

Learning About **ESG**

The plastic waste challenge

Learning About ESG is an educational series that connects **environmental, social and governance** topics with investing.

Join us each issue to see how global developments can have implications for investors. The better we understand ESG, the bigger the role it can play in our everyday lives – and investment portfolios – contributing to a better world.

Key takeaways

- ◆ Plastic is a ubiquitous part of our modern lives. It also forms as a top global waste problem, polluting our waters and impacting wildlife. **The month of July sees millions of global citizens taking the challenge to reduce plastic waste.**
- ◆ There are **a range of solutions today** that can support plastic waste reduction. However, investors should carefully **understand the problem being addressed and the wider consequences** in considering which companies or sectors are appropriate for investment.
- ◆ Global citizens can **contribute to and profit from the shift to lowering plastic demand**. From reducing plastic use and waste, to **investing in companies or other funds relevant to the circular economy**, we could all play a part in the ecosystem no matter how big or small.

What do plastics and July have in common?

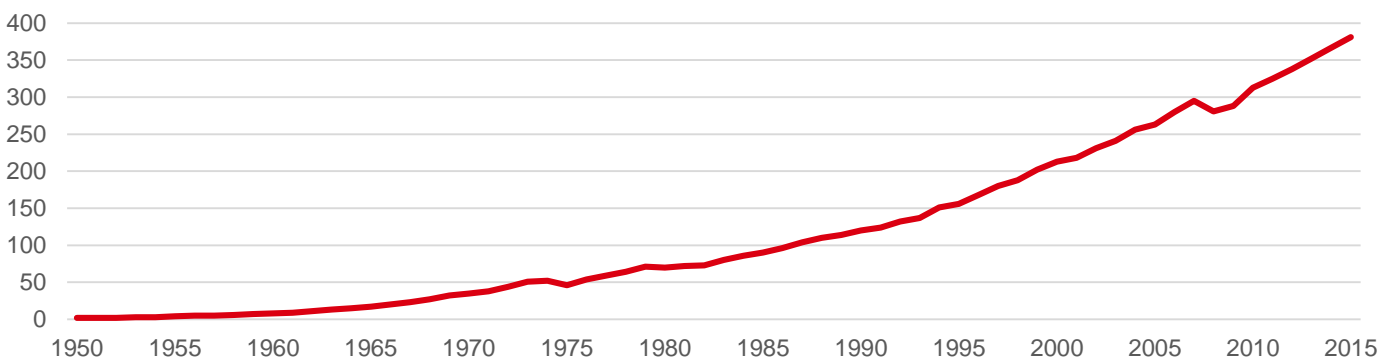
Plastic is a ubiquitous part of our modern lives. It is convenient and low-cost to produce, but also forms as **a top global waste problem, polluting our waters and impacting wildlife**. The material does not fully biodegrade, only to break down into smaller particles called micro plastics. Against this backdrop, July marks **the annual “Plastic Free July®” month**, joining up hundreds of millions of global citizens to **take the challenge of reducing plastic waste, one piece at a time**¹.

Plastic is lightweight, flexible, durable and has low-cost properties, thereby granting itself a vast range of use since popularised a century

ago – so much so that **the annual global plastic production have exceeded 350 million tonnes**².

Figure 1: Global plastics production

Million tonnes per year



Source: Our World in Data

Up to 14 million tonnes of plastic waste enter our oceans every year³, damaging marine ecosystems and entering food chains as micro plastics. **By 2050, our oceans are expected to contain more plastic by weight than fish**⁴. Plastics are produced from crude oil, a carbon emitting fossil fuel with impact on the climate.

But our collective awareness is growing, thanks to documentaries, grassroots campaigns and zero-waste challenges in recent years targeting plastic waste. Movements such as “Plastic Free July®” also motivate **consumers and businesses to reduce everyday plastic use**.

Governmental policies – such as plastic bag levies in the UK, EU and Hong Kong, plastic bag bans in the US and China’s ban of imported plastic waste from other countries – point to increasing commitment to tackle the challenges. Start-ups and corporations also play a crucial

role in **developing innovative solutions**, while financial institutions and investors provide the **funding through to full commercialisation**.

The plastic problem is arguably **a key hurdle to successfully achieving the UN Sustainable Development Goals (SDGs)**. In particular, #12 – Responsible Consumption and Production, #13 – Climate Action and #14 – Life Below Water are relevant and closely intertwined.

Covid-19 has hampered plastic reduction due to the surge in personal protective equipment, notably for functionality and hygiene. As such, governments, civil societies, businesses and financial institutions may want to rethink production, consumption and management of plastic. To meaningfully tackle this problem would **require a transition from a linear economy (make, use, dispose) to a circular economy model** (keeping materials in use and regenerating natural systems).

1. <https://www.plasticfreejuly.org>

2. <https://www.iucn.org/resources/issues-briefs/marine-plastics>

3. <https://www.condorferries.co.uk/plastic-in-the-ocean-statistics>

4. “The New Plastics Economy: Rethinking the future of plastics”, World Economic Forum, January 2016

What are some plastic reduction solutions that investors may come across?

There are a range of solutions today provided by companies to support plastic waste reduction. However, investors should carefully understand the problem being addressed and the wider consequences (if any), as part of considering which companies or sectors are appropriate for investment.

Making plastics recyclable or plastics from plant materials are widely seen as two 'solutions' in reducing virgin plastic production. However, both methods **can risk keeping plastic in our ecosystem for longer and hold negative impact** if ultimately not recycled.

Compostable plastics that can decay and turn into fertiliser has also been seen as an alternative to traditional plastic. However, **success would rely on consumer access to compost bins** (in the absence of which, the plastic will nonetheless end up in landfills). As waste landfills restrict the natural decomposition of products, **compostable plastics could in turn cause continued landfill growth as plastics will not be able to decompose on its own**. Some supermarket chains in the UK and Europe have strongly opposed compostable plastic packaging for similar reasons.

Perhaps **a more compelling solution exists within industries linked to plastic packaging**, such as consumer food brands and delivery, where leading brands are taking much greater responsibility for plastic packaging risks.

Some brands have trialed in reducing product sizes, such as developing a more concentrated washing liquid where less product usage is required. This also saves storage space in consumer homes and reduces plastic demand.

Other companies have **capitalised on shifting to alternative business models**. For example, soap can be sold directly to consumers in a refillable vessel, where empty vessels are returned after use. It is then professionally cleaned and refilled again for another customer.

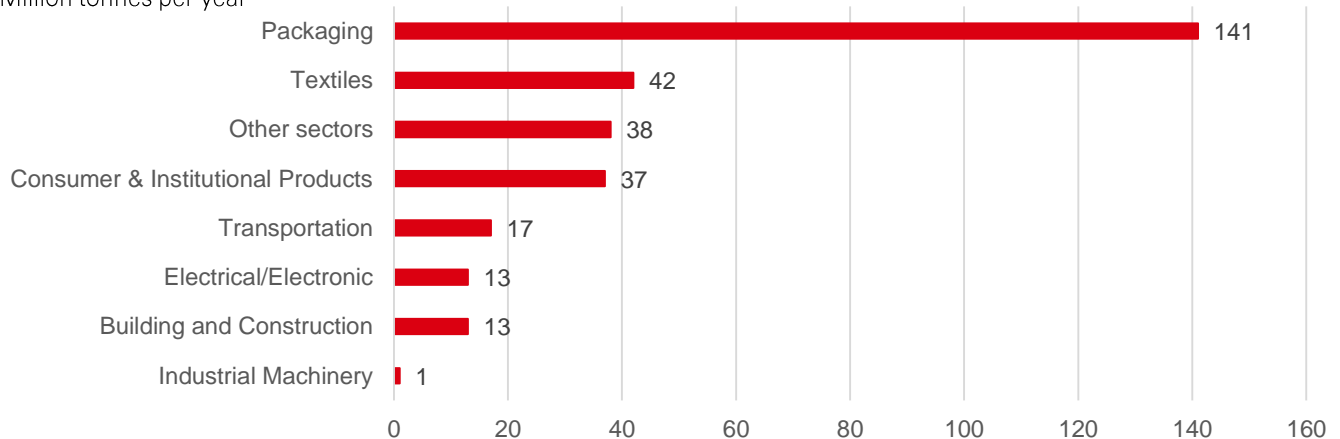
The closed loop system described here means that no single-use plastic is used.

The product is delivered to the customer in higher quality packaging, and the customer reduces plastic waste output as a result.

Professional cleaning services, logistics players, and technology companies that facilitate efficiency in direct to consumer sales **could also be worthy for investors to explore**, as they have lower capital expenditure needs than traditional plastic recyclers and bioplastic producers.

Figure 2: Plastic waste generation by industrial sector (2015)

Million tonnes per year



Source: Our World in Data

How can investors take action and contribute?



Global citizens can contribute to and profit from the shift to lowering plastic demand in a variety of ways. **From reducing plastic use and waste, to investing in companies or other funds relevant to the circular economy**, we could all play a part in the ecosystem no matter how big or small.

Relevant to plastic waste reduction, investors can consider a **fund investing in companies or sectors that benefit from, or contribute to the circular economy**. Alternatively, there are **Exchange-Traded Funds that invest in a range of resource efficiency themes**, such as reducing plastic use as a way to gain exposure to the issue in a lower risk approach.

The key to these types of investments, however, is **to understand the investment process behind these funds**. For example, some of the more diversified circular economy funds can include stocks that **may not be immediately**

apparent as contributors to a more circular economy. This can be due to an overreliance on attractive ESG scores, without sufficient analysis into the company's long-term contribution towards a truly circular economy.

Investors who have more risk appetite may wish to put capital into **individual companies that they believe are offering effective technologies and solutions to plastic challenges**. This also means for investors to ride through the natural volatility of individual share prices, as well as staying close to news and developments on the company.

Glossary

Circular economy: an alternative approach to a traditional linear economy (make, use, dispose); developed with principles to design out waste and pollution, keeping products and materials in use, and regenerating natural systems

Circular economy fund: a fund investing in companies or sectors that benefit from, or contribute to, different stages of the circular economy

Compostable plastic: plastic designed to decay and turn into organic matter as fertilizer when processed in an industrial or residential compost bin

Plastic pollution: the accumulation of related objects (e.g. plastic bottles, bags and microbeads) in the environment that impacts wildlife, habitat, and humans⁵; it is estimated that up to 14 million tonnes of plastic waste is estimated to pollute our oceans every year

Single-use plastics: plastic objects designed to be disposed of right after use, e.g. packaging and serviceware, such as bottles, wrappers, straws, and bags⁶

UN Sustainable Development Goals (SDGs): the 17 SDGs were adopted by all UN Member States to end poverty and other deprivations, improve health and education, reduce inequality, generate economic growth – while tackling climate change by 2030⁷

5. https://en.wikipedia.org/wiki/Plastic_pollution
 6. <https://www.nrdc.org/stories/single-use-plastics-101>
 7. <https://sdgs.un.org/goals>

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