



Council for Socially Responsible Investment  
www.csri.org.nz

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NEWS RELEASE

### **How Should Auckland Council Invest?**

Did you know that Auckland Council invests in tobacco companies? And companies with serious environmental and human rights issues? They are also very likely to be investing in companies producing nuclear weapons, land mines, and nuclear power.

The Auckland Council has about \$265 million in managed funds, term deposits, cash etc, not including its shares in the port and airport. This is administered by the Auckland Council Investments Ltd (ACIL). The ACIL recommended to Council that they promote a responsible policy that integrates Environmental, Social and Governance considerations into the investment and operational policies where possible. The Council is currently invested in global equities via with the following funds:

- iShares ACWI – Global Equities
- Tower Asset Management – Global Bonds
- Blackrock - Global Bonds
- OnePath -Global Equities.

The problem with global equities mandates is that they do not exclude investments that are unethical.

### **CSRI Submission**

The Council for Socially Responsible Investment (CSRI) made the following submission to Auckland Council.

***The SIPO (Statement of Investment Policy and Objectives) is inconsistent with the Draft Auckland Plan***

*The current proposed policy and SIPO is inconsistent with the Draft Auckland Plan. The Plan does an excellent job in identifying the threats of climate change; peak oil; significant energy price increases; environmental degradation; loss of biodiversity; and pollution. We are delighted to see that. But surprisingly, none of these threats have been reflected in the proposed SIPO. Until this occurs, Auckland Council is certain to continue to invest in companies that contribute to the very threats that will compromise Auckland's vision to be the world's most livable city.*

***There are no adequate ethical criteria: investment will continue in companies that are unacceptable to the majority of Aucklanders***

*The Funds in the current portfolio include investment in tobacco companies; companies with records of gross violation of human rights; companies with unacceptable environmental records; and companies that are unsustainable. Because the Auckland Council invests in global funds, it is almost certain that there are investments in companies producing nuclear weapons, land mines,*

*and nuclear power.*

***We recommended the following:*** *The Auckland Council will only invest in companies that are committed to being socially, financially and environmentally sustainable, and that respect the environment, human rights, and the stakeholders of the company. Unless there is a reasonable chance of working to change them Council will not invest in companies with poor records in these matters and will exclude them from consideration. There will be at least annual reports on the details of the exclusion and engagement efforts and results.*

### **Auckland Council Debate and Resolutions**

At the Auckland Council Meeting a resolution was proposed as an addition to the Primary Objectives of the Council's investments

"To commit to investments that are socially, financially and environmentally sustainable and that respect the environment, employees rights and human rights."

This was defeated - 8 votes for and 10 against (see Auckland Council website for voting patterns and details).

Another motion was proposed and (with amendments) eventually passed 12 votes to 6:

"That Council and Auckland Council Investments Ltd promote responsible investment policies and will work with fund managers to invest in funds that promote socially and environmentally responsible investments."

While this is an improvement on the initial ACIL recommendation, it has limitations in that the two concerns raised by CSRI are still unanswered. The difficulty is with the notion of "responsible" when defined to mean consideration of social, environmental and governance matters. These requirements are vague and provide no commitment to exclude unacceptable companies. The problem is that "responsible" as defined and "ethical" are not the same.

Unless particular types of investment are excluded, then the wide range of companies open to investment remains indiscriminate, especially with global funds. Hence Auckland Council will invest in companies that are inconsistent with its own Draft Auckland Plan, and companies unacceptable to Aucklanders will continue to receive funds.

During the Council's discussion it was suggested that it is too difficult to decide what is ethical because of the controversial cases. It is true there are some difficult ethical dilemmas and no clear community agreement on some issues. But this does not mean there cannot be wide agreement about a number of matters. Just because there may be dispute about the moral issues of abortion or euthanasia, does not mean the Council should exclude nothing and invest in everything including tobacco, serious abuse of human rights and the environment. New Zealanders are against slavery, child labour, pollution and destruction of the environment.

If someone poisoned the Auckland water reservoirs, there would be no dispute about classifying this as wrong. There can be no justification for Auckland Council making investments in companies where these types of abuses occur, here or overseas. The CSRI Board itself is not agreed about all the details around an ideal SIPO. As one CSRI Board member said "There are light greens and dark greens among us, but we do agree that greening is necessary".

Sister Pat Wolfe, former CEO of the Interfaith Centre for Corporate Responsibility, a grouping of Jewish, Protestant and Catholic investors in the USA, told me when she attended a CSRI Conference a few years ago that she says to her Catholic investors "The others will not agree with us about abortion, but they will about many of our other concerns, and that is why we should unite with them about these common concerns".

One way forward is the Swedish example. The AP1, AP2, AP3 and AP4 are funds in Sweden's national pension system, managing the pension capital accrued by everyone who has ever worked in Sweden. They have around SEK875billion (NZ \$166 billion) under investment. The Swedish Funds use those values in the international conventions signed by the state of Sweden (among others, conventions on human rights, labour rights, corruption and inhumane weapons) and through the Swedish support of initiatives such as the UN Global Compact, the OECD's guidelines for multinational companies, as well as Swedish foreign policy positions.

During the Auckland Council discussion it was suggested there are very few SRI funds to choose from and with only \$265 million, it was too small to go it alone. While size is relevant, there are a number of funds which could be considered that should satisfy an improved SIPO. There are over 700 SRI funds internationally (including Australasia). Mercers who are advisors to ACIL should be able to select and advise on appropriate SRI options. They are at the forefront of SRI research and consultancy. They will work within a SIPO in giving their advice. A poorly worded SIPO will get poor advice.

### **Draft Auckland Plan and a Vision for Auckland**

CSRI was very pleased to see the strong messages in the Auckland Council draft Plan about ecological degradation. In 1992 some 1700 of the world's leading scientists, including the majority of Nobel laureates in the sciences, gave a warning to humanity that

*"Human beings and the natural world are on a collision course. Human activities inflict harsh and often irreversible damage on the environment and on critical resources. If not checked, many of our current practices put at serious risk the future that we wish for human society and the plant and animal kingdoms, and may so alter the living world that it will be unable to sustain life in the manner that we know. Fundamental changes are urgent if we are to avoid the collision our present course will bring about" (World Scientists' Warning To Humanity, 1992).*

Global warming to 4°C and beyond is now almost irreversible (International Climate Conference). The safe levels of biodiversity, nitrogen and phosphorus have been exceeded (Rockström, *et al.*). The availability of water for food and other human use is at a critical stage (Brown). The condition of oceans is alarming. Disastrous floods, heat waves, storms and droughts are becoming more frequent.

### **Defining Risk such as Water**

As part of its fiduciary responsibility the Council must define risk to reflect these matters. Those companies that do not assess these risks are less likely to survive and are poor investment choices. An example is water. In a recent study of 2000 global companies, it was found that 54% are exposed to water risks. Only 0.22% have adequate management systems, policies and reporting mechanisms in place to tackle the risks. Sectors such as oil and gas, mining, power generators, semi-conductor plants, retail chains and agriculture are heavily

reliant on water and show high water risk exposure. Of those companies exposed to water risks only 9.7% have set either short or long-term targets on water consumption. Furthermore, only 9.7% have set targets on water quality.

Randeep Sanghera, report author and lead water analyst at EIRIS (a leading global provider of research into corporate ethical performance) said, "The era of cheap and easy access to water is coming to an end for companies. This poses a potentially far greater threat to business than the loss of other natural resources, including oil, yet the majority of companies and investors remain unaware of the risks they face".

Those organisations that take a longer term view identify environmental degradation as a major threat. Companies such as insurance companies take climate change seriously because it affects their bottom line. If Auckland Council is to have a Vision that has any chance of assisting Aucklanders through a turbulent future, it must take the science seriously, and reflect that in its investments.

At the moment the Auckland Council's SIPO will not do that. It needs further work.

### **What You Can Do**

If you live in Auckland, let your ward member know that you are concerned the Council is investing in unacceptable companies such as tobacco companies. Ask them to review their SIPO to reflect basic human values and to define risk to reflect the concerns of scientists about the environment.

Review the criteria that you have given your fund manager for your personal investments. Investigate the SIPO of your pension fund, community trust or church.

***This article was written by Dr Robert Howell, Chair of the Council for Socially Responsible Investment and has been distributed in the latest edition of NZ Investor.***

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