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Towards a Circular Economy in a Post-Covid World

Emmanuel Faber, Chairman & CEO, Danone

Dame Ellen MacArthur, Founder, The Ellen MacArthur Foundation

Moderator: Peter Freedman, The Consumer Goods Forum

Peter began the session by welcoming CGF members who joined the seventh webinar in the Virtual Knowledge Series. He reminded the audience that the Series is focusing on what it takes to be a leader in the industry, in times of Covid-19. To do that, he said, we are tapping the collective wisdom of Chief Executives in the industry and global experts on some of the CGF's key agenda topics. Today, we have one of each, he said.

Given the current Covid-19 environment, Peter said, some people say it is a fantastic opportunity to reset and there are signs of people moving in that direction; however, we are currently in what will probably turn out to be, the worst economic recession since the early 1930s, and in that context, there is a high risk that sustainability becomes a luxury that not everyone can afford. Peter then led into a series of questions.

1. How is Danone handling this situation and are you changing your sustainability strategy?

Emmanuel started by thanking Ellen for taking the time to speak to CGF members. Indeed, he said, it is very likely the economic crisis will reshape government and business' short-term agendas. Rather than a change in strategy, Danone has accelerated some of their long-term goals from 2030 to 2025, with circularity being one of them. For example, we are targeting to achieve zero polystyrene in packaging by 2025. There are some changes in strategy, he acknowledged, as recycling units are working under constraints and they cannot produce the volumes that are needed. The fact that Danone's transformation has been accelerated, is a way to capture the complexity of the world and how businesses should deal with all stakeholders, including nature, in a fair and transparent manner.

We cannot rely on GDP growth anymore, he said. There is a 98% correlation between GDP, oil production and CO2 emissions, so the way we respond to the social crisis will need to be adapted and not focus on GDP growth.

2. Peter then turned to Ellen and asked, given the economic pressures as a consequence of the crisis, what do you think the industry should be doing to help sustain the momentum that might have been built by COVID-19?

Ellen said that as the wave of COVID-19 swept across the world, there wasn't anyone questioning what the implications would be and as a Foundation that works with businesses, governments, individuals and educators across the world, they were surprised that the goals they had set before COVID-19 and the programmes they put in place, were actually being held on to, rather than being pushed under the carpet. At



the Foundation, we believe that circular economy is the way forward and that it is a much better solution for people, which is one of the main drivers. But many of the organisations they work with show there is significant momentum in building back better. COVID-19 has amplified the existing problems and has accelerated solutions. It is almost like the world has fast-forwarded three months, she said. Alongside the unimaginable crisis, it has provided an opportunity to see how quickly people can adapt and change, and that there are many solutions already in place that need to be integrated to build back faster.

3. For some Chief Executives, circular economy can be scary, Peter said. What are the practical things a novice CEO in the industry of consumer goods can do to follow a circular economy?

Ellen said that the first step is to understand what circular economy looks like, and most importantly, how it can be applied to a business. A company should ask themselves some questions: can they provide the same product in a different form of packaging, or no packaging at all? What happens to the product once it has been consumed? How can you get that service to consumers? It is not about buying things, she said, but it is about having access to what consumers need. Ultimately, consumer goods are a service and people need access to them. As a Chief Executive, who since the Industrial Revolution has been predominantly pushed to sell things, and the more you sell, the bigger the business is, the question now is, how can they provide that in a different way? Understanding the three basic principles of circular economy is key.

The global health crisis has allowed for a massive social study, where people have had to think about what their values are. Hence, a Chief Executive must think about how they can get what they produce to the people, which gives them a better solution and at the same time builds a system that works in the long term. Think about service, rather than just about the product.

4. Peter then asked Emmanuel, what is the most profitable innovation that fits a circular economy in Danone?

Prior to answering the question, Emanuel tied into what Ellen had said. Thinking about services as opposed to products, he said, is the start of the realisation. It is more about what we can deliver, in terms of usefulness, and reducing the amount of material that is brought into the system. If you had asked me what the tip for the novice CEO, he said to Peter, one thing Danone did five years ago is change to an organisation that works in cycles, including carbon cycle, milk cycle and water cycle. By doing this, he said, Danone decided to publish their post carbon earnings per share in 2019 (including agriculture), showing that if we were to count for carbon in the entire cycle, if we were able to put carbon back into the soil, their results would be half of what they are today. Emmanuel said he is sharing this tip with CEOs because changing organisations is a decision that only CEOs can make.

Emmanuel then showed the audience the water bottle he had and said that in Indonesia, they started to organise the recycling of their bottles, where they hold 50% of the market share with their brand AQUA, which is the largest water brand. The recycling rate is 63%, which is higher than in France. The problem is that what is not recycled, ends up everywhere. And that is why we have partnered with EMF, he said. The Board of Directors of The Consumers Goods Forum issued a statement two years ago in Bali calling for the consumer goods industry to play a leading role in eliminating plastic waste on land and sea and endorsing the Ellen MacArthur Foundation's New Plastics Economy vision.



Ten years ago, Danone started to formalise the economy of collecting PET bottles in the landfills, and by doing this, we were able to organise our own recycling units and secure the material needed for recycled bottles in Indonesia at a 20% discount compared to current market price, so this, he said, represents a profitable investment.

5. Peter then asked about the partnership between Danone and the Ellen MacArthur Foundation and asked Ellen, how do you, as an NGO, benefit from a partnership with Danone?

Ellen said that the Foundation's 'modus operandi' is to work with businesses. They try and work out what the future could look like with a circular economy, and then they have an open dialogue with businesses, organisations, governments, and others to understand the changes that have to happen now to envisage that future. It is a journey and it starts with a vision, she said. In plastics, for example, during the World Economic Forum, they tried to look at the statistics around plastic packaging and were unable to find one organisation in the world who had a handle on what the statistics are. Many businesses want to fix the problem but cannot tackle the issue on their own. By having an open dialogue, not just with companies but with governments, as policy is a player in this, they work out what success looks like and then are able to set targets and set global commitments. Ellen highlighted Danone as a key player, alongside 800 organisations that have signed up to the 2025 commitments, which represents over 20% of the global plastic packaging economy.

6. Peter highlighted Ellen talking about the importance of collaboration between businesses, which is a passionate focus of the CGF. But is it also a one-to-one relationship between EMF and Danone?

Absolutely, she said. When we started our dialogue with Danone, Ellen said, it was very clear that the roots of the business were systemic in nature. The way Danone approached some of the challenges, breaking down some of the linear barriers and their willpower mirrored the way the Foundation looks at the system.

7. Peter then turned to Emmanuel and asked, what does Danone get from the relationship with Ellen MacArthur Foundation?

Emmanuel said Ellen and her team have a very direct way of addressing challenges with clear facts. It is great to have the support of an organisation that is devoted to changing the way the whole business works, he said, allowing Danone to have a realisation that they are here for change and the Foundation is going to help them get there. Working with them has allowed us to speed our learning curve on circular economy, he said, using the same language and based on the Foundation's standards. On consumer activation, one of the next chapters in the partnership going forward, is to achieve 100% circularity with Evian by 2025, where Ellen MacArthur Foundation's knowledge was used. We are working towards the same agenda from a different perspective, he said.

8. Peter then got a question from the audience: how do you measure circularity in Danone? And do you put KPIs as part of the bonus system?

Emmanuel said that all 15,000 people managing teams at Danone have sustainability KPIs in their bonus. Personally, he said, he is being compensated on CO2 reduction.



Sustainability KPIs are an essential part of compensation at Danone, and he then made a reference to the question about practical advice for a novice CEO to follow a circular economy, to include sustainability KPIs in compensation packages.

At Danone, circularity on packaging is measured by the total amount that is recycled, and by measuring the targets they set, like for example, achieving zero polystyrene worldwide by 2025. The carbon footprint in Danone declined in 2019, and they committed to continue doing so until achieving carbon neutrality at some point in time. And finally, as Danone is going to be transformed into a Public Benefit Corporation (French legal status), the circular economy will be embedded into the DNA of the company, he said.

Ellen then commented on measuring the circular economy. Last year, they launched [Circulytics](#), a measurement tool for an organisation to see how circular they are and to support them in the transition towards the circular economy. The tool reveals the extent to which a company has achieved circularity across its operations. If we are to be incentivised through investors who wish to invest in a circular company, she said, how do they know where a company sits on the scale? The ability of knowing where a company stands from linear to circular is vital, because the finance industry can work with businesses to make the acceleration happen faster.

9. Peter asked Ellen whether she sees the investor mindset changing post-COVID?

Before Covid was in our minds, we were having many conversations with investors around circularity and how to make it happen, she said. Understanding what needs to be in place for investors to find companies that have the circular goal and to see where they are, is vital. For example, Intesa Sanpaolo, the Italian Bank and one of the Foundation's global partners, they are very interested in the circular economy and it shows the different levels of conversation they are having around investment and the increasing appetite in the world to help build a resilient economy. If you want to put your money somewhere in the new future we want, she said, help is needed to bring the financial capital into the spaces that can really benefit from it.

Emmanuel then echoed Ellen's comments, from his perspective. Before COVID hit, 2019 was the first year where Danone really saw plastic and circularity under the pressure of civil society, to the point where they considered adding the post-carbon financial results for Danone last year. They have also had a number of conversations with companies like BlackRock, to show and to share the fact that things are moving. There are cracks in the system, and we should really make sure that we don't change course, he stressed.

10. Peter then moved on to the CGF Coalition of Action that now focuses on plastics and the Ellen MacArthur Foundation has been hugely supportive in helping CGF members adopt the vision of the new plastics economy, but equally COVID-19 presents some challenges in accelerating the agenda.

Peter presented two challenges to Emmanuel, from questions received from the audience. Firstly, on post-consumer resin and the relative cost, and the challenges of finding enough of it to be able to use it in products they want to be made fully recyclable. And secondly, how to deal with the challenge of the marketers who like fancy packaging with bright colours, which happen to be difficult to recycle?

Emmanuel said, unfortunately, there will be structurally more plastic in the world with COVID-19, than there would have been pre-COVID. During lockdown, there was no way to find enough resin, he said. The recovery



period will take some months or years, but the important thing is not to derail from something that takes years to happen because of cracks in the system.

Going back to the question of colourful packaging, some of the post-COVID lessons are that assortments are going to be shortened during this period because businesses can't cope with the complexity of having too many. Other than the very short-term management of businesses during the lockdown period, nothing would justify change in the course of action. My feeling is that the topic of sustainability has increased, he said.

11. Peter then asked Ellen, what can the industry do to accelerate the shift to recycling systems and, a question from the audience, who should pay for it?

Ellen commented on the fact that Covid-19 has exposed a lot of problems with the system and as Emmanuel said, we can see how quickly acceleration can happen and be taken up within the global economy. When it comes to the complexity and how you increase that recycled content, you make your products out of something that is recyclable, she said. That shift towards building a system is truly important, as is the communications. Going back to the previous question about marketeers, it's not just about complexity and simplifying but also about looking at the options and designing for a system. A company cannot do this on their own, but the system must sit behind it to enable that material to be recycled. This is where it's important for business and governments to have a dialogue. COVID-19 has strengthened the dialogue between them and, as incentives come to help recover the economy, this will help build an economy that is resilient and regenerative, and less 'disposable'.

12. Going back to the point of recycling systems infrastructure, the numbers show how phenomenally expensive it is to establish a system, particularly in a developing country. How should these systems be built and who should pay for them?

Ellen went on to say it is broadly accepted that we cannot continue as we are. Looking at the New Plastics Economy and the report they released in January 2016, numbers are huge, 32% of 78 million tons of plastic ends up in the environment and ultimately, in the oceans (this does not include microbeads, and microplastics, etc). There is a cost to shifting the system, particularly in plastic packaging, it's a hard one financially but there are two sides to every story. The consumer, or people as they are referred to in the Foundation, don't want plastic that's not recyclable, they want a different solution and companies don't want to pollute the oceans. It's not built for a restorative regenerative system. There is need for a shift and we have to look at how we create the incentives to increase the supply of recycled plastic. COVID has been unprecedented but has shown us how quickly change can happen, she said.

Emmanuel then provided a concrete example of what is happening in France, where the recycling rate for plastic bottles is 56%, but in the bigger cities like Paris and Marseille it is less than 20%. It is clear where the problems are. There is currently a debate about establishing a Direct Return Scheme (DRS), which is the only way that France can secure its commitment to Europe to establish more than 90% recycling rate in the next five years. Six countries in Europe have moved from 30%-40% to more than 90% by adopting DRS.

With regards to the question on who pays, in France, a country with two thousand billion in GDP in which the recycling industry accounts for more than 15 billion euros of sales, Emmanuel said Danone will contribute a significant amount of money, estimated around an additional 25 million euros. The numbers are known, and they are achievable.



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13. Before we close, Peter said, how has COVID-changed your leadership style?

Emmanuel said that it has been an incredibly fast-track learning experience. He realised he is co-dependent on the eight billion human beings on the planet. COVID has been a huge call for looking back and reflecting how we can use 'life' as an ally, rather than as a simple resource. This has been my personal journey that will surely drive my leadership in the coming months, he said.

COVID has made people stop and reflect, Ellen said. Something, which arrived from nowhere and pushed us all apart, has brought us all together. Internal and external conversations have been richer as a result. COVID has been hard for everyone in different ways. We become much more tolerant of each other, my respect for others could not be higher after what we've gone through. I am absolutely amazed how the team at the Foundation has got on with everything and the transition from the outside has seemed seamless. Faced with adversity, people can be heroes. As a leader it gives me great hope, she said.