

APRIL 2005

# **KIMBERLY-CLARK:** **INVESTING IN FOREST DESTRUCTION**

**A Report on the  
World's Largest Manufacturer of Tissue Products,  
Green Consumerism  
and Socially Responsible Investment**



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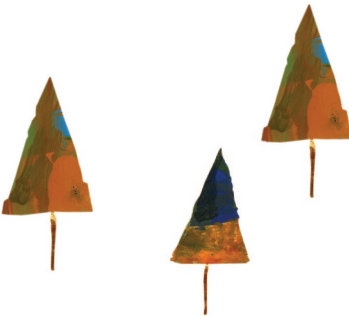
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## Executive Summary

Kimberly-Clark Corporation, the world's largest tissue product manufacturer, prides itself on its environmental commitments. Yet the company famous for its Kleenex brand tissue products is the focal point of continued controversy over its purchase of pulp from unsustainably logged ancient Boreal forests. This criticism comes at a time when environmental criteria are increasingly playing a key role in purchasing and investment decisions.

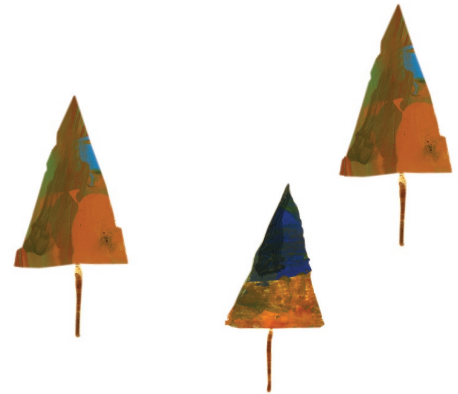
Approximately 30 percent of American adults - more than 63 million shoppers - take into consideration a product's environmental, health, social justice and sustainability values when purchasing goods and services. Ninety percent of Americans would consider switching to a competitor's products or services if they discovered a company was behaving illegally or unethically.

Also gaining prominence is socially responsible investment (SRI). SRI expands the traditional investment decision-making process by adding social and environmental standards to the mix of considerations. Assets in socially screened investment portfolios under professional management topped the US\$2 trillion mark for the first time ever in 2001. Those companies with negative environmental standards and/or which are subject to environmental controversy are increasingly being dropped from SRI portfolios.

Many companies now produce corporate social responsibility (CSR) reports. Any company that tries to "greenwash" its actions through corporate public relations is likely to be called to account as public and institutional pressure for better corporate citizenship mounts. Many companies adopt CSR policies in order to enhance their reputations and brand image, gain market share, improve reputation with investors, cut costs and improve their bottom line. Many studies indicate that companies that embrace CSR perform just as well as - and sometimes better than - non-CSR companies in their sector. Similarly, many SRI funds do as well if not better than regular investment funds.

Recent consumer and investor campaigns have been very successful at persuading global companies to help preserve ancient and endangered forests by changing their sourcing policies. Companies like Home Depot, Boise Cascade, Staples, and Office Depot have all been on the receiving end

of international corporate campaigns organized by environment and social justice organizations. Often very damaging to brands and public profile, these campaigns have resulted in lost or cancelled contracts, shareholder resolutions and negative publicity.



Kimberly-Clark is listed on the Calvert Social Index for socially responsible companies that, among other attributes, are considered to have good environmental management. However, the company's continued use of ancient forest fiber is a glaring deficit that is not addressed in its environmental policy. As a result and despite growing criticism, Kimberly-Clark continues to source virgin tree fiber from Canada's Boreal forest, buying pulp from logging companies that engage in unsustainable clearcutting. The Boreal forest is the last large ancient and intact forest left in North America and is home to 40 percent of North America's waterfowl. It is also provides the habitat of other animal species, including lynx, grizzly bear, wolf and woodland caribou, a species at risk. Evolving since the last ice age 10,000 years ago, the forest supports a rich cultural legacy - more than 80 percent of Canada's First Nations communities are based in the Boreal.

Boreal forest pulp is used to make Kimberly-Clark's disposable tissue products, including well-known brands such as Kleenex, Viva, Scott and Cottonelle<sup>1</sup>. Less than 19 percent of the pulp that Kimberly-Clark uses in North America comes from recycled sources. Notable competitors such as Cascades use much higher proportions of recycled and sustainably sourced pulp.



**KIMBERLY-CLARK CONTINUES TO SOURCE VIRGIN TREE FIBER FROM CANADA'S BOREAL FOREST, BUYING PULP FROM LOGGING COMPANIES THAT ENGAGE IN UNSUSTAINABLE CLEARCUTTING.**

**Kimberly-Clark's environmental commitments, while strong in some areas such as toxics reduction, fall considerably short in the area of Boreal forest conservation and recycled content of its disposable tissue products.**

International environmental organizations have recently launched public campaigns against Kimberly-Clark for its continued role in the destruction of ancient Boreal forests. They are demanding an increase in the use of recycled fiber and an end to the sourcing of fiber from ancient and endangered forests.

With the growing demand for "green" products, the rise of socially responsible investing, the success of companies that practice genuine corporate social responsibility and the negative publicity associated with international consumer campaigns, Kimberly-Clark's continued use of Boreal forest fiber runs counter to its claims that it is an environmentally responsible company. In the current market environment, assuming financial outlooks are similar and given the current controversy surrounding the source of the fiber for its tissue products, Kimberly-Clark does not represent a sound investment at this time.

**Less than 19 percent of the pulp that Kimberly-Clark uses in North America comes from recycled sources.**

<sup>1</sup> Note: Scott and Cottonelle are made by Kimberly-Clark in the USA only. In Canada they are made by Scott Paper under license from Kimberly-Clark.



**The Boreal forest  
has become  
a controversial  
source for  
pulp used to make  
paper products.**

## **I. Introduction**

Kimberly-Clark Corporation, the world's largest tissue product manufacturer, prides itself on its environmental commitments. In March 2002, Kimberly-Clark was placed on the Calvert Social Index for socially responsible companies that, among other attributes, are considered to have strong environmental management. Recently, however a significant and potentially troublesome gap has emerged in Kimberly-Clark's environmental commitments.

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environmental commitments.**

To manufacture its tissue products, including the popular brand Kleenex, Kimberly-Clark uses virgin fiber from Canada's Boreal forest. The Boreal forest, which stretches from the Canada-Alaska border to Labrador, is the largest tract of ancient forest left in North America. It has evolved since the last Ice Age, more than 10,000 years ago, and represents one-quarter of the world's remaining ancient forests. It is estimated that nearly 30 percent of the virgin fiber that Kimberly-Clark uses each year comes from Canada's ancient Boreal forest. Out of growing concern for the health of this forest region, in recent months, international campaigns to protect the last large and intact areas of Boreal forest have been launched by leading conservation organizations. The Boreal forest has become a controversial source for pulp used to make paper products. Just over a year ago, eleven resource companies, conservation groups and First Nations announced the establishment of the Boreal Forest Conservation Framework.<sup>1</sup> The framework is a national initiative aimed at protecting at least one-half of the forest and ensuring that leading edge sustainable development practices occur throughout the rest of the Boreal region. This initiative is the largest conservation vision in Canadian history.

Since the framework's creation, a coalition of prominent environmental groups, including Greenpeace and the U.S. Natural Resources Defense Council, has launched an international campaign to inform consumers about Kimberly-Clark's continued use of ancient Boreal forest fiber to make disposable

tissue products. The groups are calling on Kimberly-Clark to stop making its tissue products, which include the popular Kleenex facial tissue, from Boreal fiber. They urge the company to follow the example of some of its competitors by increasing the amount of recycled fiber in its disposable paper products, as well as putting a stop to the purchase of pulp from companies logging in endangered forests.

In 2003, only 19 percent of the total fiber Kimberly-Clark used to manufacture tissue products in North America was from recycled sources.<sup>2</sup> Kimberly-Clark makes the Kleenex brand of tissue products in Canada and the U.S., and the Scott, Cottonelle and Viva line of products solely in the U.S. These tissue products are marketed in several formats—toilet paper, napkins, paper towels, and facial tissue. Kleenex facial tissue is made from 100 percent virgin fiber because, according to the company, "it provides the superior softness consumers expect from a premium facial tissue product."

In response to growing consumer demand, Kimberly-Clark competitors such as Cascades and Seventh Generation are already manufacturing forest friendly tissue products for the consumer market with a high recycled content. As well, Cascades, the fourth largest manufacturer of tissue products in North America has made a commitment to purchase sustainably produced and eco-certified fiber for their products. Global companies such as Ikea and Home Depot have followed through on their recent commitments to protect ancient and endangered forests. The office supply giant Staples, following a broad-based consumer campaign, is in the process of phasing out purchases of paper products from endangered areas of the Canadian Boreal region. There is a growing shift in the marketplace towards the production of environmentally sensitive forest products. Increasingly, consumers are choosing to purchase "green" and socially responsible products.

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Accompanying this notable shift in shopping patterns is the rise of socially responsible investment (SRI). SRI, which takes into account a company's environmental and social performance in addition to traditional financial considerations, is

now a US\$2-trillion a year phenomenon in the United States. The notion of corporate social responsibility, or CSR, is becoming an ever more important issue for both investors and consumers. Indeed, recent studies indicate that companies engaging in CSR exhibit stronger financial performances.



At the present time, Kimberly-Clark, although it produces an annual “sustainability” report, falls considerably short of environmental sustainability benchmarks when it comes to the manufacture of tissue paper products. The new consumer campaign by environmental organizations targeting Kimberly-Clark for its use of ancient Boreal forest pulp is focusing on the company’s brands in order to convince consumers to use their purchasing dollars to support environmentally sustainable products rather than those, like Kimberly-Clark’s, which are linked to the destruction of ancient forests. In the past, similar consumer campaigns have pressured forest products companies like Staples, Boise Cascade and Home Depot resulting in the adoption of environmentally sustainable policies regarding the world’s ancient and endangered forests.

### **Kimberly-Clark’s continued use of ancient Boreal forest fiber for its disposable tissue products is controversial.**

With the growing demand for ‘green’ products, the rise of socially responsible investing, the success of companies that practice real corporate social responsibility and the negative publicity associated with international consumer campaigns, Kimberly-Clark’s continued use of ancient Boreal forest fiber for its disposable tissue products is controversial. As such, the investing environment for this company could be described as unfavorable.

<sup>1</sup> The 11 founding members of the Boreal Leadership Council are Alberta-Pacific Forest Industries, the Canadian Parks and Wilderness Society, the Deh Cho First Nations, Domtar Inc., Ducks Unlimited Canada, ForestEthics, the Innu Nation, Poplar River First Nation, Suncor Energy Inc., Tembec Inc., and the World Wildlife Fund Canada.

<sup>2</sup> Kimberly-Clark, 2003 Sustainability Report.



**Increasingly, consumers are choosing to purchase “green” and socially responsible products.**

**Approximately 30 percent of American adults take a product's environmental, health, social justice and sustainability values into consideration when purchasing goods and services.**

## **II. Consumer demand for “green” and socially responsible products**

Consumer demand for “green” products is burgeoning. Approximately 30 percent of American adults - more than 63-million shoppers - take a product's environmental, health, social justice and sustainability values into consideration when purchasing goods and services, according to the *Lifestyles of Health and Sustainability Journal* (LOHAS). The journal, which follows green economic trends, says the US\$227-billion a year market for sustainable products is projected to reach US\$1-trillion annually by 2020.<sup>3</sup>

Consumer campaigns once focused largely on boycotting companies perceived to have environmentally and socially harmful policies. A global boycott of Nestle Corp. was launched in the 1980s after the company was blamed for contributing to the deaths of Third World infants. Consumers argued that Nestle, which gave away free samples of infant formula to new mothers in developing countries, discouraged breastfeeding while promoting reliance on costly formula that poor families often watered down. The Nestle boycott, while famous, was only one of a number of far-reaching consumer campaigns that sprang up during the 1970s and 1980s to encourage corporations to become more socially and environmentally responsible.

Today, consumer campaigns often take a two-pronged approach: they lobby a company or companies to adopt more environmentally and socially conscious policies while, at the same time, encouraging shoppers to make purchases only from businesses with sustainable environmental and social policies.

The term “green” consumer was coined to describe shoppers who make purchasing decisions based on environmental values—and not just on price and convenience. Corporations like George Weston Ltd., owner of the leading Canadian grocery chain Loblaws, introduced “green” or environmentally-friendly products that were quickly embraced by conscientious shoppers. Loblaws, which launched its US\$87-million green initiative in 1989, saw its market share rise by two percent and its stock price double in the following two years. As Patrick Carson, vice-president of environmental affairs at Loblaws International Merchants Inc. in Toronto, explained, “I know we’re getting a lot of shoppers

from competitors because we’ve made a move in the environmental direction.”<sup>4</sup> Home Depot, too, reported a modest increase in sales following the company’s adoption in 1999 of a green “Wood Purchasing Policy” that was lauded by conservation organizations (see Section V for more details).<sup>5</sup> In one example, Home Depot pointed to the US\$30,000 of “green” certified wood it sold for ramps at the 2004 X Games, an extreme-sports event in Los Angeles.

### **Environmental criteria now play a key role in purchasing decisions.**

In the 1990s, as globalization spread, consumer attention turned to pressuring corporations like Nike Inc. and the Gap Inc. to be more accountable for conditions under which their products are produced. Fifteen years ago, few corporations wrote codes of conduct for their global suppliers or produced annual sustainability reports; now, such practices are widespread. Corporate sustainability reports have become a prerequisite for doing business in an age in which consumers increasingly demand to know where the products they are buying come from, if they are environmentally friendly, and who made them and under what labor conditions.

Kimberly-Clark’s “2003 Sustainability Report” clearly outlines steps the company has taken in some areas to become more environmentally responsible. In 2003, for instance, the company achieved an 87 percent toxics reduction, exceeding its goal of a 50 percent reduction. However, and of great concern to Greenpeace, the Natural Resources Defense Council, and other environmental organizations, the sustainability report does not adequately deal with the pressing issue of increasing the recycled content of Kimberly-Clark’s tissue products. The report also does not address the controversial issue of sourcing pulp from the ancient Boreal forest at a time when Boreal conservation is becoming a priority not only for environmental groups but also for First Nations and corporations such as Domtar Inc., Suncor Energy Inc., and Tembec Inc.

**90 PERCENT OF AMERICANS WOULD CONSIDER SWITCHING TO A COMPETITOR’S PRODUCTS OR SERVICES IF THEY DISCOVERED A COMPANY WAS BEHAVING ILLEGALLY OR UNETHICALLY.**



Recent polls and studies indicate that a majority of North American consumers buy products from companies that they consider to have sound environmental and social practices. The 2004 Cone Corporate Citizenship Study found that 90 percent of Americans would consider switching to a competitor's products or services if they discovered a company was behaving illegally or unethically. Eighty percent said they would consider selling investment in that company's stock, and 80 percent said they would refuse to invest in that company's stock. Seventy-five percent said they would boycott that company's products or services.<sup>6</sup> Likewise, a POLLARA Report on attitudes towards environmentally-responsible paper found that Canadians are willing to pay up to 10 percent more for books printed on ecologically-sound paper.<sup>7</sup> Indeed a large majority of Canadian book purchasers, both big and small, is also willing to purchase ecologically-responsible books at an extra cost. "Canadians, in all regional and demographic groups, are also highly supportive of the Canadian book publishing industry switching from paper derived from ancient forests to more environmentally friendly paper," noted the report.<sup>8</sup> Moreover, a study of 30 large corporate buyers of B.C. forest products, conducted by IBM Business Consulting Services, discovered clear evidence that environmental criteria now play a key role in purchasing decisions, calling it a "greenward shift" in the market for forest products. With all other things being equal, major buyers indicated they will choose the "greenest" product: "The shift is real, buyers believe it will continue, and we believe it will have a negative impact on forest regions and producers that do not respond to it."<sup>9</sup> Notably, a case study on corporate social responsibility prepared for the Canadian federal government states that: "There has...been growing demand from consumers for wood products from sustainably managed forests."<sup>10</sup>

It is only a matter of time before buyers of Kimberly-Clark tissue products become fully aware of the origins and composition of their preferred brand of facial and bath tissue. As consumers learn that these products are made with virgin pulp from ancient forests, they may decide to purchase other brands containing both a high recycled content and pulp from sustainably-managed forests sanctioned by conservation organizations.



The vulnerability of the North American facial tissue market is underscored by the unexpected drop in Kleenex sales during the fourth quarter of 2003, a decline Kimberly-Clark attributes to a late cold and flu season. Kimberly-Clark's main competitors in the North American tissue market, Georgia-Pacific and Procter & Gamble, have not yet begun to market environmentally-sound facial tissue for at-home use. If Kimberly-Clark takes the lead in producing ecologically-sound facial tissue, it stands to seize market share from competitors. If, on the other hand, Georgia-Pacific or Procter & Gamble become the first large tissue product makers to introduce premium brands of recycled tissue products manufactured with pulp from certified "green" forests, Kimberly-Clark risks losing ecologically conscious customers who will choose to buy from companies perceived to have the most advanced environmental policies.

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A recent article on consumer campaigns in the San Francisco Chronicle describes the momentum consumer campaigns are gathering. The article notes that today's campaigns do not advocate boycotts but, instead, have latched onto a promising new tactic - redirecting purchasing dollars to companies perceived to have the most advanced environmental and social policies: "Anti-corporate campaigns have been around for decades, but this fight-the-power generation is going about it with a little more finesse."<sup>11</sup>

### **Increasingly, institutional buyers refuse to purchase products that harm the environment.**

Consumers are not the only ones wielding newfound clout when it comes to buying environmentally friendly products. Governments, businesses, universities and other institutions are putting their dollars to work to protect the environment and to support companies with the best environmental track records. As author Joel Makower and environmental consultant Deborah Fleischer state, "this purchasing power is a fundamental lever for change because suppliers must listen to their customers.

## **CANCELLED CONTRACTS**

If Kimberly-Clark continues to source virgin fiber from ancient and endangered Boreal forests, it runs the risk that institutional buyers will turn to other suppliers. Institutional buyers began to cancel contracts with Boise Cascade Corporation during a lengthy campaign spearheaded by the Rainforest Action Network. The campaign aimed to stop Boise Cascade from making and selling products from endangered forests. Washington Mutual, LL Bean, and Levi-Strauss were among the institutional buyers that cancelled Boise contracts. In 2002, following more than a year of student protests and widespread media coverage, the University of Texas at Austin refused to accept an office products contract bid from Boise. (The university is the largest in the U.S., with more than 53,000 students.) Student government associations at Kent State, Brown University and Illinois State University also passed resolutions calling for bans on the purchase of Boise products.



## PUBLISHING: A SHIFTING SECTOR

Major forest product industries are shifting to environmental production in the face of growing public demand for sustainable products. A case in point is the recent and significant change within the publishing industry. Paper industry reform organization, Markets Initiative, has been working since 2001 with the Canadian book publishing industry to help the sector shift from papers originating from the world's ancient and endangered forests to ecologically responsible alternatives. Publishers have played a key leadership role in this initiative, pioneering new ground for publishing internationally and triggering significant shifts through their supply chain.

When Markets Initiative first started this work, no publishers were consistently printing on recycled paper, no printers stocked ancient forest friendly papers and no ancient forest friendly papers were commercially produced. Today:

- **75% of English language literary publishers in Canada have formally committed to eliminate their use of papers containing ancient and endangered forest fibre;**

When billions of dollars -from governments, universities, and companies - are redirected to sustainably harvested and produced products, the market responds and producers change their practices."<sup>12</sup> Companies and government officials that do not want to be left behind are now soliciting advice from former critics.

The Los Angeles Times notes that activists, "once relegated to the streets and hallways," are suddenly finding business and trade officials receptive to their concerns.<sup>13</sup> A case in point is the 1999 Memorandum of Understanding that prioritizes pristine rainforest valleys for conservation and adopts lighter touch eco-certified logging in other areas of Clayoquot Sound in British Columbia, Canada. That memorandum was signed by Iisaak Forest Resources Ltd. - a forestry venture that is 49 percent owned by forestry giant Weyerhaeuser and 51 percent owned by the Central Region First Nations of the Nuu-chah-nulth Tribal Council - and a handful of prominent environmental groups, including Greenpeace International.

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<sup>3</sup> [www.lohasjournal.com](http://www.lohasjournal.com), see "About Lohas."

<sup>4</sup> "Good Behaviours and the Bottom Line," Canadian Business, May 1991. Carson pointed out that the green program alone was not responsible for all of the company's financial success.

<sup>5</sup> "New Leaf: Once Targeted by Protesters: Home Depot Plays Green Role," Wall Street Journal, 6 August 2004.

<sup>6</sup> Cone Inc., "Multi-year Study Finds 21% Increase in Americans Who Say Corporate Support of Social Issues is Important in Building Trust," [press release], 8 December 2004, available at [www.coneinc.com/Pages/pr\\_30.html](http://www.coneinc.com/Pages/pr_30.html).

<sup>7</sup> "Canadians' Attitudes Toward Books Printed On Environmentally Responsible Paper," a POLLARA Report to Markets Initiative, January 2002.

<sup>8</sup> Ibid.

<sup>9</sup> IBM Business Consulting Services, "A Greenward Shift in the Market for Forest Products from British Columbia," commissioned by the Institute for Media, Policy and Civil Society (IMPACS), 2003.

<sup>10</sup> Natural Resources Canada, Interdepartmental Working Group on Corporate Social Responsibility, "CSR Case Study, Weyerhaeuser: A legacy of acting responsibly," [no date].

<sup>11</sup> San Francisco Chronicle, "Corporations painted in red and blue," 15 February 2005.

<sup>12</sup> Joel Makower and Deborah Fleischer, "Strategies for Accelerating Positive Change: A Briefing Guide for Grantmakers," The Funders Working Group on Sustainable Consumption and Production, Environmental Grantmakers Association, February 2003.

<sup>13</sup> Los Angeles Times, "From the Streets to the Inner Sanctum," 20 February 2005.



### III. Socially Responsible Investment

Harnessing purchasing power to support socially and environmentally responsible companies is one way to bring about change. Socially responsible investment is another. Often known by its acronym, SRI, socially responsible investment expands the traditional investment decision-making process by adding social and environmental standards to the mix of considerations. SRI -- through shareholder advocacy, community-based investment and screening for environmental and social benchmarks--encourages businesses to engage in responsible practices.

The first socially responsible mutual fund was created in the U.S. in 1928. The Pioneer Fund still caters to investors who do not wish to put their money in tobacco and alcohol stocks. Yet, even a decade ago, SRI was essentially a fringe activity promoted by a relatively small number of investors. Today, social investing is a fast-growing phenomenon carried out both by individuals and high-powered institutions such as the City of New York and the Connecticut and California state pension funds. By 1999, "one out of every eight dollars under professional management in the U.S. [was] involved in socially or environmentally responsible investing, accounting for roughly 13% of the total US\$16.3-trillion in assets under management."<sup>14</sup>

According to the Social Investment Forum's 2001 Report on Responsible Investing Trends in the United States, "assets in socially screened investment portfolios under professional management rose by more than one-third from 1999 to 2001 to top the US\$2-trillion mark for the first time ever."<sup>15</sup>

SRI takes a carrot and stick approach to corporate policies. If companies fail to meet set environmental and social standards, they are simply not included in investment portfolios. In extreme cases, investments are withdrawn if screening benchmarks are not met. The Domini Social Index, a SRI investment firm that manages more than US\$1.8 billion in assets for individual and institutional investors, removed Nike Inc. from its index in 1997 and Wal-Mart Stores from its index in 2001 due to those companies' failure to address concerns about international labour standards. Real Assets Investment Management Inc., Canada's first full-service investment management firm devoted solely to SRI,

announced in September 2004 that it had divested of the shares of Gildan Activewear in its portfolios due to concerns about working conditions and garment workers rights at overseas factories making Gildan clothes.

**By 1999, "one out of every eight dollars under professional management in the U.S. [was] involved in socially or environmentally responsible investing, accounting for roughly 13% of the total US\$16.3-trillion in assets under management."**

Corporations with cutting edge social and environmental policies and standards, on the other hand, are rewarded with increased investment and positive publicity: "For positive screening, investors often use a best-of-sector approach, in which a company's record is evaluated in relation to that of its industry counterparts."<sup>16</sup>

The best-of-sector approach has potentially serious long-term implications for Kimberly-Clark. Socially responsible investors, making a decision about which tissue products company in which to put their money, are likely to choose the company with the best environmental track record. Assuming financial outlooks are similar, Kimberly-Clark could lose out to competitors when it comes to best-of-sector socially responsible investing.

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Environmentally conscious investors will not support the continued use of virgin fiber from Canada's ancient Boreal forest to manufacture Kimberly-Clark's disposable tissue products. The additional controversy and media attention that a broad-based consumer campaign will inevitably bring is also not likely to earn Kimberly-Clark a favorable reputation for environmental practices among socially responsible investors.

- All Canadian book printers stock a variety of ancient forest friendly papers;
- 12 ancient forest friendly and 9 eco-friendly papers have been developed in the past 3 years specifically in response to Canadian publishers' requests;
- Millions of Canadian books have been printed on ancient forest friendly papers in the past three years, saving more than 150,000 trees and greenhouse gases equivalent to driving more than 19 million kilometers;
- The Canadian edition of *Harry Potter and the Order of the Phoenix* was printed on ancient forest friendly paper - drawing a personal endorsement from JK Rowling, grabbing international headlines, and triggering increased sales and accolades from Harry Potter fans around the world;
- Two leading publishers engaged in the initiative have been recognized for their innovation with national business awards; and
- Canadian publishers' successes has inspired a global movement with work now taking place in nine other countries - 81 US and 14 Dutch book publishers have similar commitments.

**Socially responsible investment expands the traditional investment decision-making process by adding social and environmental standards to the mix of considerations.**

Controversy can also lead to a loss of confidence in a corporation's performance, as investors seek other, less problematical companies in which to invest. In addition, company resources are often diverted to combat the increased controversy, resulting in increased public relations costs and potentially decreased profitability.

**Assuming financial outlooks are similar, Kimberly-Clark could lose out to competitors when it comes to best-of-sector socially responsible investing.**

Many analysts agree that SRI is heading into a period of significant expansion, with "explosive growth in U.S. SRI" already taking place, according to Peter Kinder, president of the Boston-based investment firm Kinder, Lydenberg, Domini & Co.<sup>17</sup> A recent study by the United Kingdom's Social Investment Forum shows that 59 percent of pension funds - representing about US\$564-billion in assets - say they will take SRI policies into account.

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In Canada, SRI rose to prominence in the 1970s and 1980s when church-based organizations successfully tested their strength as shareholders, adopting strong stands on issues such as apartheid and the environment. The Ethical Growth Fund, Canada's first broad-based socially screened mutual fund, came into existence in 1986. By 2000, SRI mutual funds in Canada were worth about US\$4.9-billion. According to Business Ethics Online, "Morningstar now lists 82 separate fund portfolios as socially responsible...worth total assets of US\$24-billion".<sup>18</sup> Deb Abbey, the founder and manager of Real Assets Investment Management Inc., says predictions of SRI growth convinced her to start the company in 2001. (Real Assets caters to pension funds, high-end investors and foundations with a minimum portfolio of US\$400,000.)<sup>19</sup> Notably, assets of The Ethical Funds Company, Canada's most comprehensive family of socially responsible mutual funds, grew from US\$82-million in 1992 to more than US\$1.23-billion today. A Vector Research

poll found that 72 percent of Canadians and 74 percent of shareholders expect companies to pursue social responsibilities as well as profits. More than one-half of respondents said they would prefer a pension plan that invested in companies with a proven social responsibility track record, even if that meant somewhat lower returns.<sup>20</sup>

In another indication that SRI is poised to become even more mainstream, the United Nations Environment Programme launched its Responsible Investment Initiative in mid-2004. The UNEP will work with pension funds and major institutional investors to establish a set of globally-recognized principles for responsible investing by the fall of 2005. The initiative's objective, explains Canadian Business magazine, is to "get large investors thinking about how to integrate environmental, social and governance concerns into financial decision-making—a goal that is supported by the results of a 14-month study conducted by Deutsche Bank, Goldman Sachs, UBS and others."<sup>21</sup>

The concept of corporate social responsibility, or CSR, is an essential ingredient of SRI. Russell Sparkes, author of *Socially Responsible Investment: A Global Revolution*, a book written for investment professionals and their clients, writes that corporate social responsibility has three core elements:

- Responsibility to shareholders (corporate governance);
- Responsibility to humanity in the form of human rights, and;
- Responsibility to the biosphere in terms of good environmental practice.

CSR, according to Sparkes, "simply means that companies should carry out their core function of making profits by the provision of goods and services but by doing so in a socially responsible way."<sup>22</sup>

The notion of triple bottom line accounting became popular in the mid-1990s when some corporations and other institutions began to take into account their social and environmental performances as well as financial considerations. Triple bottom line (TBL) accounting, as it gains widespread acceptance, is quickly changing the way that corporations do business. According to PriceWaterhouseCoopers, almost one-half of the Fortune 500 corporations now issue annual reports detailing their social and environmental conduct. TBL principles are also being adopted by organizations that include the World Bank and the Asian Development Bank.

Most companies now have mission statements promoting themselves as good corporate citizens. As the Economist explains, "Corporate social responsibility is now an industry in its own right, and a flourishing profession as well...There are executive education programmes in CSR, business-school chairs in CSR, CSR professional organizations, CSR websites, CSR newsletters and much, much more."<sup>23</sup> According to Sparkes, however, it is no longer enough for a company to state that it is a good corporate citizen and provide a few examples of goodwill towards communities, workers and the environment. Not only is the general public carefully watching to ensure that corporate words and actions are consistent but individual governments and multiple-country organizations such as the European Union are also increasingly concerned with corporate responsibility. Any company that tries to "greenwash" its actions through corporate public relations will sooner or later be called to account as public and institutional pressure for better corporate citizenship mounts, says Sparkes. Kimberly-Clark's environmental commitments, while strong in some areas such as toxics reduction, fall considerably short in the area of Boreal forest conservation and recycled content of its disposable tissue products.

**Should the company's premier brand name become tainted through association with destructive logging practices in the Boreal forest and lack of recycled content, Kimberly-Clark risks losing some of the brand cachet it has spent so many years cultivating.**

The company's reputation as a socially responsible corporation could be placed in jeopardy--regardless of the publication of an annual social responsibility report--if Kimberly-Clark does not take immediate steps to address these newsworthy issues. Notably, the 2004 spin-off of Neenah Paper and its mills does not absolve Kimberly-Clark of responsibility for how and where its products are sourced. Home Depot for example, among other initiatives, has begun to shift "buying wood from questionable sources to companies that practice sustainable forestry." Home Depot explains that, "implementing the [wood purchasing] policy meant making minor changes to our wood supply chain and rewarding companies that practice responsible forestry."<sup>24</sup>

A Canadian federal government report on corporate social responsibility found that each one of ten CSR companies surveyed said they adopted CSR policies in order to enhance their reputations and brand image. Seven out of 10 said they were inspired by cost savings and an improved bottom line, and six out of 10 reported that they were motivated to adopt socially responsible policies because of changing stakeholder reputation. Four of 10 companies cited an improved reputation with investors, bond agencies and banks as a motivating factor. "The study revealed that the risks of not getting involved in CSR are also clear to many companies. These risks include...loss of brand reputation."<sup>25</sup>

Kimberly-Clark's Kleenex facial tissue has such high brand recognition that consumers often refer to competing facial tissue generically as "Kleenex". Should the company's premier brand name become tainted through association with destructive logging practices in the Boreal forest and lack of recycled content, Kimberly-Clark risks losing some of the brand cachet it has spent so many years cultivating.

Already, a consumer campaign to encourage shoppers to think twice about tissue products they purchase is transforming the "Kleenex" brand name into a "Kleercut" message for consumers that associates the manufacture of Kleenex facial tissue, toilet paper, and napkins with destructive logging practices (see section VI for details).

#### THE RISKS OF NOT GETTING INVOLVED IN CSR INCLUDE LOSS OF BRAND REPUTATION.

<sup>14</sup> Paul Asmundson and Stephen R. Foerster, "Socially Responsible Investing: Better for Your Soul or Your Bottom Line?" Canadian Investment Review, Winter 2001.

<sup>15</sup> Cited in Makower and Fleischer.

<sup>16</sup> Asmundson and Foerster.

<sup>17</sup> www.socialinvestment.ca. See www.socialinvestment.ca/News&Archives/news-601-Socially.htm

<sup>18</sup> Business Ethics Online, "Surviving the Roller Coaster Ride, Annual SRI Mutual Fund Review, Winter 2005," [http://www.business-ethics.com/current\\_issue/winter\\_2005\\_mutual\\_funds\\_article.html](http://www.business-ethics.com/current_issue/winter_2005_mutual_funds_article.html)

<sup>19</sup> "Real Assets aims to prove you don't have to lose money to be socially responsible," Canadian Business, 7 September 2001.

<sup>20</sup> Canadian Democracy & Corporate Accountability Commission, 2002.

<sup>21</sup> "Thirst for change: The world's most influential investors join forces with the United Nations Environment Programme to embrace socially responsible investing," Canadian Business, 30 June 2004.

<sup>22</sup> Russell Sparkes, Socially Responsible Investment: A Global Revolution (Chichester: John Wiley & Sons, Ltd, 2002), p. 210.

<sup>23</sup> "The good company," The Economist, 20 January 2005.

<sup>24</sup> Home Depot, "Wood Purchasing Policy," corporate website.

<sup>25</sup> www.bsr.org, see www.bsr.org/CSRResources/IssueBriefDetail.cfm?DocumentID=49622

<sup>26</sup> Natural Resources Canada, "Corporate Social Responsibility: Lessons Learned," [Summary Report, no date], p. 6, available at www.nrcan.gc.ca.

## SUPPLIER ENVIRONMENTAL MANAGEMENT

Business for Social Responsibility, "a global organization that helps member companies achieve success in ways that respect ethical values, people, communities and the environment," points to the increasing importance of supplier environmental management (SEM): "A growing number of companies realize that to achieve their environmental goals and satisfy stakeholders' expectations, they need to look beyond their own facilities and involve their suppliers in environmental initiatives. Leading companies also understand that customers and other stakeholders do not always differentiate between a company and its suppliers, and may hold companies accountable for suppliers' environmental and labor practices."<sup>25</sup>



Two recent “meta-studies,” analyses of dozens of studies that encompass years of research, show that companies that are socially and environmentally responsible demonstrate superior financial performance.

## Section IV: The Finances of Success

**Many studies indicate that companies that embrace CSR perform just as well as - and sometimes better than - non-CSR companies in their sector.**

CSR companies are generally considered to be well-managed, treat employees fairly, contribute positively to communities and have consideration for the environment: “Furthermore, proponents argue that screening leads to a reduction in potential liabilities (such as those associated with class action lawsuits or environmental clean-ups), which could negatively affect the earnings of companies included as part of a portfolio.”<sup>27</sup> As stated by the Calvert Fund, the U.S.’s largest family of socially responsible mutual funds, today’s social and environmental issues tend to become tomorrow’s environmental predicaments: “So, investing in companies that are committed to meeting the challenges of the future with an expanded view of corporate responsibility is more than just a matter of ‘doing the right thing’ - it also makes good business sense.”

Two recent “meta-studies” — analyses of dozens of studies that encompass years of research — show that companies that are socially and environmentally responsible demonstrate superior financial performance. One meta-analysis, “Corporate Social and Financial Performance”, reviewed 52 studies covering a 30-year period. It proved a statistically relevant association between corporate social performance and financial performance varying from “highly positive to modestly positive.”<sup>28</sup> The researchers suggested that the correlation could be because CSR firms have good management or, conversely, because financially sound companies have more resources at their disposal. A second “meta-study,” released in November 2004, also concluded that businesses “with sound environmental policies and practices, companies are highly likely to see improved financial performance.”

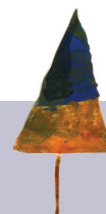
The study examined 60 research studies over a six-year period. It found that 85 percent of these studies showed “a positive correlation between environmental management and financial performance.”<sup>29</sup> That study, commissioned by the United Kingdom Environment Agency, was conducted by Innovest Strategic Value Advisors, an international social research firm that helps make investment decisions for about US\$1-billion in funds.

**Any company that tries to “greenwash” its actions through corporate public relations will sooner or later be called to account as public and institutional pressure for better corporate citizenship mounts.**

A May 2003 report on the global paper and forest products industry, also by Innovest Strategic Value Advisors, showed that stocks Innovest classified as the most environmentally advanced consistently outperformed stocks with below average environmental ratings. Stocks of the environmentally-advanced companies were ahead by 43 percent (4,300 basis points) over four years ending in March 2003.<sup>30</sup> Additionally, the environmentally advanced stocks reported superior results in other business performance and market valuation ratios: “Companies in the sector with a long term view of successful business strategies are those able to capitalize on their environmental investments and their capacity to build sound stakeholder relations.”<sup>31</sup>

When the Social Investment Forum evaluated the performance of U.S. SRI funds by examining data from three U.S. based organizations that analyze mutual fund performances—Lipper, Morningstar and Wiesenberger—it found that 12 out of 17 SRI funds with at least US\$100-million in assets received top rankings from Lipper or Morningstar. Wiesenberger’s three-year performance records placed ten of the 17 funds in the top quartile of their investment categories.<sup>32</sup>

**“WITH SOUND ENVIRONMENTAL POLICIES AND PRACTICES, COMPANIES ARE HIGHLY LIKELY TO SEE IMPROVED FINANCIAL PERFORMANCE.”**



One negative study of the performance of CSR companies, conducted by the Wharton School at the University of Pennsylvania, surmised that that including SRI factors in investment could cost investors as much as 30 basis points per month--or 3.6 per annum--in lost performance.<sup>33</sup> Innovest, however, points out that the Wharton study did not use "apples to apples" comparisons.<sup>34</sup> In 17 out of 28 mainstream equity funds, SRI funds were compared to real estate funds. An Innovest study for a U.S. pension fund - one that wanted to pursue a SRI strategy with maximum financial returns - found that five of six of the pension fund's portfolios would have performed better than they did by an average of 100 basis points had they been modestly tilted towards SRI. (The sixth fund would have underperformed by .04 percent). Innovest found that "with a robust research platform," SRI can "strengthen portfolio performance across a wide variety of investment styles."<sup>35</sup>

Jantzi's Social Index, launched in January 2000 by Michael Jantzi, Canada's best known social investment researcher, increased in value by 6.68 percent from its inception through the year 2003. It outperformed both the S&P/TSX 60, which decreased in value by 1.75 percent over the same four- year period, and the S&P/TSA Composite, which decreased in value by 3.62 percent.<sup>36</sup> (Jantzi Research Associates Inc. screens JSI stocks by examining such things as a company's environmental impact, human rights record, and employee relations.) For 10 years ending October 31, 2003, the Domini Social Index delivered annualized returns of 11.33 percent compared with 10.44 percent for the S&P 500 during the same 10 years.<sup>37</sup>

As the issue of climate change from greenhouse gas emissions becomes pressing, the global investment community is becoming concerned about potential financial risk. More and more, investors demand an accounting of such risk exposure from companies in which they hold stock, according to the Carbon Disclosure Project, the world's largest corporate responsibility initiative. (The project represents 95 leading institutional investors and accounts for US\$10-trillion in assets under management.) The topic of climate change may be of particular interest to Kimberly-Clark investors. Canada's Boreal forest--with its layers of soil, moss and peat--forms one of the world's most significant terrestrial storehouses of carbon, playing an integral role in slowing climate change.

<sup>33</sup> Asmundson and Foerster.

<sup>34</sup> Cited in Marjorie Kelly, "Holy Grail Found: Absolute, definitive proof that responsible companies perform better financially," *Business Ethics*, Winter 2004. The study was conducted by Marc Orlitzky of the University of Sidney, Australia, and by Frank Schmidt and Sara Rynes from the University of Iowa. It won the Moskowitz Prize of the Social Investment Forum, awarded for outstanding research in social investing.

<sup>35</sup> Ibid.

<sup>36</sup> Innovest Strategic Value Advisors, "Innovest's Latest Paper and Forest Products Report Finds Environmental Leaders Outperformed by 43% Over 4 Years," [press release], May 2003.

<sup>37</sup> Ibid.

<sup>38</sup> Asmundson and Foerster.

<sup>39</sup> Innovest Strategic Value Advisors, "Innovest Releases New Study--Rebuts Wharton's," [press release], 29 July 2003.

<sup>40</sup> Ibid.

<sup>41</sup> Ibid.

<sup>42</sup> Michael Jantzi Research Associates, "Jantzi Social Index Outperforms S&P/TSX 60 and S&P Composite Indices in 2003 and Since Inception," [press release], 23 January 2004.

<sup>43</sup> [www.klid.com/benchmarks/dsi.html](http://www.klid.com/benchmarks/dsi.html).



**More and more,  
investors demand  
an accounting  
of risk exposure  
from companies in  
which they  
hold stock.**

Recent consumer and investor campaigns have persuaded global companies to help preserve ancient and endangered forests by changing their sourcing policies.

## Section V: The Brand, the Market and the Corporate Campaign

Recent consumer and investor campaigns have persuaded global companies to help preserve ancient and endangered forests by changing their sourcing policies. Many companies targeted by campaigns have also pledged to increase recycled content of their products. An international grassroots campaign that included Greenpeace, Rainforest Action Network, and other major environmental organizations first focused on Home Depot, the world's largest lumber retailer. The two-year campaign, from 1997 to 1999, saw the company repeatedly picketed by demonstrators. Institutional investors also took a stand: Trillium Asset Management was one of several to file a proposal on the company's 1999 proxy statement asking Home Depot to issue a report detailing the steps required to end the sale of old growth wood entirely.<sup>38</sup> As the Wall Street Journal reported, "Home Depot was afraid the protests might lead to a consumer backlash and sliding sales."<sup>39</sup>

**"Home Depot was afraid the protests might lead to a consumer backlash and sliding sales."**

In August 1999, as Home Depot celebrated its 20th anniversary, the company made an historic announcement. It would phase out all products from endangered forests by 2002 and give preference to wood products from sustainably-managed forests. Vendors who could not prove that lumber and wood products met the new standards would be dropped. By 2002, the company's wood purchases from Indonesia, where illegal logging is destroying vast tracts of virgin forest and the habitat of endangered wildlife, had plummeted to US\$50-million a year from US\$500-million a year in 2000. The ensuing rash of positive publicity about Home Depot's new policy soon brought financial benefits: the Wall Street Journal reported a modest increase in sales from customers supporting the company's new environmental standards.<sup>40</sup>

Publicity about Home Depot's new policy and growing consumer awareness about ecologically-sound forest products helped convince other retailers to take similar stands. Seven of the remaining top

ten lumber retailers said they would match Home Depot's new policy. They included Menards, 84 Lumber, HomeBase, Lanoga, Wickes Lumber and Lowe's, the second largest home improvement retailer in the U.S. Notably, Lowe's stock rose by \$US 2.44, to \$US45 a share, the day it announced its new environment-driven wood procurement policy in 2000. The five-point policy gives preference to independently-certified wood from areas managed in an environmentally-sustainable manner. Lowe's announcement followed months of communication with forest advocacy organizations, although the company insisted it was making the changes because of growing consumer demand for environmentally-friendly wood products. "Lowe's has set the global standard for responsible wood buying," announced the Rainforest Action Network.

Lowe's new policy, covered by media such as the Wall Street Journal, Associated Press, the Vancouver Sun, the Seattle Post-Intelligencer and the Atlanta Journal Constitution, immediately ended company purchases of lumber and finished wood products from British Columbia's Great Bear Rainforest region. The policy also banned wooden dowels and other products made with Indonesian ramin, a light-colored hardwood, due to worries that the wood was from areas where illegal logging has led to a sharp decline in the orangutan population.

Office supply chains have also found it beneficial to adopt policies that increase the recycled content of their products. Staples, the world's largest office supply retailer, announced in November 2002 that it would phase out paper products made from endangered forests. Not only will Staples stop buying paper products manufactured with pulp from endangered forests, but it will also aim for an average 30 percent recycled content in all the paper it sells, thereby reducing demand for virgin fiber. Staples also said it would feature more recycled products in general in its 1,500 stores worldwide, and that it would use only post-consumer waste (PCW) paper products for internal operations. The company also aims to expand alternative fiber paper products as well as the number of paper products containing 50 percent post-consumer waste. Staples made these significant policy changes following two years of intense public pressure from The Paper Campaign, a 72-group consortium led by San Francisco-based ForestEthics and the Dogwood Alliance, based in Asheville, North Carolina. Paper Campaign members staged more than 600 demonstrations at Staples stores across the U.S., and directed tens of thousands

of letters and phone calls to the Staples head office. The new policy has had many positive spin-offs for Staples. Among them, ForestEthics and the Dogwood Alliance took out an advertisement in USA Today praising Staples for its “landmark commitment to protect forests” and calling on Office Max and Office Depot to “meet or beat” Staples’ policy. The groups said they would spread the word about Staples’ commitment to Fortune 500 companies and colleges and universities across the United States. Moreover, in the first year of Staples new recycling commitment, the company reported that its policy changes saved more than one million trees and nearly 500-million gallons (1.9 billion litres) of water.

**“Staples is committed to being the U.S. leader of the office supply industry in environmentally sound paper procurement practices. As we have done with energy conservation and other environmental issues, we will pursue this goal through sound business practices that will continue to provide to our shareholders an adequate return at an appropriate level of risk.”**  
**Staples Environmental Paper Procurement Policy.**

After Staples led the way with recycled paper, competitors followed suit. In March 2004, Office Depot, the world’s second largest chain of office supply stores, made significant and far-reaching revisions to its environmental policy. Among other pledges, Office Depot says it will “phase out all paper products coming from rare and vulnerable forests, forests containing exceptional biodiversity values, forests subject to unsustainable management, and forests that have been illegally logged.” Office Depot states that the phase-out will mean an end to sourcing from three of the world’s remaining endangered forest areas, including Canada’s Boreal forests. Socially responsible investor groups that tried to influence company policy as shareholders - including the Calvert Group, Ltd., Green Century Capital Management and Trillium Asset Management - announced that the new initiatives would benefit both Office Depot and its shareholders.<sup>41</sup>

Another forest products company, Boise Cascade Corporation, was targeted by a three-year campaign spearheaded by the Rainforest Action Network. In 2002, following publicity about the company’s policy of sourcing from old growth forests, including Canada’s Boreal forest, Boise customers began to cancel their contracts. They included Washington Mutual, LL Bean, Levi Strauss and the University of Notre Dame. That same year, swayed by student protests and media reports, the University of Texas at Austin refused to accept an office products bid from Boise.

In 2003, to thwart further damage to its reputation and finances, Boise Cascade made a firm commitment to change the way it did business. The company document “Boise and the Environment” was hailed as a breakthrough in private sector commitment to forest protection. Boise became one of the largest U.S. companies to begin to eliminate completely the use of wood products from endangered forests, and one of the first forest products distributors to extend such a policy to its suppliers. It also became one of the first U.S. forest products companies to apply the policy to both domestic and international operations. Boise’s about-face prompted the Rainforest Action Network to take out an ad in the New York Times lauding Boise for its new environmental commitment.

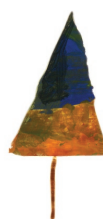
<sup>38</sup> www.trilliuminvest.com

<sup>39</sup> “Once Targeted by Protesters, Home Depot Plays Green Role,” Wall Street Journal, 6 August 2004.

<sup>40</sup> Ibid.

<sup>41</sup> ForestEthics, “Office Depot Agrees to Endangered Forest and Recycling Policy

—Environmental Campaign Against the Company Ends,” [press release], 25 March 2004.



## 500 CORPORATIONS ASKED TO PROTECT BOREAL

In May, 2004, a coalition of environmental groups sent a letter to 500 major corporations, including IBM, Kodak, Marriot, Hilton and Safeway, asking them to take steps to minimize the impact of their purchasing policies on the Canadian Boreal forest. The groups - ForestEthics, Greenpeace Canada, the Natural Resources Defense Council and the Rainforest Action Network - are calling on these corporations to adopt and improve their environmental procurement policies in order to support Boreal forest conservation.



The facial tissue market is divided into two categories: “at home or consumer” and “away from home or commercial institutional.” Tissue bought for North American homes accounts for two-thirds of the market.

## Section VI Kleenex, Kimberly-Clark and Forests

Kimberly-Clark, amidst growing controversy, continues to source virgin fiber from Canada’s Boreal forest. In addition to playing a pivotal role in thwarting climate change by storing carbon, the Boreal forest houses 40 percent of North America’s waterfowl and 30 percent of the continent’s song-birds. Pine, spruce, fir and poplar forests provide habitat for wildlife such as grizzly and black bears, threatened woodland caribou, wolves, bald eagles, Boreal owls and pine marten. The Boreal forest is also home to more than 80 percent of Canada’s indigenous communities and is a source of material and spiritual sustenance for the Métis and other First Nations. Large tracts of the forest are still the subject of unsettled land claims and disputed treaties.

**Little more than 19 percent of its North American fiber comes from recycled sources.**

Kimberly-Clark’s exclusive use of virgin pulp in its tissue paper products for many of its consumer brands continues to be controversial. In fact, little more than 19 percent of its North American fiber comes from recycled sources, the majority of which is used in products for the institutional and commercial market. This stands in stark contrast to the average 60 percent recycled fiber content used by the tissue paper industry in general. Notably, other tissue products companies are quickly moving towards increased recycled content and sustainably sourced fiber. Montreal-based Cascades meets 96 percent of its pulp requirements with recycled fiber and says it will meet the majority of the remaining four percent with Forest Stewardship Council (FSC) eco-certified pulp by 2007. Seventh Generation, based in Vermont, sells its 100 percent recycled consumer tissue products throughout North America, as does Toronto-based Atlantic Packaging. Marcal Paper Mills Inc.’s 100 percent recycled facial tissue, made from 30 percent post-consumer waste, is sold in supermarkets throughout the northeastern U.S. and in office supply stores nationwide.

## MARKET SHARE OF TOP WORLD PRODUCERS OF TISSUE PRODUCTS 2004

Rank	Company	Market Share
1	Kimberly-Clark	13.8%
2	Georgia-Pacific	13.4%
3	Svenska Cellulosa Aktiebolaget (SCA)	7.5%
4	Procter & Gamble	6.1%
5	Cascades	2%

Source: RISI, World Tissue Capacity Report 2004

The Neenah pulp mill in Terrace Bay, Ontario, spun-off from Kimberly-Clark in December 2004, uses wood from the 5.7-million acre (2.3-million hectare) Kenogami Forest east of Lake Nipigon, part of the Boreal forest. Neenah Paper continues to supply Kimberly-Clark with the majority of its Boreal forest pulp under a long-term supply contract. Clearcutting is the preferred method of logging the Kenogami’s jack pine, spruce, balsam fir, cedar, larch and poplar trees. The Terrace Bay mill produces approximately 496,000 tons (450,000 metric tonnes) of pulp annually, most of which is used by Kimberly-Clark.

**In 2000, according to independent auditors, more than 35-million cubic feet (one million cubic metres) of trees were cut and left to rot on the side of logging roads in the Kenogami Forest.** <sup>42</sup>

A second source of Kimberly-Clark pulp is the forests of Western Alberta, centered on the Hinton Forest in the Rocky Mountain Foothills area. The 2.5-million acre (one million hectare) Hinton Forest, containing lodgepole pine, white spruce and balsam fir trees up to 180 years old, is being clearcut by West Fraser Timber of Canada. This forest, along with surrounding forests logged by other forestry companies, is home to the threatened woodland caribou, a nationally listed species at risk, and logging continues in caribou habitat despite the threat of caribou extinction. The West Fraser mill in Hinton produces approximately 468,500 tons (425,000 metric tonnes) of pulp per year. Kimberly-Clark is one of its major customers.

In 1996, Kimberly-Clark developed its own Forest Management Objectives for Canadian woodlands it owns or manages. The objectives are modeled on standards set by the American Forest & Paper Association's Sustainable Forest Initiative (SFI) and the Canadian Standards Association's National Sustainable Forest Management Standard. Both initiatives were created by the forestry industry and are not considered by conservation groups to be fitting determinants of environmentally sustainable forestry practices.

### **Logging continues in caribou habitat despite the threat of caribou extinction.**

The Sustainable Forestry Initiative is a certification scheme created in 1994 by the American Forest and Paper Association. As the Sierra Legal Defence Fund notes, the SFI "does not require on-the-ground practices that protect the environment." For example, SFI would not require halting logging or clearcutting in any part of an area of ecological significance. Rather, the standard would require demonstrating that there are policies, programs, worker education or research in place to preserve the ecologically significant qualities...<sup>43</sup>

The Canadian Standards Association added forestry to its roster in 1993, with funding from the Canadian Pulp and Paper Association. A process initiated by a group of 22 forest industry associations, called the Canadian Forest Certification Coalition, led to the 1996 adoption by the Standards Council of Canada of the "Sustainable Forest Management Standard." As the Sierra Legal Defence Fund explains, "The CSA standard requires that significant conservation values be addressed but contains no specific criteria and indicators, leaving their development to industry. The standards contain no specific performance targets; rather a company seeking certification develops its own performance criteria specific to a particular area that corresponds to the CCFM objectives."<sup>44</sup>

The difficulty Kimberly-Clark faces is that high-profile environmental groups, which have put the spotlight on the company for manufacturing Kleenex tissue products from virgin Boreal forest pulp, consider only one set of standards to be a credible measure of sustainability—the Forest Stewardship Council (FSC) management and certification system.

The FSC is an independent international, non-profit association composed of representatives from

forestry companies, environmental groups, forestry professionals, indigenous groups and forest product certification organizations. The FSC evaluates and accredits forest management certifiers according to 10 principles that address environmental, social and economic issues. Certifiers include the nonprofit organization Smartwood and the for-profit Scientific Certification Systems. The FSC has certified more than 116-million acres (47-million hectares) of forestland in 60 countries. Almost 24-million acres (10-million hectares) of FSC certified forestland are in the North America. Among the many products certified by the FSC are hardwood flooring and decking sold in home improvement stores, various book and fine papers sold by paper merchants, and pulp available on the international market.

At about the same time that the Boreal Forest Conservation Framework was devised, the FSC of Canada endorsed a National Standard for forest management practices in the Boreal forest. Jim McCarthy, executive director of FSC Canada, explains that: "Third-party certification of forest management and forest products to this standard provides assurance to consumers that the products they purchase do not contribute to the degradation of the world's forests and, as seen through recent public commitments from organizations like Domtar, Tembec and Home Depot, it has emerged as a globally important marketing tool."<sup>45</sup>

In November 2004, Greenpeace and the Natural Resources Defense Council (NRDC) launched an international campaign to warn consumers about Kimberly-Clark's poor environmental record around Canada's Boreal forest. The groups are calling on Kimberly-Clark to stop destroying Boreal forest to make disposable paper products. They point out that other global companies, including Ikea, Home Depot and Staples/Business Depot, have already made commitments to protect ancient and endangered forests. According to Susan Casey-Lefkowitz, a senior attorney with the NRDC: "If Kimberly-Clark wants to show real environmental leadership, it will dramatically increase the post-consumer recycled content of its products." The environmental groups point out that tissue products made from virgin fiber leave an unacceptably high "footprint" on the planet. Virtually no tissue products are recovered for recycling - making it even more necessary for these products to contain a high recycled content.

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**"If Kimberly-Clark wants to show real environmental leadership, it will dramatically increase the post-consumer recycled content of its products."**

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**In November 2004, Greenpeace and the Natural Resources Defense Council (NRDC) launched an international campaign to warn consumers about Kimberly-Clark's poor environmental record around Canada's Boreal forest.**

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In a bid to pressure Kimberly-Clark to stop sourcing pulp from ancient and endangered forests, Greenpeace and the NRDC are urging consumers to stop buying Kimberly-Clark tissue products and to instead buy products from their competitors that are forest friendly.

<sup>42</sup> Callaghan and Associates Inc. "An Independent Audit of Forest Management on the Kenogami Forest for the Period 1995 to 2000." November 2000, p. 23. Independent forest audits are required by law in Ontario.

<sup>43</sup> Sierra Legal Defence Fund, "Understanding Canada's Forest Certification Schemes: A Complete Guide to Filing Appeals and Complaints," February 2005, p. 9.

<sup>44</sup> Ibid, p. 15.

<sup>45</sup> Forest Stewardship Council Canada, "FSC Canada's Boreal Forest Standard Unanimously Approved," [press release], 12 December 2003.



## Conclusion

Consumers increasingly demand environmentally-friendly products. In the absence of important policy changes pertaining to the Boreal forest, Kimberly-Clark's market share for tissue products could erode as consumer campaigns question the reputation of its tissue products (including the Kleenex brand), encourage shoppers to become more aware of the origins of disposable paper products and, at the same time, present environmentally-friendly alternatives to Kimberly-Clark tissue products.

**In the past, consumer campaigns around forestry issues have had resounding and remarkable success.**

At the same time, the growing influence of socially responsible investment should be taken into consideration. Investors who adopt a "best of sector" approach may opt to put their money in a less controversial tissue products company with a greater commitment to recycled content and sustainable forestry.

These investors may wish to support another tissue products company whose fiber sources are either not from Canada's ancient Boreal forest or are certified by the internationally reputable Forest Stewardship Council (FSC)—particularly as new studies show that companies with strong environmental and social policies and practices produce strong financial returns. There is also the possibility that, as the Boreal forest becomes more newsworthy as a result of new conservation efforts, socially responsible investors and mutual funds will pressure Kimberly-Clark to change Boreal forest sourcing policy through shareholder actions. The link between Boreal forest conservation and heightened investor concern about global warming also should not be ignored. In the past, consumer campaigns around forestry issues have had resounding and remarkable success.

The campaigns that targeted Home Depot, Staples, and Boise Cascade are key examples. Institutional buyers, too, increasingly wish to make bulk purchases from companies they perceive to have the soundest environmental and social policies.

A case in point is the decision by the University of Texas at Austin not to accept an office products

contract bid from Boise Cascade during Rainforest Action Network's prolonged campaign to persuade the company to stop making and selling products from endangered forests. If Kimberly-Clark does not change its Boreal forest sourcing policies and produce more environmentally friendly tissue products, it runs the risk that institutional buyers will take similar measures, contributing to a potential loss of market share.

In the current investing and consumer environment, assuming financial outlooks are similar and with the current controversy surrounding the source of the fiber for its tissue products, Kimberly-Clark does not represent a particularly sound investment.

**Kimberly-Clark's market share for tissue products could erode as consumer campaigns question the reputation of its tissue products.**

On the other hand, should Kimberly-Clark choose to manufacture tissue products for the "at home" market that contain high levels of recycled fiber and sustainably harvested pulp, it could seize market share from major competitors still using 100 percent virgin fiber. The manufacture of tissue products made with a high recycled content and FSC eco-certified fiber would give Kimberly-Clark a strong competitive edge, as well as garner positive publicity from high-profile environmental organizations. As well, this would enable it to protect its brand reputation, and avoid being overlooked by socially responsible investment funds.

As the issues of global warming and the fate of ancient forests become more urgent both for consumers and investors, Kimberly-Clark stands to profit from developing tissue products that are environmentally sustainable, manufactured with fiber whose production leaves the Boreal forest region and other ancient forests ecologically intact. If no steps are taken to address these issues, then Kimberly-Clark could suffer financially.

**Investors who adopt a "best of sector" approach may opt to put their money in a less controversial tissue products company with a greater commitment to recycled content and sustainable forestry.**



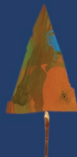


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Greenpeace is a non-profit organization that uses lobbying, science, public education, peaceful protest, and markets mobilization to bring about increased environmental protection of the Earth's ecosystems. Founded in Canada in 1971, Greenpeace is now the world's largest membership-based environmental organization with offices in 38 countries and more than 2.8-million members worldwide.



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