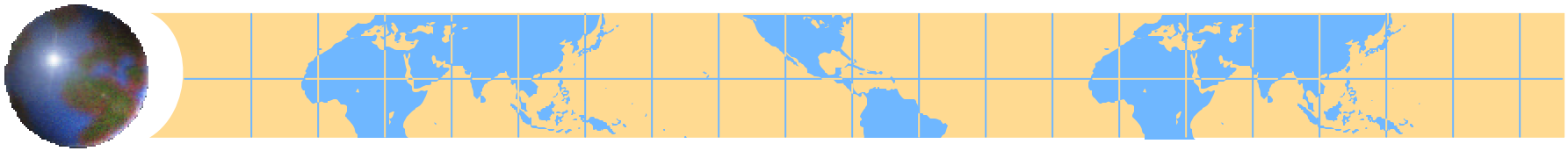
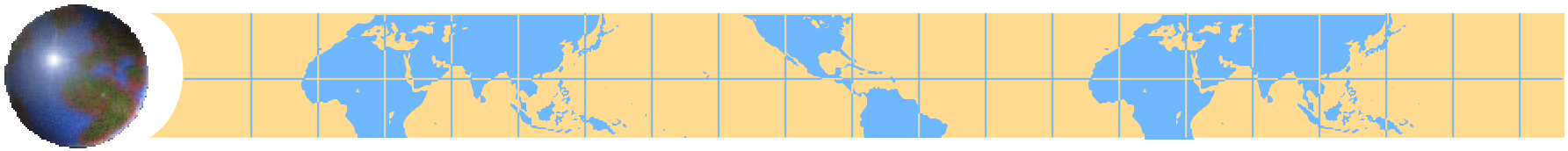


The Financial and Other Business Benefits of Pursuing Sustainable Development

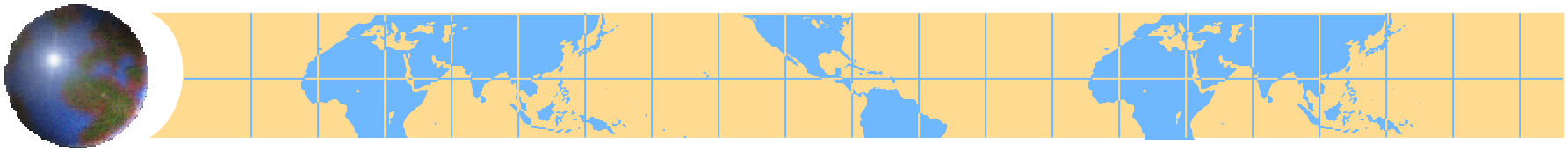
By Bill Blackburn
Baxter International Inc.

Corporate Environmental, Health & Safety
Management Roundtable
Washington, DC
November 15, 2002



Baxter's Business

- Health-care products for hospitals and clinics (IV, kidney and blood products; vaccines, etc.)
- $8 billion annual sales
- 2/3 operations outside U.S.



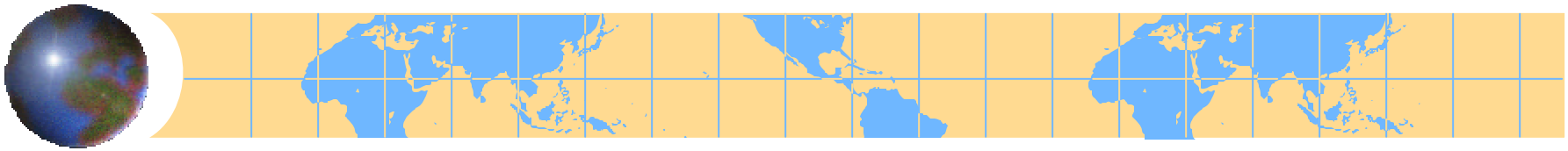
What Is Sustainable Development?

Sustainable Development (SD)

= Development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

= Triple Bottom Line:

1. Environmental responsibility
2. Social responsibility (employees & community)
3. Economics (company & community)



Questions Posed By SD

Economics and Business

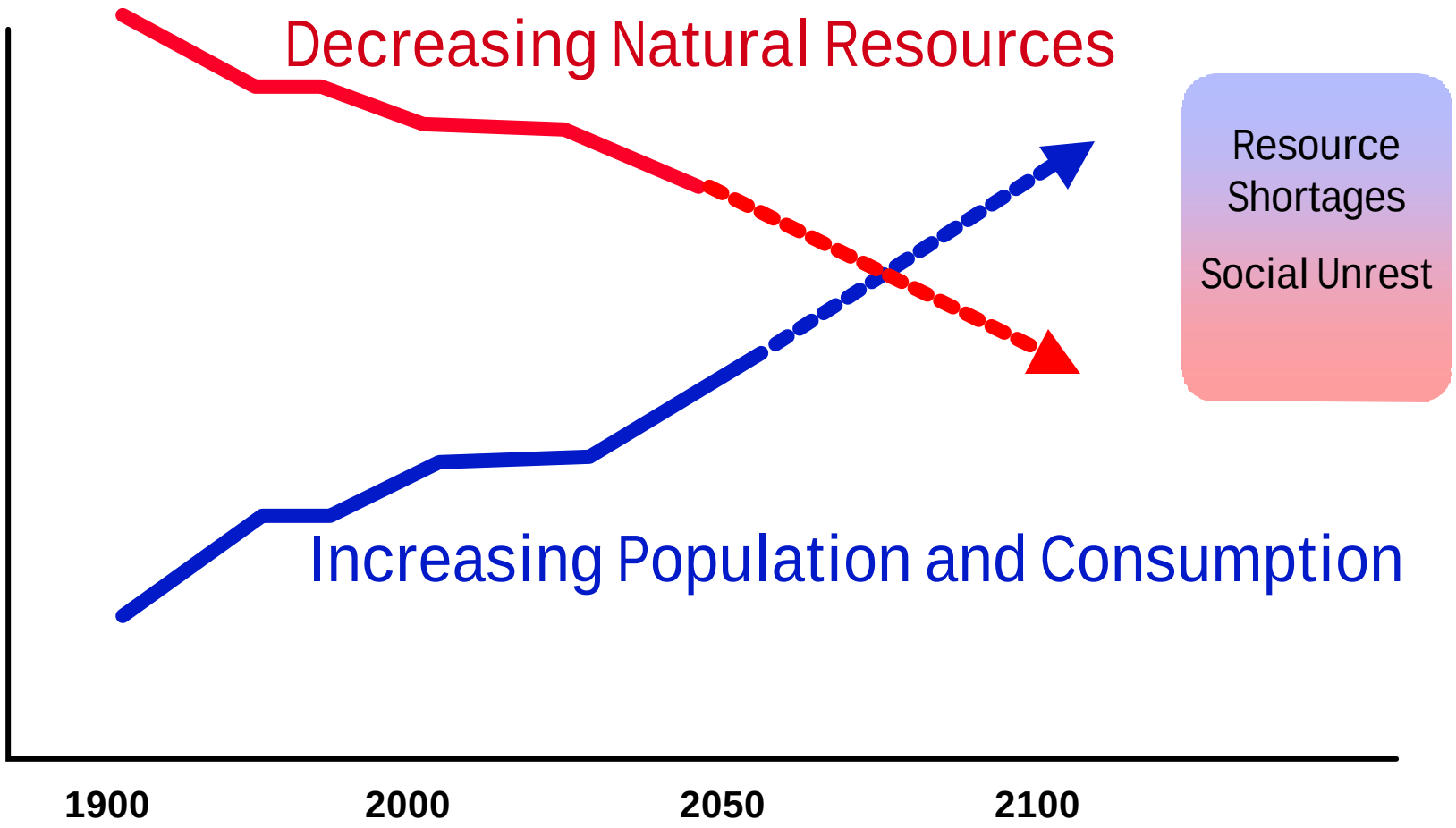
Do our business activities promote sustainable economic health for the company and the global community?

Employees and Social Responsibility

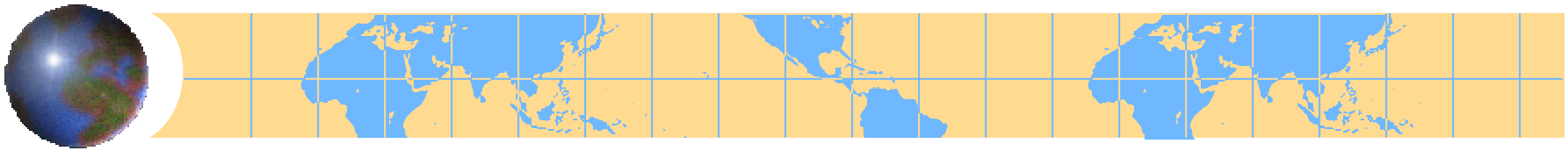
Do we conduct our business in a manner that contributes to the well-being of our employees and the global community?

Environment

Do we manage our operations in a way that is protective of the environment to help ensure the earth can sustain future generations and the company's ability to meet future needs?

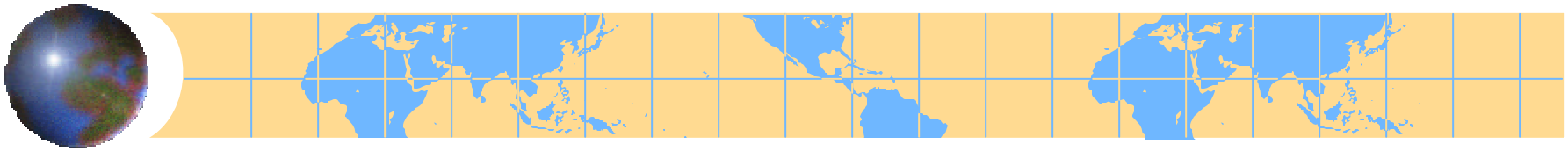


The "Big Squeeze"



Other Trends Supporting Movement Toward Sustainable Development

- Global cost-competition driving eco-efficiency
- Growing importance of brand and reputation
- Stockholder activism
- Producer responsibility
- Competition for new talent
- Growth of socially responsible investing

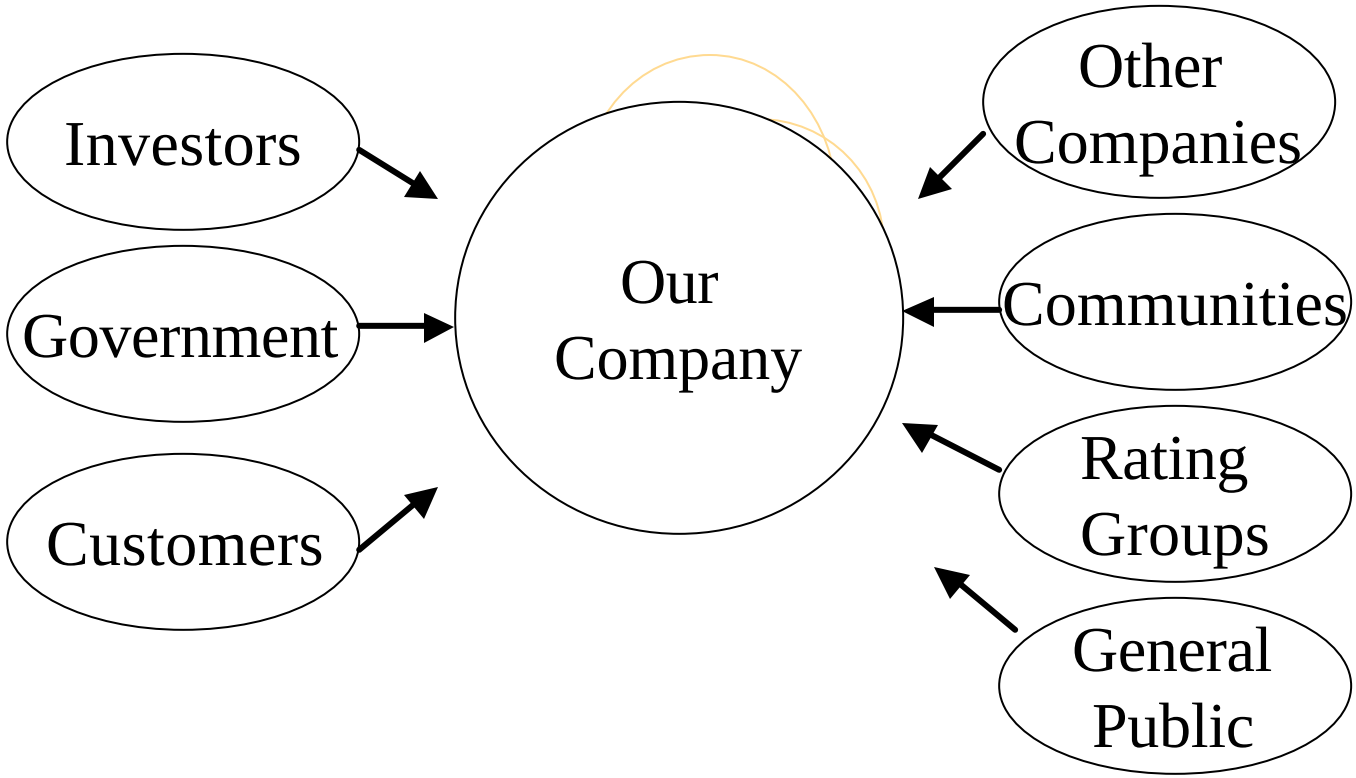


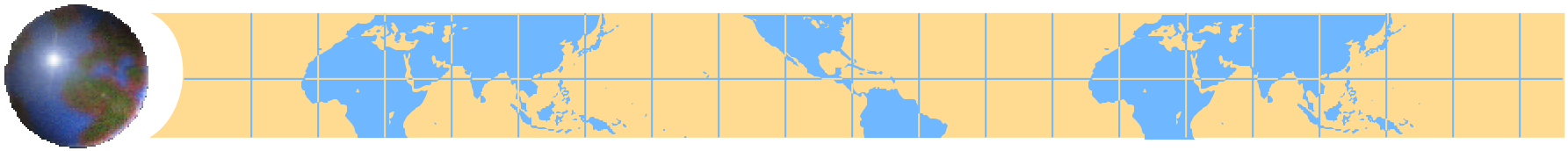
Other Trends Supporting Movement Toward Sustainable Development

- Growth of NGOs
- Globalization of business; local fear of “foreign invaders” lacking environmental and social accountability
- Demand for environmental/social/economic “transparency” (candidness) of corporations (laws, internet, reporting standards)

Trends Supporting Movement Toward Sustainable Development

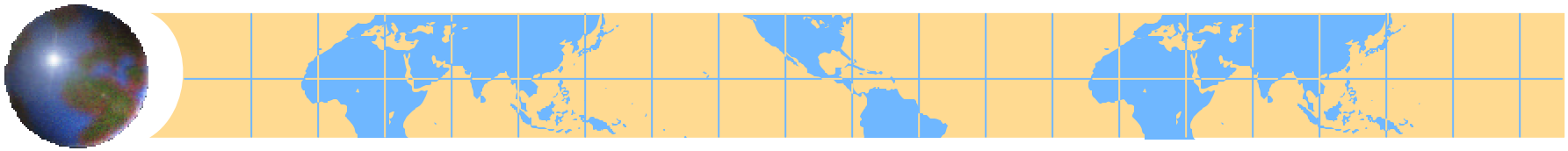
Pressure from ---





Value Of SD To Corporation

1. Corporate reputation (esp. with e-commerce)
    a. Brand strength (customers)
    b. Recruiting/staff retention (employees)
    c. Attracting capital (SRI) (investors)
    d. Support for international expansion, free trade (communities)
2. Risk management
3. Innovation/growth
4. Productivity (waste, safety = $)



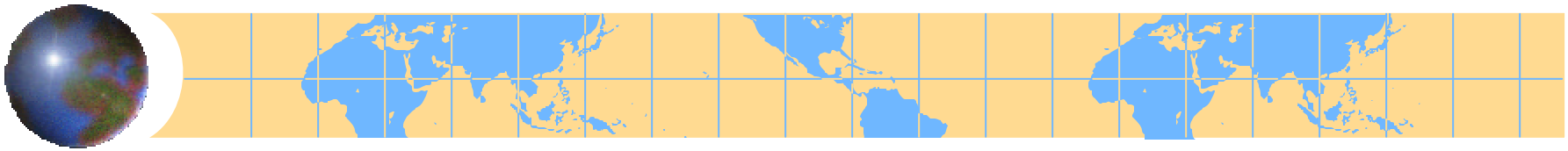
2005 EHS Strategic Vision And Goals

Become a Sustainability Leader in EHS For Business Advantage And Global Citizenship, Achieving The Following Goals:

	Goal	Base Year	2005 Savings
1. Reduce air toxic emissions	80%[1]	1996	$ 1 million
2. Reduce hazardous and regulated waste generation	35%[1]	1996	$ 4 million
3. Reduce nonhazardous waste generation	35%[1]	1996	$ 15 million
4. Reduce energy use (and assoc. Greenhouse Gases)	30%[1]	1996	$ 30 million
5. Reduce packaging materials	20%[1]	1995	$ 25 million
6. Reduce employee work-related lost-work-day-case rate	60%[2]	1996	$ 25 million
7. Reduce rate for all employee work-related injuries and illnesses	50%[2]	1999	
		TOTAL	$100 million

[1] Per-unit basis

[2] Cases per 200,000 work hours (100 FTE)



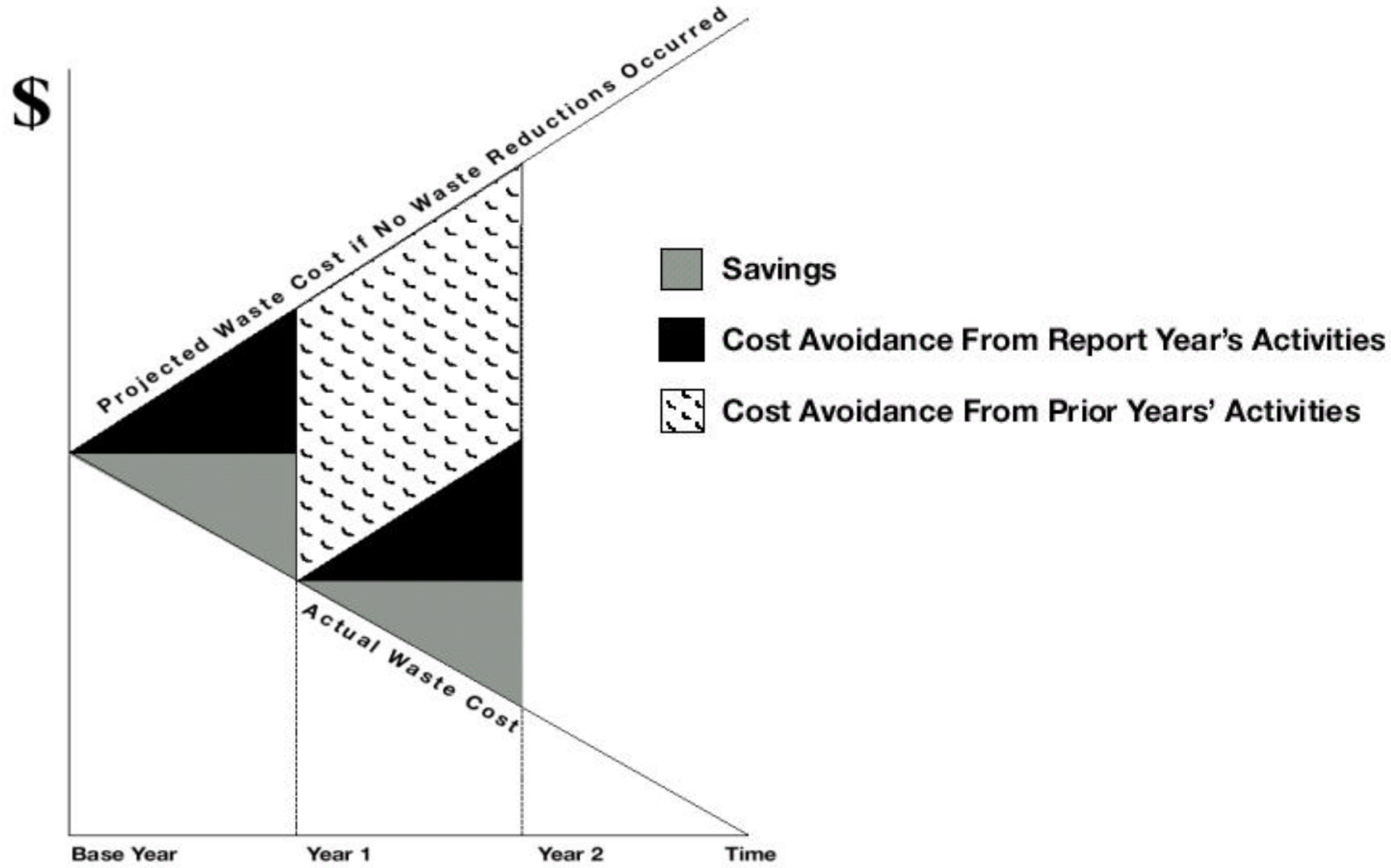
Definition Of Terms Of Terms

Income: Actual moneys received in report year.

Savings: Reduction in actual cost between report year and prior year. An increase in actual cost is negative savings.

Cost Avoidance: Additional costs other than the report year's savings that were not incurred but would have been incurred if the waste reduction activity had not taken place. In calculating savings and cost avoidance for waste reduction activities, it is assumed that production and distribution activity grew at the rate of increase of cost of goods sold adjusted for inflation and inventory changes, and that waste quantities would have risen at those same rates in the absence of waste reduction initiatives.

Conceptual Depiction of Cost Avoidance And Savings Terminology



Baxter Environmental Financial Statement

Environmental Costs of Basic Program

	2001 ($ mil.)	2000 ($ mil.)	1999 ($ mil.)
Corporate Environmental – General & Shared Multidiv. costs	1.6	1.6	1.5
Auditors' and Attorneys' Fees	0.6	0.5	0.5
Corp. Environmental – Engineering	0.4	0.4	0.5
Division/Regional/Facility Env. Professionals and Programs	5.6	6.0	5.7
Packaging Professionals and Programs for Packaging Reductions	1.1	0.4	0.5
Pollution Controls-Operations and Maintenance	2.6	3.9	4.2
Pollution Controls-Depreciation	0.9	1.0	0.9
Total Costs Of Basic Program	**~13**	**~ 14**	**~14**

Baxter Environmental Financial Statement

Remediation, Waste And Other Response Costs

	2001 ($ mil.)	2000 ($ mil.)	1999 ($ mil.)
Attorneys' Fees for Cleanup Claims, NOVs	0.1	0.1	0.2
Settlements of Government Claims	0.0	0.0	0.0
Waste Disposal	10.2	8.4	8.3
Environmental Taxes for Packaging	1.0	1.1	1.1
Remediation/Cleanup – On-site	0.5	1.1	0.5
Remediation/Cleanup – Off-site	0.0	0.1	0.2
Total Remediation, Waste And Other Response Costs	**~12**	**~11**	**~10**
+ Total Costs of Basic Program	**~13**	**~14**	**~14**
Total Environmental Costs	**~25**	**~25**	**~24**

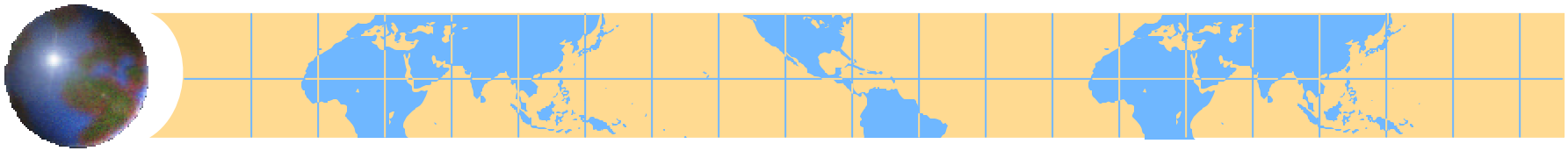
Baxter Environmental Financial Statement

Income, Savings And Cost Avoidance From 2001 Initiatives

	2001 ($ mil.)	2000 ($ mil.)	1999 ($ mil.)
Ozone-Depleting Substances Cost Reductions	0.0	0.1	0.1
Hazardous Waste - Disposal Cost Reductions	(0.3)	0.9	(0.5)
Hazardous Waste-Material Cost Reductions	0.0	1.1	(0.8)
Nonhazardous Waste-Disposal Cost Reductions	(0.5)	0.0	0.0
Nonhazardous Waste-Material Cost Reductions	(9.8)	2.1	1.4
Recycling Income	8.2	7.0	5.5
Energy Conservation-Cost Savings	3.2	2.8	1.8
Packaging Cost Reductions	2.5	1.3	0.6
Water Conservation Cost Savings	0.1	0.1	0.1
TOTAL ENVIRONMENTAL SAVINGS	**~ 3**	**~ 15**	**~8**
As A Percentage Of The Costs Of Basic Program	**23%**	**107%**	**57%**

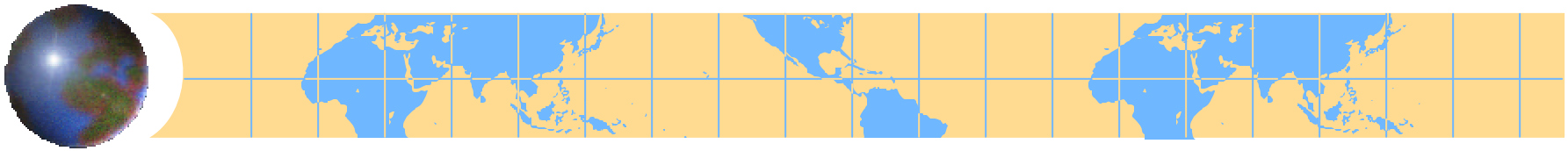
Estimated Environmental Savings Worldwide

	2001 ($ mil.)	2000 ($mil.)	1999 ($mil.)
Total Report-Year Environmental Savings	~ 3	~15	~8
Cost Avoidance In Report Year From Efforts Initiated In The Six Years Prior To Report Year	~53	~60	~69
Total Income, Savings And Cost Avoidance In Report Year	~56	~75	~77



Examples Of Undetermined Costs

- Environmentally driven materials research. (Offset by increased sales, etc.)
- Capital costs of modifying processes other than adding pollution controls. (Offset by increased production efficiencies, etc.)
- Costs of substitutes for hazardous materials. (Relatively minor)
- Time spent by non-environmental employees on environmental activities.
- Lost sales from environmental issues.



Examples Of Undetermined Savings

- Reduction in liability exposure from tank removals, waste site evaluations, etc.
- Reduced administrative costs
- Increased goodwill, sales and employee morale
- Avoidance of costs for environmental problems that did not occur

Some Issues

1. Changes in divisions, facilities, processes

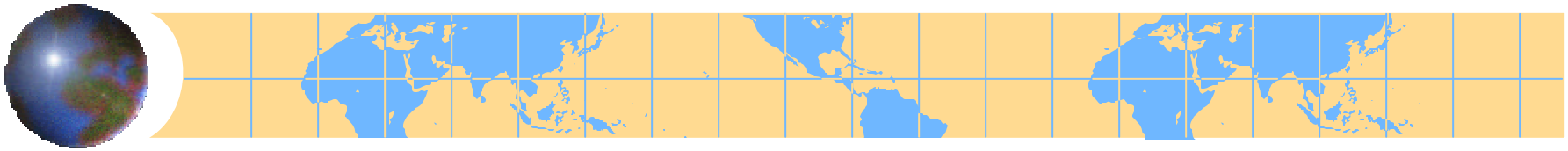
2. Burden of data collection and review

3. Return on investment: Who gets credit?

4. Credibility of numbers
   a. Accuracy, reliability of source
   b. Measurement vs estimates

5. Termination of cumulative benefit

6. Scope of “environmental”



Tips For Getting Started

1. Identify parameters, method of determination, source of data
2. Phase-in over time
3. Continuously improve reliability, clarity, credibility
4. Be transparent about assumptions, methodologies
5. Be conservative about estimates
6. Periodically weigh burden vs benefit