



Inter-Organization Programme for the
Sound Management of Chemicals

A cooperative agreement among FAO, ILO,
UNDP, UNEP, UNIDO, UNITAR, WHO, WORLD
BANK, OECD, and BRS Conventions

Session 5: Strengthening engagement of financial stakeholders and investors to implement Target D3

Financial Materiality of Chemical Pollution

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Financial Materiality of Chemical Pollution

Presentation outline

- Financial Materiality - definition
- Financial Risks
- Financial Opportunities
- Question for Discussion

Financial Materiality

Note: Definition of materiality varies across standards and frameworks.

European Sustainability Reporting Standards (ESRS) Double Materiality Assessment (DMA)



Impact Materiality

What is the company's **actual or potential negative/positive impact** on the planet and society?

Example: Work-related stress and overwork of own employees

Financial Materiality

What are the sustainability-related **financial risks and financial opportunities** for the business?

Example: Lost tenders due to insufficient climate change mitigation strategy in short-term time horizon

Sustainability matters that are **either impact or financial material** or **'double material'** will be part of future reporting.

Source: <https://nordicsustainability.com/insight/esrs-double-materiality-assessment-step-by-step-guide/>

Financial Risks of Chemical Pollution: Overview

- **Regulatory risks**
- **Reputation risks**
- **Litigation risks**
- **Crisis management costs**
- **Bankruptcy**
- **Vulnerability to advocacy campaigns**
- **Vulnerability to investor engagements and shareholder resolutions**
- **Insurance costs**

Regulatory Risks

Varies depending on the jurisdiction, but can include:

- **Compliance costs** of managing hazardous chemicals in products and manufacturing
- **Fines**
 - **Retailers in the USA:** Over a three year period Walmart, Target, Walgreen Co., CVS Pharmacy, and Costco Warehouse **paid \$138 million in fines for failure to appropriately manage products that become hazardous waste** when they break or are returned by customers (2010s) (UNEP, 2014)
- **Product recalls**
 - **Sony's recall** of its PlayStation due to cadmium **cost the company \$150 million** in lost sales and product reformulation costs (2001) (UNEP, 2014)
- **Cleanup costs**
- **Market access restriction**
- **Behind shifting changes in regulations**

Reputation Risks

- **Consumer trust lost / Brand image tarnished**
 - *Can cause lost market share, decline in product sales, and/or lower market valuation*
- For example, **Johnson & Johnson:**
 - **Formaldehyde and 1,4-dioxane found in baby products** (including shampoo)
 - In China:
 - Tens of thousands of consumers stopped buying its products
 - Thousands of stores dropped its products
 - Its market share for baby products declined almost 10 percent one year (2009) (UNEP, 2014)

Litigation Risks

- **Plastics and chemical additives**
 - From 2022-2030 corporate liabilities from plastic-related pollution, including chemical additives, are likely to exceed **\$20 billion** in the US alone (Minderoo Foundation, 2022)
- **3M and PFAS**
 - **3M agreed in 2023 to pay \$10.3 billion in litigation fines** over the next 13 years to resolve claims that PFAS had contaminated water supplies in the United States (Planet Tracker, 2024)
- **Johnson & Johnson case of asbestos in talc**
 - **Over 62,000 talc-related lawsuits** have been filed against Johnson & Johnson, with around 99% of these claims involving ovarian cancer.
 - J&J has spent over **\$1 billion on legal defenses**
 - J&J has set aside more than **\$10 Billion** for asbestos talc **lawsuit payouts**

Other Risks

- **Bankruptcy**
 - **SIGG USA** (a subsidiary of SIGG Switzerland) **filed for bankruptcy in 2011 with \$13 million in liabilities** due to failure to disclose Bisphenol A (BPA) in its water bottles (UNEP, 2014)
- **Crisis management costs**
 - Public relations
 - Higher cost of product reformulation under crisis conditions
- **Vulnerability to advocacy campaigns and investor engagements**
 - **NGO campaigns**
 - Retail: Retailer Report Card's "Toxic Hall of Shame" (Toxic-Free Future)
 - Textiles: Detox Campaign (Greenpeace)
 - **Investor engagements**
 - Investor Initiative on Hazardous Chemicals (coordinated by ChemSec)
 - Investor Environmental Health Network (coordinated by Clean Production Action)
 - **Shareholder resolutions**
 - Costco (U.S.-based retailer): Chemical Management Report resolution: withdrawn after the company took actions to improve accountability to its chemical management program, including publicly disclosing its Restricted Substance Lists (RSLs) (IEHN, 2023)

Financial Opportunities

- **Brand reputation protected and enhanced:** companies demonstrating commitment to chemical safety can improve their brand image and attract environmentally conscious customers.
- **Responsiveness to customer demands builds long-term relationships and trust**
- **Increased sales**
- **Higher stock valuation / Investor appeal:** investors increasingly prioritizing environmental, social, and governance (ESG) factors, and companies with strong chemical management practices can attract more capital.
- **Cost savings:** Implementing proactive measures to manage chemical risks can lead to cost savings by preventing accidents, reducing waste, and optimizing chemical usage.
- **Nimble in addressing shifting market and regulatory demands**
- **Better, more innovative products**

Financial Opportunities: Example from Personal Care Products

- **Global beauty and personal care products market:** projected to grow at a compounded annual growth rate (CAGR) of **4.37%** from 2024-2028 (Technavio, 2024)
- **Global clean beauty market:** projected to grow at a **CAGR of 14.8%** from 2024 to 2030. Market growth driven by:
 - **Increasing consumer concerns** about the safety of cosmetic products, environmental impact, and potentially harmful ingredients in beauty and personal care products.
 - **High degree of innovation and surge in sustainable solutions**
 - The clean beauty trend has **significant traction on social media platforms** like TikTok and Instagram
 - According to one survey, **nearly 63% of the respondents** look for products with natural ingredients that they believe are good for their skin
 - **Women** are increasingly mindful of the ingredients in their skincare and cosmetic products. They **actively seek formulations free from harmful chemicals and emphasize transparency in ingredient sourcing and production practices.** (Grand View Research, 2023)

Question for further discussion

- **What information is essential for investors and other stakeholders to see in company reports and disclosures and related reporting standards to know the financial risks of chemical pollution are being managed?**

Resources

- Grand View Research, 2023. Global Clean Beauty Market Size & Outlook, 2023-2030 (<https://www.grandviewresearch.com/horizon/outlook/clean-beauty-market-size/global>)
- IEHN, 2023. Costco shareholder resolution (<https://iehn.org/resources/resolution/2023-costco-wholesale-corp-chemical-mangagement-report>)
- Minderoo Foundation, 2022. *The Price of Plastic Pollution: The Social Costs and Corporate Liabilities* (<https://www.unepfi.org/wordpress/wp-content/uploads/2022/10/The-Price-of-Plastic-Pollution.pdf>)
- Planet Tracker, 2024. *Novel Entities - A Financial Time Bomb: Why investors need to be aware of the risks and impacts of toxic artificial chemicals* (<https://planet-tracker.org/wp-content/uploads/2024/09/Novel-Entities.pdf>)
- Technavio, 2024. Beauty And Personal Care Products Market Analysis APAC, North America, Europe, South America, Middle East and Africa - US, China, UK, India, Japan - Size and Forecast 2024-2028 ([https://www.technavio.com/report/beauty-and-personal-care-products-market-analysis?utm_source=prnewswire&utm_medium=pressrelease&utm_campaign=ai trend v2 report week29 2024&utm_content=IRTNTR74827](https://www.technavio.com/report/beauty-and-personal-care-products-market-analysis?utm_source=prnewswire&utm_medium=pressrelease&utm_campaign=ai_trend_v2_report_week29_2024&utm_content=IRTNTR74827))
- UNEP, 2014. *The Business Case for Knowing Chemicals in Products and Supply Chains* (<https://www.bizngo.org/resources/entry/unep-report-the-business-case>)