CSR/ESG SECTOR GUIDANCE – PLASTIC PACKAGING

PURPOSE

The purpose of the sector-specific CSR/ESG guidance for plastic packaging is to

- Highlight key elements of our sector strategy
- Describe important environmental, social and governance risks in the sector segments
- Highlight DNB’s commitment to encourage our customers to work for continuous improvement of environmental, health and safety management and best practice in the industry
- Document the sector specific thresholds we have imposed for escalated credit decisions.
- Document sector specific thresholds where an enhanced CSR/ESG risk assessment is required.

Plastic is an important material in our economy. No other material has ever had the versatility, durability and high strength to weight ratio saving key resources such as energy at such a low cost. The combination of flexibility, strength, lightness, stability, and ease of sterilization make plastics an ideal material increasingly replacing other packaging material. For food packaging, plastics has proven to be a critical solution to tackle food waste, by preventing spoilage and ensure safe food supply of good quality that alternatives such as metals, glass or fiber based packaging cannot provide. Life cycle studies demonstrate that lightweight plastic packaging typically uses less material than alternatives, which results in less packaging waste.

Plastic is normally made from fossil resources such as oil and gas. The chemical structure defines the characteristics of the different types of plastics and the degree of recyclability varies between the different types of plastics. Plastic can also be produced from organic raw materials; still a small share of total plastic packaging is “Bioplastics”; plastic types that are bio-based, biodegradable or both. A bio-based plastic product is wholly or partly derived from biomass resources (e.g. corn, sugar cane etc). A biodegradable plastic product means that it can be decomposed by the action of living organisms, usually bacteria.

Alternatives to plastic are fiber-based packaging products, glass or metals. Some companies produce hybrid solutions using carton packaging for liquid foods from recyclable paperboard, aluminium foil (to keep temperature stable longer) and polyethylene as liquid barrier (plastics). In addition, a plastic cap is often included increase preservation of the packaged content.

Plastic packaging waste is landfilled, incinerated or left in the environment unless it is recycled. Roughly one third of global plastic production is non-recyclable (for example cups, plates or plastic straws) and may sometimes only be used for seconds before it is waste. This type of plastic packing is often termed single-use-packaging. We can categorize the main challenges of plastics and handling of plastic waste into four main topics:

1) Leakage of plastic waste on land and sea
2) Toxic additives
3) Carbon emissions
4) Varying degree of recyclability of different plastic types

INDUSTRY TRENDS & DEVELOPMENT – INCREASED AWARENESS THAT HAS CREATED ACTIONS
1. Environmental organizations and their impact

Waste pollution and plastics have been on the agenda for environmental organizations for many years. More recently, these groups have started to become supportive to the idea that circular thinking is the most environmental friendly approach to tackle the problem of increased consumption of plastics.

2. Reputational and potential business risk cause large companies to take action

Producers of plastic bags see that demand is decreasing causing a new type of business risk. These companies prepare themselves to adjust their cost base if further decline in demand is experienced. We see an increasing number of packaging corporations committed to work towards 100 per cent biodegradable and recyclable plastics within a defined time. In Norway, most grocery chains have committed to reduce the use of plastics going forward.

3. Governments across the world increasingly commit to reduce waste and single-use plastics

While policies to reduce microbeads\(^1\) were passed in 2014, interventions for plastic bags began much earlier in 1991. Today, about 30 countries have either passed a ban (or proclaimed their intention to do so) on plastic bags. In addition, tax on plastic shopping bags has been introduced, to incentivise reduced demand. France will ban all plastic plates, cups and utensils from 2020. In January 2018, China introduced a ban on imports of household waste plastics. Because collecting and processing waste is costly, many countries have exported their waste problems. According to Greenpeace, up to 56% of global exported plastic waste ended up in China in 2012, amounting to 9 million tonnes. The Chinese import ban may lead other countries to increase their waste imports and/or exporters to start processing their waste locally. EU has been in the forefront on sustainability for plastics, and in January 2018 the white paper “A European Strategy for Plastics in a Circular Economy” was launched as part of the action plan on circular economy. The ambitious goal of the strategy is that all plastic packaging should be recyclable within 2030 and more than half of plastics waste generated in Europe should be recycled. At the core of strategy lies the notion that the challenge with plastics does not necessarily imply a costly transition. Rather, it should be viewed as an opportunity that can be realised through a circular economy, creating new jobs, development and growth. The EU may position itself in the forefront of technological expertise which may be exported to other continents.

DNB EXPECTATIONS

DNB expects our customers to comply with applicable laws and regulations of their country of origin as well as with applicable laws and regulations of countries where they operate. Customers shall also act in accordance with relevant ethical norms, international principles and guidelines established by organisations, such as the United Nations and the Organisation for Economic Co-operation and Development. We also expect our customers to be aware of and plan for changing consumer behaviour, community expectations and future regulatory requirements.

DNB SECTOR COMMITMENT

While plastics have many favourable characteristics, plastics also have a large negative global environmental impact mainly through waste left in nature. DNB will therefore be careful when financing

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\(^1\) Microbeads are manufactured solid plastic particles of less than one millimeter in their largest dimension.
companies involved in plastic packaging production. When analysing the CR and credit risk on plastic packaging clients we will pay high attention to:

- CR policy and strategy for more environmentally friendly solutions
- Recyclability of products produced
- Circular economy and effective waste handling systems
- Usage of recycled material in production
- Innovation capabilities to meet a greener future

**DNB sector related exclusions**

In addition to excluded activities documented in DNBs Corporate Banking Credit Manual, chapter 12.1.2.2

DNB will not finance:

New packaging clients where a significant part (ref thresholds) the products are not recyclable, and/or where there are good environmentally friendly substitutes. As of today the following areas have been identified where there exist good environmentally friendly substitutes;

- Grocery bags made from plastics, single use plastic cutlery and cotton swabs
- Plastics packaging used for non-liquids and/or where there are no contamination concerns using other packaging materials (electronics, toys, sporting goods etc.)

**Enhanced ESG/CSR Assessment**

Enhanced CR assessment and escalated credit decision should be performed on the following clients:

<table>
<thead>
<tr>
<th>Activity</th>
<th>Threshold</th>
<th>Escalation to deviate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Existing clients that produces plastics where there exist environmentally friendly substitutes</td>
<td>Income &gt; 50 %</td>
<td>level 1</td>
</tr>
<tr>
<td>Existing clients where products are not recyclable</td>
<td>Income &gt; 50 %</td>
<td>level 1</td>
</tr>
<tr>
<td>New clients that produces plastics where there exist environmentally friendly substitutes</td>
<td>Income &gt; 30 %</td>
<td>level 1</td>
</tr>
<tr>
<td>New clients where products are not recyclable</td>
<td>Income &gt; 30 %</td>
<td>level 1</td>
</tr>
<tr>
<td>Client has been targeted by Governmental agencies or NGOs for excessive pollution</td>
<td>n.a.</td>
<td>level 1</td>
</tr>
</tbody>
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