

# **EUROPEN's Scorecard Evaluation**

**Remarks to**

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**by**

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When those of us in the packaging and packaged goods sectors in Europe first heard the announcement from Wal-Mart about the packaging scorecard we were immediately overcome with a sense of déjà vu. For several years at the beginning of this decade EUROPEN led a strong lobby in Brussels on behalf of industry against a European Parliament proposal for something called a Packaging Environmental Indicator.

In talking about the concept of a packaging scorecard today I first of all want to tell you about our experience in Europe with it which will help you understand what's behind some of EUROPEN's comments about the Wal-Mart approach. In doing so I will identify important differences between these two concepts – differences that I think make them difficult to compare taking into account the legislative, cultural and market differences for packaging and packaged goods between Europe and North America. But before I do that, allow me to introduce you to EUROPEN and also to give you a short primer on the packaging legislative scene in Europe.

## EUROPEN

EUROPEN is a corporate membership industry organization based in Brussels. When we founded the Organization 17 years ago pan-European legislation which would affect packaging and packaged goods was in the EU regulation pipeline (it was called the EEC in those days) and industry was not very well prepared to adequately respond to the various proposals then under discussion.

At that time, just like today, there was no shortage of sectoral packaging organizations but none had the mission of hammering out a common position for industry, hence the idea of forming EUROPEN.

EUROPEN is unique in two ways. Firstly, we are a cross-sectoral organization which brings together representation from the entire packaging supply chain including the competing packaging material sectors.

Secondly, unlike many other industry organizations which have packaging as one item on their agenda, packaging and environment is the only thing on EUROPEN's agenda. We are a very focused organization. Here is a picture of some of the well known brands that we are proud to count among our members. [PowerPoint Slide 2]

## EU LEGISLATION

As for the legislative scene, Europe got its Directive on packaging and packaging waste at the end of 1994 and the EU Member States had until mid-1996 to incorporate the requirements of the Directive into their respective national laws. This is not intended to be a lecture about the Directive's ins and outs, but it's useful to our discussion today to understand a couple of its elements and the reasons behind

them to highlight the difference between packaging requirements in Europe and those in North America.

Contrary to what many people may believe, even though the EU Directive deals with the environmental impact of packaging the reason for it and the legal base under which it was adopted is to do with what is referred to as the European internal market or common market as it was known in those days. At the time it was proposed, Germany had already initiated unilateral action on packaging legislation and the existence of different approaches to regulation from one country to another was identified as causing disruption to the goal of free movement within the common market of packaging and packaged goods.

So the fundamental objective of the Directive is the harmonisation of packaging legislation to ensure the functioning of the internal market and to avoid obstacles to trade and distortions and restrictions of competition within the Community. Reducing the environmental impact of packaging is its parallel objective. [PowerPoint Slide 3]

Two other important and widely misinterpreted elements are that the Directive does not establish a hierarchy of waste recovery options nor does it demand preference for reusable packaging over single use packaging.

A final point to keep in mind about packaging legislation in Europe is that the EU Directive mandates every Member State to make sure a system is set up to collect used packaging, to see that it is properly managed and that targets for recycling and recovery are achieved. Each Member State has taken a slightly different approach to meeting these obligations so in this respect there is no harmonised approach.

### COMPARISON WITH THE US

With that short primer on European legislation in mind let's compare the situation with the US. The fundamental difference is that the influence on how the environmental consequences of packaging are dealt with in Europe is largely driven by regulation whereas in this country it's primarily the market that is driving reaction and change. Understandably therefore the market leader in this case Wal-Mart has, in one fell swoop, succeeded in getting everybody's attention.

Secondly, because there is no federal legislation in the United States specifically targeting packaging and its environmental impact, the concept of harmonisation to avoid trade barriers is not an issue at federal level, but we do sometimes end up with different legislative requirements for packaging in one state than with another - Neighbouring states California and Oregon come to mind. This contrasts with (for example) France where packaging legislation cannot (according to EU regulations) be different from what it is in Belgium or Germany and so on.

Of course, there are exceptions. Market forces in Europe also influence packaging decisions and indeed this is increasingly the case. Also, despite the stated aim of EU legislation to avoid trade barriers by approximating packaging legislation, the reality is that in an EU of now 27 Member States this does not always happen and it's one of the reasons EUROPEAN is kept busy fighting to prevent market distortions and legislation which discriminates against packaging.

## LESSONS LEARNED IN EUROPE AFTER 10 YEARS

We have now had more than ten years of experience with this European approach to packaging and environment legislation and by and large it is working pretty well. Indeed, this was the conclusion of a European Commission report last December on its implementation and impact.

However, the report acknowledged that we still have some way to go in achieving the harmonisation goals I spoke of earlier and problems continue to this day. Nevertheless, the Directive is accepted, the systems are established to collect and manage packaging waste, and the targets for recovery and recycling are being achieved and, in many cases surpassed. [PowerPoint Slide 4]

Even the new Member States that joined in 2005 and 2007 are well on their way to achieving their targets. But, like everything else there is an exception and that is the United Kingdom, where this year packaging waste has been the target of a sustained media and political attack.

## THE UK EXCEPTION

The UK situation has some similarities with the USA. Neither the UK nor the USA have an established nationwide system to collect and manage source-separated household packaging waste although some US states –California comes to mind– are doing very well.

By contrast, in western European countries such as France, Germany, Spain, Austria and Sweden, these types of collection systems were established more than ten years ago and today the management of packaging waste is largely considered as being properly addressed and consequently is of lesser concern to consumers and regulators.

In the UK, as a response to rising consumer consciousness of environment and sustainability issues and (in some cases) fuelled by ill-informed but headline-grabbing popular press campaigns attacking packaging, retailers have responded by placing increasing attention on packaging and its environmental aspects. Many have taken initiatives and pledged undertakings intended to address the issues raised. This is another similarity with the US situation.

## THE PACKAGING SCORECARD IN EUROPE (PEI)

With this background in mind let's return to my opening remarks about the concept of a packaging scorecard and our experience in Europe with such an idea.

Industry and retail stakeholders have long recognised the need – and the desirability – of minimising the environmental impact of packaging as far as possible and in pursuit of this goal have followed a variety of paths. One tool, considered by some as a means to help achieve this goal, is the idea of developing a method to quantify packaging's environmental impact and to express the evaluation in a single number.

The quest for this “holy grail” of packaging and the environment has triggered detailed and expensive research by industry, academic institutions and governments. Foremost among these attempts was a proposal in 2003 from the European Parliament to develop a Packaging Environmental Indicator (PEI). About the same time, a joint government and industry initiative to produce a similar tool for products and packaging was launched in The Netherlands.

EUROPEN led the industry lobby against the PEI characterising it as unnecessary, unclear and impractical. [PowerPoint Slide 5]

Unnecessary, because enforcement of existing regulations would ensure that the political objectives of prevention, minimisation of hazardous substances and recovery of used packaging are addressed.

Unclear, because there is no scientific justification for combining LCA impact categories to derive a single number. It's difficult to compare apples with oranges. This could only be done by allocating an arbitrary, or at best subjective, weighting to each category, and those weightings would undoubtedly be contested.

Impractical, because it would require a comprehensive life cycle inventory of processes and transport involved over the entire life cycle of each type of packaging, a most demanding step in terms of time, data and cost.

Data would have to be collected along the entire supply chain for every type of packaging entering the market. This would be totally disproportionate to any possible environmental benefit. We argued that the alternative, using average data, would lead to meaningless and scientifically unjustifiable results when comparing the PEI's of different packaging options.

As a result of EUROPEN's lobbying efforts it was agreed by the European Commission that work was needed to study the feasibility of the indicator idea and this was ultimately agreed between the European Parliament and the Member States.

Studies of the feasibility of the proposal were subjected to intense scrutiny by various stakeholders but none of them succeeded in producing a reliable and accurate tool for the stated purpose.

After having had its feasibility study carried out this is what the European Commission reported<sup>1</sup>: [PowerPoint Slide 6]

*“Such an indicator is a conceptual tool (...).  
(...) practical constraints make it difficult to use PEI in order to identify single numbers which could be used to justify favouring one type of packaging over another or to inform the consumer.”*

As for work on the Dutch project, this was ultimately abandoned because of the absence of agreement on interim results between the different stakeholders. The Dutch study involved four product/packaging scenarios and, in their report on this work, the institutions which conducted the research stated<sup>2</sup>: [PowerPoint Slide 7]

*“The conclusion is that this particular environmental methodology provides no real perspective for fully integrating environmental policy on packaging and products.”*

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<sup>1</sup> Report from the Commission to the Council and the European Parliament on the Implementation of Directive 94/62/EC on packaging and packaging waste and its Impact on the Environment, as well as on the Functioning of the Internal Market, European Commission, COM(2006) 767 final, 6 December 2006

<sup>2</sup> A new environmental methodology for packaging and its integration with product policy: A preliminary study, CE Delft / KPMG, December 2004 (<http://www.cedelft.nl/eng/index.html>)

These findings provide ample evidence that it is not possible to calibrate the environmental impact of packaging into a single number. Any attempt to do so is destined to produce sub-optimal and disputable results.

Against this European background of a proposal, an evaluation and a rejection of the idea of a single number indicator for packaging I am quite sure you will understand, that the Wal-Mart announcement of its packaging scorecard raised more than a few eyebrows among EUROOPEN members.

#### HAS THE WAL-MART SCORECARD SUCCEEDED?

The immediate question which came to mind was: has Wal-Mart succeeded where the European Parliament failed? We conclude that the answer is no. We reached our conclusion having carefully evaluated the Wal-Mart packaging scorecard including commissioning an independent study to analyse its components and evaluate its measurement criteria against European norms.

Although there are similarities between elements of the Wal-Mart Packaging Scorecard and the concept of Packaging Environmental Indicators I have just described, EUROOPEN members recognise that the two are not the same.

Matt Kistler, a Wal-Mart Senior Vice-President, has pointed out the Packaging Scorecard is but one of thirteen measurement tools it has introduced to evaluate the performance of suppliers to Wal-Mart and Wal-Mart's buyers. Kistler readily acknowledges that the company has not previously looked specifically at packaging but points out that under the Scorecard scheme that has changed.

Wal-Mart considers its Packaging Scorecard as one of its "business management tools" and EUROOPEN accepts that as such it can perform a valuable function. But we caution that it should not be considered as an environmental evaluation tool for packaging, principally because the aggregated result it produces cannot be scientifically validated.

Wal-Mart has readily and frequently stated that it recognises the Scorecard's limitations, that there are flaws in the data and logic on which it is based and that it should not be allowed to become a *de facto* packaging environmental standard. EUROOPEN fully agrees and we urge all stakeholders to carefully note this distinction.

The analysis of the Scorecard that EUROOPEN commissioned revealed ample evidence to support this appraisal. [PowerPoint Slide 8]

To illustrate, here are some of our observations:

- The greenhouse gas measurement in the Scorecard excludes all life cycle steps except material manufacturing. This is not consistent with the CEN European standard for LCA of packaging and leads to a substantial underestimation of life cycle CO<sub>2</sub> emissions. Additionally, the effect of recycled content on CO<sub>2</sub> emissions is not fed back to the greenhouse gas indicator;
- The evaluation of packaging material lacks environmental relevance as it will combine occupational health data with environmental impacts emanating from LCA into one single indicator. This indicator again excludes all life cycle steps except material manufacturing;

- Data requested on distances to transport packaging materials appears inappropriate due to its exclusion of transport distances of finished goods. Although Wal-Mart has stated that distribution of packaged product is taken account of in a separate product scorecard, the present measurement would, for example, offer no credit for moulding packaging at the point it is filled with the product;
- The product-to-packaging ratio component tends to discourage product concentration and the production of smaller portions which conflicts with current market trends in food and beverage to reduce portion sizes as an obesity reduction measure;
- The recycled content parameter contains default data inconsistent with current practices within food contact materials with respect to food safety issues. The absence of a possibility to modify recycled content does not encourage the use of higher amounts of recycled material when possible. The absence of a feedback method into the CO2 indicator makes recycled content appear to be an environmental good in itself. It is well known that environmental impacts of recycled content material can be higher in some cases than virgin material due to environmental impacts incurred in the recycling process and recycling-induced property losses requiring compensation through increased material use;
- The recovery value of packaging excludes primary packaging taken home by the consumer and focuses only on packaging which remains in the custody of Wal-Mart. No credit is given for energy recovery and the incremental scores used do not reflect the official recovery rates of the US market, and are also substantially lower than common European practice;
- The use of renewable energy as a criterion in the Scorecard causes concern to EUROPEN members as it does not give credit for energy efficiency which, in the present circumstances, would appear to be a higher priority. Additionally, this criterion may be open to potential abuse since electrical energy is normally delivered through a national grid system and there would be little difficulty in obtaining certification from the supplier that the energy purchased by a specific customer was from renewable sources. However, in a grid system where renewable sources accounts for only a percentage of the total, the reality may not hold up.

Some additional concerns emerging from EUROPEN's analysis of Wal-Mart's Packaging Scorecard are that it is unclear how it will drive the stated 5% packaging reduction target.

Completing the Scorecard and gathering necessary data will pose a massive challenge to companies in the supply chain given the diversity of sourcing in today's economy.

Finally, EUROPEN members, particularly brand owners, are concerned that the ratings their products may ultimately receive according to the Wal-Mart Scorecard may be at variance with ratings they have presently attained in indicators such as the Dow Jones Sustainability Index, etc. Ultimately, confusing and less meaningful results may emerge from the process.

## CONCLUSIONS

So, based on our experience in Europe with the Packaging Environmental Indicator, and our evaluation of the Wal-Mart Packaging Scorecard what does EUROPEN

conclude on the topic? Well, as already stated the Wal-Mart Packaging Scorecard is not a packaging environmental indicator as envisaged in Europe. [PowerPoint Slide 9]

Secondly, everyone agrees – including Wal-Mart – that it should be seen as work in progress with plenty of scope for continued improvements. A group of dedicated people are working with Wal-Mart on doing just that and EUROPEN members encourage and support their initiative.

Bottom line, we believe the Wal-Mart Scorecard should be regarded as a bold first step. It has certainly succeeded in focusing the minds of packaging and packaged goods companies in North America more closely on the environmental impact of their packaging just as the regulatory framework we live with in Europe has been doing so on our side of the Atlantic for years.

Earlier I spoke about the inherent dangers of a move towards conflicting or disharmonised legislation and I suggested we must similarly recognise the same possibility or even greater risks deriving from market driven initiatives rather than regulatory forces.

Therefore, EUROPEN believes that we should all avoid the risk of the Wal-Mart Packaging Scorecard becoming a de facto industry standard. Not only could such an eventuality disrupt the market but even worse, it risks evolving in such a way as to become an inhibitor of innovation rather than a stimulator. Just getting a high score for your packaging with Wal-Mart should not be a reason to rest on your laurels. In our dynamic industry this is clearly something we do not want.

This places a high level of responsibility on all of us in the supply chain – particularly the retail sector – to avoid setting conflicting environmental goals for packaging. The best way we can do this is by working together and talking to each other early on.

On the topic of standards for the environmental performance of packaging many of you will be aware that a suite of standards have been developed in Europe by the European Standards Institute known as CEN. These packaging standards are not something rushed out in a matter of months in a knee jerk reaction to the latest buzz word in vogue like “sustainability”.

They were produced by a team of packaging professionals over many years’ deliberation and are designed to establish a framework for the continuous environmental improvement of packaging through a process of repeated re-evaluations as circumstances and technology changes and develops.

The CEN packaging standards are easily adaptable into any company’s internal management system. If you are doing business in Europe or producing packaging for European market entry then use of the standards guarantees that your packaging will be legally accepted as being in compliance with the Essential Requirements of the EU Packaging and Packaging Waste Directive.

Having urged that we should not let the Wal-Mart Scorecard become a de facto standard I would like to conclude with a couple of observations about industry standards in general and environmental standards in particular.

These days, more and more people are suggesting that in the environmental sphere Europe has taken a global leadership role in setting standards and initiating programmes. This contrasts with the situation in the 1970s and 80s when the United States led in setting many global product standards for consumers and for environmental protection. Indeed, in an article published late last year in the respected journal *Environment*, two policy analysts from Brown University and Boston University reported how the European Union is adopting some of the world's strictest policies on the environment. They concluded that since most companies operate in multiple markets (and prefer to produce their products to as few different standards as possible) they generally follow the highest regulatory standard instead of trying to cope with different standards for different markets.

Some examples, besides packaging, of how this trend is developing include the EU Waste Electrical and Electronic Equipment Directive (WEEE ), the End of Life Vehicles Directive (ELV ) and of course the most recent and controversial of all environmental standards, the REACH legislation (Registration, Evaluation, Authorisation and Restriction of Chemicals). Products and packaging made in China and other Asian countries for example, destined for Europe, must be in compliance with these various Directives and standards so why not make all the packaging and the products in line with them?

Even related to climate change, the European Union Emissions Trading Scheme (ETS) has been the subject of much study and investigation from other parts of the world which probably explains what Arnold Schwarzenegger was doing in Brussels earlier this year, a visit that was quickly followed by a delegation of California state officials to learn more about how the trading scheme works.

These trends and developments I have spoken about today inevitably raise a question I am often asked by colleagues in North America: should we expect that EU packaging legislation will emerge as a requirement on this side of the Atlantic? The short answer to that question is no and I for one am happy about that.

The federal structure in the United States and the independence of each state in my opinion, precludes this possibility. Likewise, it seems unlikely that Canada could pass federal legislation such as we have in Europe even though there is much closer cooperation between provincial environment ministers in that country.

So, having said I don't expect EU style packaging legislation to materialise here that leaves the door open in North America to market forces remaining the most powerful influence on packaging for our products today and in the future. The evolution of the Wal-Mart Packaging Scorecard epitomises that process so it behoves us all to work with it, to avoid it becoming a de facto industry standard and to learn to live with it.