFLs, as well as from boreal caribou habitat,<sup>44</sup> which serves as a good indicator of primary forests since boreal caribou rely on undisturbed intact forest for their survival. In addition, a 2021 analysis of Canadian logging companies shows that P&G pulp suppliers in Ontario and Quebec source heavily from threatened boreal caribou habitat.<sup>45</sup> Clearcutting primary forests, whether in IFLs or boreal caribou habitat, is a form of forest degradation, which refers to land use impacts on forests that significantly and negatively affect its species composition, structure, and function; deplete forest ecosystem carbon stocks; and reduce the quality of ecosystem services such as the provision of clean water.<sup>46</sup> 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 clearcutting of primary forests indelibly depletes or mars the forest’s original characteristics, no matter the subsequent forest regeneration practices. P&G’s sourcing

from suppliers engaged in this practice makes the company complicit in the degradation of these irreplaceable ecosystems.

This is further underscored by the fact that P&G does not, in fact, have time-bound commitments to eliminate sourcing from primary forests. While the July forestry update states that “P&G aims to protect primary forests,” it goes on to say that the company does not “understand their geographic locations” due to the lack of mapping of primary forests in regions where “P&G sources 100% of [its] wood pulp.”<sup>47</sup> P&G cannot “protect” what it does not track. Until it identifies and eliminates these areas from its sourcing, P&G cannot claim to prohibit forest degradation.

- **Evidence indicates that major P&G pulp suppliers in Canada fail to implement even baseline environmental and social standards, including for primary forests.** Canada has no primary forest protections in place,<sup>48</sup> and most provinces and territories have no standards in place to ensure Free, Prior and Informed Consent. In addition, many provinces have rolled back species protections and public accountability processes and also fail to accurately report the extent and impact of industrial logging.<sup>49</sup> As a result, P&G’s suppliers’ commitments are of critical importance to ensure that P&G is not implicated in harmful supply chain practices. Unfortunately, a Natural Resources Defense Council (NRDC) 2021 assessment of major pulp producers in Canada found that major suppliers to P&G—including Paper Excellence and Resolute Forest Products—failed to implement even baseline environmental and social standards, including protections for primary forests.<sup>50</sup> They did not meet the federal government’s guidance for protecting boreal caribou habitat, they had no operations-wide commitments to protect primary forests from logging, and more than half of their wood was derived from forest areas covered by weak certification standards for sustainability. As the report notes, “international and U.S. corporations that purchase wood and pulp from these mills are failing to set adequate environmental requirements for their supply chains.” In fact, by P&G’s own admission in its forestry update, Canadian policy and supplier practices are currently inadequate to ensure P&G is not sourcing from primary forests, including IFLs.<sup>51</sup> There is no indication that any of the producers have changed their practices in the past year.
- **P&G has failed to meaningfully investigate its role in driving deforestation and primary forest degradation.** The 2020 shareholder resolution requested that P&G evaluate how it can eliminate deforestation and primary forest degradation from its supply chains. As a bare minimum first measure, P&G should have investigated and reported on the company’s current deforestation and primary forest degradation impacts. Two years later, P&G indicates that it still has insufficient knowledge of its supply chains. In its July 2022 Forestry Practices Update, the company writes, “A credible 3rd party has not yet mapped primary forests in dry regions or tundra forests where P&G sources 100% of our wood pulp. We support third-party, credible mapping efforts to aid our ability to understand their geographic locations, develop plans, and enable ongoing monitoring to address wood pulp sourcing from these areas.”<sup>52</sup> There is no reason why P&G, which, in 2021, spent \$115 million in advertising in the United States for Charmin

alone, could not have invested in mapping these areas.<sup>53</sup> The satellite data and expertise to do so currently exists. Because of P&G's inaction, NRDC is now helping to fund a university-run mapping effort to provide P&G with the tools to map its sourcing overlap with primary forests. However, the fact that P&G has ceded responsibility for doing so and, two years after the vote, is unable to convey to shareholders its primary forest impact, is an indictment of the company's response to the 2020 resolution.

Even the IFL statistic P&G provides is, at best, of minimal utility and, at worst, paints a misleading portrait of the company's impact on IFLs. P&G's often-repeated claim that, for its wood pulp supply chain, "less than 1% of the area our suppliers manage overlapping with IFLs" does not, in fact, mean that only 1% of the company's supply can be traced to IFLs.<sup>54</sup> 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. Furthermore, the figure is global, not particular to Canada, which has an outsized percentage of the world's IFLs. It would presumably also include P&G's procurement of wood pulp from plantations in tropical regions. It is not unreasonable to assume that the percentage would be higher for Canada, particularly since P&G sources from plantations in tropical regions, which, by definition, do not include IFLs, though, of course, without more information from P&G, this is unclear.

- **P&G has failed to adopt a time-bound commitment to prohibit sourcing from primary forests its wood pulp supply chains.** While P&G's July 2022 Forestry Practices Update states that the company intends to protect primary forests and advocate for the increased protection of both IFLs and boreal caribou habitat in Canada,<sup>55</sup> as noted above, these new ambitions include a glaring omission: concrete timelines and benchmarks that would indicate a true shift in policy. They also do not meet standards articulated by the Organisation for Economic Co-operation and Development (OECD) and the Food & Agriculture Organization (FAO), which recently published a draft handbook on corporate due diligence procedures for forest-related risks.<sup>56</sup> In the handbook, the OECD-FAO specifies that responsible company policies should include, among other key items, "science-based targets for reducing deforestation and the risk of deforestation in the enterprise's operations, supply chains and business relationships—for example to achieve zero deforestation, or zero illegal deforestation, or a reduction in deforestation levels, to be achieved by a specified date."<sup>57</sup> Per the OECD-FAO, a policy should also outline "clear time-bound targets and cut-off dates and definitions of terms such as 'forest,' 'deforestation' and 'forest degradation,'" as well as set out due diligence procedures.<sup>58</sup>

Instead, P&G has published vague, nonbinding ambitions around protecting primary forests, including IFLs, that do not hold P&G accountable to any timeline or outcome. To align with best practices (and, as noted above, its own claim to prohibit forest degradation), P&G must establish and enforce science-based, time-bound targets for eliminating primary forests from its pulp supply chains. Policies should be mandatory and clearly articulate requirements and accountability mechanisms for its suppliers and

their corporate groups, and publish a non-compliance protocol that will be used when violations occur. Furthermore, as highlighted above, P&G must ensure that the definition for forest degradation that it uses in its wood pulp policies aligns with scientifically appropriate definitions that acknowledge the climate and biodiversity impacts of clearcut logging in primary forests.

**P&G palm oil supply chain issues:** P&G sources its palm oil from Indonesia and Malaysia, where primary tropical peat forests are clearcut, burned, and replaced by palm plantations. Estimates indicate this conversion alone releases 640 metric tons of carbon per hectare into the atmosphere.<sup>59</sup> In addition to fueling to the climate crisis, this process also destroys endangered species' habitat and contributes to severe land and human rights abuses.

- **While P&G adopted a time-bound commitment, or 'cut-off date', to prohibit deforestation in its palm oil supply chain after December 31, 2015, since 2020, P&G has failed to enforce this cut-off date and continues to source from palm oil companies connected to deforestation in the tropical rainforests of Indonesia.** In its Forest Practices Report Supplement, P&G claims to effectively prohibit conversion of IFLs for palm oil production.<sup>60</sup> Since 2020, P&G enhanced its palm oil policy to explicitly “prohibit the conversion of Intact Forest Landscapes (defined by the IFL Mapping Team) for Oil Palm Production.”<sup>61</sup> Nevertheless, P&G has continued to source palm oil from suppliers destroying lowland rainforests and from illegal plantations that have converted peat forests within IFLs in Indonesia.<sup>62</sup> According to one 2021 report, P&G sources “from as many as 22 palm oil producers and traders engaged in ongoing deforestation and peatland destruction” in Indonesia alone.<sup>63</sup>

A 2022 Friends of the Earth report found Indonesian palm oil giant and indirect P&G supplier Astra Agro Lestari and three of its subsidiaries responsible for—among other abuses—illegal deforestation and forest encroachment, including illegally occupying, clearing forest, and planting palm oil in 255 hectares of protected forest zone.<sup>64</sup> Royal Golden Eagle Group (RGE), another P&G supplier, has been repeatedly caught, including as recently as 2021, sourcing palm oil at the expense of the rainforests in Indonesia's Leuser Ecosystem, which is the last habitat for Sumatran elephants, tigers, rhinos, and orangutans and widely considered the most important IFL in Southeast Asia.<sup>65</sup> Furthermore, according to a 2021 Rainforest Action Network report on the forest footprint of multinational brands, P&G also sources from suppliers like Wilmar International, which is among a handful of companies (that includes RGE), implicated in the conversion of more than 200,000 hectares of rainforests to palm oil plantations on the Indonesian island of Borneo.<sup>66</sup> As the report states, “Procter & Gamble's direct sourcing from Wilmar International is one clear case demonstrating the company's connection to destruction of tropical rainforests in these regions.” The report also notes that Wilmar International's own supplier reports indicate that “a significant proportion of suppliers are not yet delivering on commitments to end deforestation, and some known suppliers have not even adopted a 'No Deforestation' commitment.”

Not surprisingly, Rainforest Action Network recently gave P&G an “F” grade on how it addresses land and human rights abuses, noting specifically that it is among a small

handful of major brands “falling behind on the adoption and implementation of policies and actions to end deforestation and human rights violations in forest-risk commodity supply chains.”<sup>67</sup> It noted that P&G’s “No Deforestation, No Peatland and No Exploitation (NDPE) policies include major loopholes that limit its effectiveness. P&G is named as one of three laggard brands as it lacks a cross-commodity NDPE policy, its commodity-specific policies do not require suppliers to comply across the entire operations of each corporate group they source from, and furthermore, P&G fails to “to evaluate and disclose their true forest footprints.”— an accounting of a company’s total impact on land and communities.

As with its wood pulp supply chains, P&G must set and enforce science-based, time-bound targets for eliminating deforestation from its palm oil supply chains, as well as establish a mandatory, corporate group-wide policy prohibiting the deforestation of primary forests. It must also establish clearly articulated requirements and accountability mechanisms for its suppliers, and their corporate groups, and publish a non-compliance protocol that will be used when violations occur.

**P&G continues to be over-reliant on third-party certification systems to guarantee and monitor environmental and human rights compliance in its supply chains.** P&G makes clear that it relies on forest certification systems to measure its success in meeting many of its forests and human rights commitments.<sup>68</sup> This is highly problematic as the requirements of its suppliers’ certifiers do not, in fact, guarantee achievement of the standards outlined in P&G’s own policies. For example, 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,”<sup>69</sup> none of the three certifiers P&G lists guarantee the elimination of forest degradation.

In fact, one-quarter of P&G’s wood pulp is sourced from forests covered by weak certifications systems,<sup>70</sup> including the Sustainable Forestry Initiative (SFI) and the Programme for the Endorsement of Forest Certification (PEFC), which endorses both the SFI and Canadian Standards Association (CSA) certifications systems.<sup>71</sup> SFI and CSA have been widely lambasted for sustainability requirements that are inadequate, vague, and risk certifying operations that violate Indigenous rights and destroy large areas of primary forests.<sup>72</sup> And while P&G does aim to achieve 100 percent certification via the more reputable Forest Stewardship Council (FSC), its timeline for doing so stretches until 2030,<sup>73</sup> and even FSC does not prohibit the degradation of primary forests. Meanwhile, P&G also continues to elide the substantial differences between FSC and other certification systems such as SFI, helping to validate industry-dominated systems that set few meaningful environmental and human rights requirements and have longstanding reputations as greenwashing mechanisms.<sup>74</sup>

When it comes to palm oil sourcing, P&G only purchases products certified by the Roundtable on Sustainable Palm Oil (RSPO), and it expects its direct suppliers to be RSPO members.<sup>75</sup> However, the certification system itself has been criticized for falling short in delivering on environmental and social sustainability<sup>76</sup> and is not a replacement for company due diligence. P&G suppliers such as Wilmar International<sup>77</sup> have been implicated in serious environmental, social, and governance scandals despite being RSPO members.

By outsourcing oversight and risk management across its supply chains to outside entities that have widely variable sustainability standards for pulp and palm oil sourcing, P&G will remain exposed to controversial suppliers. What's more, this delegated and distributed approach provides the company no comprehensive means by which to analyze or mitigate sustainability issues. P&G must move from relying on certification systems to realizing its own standards to ensure the protection of primary forests and human rights within its supply chains.

**P&G's grievance process has failed to ensure its suppliers adhere to its policies, particularly on Free, Prior and Informed Consent (FPIC).** As outlined in the United Nations Declaration on the Rights of Indigenous Peoples, FPIC gives Indigenous communities the right to reject, modify, and approve projects that could impact them.<sup>78</sup> While P&G policy states that the company requires its suppliers have mechanisms in place “to respect, protect, and promote FPIC,”<sup>79</sup> current practices provide little assurance that P&G can determine whether FPIC or human rights violations have occurred, much less enact consequences or provide remedy to those violated. As described, P&G continues to do business with corporations causing severe human rights abuses in the forestry and agribusiness sectors.

According to the aforementioned NRDC assessment of Canadian pulp producers, “one of the most glaring omissions in all companies’ policies was a public commitment to requiring the free, prior and informed consent (FPIC) of Indigenous Peoples who could be impacted by operations supplying the companies’ mills.”<sup>80</sup> As the report notes, “that companies operating in the traditional territories of Indigenous Peoples do not guarantee this bare-minimum right should be unacceptable to corporations and consumers that purchase this pulp.” This is particularly true because, while FSC certification does require that its suppliers secure FPIC, less rigorous forestry certification systems used by P&G suppliers, such as SFI, do not.<sup>81</sup>

With regards to P&G's palm oil supply chains, the 2022 Friends of the Earth report on indirect P&G supplier Astra Agro Lestari found that none of the three subsidiaries investigated have obtained FPIC from the communities in which they operate, in violation of national laws and regulations.<sup>82</sup> Among other abuses, this has resulted in forcible land takeovers abetted by Indonesian security forces; soil, air, and water pollution; and illegal deforestation and encroachment on legally protected forest zones, as previously outlined. While P&G is aware of these issues, following the completion of an independent assessment, it has yet to take meaningful steps to resolve them,<sup>83</sup> despite the increasing gravity of the situation: In March 2022, five community members in the Indonesian province of West Sulawesi were arrested by police after marching to the offices of one of the subsidiaries, PT Mamuang, in protest of the company's continued human and land rights abuses.<sup>84</sup>

Several other of P&G's palm oil suppliers have recently been embroiled in ongoing human rights controversies, too. In 2020, U.S. Customs and Border Protection (CBP) issued Sime Darby Plantations, a direct P&G palm oil supplier, withhold release orders over forced labor allegations. CBP investigated<sup>85</sup> and in January 2022 announced findings confirming the use of forced labor by Sime Darby, noting that its investigations “found evidence of all 11 of the International Labour Organization’s forced labor indicators on...Sime Darby Plantation’s palm oil plantations.”<sup>86</sup> Forced labor indicators include physical and sexual violence, intimidation and threats, withholding of wages, abusive working and living conditions, and retention of identity documents.<sup>87</sup> In 2020, Malaysian company FGV Holdings, a major P&G palm oil supplier and joint venture partner, was also issued withhold release orders by CBP over forced labor allegations.<sup>88</sup> In November 2021, new evidence was published showing the Royal Golden Eagle group was violating the rights of communities in its associated pulp companies’ plantations in the Indonesian province of North Sumatra.<sup>89</sup> P&G has failed to suspend Royal Golden Eagle and secure commitments from its pulp arm—called PT Toba Pulp Lestari—to excise lands where communities have not consented to development. Due to P&G’s inaction, the Pargamanan-Bintang Maria communities’ forests, livelihood and way of life remains under threat as they wait to obtain legal recognition for their Indigenous lands.

Meanwhile, a 2022 investigation found that companies like Golden Agri-Resources, Indonesia’s largest palm oil producer and a P&G supplier, are failing to comply with laws that require companies to share a proportion of their plantations with local communities.<sup>90</sup> As the report notes, “the profits from plantations are flowing to conglomerates” instead of rightfully being shared with the communities these companies are under legal obligation to help. It’s worth noting that executives from a subsidiary of Golden Agri-Resources were also sentenced to prison for bribing government officials to overlook unpermitted palm oil production and extensive water pollution in 2019.<sup>91</sup>

**P&G continues to face considerable reputational, market, and regulatory risks as a result of its inaction on the 2020 resolution.** As outlined in the 2020 shareholder resolution, companies that fail to adequately mitigate deforestation and forest degradation in their supply chains are vulnerable to systemic and material financial risks.

**Reputational risks:** In its 2022 10-K, P&G acknowledges that “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.”<sup>92</sup> P&G has received mounting criticism from Indigenous leaders, NGOs, faith leaders, and concerned citizens for failing to distance itself from wood pulp and palm oil suppliers linked to destroying climate-critical forests and violating human rights in Canada and Southeast Asia. More than 135 non-governmental organizations have publicly criticized the company’s practices with regards to its forest product supply chains,<sup>93</sup> and hundreds of thousands of consumers have called on P&G to update its commitments through petitions to former CEO Taylor<sup>94</sup> and now to CEO Moeller.<sup>95</sup> During 2021’s shareholder meeting, leadership was criticized for the company’s inadequate response to the 2020 shareholder resolution.

P&G also continues to receive unfavorable media coverage about its sourcing practices in high-profile media outlets. In August 2022, Reuters pointed to a sharp discrepancy between P&G’s wood pulp supply chain emissions estimates and independently generated figures, the latter of

which far exceeded P&G's claimed estimates.<sup>96</sup> In September 2021, CBS Mornings ran a segment that featured P&G family descendants publicly stating the company's "production is coming at a terrible price to the planet."<sup>97</sup>

The publication of new reports on the company's unsustainable sourcing methods will only further tarnish P&G's reputation as a responsible, trustworthy brand. Over the past year alone, Friends of the Earth, Rainforest Action Network, and NRDC have all published reports highlighting P&G's unsustainable practices.<sup>98</sup> An annual NRDC buyer's guide to sustainable at-home tissue products has, for the last four years, given all of P&G's products an F grade;<sup>99</sup> P&G is the only company of the "Big Three" tissue suppliers in the U.S. to have this distinction.

In 2019, *Chain Reaction Research* calculated P&G's potential reputational losses related solely to its palm oil sourcing at \$41 billion, or 14 percent of equity, and noted "this dwarfs the cost of solutions."<sup>100</sup>

**Market risk:** As consumer demand and support for sustainably sourced tissue products continues to grow, P&G will cede competitive advantage to peers making stronger commitments to sustainability. The Forest 500, which ranks the most influential businesses in forest risk commodity supply chains, ranks P&G beneath peers like Kimberly-Clark and Unilever for the strength and scope of its deforestation commitments,<sup>101</sup> and more sustainable products are increasingly beating out those of P&G. In its 2022 ranking of "Best Toilet Paper," New York Times' Wirecutter selected Unilever's Seventh Generation 100% Recycled Extra Soft & Strong Bath Tissue as their "new favorite" relative to P&G's Charmin UltraSoft, specifically noting that P&G's toilet paper is "not made from sustainable or recycled materials."<sup>102</sup> (Seventh Generation also earned an A grade in the same NRDC buyer's guide that gave P&G's at-home tissue products an F.<sup>103</sup>)

While P&G is conducting consumer testing for and offering via limited sale of a bamboo Charmin product in 2022,<sup>104</sup> this is just a first step for P&G toward replacing wood fibers in its tissue products. Meanwhile, competition will only increase as more brands bring more sustainable and sustainably sourced products to market.

**Regulatory and operational risk:** Currently, myriad regulatory policies may pose a threat to P&G's supply chains and operations should the company fail to better align its forest practices to meet current environmental and climate demands. Emerging legislation at the federal and state levels include the U.S. FOREST Act, which, if passed, will ban imports to the U.S. of products linked to illegal deforestation and land conversion,<sup>105</sup> including unpermitted concession development. New York State's pending deforestation-free procurement bill would require state contractors to ensure, among other measures, no tropical or boreal deforestation or primary forest degradation or FPIC violations in their supply chains.<sup>106</sup>

Internationally, the European Union has proposed regulations to restrict the import of agricultural commodities 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>107</sup> The Glasgow Leaders' Declaration on Forests and Land Use, which was signed by more than 140 countries, commits its signatories to take action to halt and

reverse land degradation and deforestation by 2030.<sup>108</sup> And in Canada, federal and provincial governments continue to face increased pressure and litigation by civil society, Indigenous groups, and NGOs to enact protections for threatened boreal caribou, after years of allowing industrial logging to erode the animal's habitat.<sup>109</sup>

There is also an upward trend in U.S. enforcement against environmental crime. Interpol and the United Nations Office of Drugs and Crime have been expanding investigations into forest-related crime and corruption. In 2019 alone, INTERPOL's global and regional law enforcement operations targeting illegal logging and wildlife crime have led to approximately 20,000 seizures.<sup>110</sup> The U.S. Department of Justice and the U.S. Treasury have also been taking enforcement actions on environmental crime, as illustrated by a 2016 DOJ enforcement against illegal timber imports.<sup>111</sup> U.S. Customs and Border Protection has issued withhold release orders to palm oil companies that include, as already noted, P&G suppliers FGV Holdings and Sime Darby Plantations. Furthermore, in addition to requiring that companies meet specific criteria to make environmental, social, and corporate governance claims,<sup>112</sup> the U.S. Securities and Exchange Commission has also proposed more stringent guidelines on corporate climate disclosures<sup>113</sup> that would force public companies to disclose their direct greenhouse gas emissions and have them verified by a third party—which could signal more stringent requirements about forest impact disclosures.

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In summary, P&G leadership has had two years to evaluate the scope of its role in driving deforestation and primary forest degradation and establish timelines and benchmarks for eliminating deforestation, forest degradation, and human rights abuses from its supply chains, as requested by shareholders in the 2020 resolution. Instead of implementing substantive change, however, the company has responded with largely cosmetic measures, relying on greenwashing and the denial of responsibility to obfuscate its impacts on forests, communities, and the climate. As the environmental and social impacts of forest destruction become more pronounced and consumer concerns around sustainability grow, P&G's inertia and lack of transparency around the issues outlined here and in the original resolution will only lead to greater shareholder risk.

**For this reason, as a major P&G shareholder, you are urged to vote against the re-election of current board chair Jon Moeller, as well as longstanding members of the Governance & Public Responsibility Committee, Angela Braly and Patricia Woertz, to P&G's board of directors.**

For more information, please contact Jennifer Skene ([jskene@nrdc.org](mailto:jskene@nrdc.org)) and Ashley Jordan ([ajordan@nrdc.org](mailto:ajordan@nrdc.org)).

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