

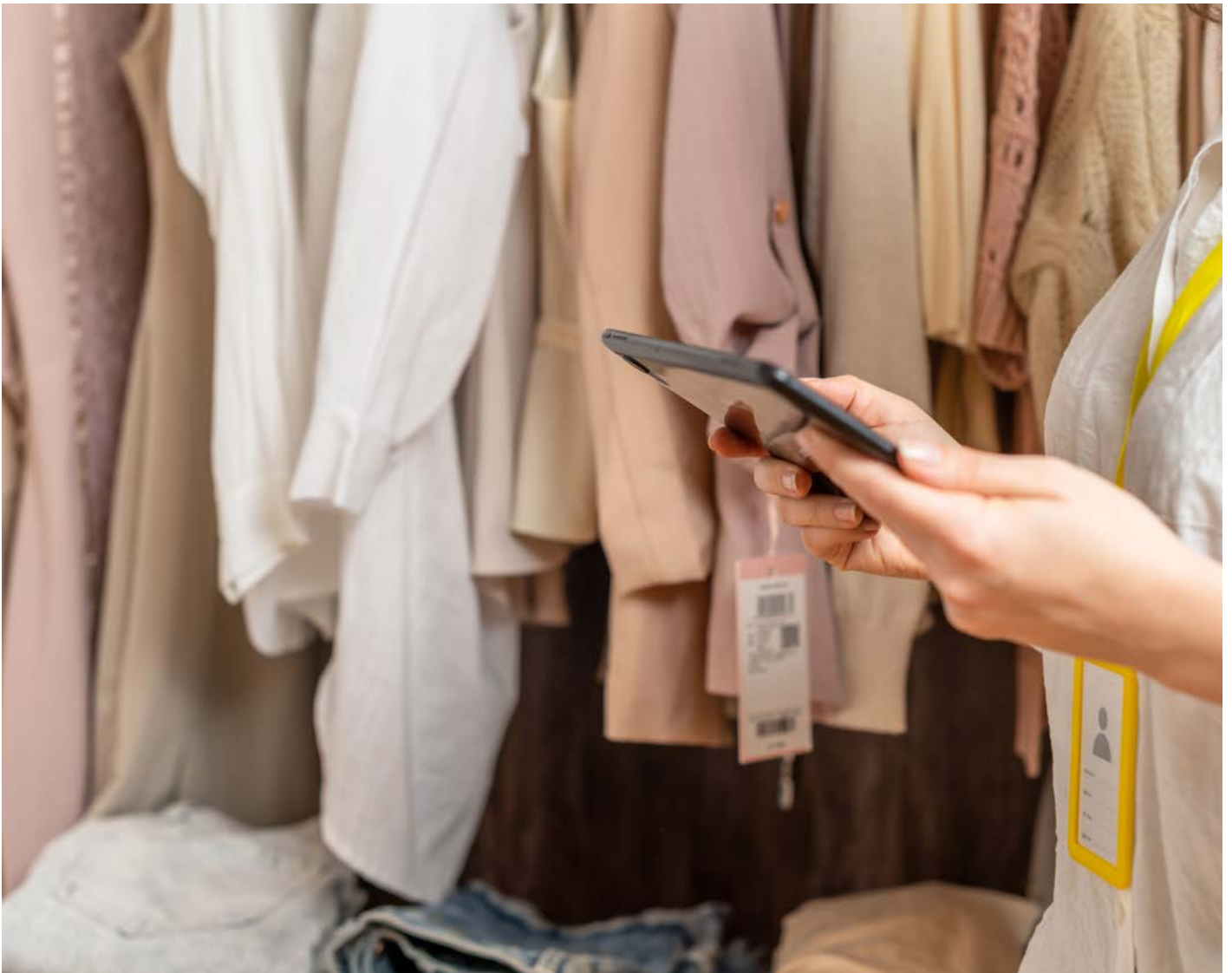
Bridging Europe's sustainable and digital future

The Avery Dennison vision for a more
sustainable and competitive Europe

July 2024

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Introduction

Its social and economic prosperity are being threatened by inflation, high energy prices, supply chain pressures and geopolitical tensions. This uncertainty is also impacting Europe's capacity to find workable solutions to the climate change crisis and achieve climate neutrality by 2050.

In this context, the transition to a circular economy has an untapped potential to address pressing economic, social and environmental challenges. And yet, over the past decade, Europe has seen a mere 1.4% marginal increase in the use of circular materials.

The recent European Election are a prime opportunity to define a new Industrial Strategy that combines the relaunch of EU's economic competitiveness with the advancement of clean technologies and circular business models across Member States. Such an approach would also help tackle strategic threats such as critical raw materials, energy dependence and the deterioration of natural ecosystems.

Avery Dennison's technologies connect physical & digital to solve key challenges Europe is facing, such as product circularity, waste and supply chain transparency. Our products touch a range of industries (apparel, food, retail, logistics, consumer packaged goods) and enable businesses across the globe to accelerate their sustainability journey while continuing to grow and create value. We stand ready to support EU policymakers as they continue to implement the EU Green Deal as Europe's growth strategy.

The EU must establish the right conditions for businesses to play their critical role in this transition. The EU's strategy should encompass the following pillars:

- Strengthen the EU Single Market: Regulatory barriers must be minimized to continue to attract businesses and investment in the EU, and help them flourish. By contrast, regulatory fragmentation adds costs and is an obstacle to profitability, notably for small businesses.
- Leverage digitalization for the circular economy: We must harness the potential of the twin transitions by connecting the physical and digital worlds. Digital technologies can play a key role in enabling circular business models, reinforcing EU's commitment to sustainability, innovation and competitiveness.

About us

Avery Dennison Corporation (NYSE: AVY) is a global materials science and digital identification solutions company that provides a wide range of branding and information solutions that optimize labor and supply chain efficiency, reduce waste, advance sustainability, circularity and transparency, and better connect brands and consumers. Our products and solutions include labeling and functional materials, radio frequency identification (RFID) inlays and tags, software applications that connect the physical and digital, and a variety of products and solutions that enhance branded packaging and carry or display information that improves the customer experience. Serving an array of industries worldwide — including home and personal care, apparel, general retail, e-commerce, logistics, food and grocery, pharmaceuticals and automotive — we employ approximately 35,000 employees in more than 50 countries.

Avery Dennison has an unwavering commitment to Europe, housing an innovation and R&D hub within the region, which represents one of the business's largest geographic markets. We have operations in 17 EU member states and over 4,000 employees in the region. Our European-based innovation centers provide innovative and sustainable solutions to businesses throughout the continent.

As an industry-leading provider of physical and digital identification solutions that unlock circularity, Avery Dennison is eager to share its perspective on the EU's upcoming five-year priorities. This document revolves around two key EU priorities:

- Unlocking circularity for Europe's economic competitiveness
- Fostering digital solutions for sustainable and competitive growth



Circularity for Europe's Competitiveness



According to recent studies, the switch to renewable energies will only tackle 55% of greenhouse gas emissions globally. The remaining 45% is linked to the production of items we use every day, such as food, furniture and textiles. To address this share of emissions, we need to build a circular economy that is made competitive by the expansion of circular production models, as well as more sustainable consumer behavior. A strong focus on ecodesign and resource efficiency will reduce environmental impact, stimulate the scaling of innovative business models and create high-quality jobs.

The following enabling conditions should be at the heart of the EU's circularity agenda for 2024-2029:

- 1. Harmonized waste management infrastructure:** Developing and innovating the necessary infrastructure to sort, recycle and reuse materials is the most important step to achieving material circularity. Such infrastructure must consist of multiple existing and emerging technologies to meet technical feasibility needs. Extensive legislation around ecodesign will fail without an extended and harmonized waste management infrastructure in place across the EU, based on solid economic models.¹
- 2. Boost circular business models:** Industry needs incentives to transform existing linear business models towards reuse, repair, re-sell, and, finally, fully circular business models such as product-as-a-service. Europe can achieve this through realistic targets and timelines that encourage industry to lead the way, innovate and enable smaller players to scale.²
- 3. Supply-chain waste reduction:** Finally, legislators should consider incentivizing waste-reduction measures at the supply-chain level. Research shows that an average 8% of stock is discarded due to poor inventory and supply chain management. This is a “low-hanging fruit” that has already partially been addressed by bans on the destruction of unsold goods for textiles in the Ecodesign Regulation. However, bold³ policy action can ensure that companies reduce overproduction by having better visibility over their stock and inventory. Textiles, food and retail are sectors where supply chain waste regulation would yield immediate benefits.

1 Completing the Picture: How the Circular Economy Tackles Climate Change, Ellen McArthur Foundation (2021)

2 The circular economy has the potential to increase the EU's GDP by an additional 0,5 % and create more than 700 000 new jobs by 2030. https://www.ellenmacarthurfoundation.org/assets/downloads/publications/EllenMacArthurFoundation_Growth-Within_July15.pdf

3 “The Missing Billions: the real cost of supply chain waste”, Avery Dennison (2022)

Our policy asks

- Prioritize the Ecodesign for Sustainable Products Regulation (ESPR) implementation, with the adoption of delegated acts for at least 10 strategic priority product groups by 2030.
- Implement the clear Packaging and Packaging Waste Regulation (PPWR) with no delays, rewarding fast-movers towards more sustainable packaging solutions;
- Introduce policy measures that incentivize circular transformation investments. Recommended measures include: 1) recognizing recycling technologies as net zero emissions in existing financial support schemes; 2) providing guidance to steer investments that are eligible for national recovery funds and fall within Europe's industrial strategy towards waste management and the construction of recycling infrastructures.
- Strengthen focus on supply chain waste reduction through measures that address unsold goods and waste prevention targets for priority product groups beyond textiles, such as food, furniture and tires.
- Institutionalize industry involvement in ESPR and PPWR through the Ecodesign Forum, and create an ad-hoc packaging forum that advises the European Commission on Design for Recycling guidelines..



Digital technologies must underpin the circular transition

Digital technologies can help the transition towards a circular economy. EU legislators have taken important steps by proposing a common, open and mandatory Digital Product Passport (DPP) under the Ecodesign for Sustainable Products Regulation (ESPR). Requirements to adopt digital labels are also being introduced in parallel with other legislation, such as the Textile Labeling Regulation, the Construction Products Regulation and the Toys Safety Regulation. However, there is a risk of regulatory uncertainty as digital labels are regulated in various ways and with different aims across product groups.

Digital identification solutions are gaining ground in Europe across industries. For instance, it is estimated that around €17 bn apparel and footwear products are currently identified through RFID tags. Companies are adopting digital labeling systems according to different standards, identification systems and IT infrastructures. The absence of a harmonized regulatory framework is creating fragmentation and hindering widespread adoption. Persistent issues related to the infrastructure and digital divide are also undermining acceptance of digital identification solutions.





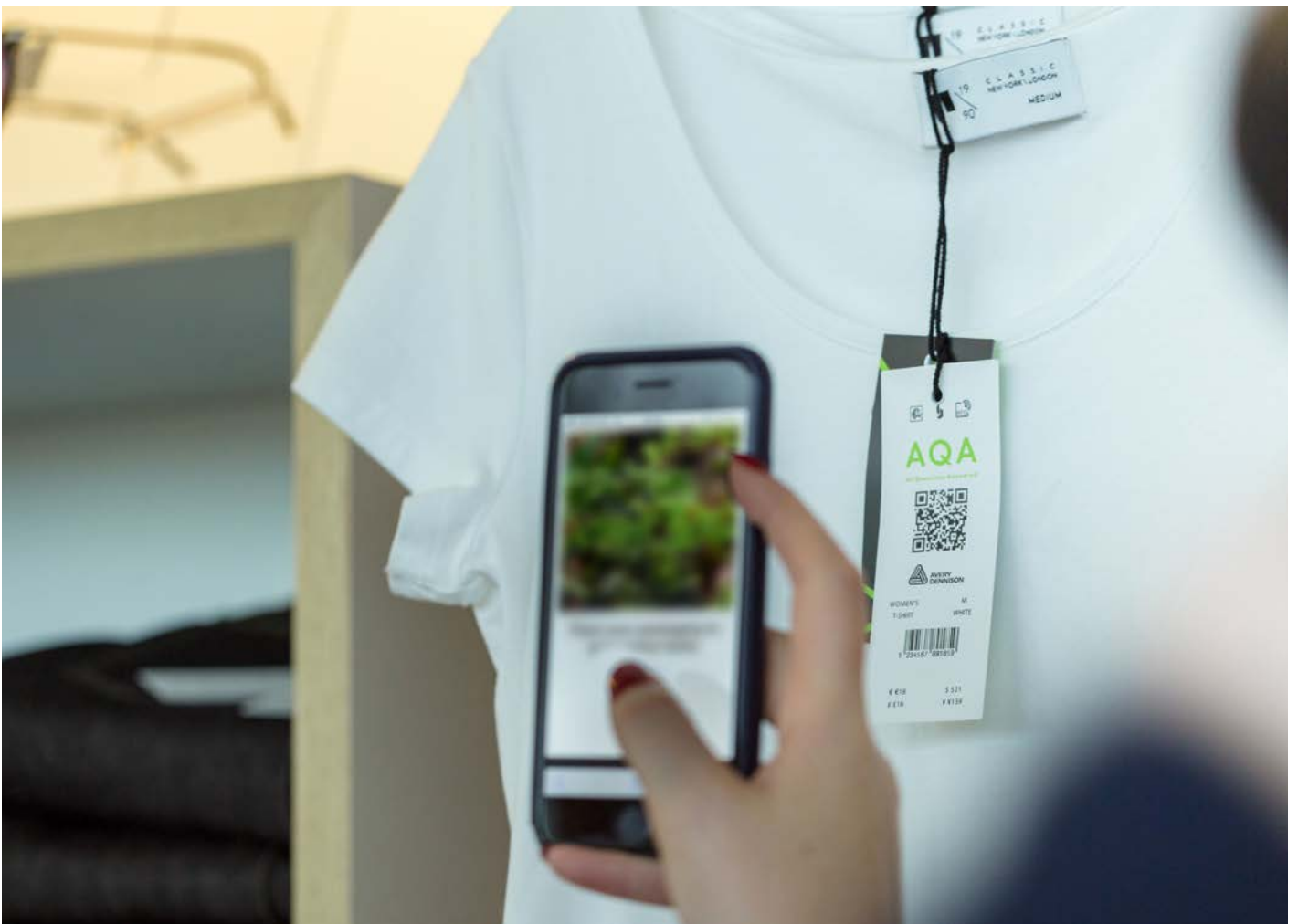
- We need to bridge the digital skills gap in Europe to help consumers make the most of new digital technologies that enable sustainable purchasing choices. When citizens learn to leverage digital information, they will be able to better contribute to the circular economy. Next to decision-makers, brands and retailers should also play a role in this transition by educating consumers of the opportunities and benefits of engaging with digital labels.¹
- Consistent standards and testing methodologies should apply to information displayed via DPPs and digital labels. For instance carbon footprint reporting should be done according to standardized methodologies.²
- Given the global interconnection of value chains, the EU should integrate DPPs into its global trade agenda and incentivise their adoption by its trade partners, starting with the UK and the U.S. This will help the benefits spill over to other jurisdictions.
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1 RFID: Progress, Trends and Where Next, IDTechEx provides business intelligence on emerging technologies, helping your business grow, <https://www.idtechex.com/>

2 'Digitalisation in Europe 2022-2023, Evidence from the EIB Investment Survey', European Investment Bank, 2023. https://www.eib.org/attachments/lucalli/20230112_digitalisation_in_europe_2022_2023_en.pdf

Our policy asks

- Prioritize the roll-out of the DPP for first product groups by the end of 2026. Maintain a technology-neutral approach regarding data carriers and information requirements across product groups;
- Establish DPP as a one-stop shop for product-related information requirements.
- Develop a DPP standard that applies to all digital labels mandated by EU legislation, enabling interoperability between DPPs and other digital labels.
- Foster investment in digital skills and infrastructure through conventional and dedicated EU funds.
- Champion the DPP on the EU-US Trade and Technology Council agenda.

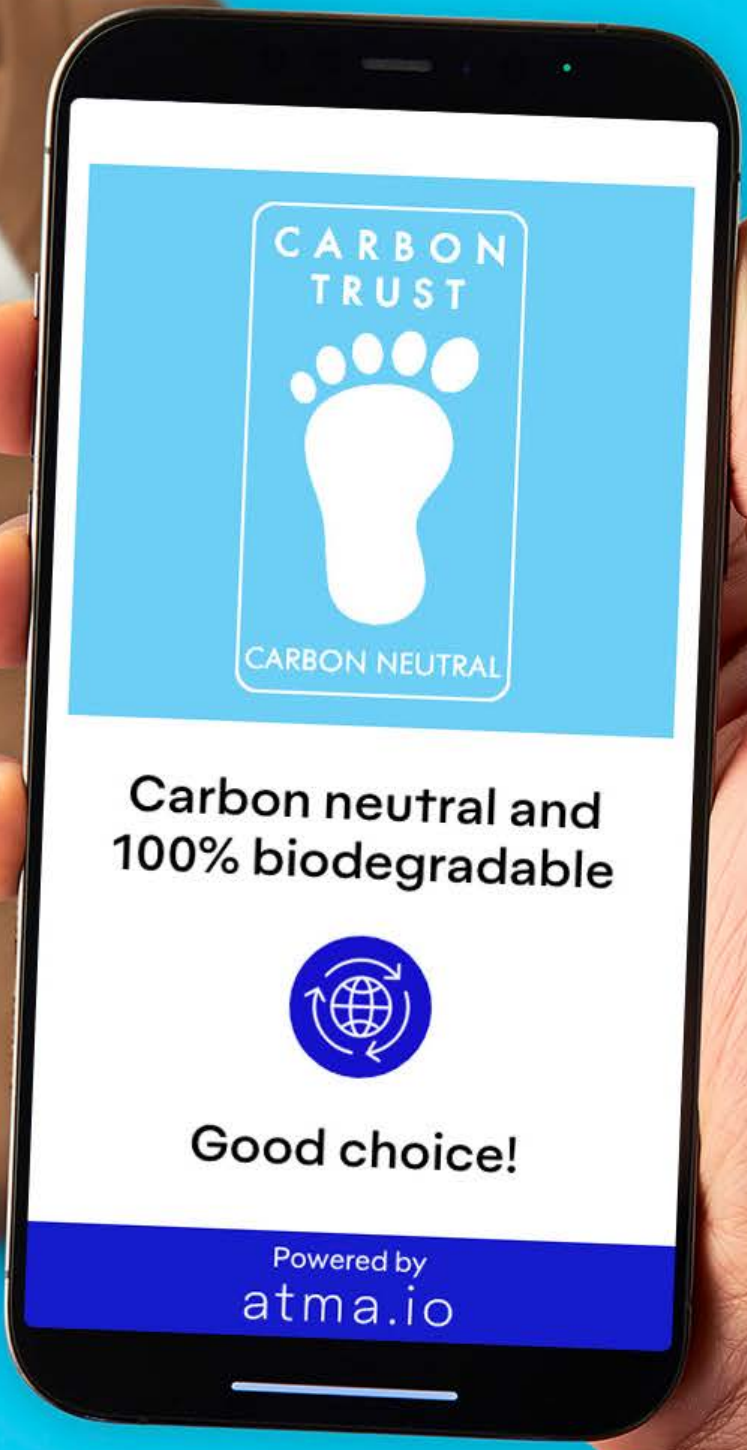


Conclusion

The EU needs a regulatory strategy focusing on the implementation of workable rules to enable economic operators to play their role in accelerating the sustainability transition, with a special emphasis on advancing the circular economy. Through pragmatic policy solutions the EU Green Deal can serve to increase industrial competitiveness for companies operating in the EU.

The strategy would need to strengthen the Single Market to improve Europe's attractiveness and the ease of doing business in the EU, while supporting circular business models by leveraging digital innovation. Finally, it should empower consumers to play an even greater role in leveraging digital tools to make informed, sustainable choices and turn environmental awareness into actionable behavior.





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