



Risks of tobacco investments and why states, territories, super funds and investors should divest

Recommendations

That states, territories, super funds and investors review their investment policies and divest all tobacco investments based on the:

- unique and devastating global impact that tobacco products have on human life;
- changing regulatory environment for the tobacco industry;
- increasing reputational risks for funds investing in tobacco stocks; and
- growing trend for mainstream investors and governments to screen out tobacco.

Key Considerations

1. Tobacco products are unlike any other product or service: when used as intended they kill around 6m people a year worldwide, with death and disease tolls rising dramatically in emerging markets.
2. The tobacco industry has a shameful Environment-Social-Governance (ESG) record and is widely held in low regard. It was rated least reputable among the world's 25 major industry categories in the independent Global Reputation Pulse worldwide survey of over 80,000 consumer interviews in 32 countries including Australia.¹
3. There is a growing trend for mainstream investors to screen out tobacco in support of ESG principles and the health and ethical values of members and health authorities. ***In Western Australia the Insurance Commission of WA is the only state investment body that continues to invest in the tobacco industry.***
4. Responsible investment is good business, with no negative impact on investment productivity. Morningstar reports Australian share funds investing ethically produced 4.65% average annual return in 5 years to 31/7/10, against 4.21% for mainstream share options. Super researcher SuperRatings says 'sustainable' Australian share options have outperformed mainstream options. According to the Responsible Investment Association of Australasia: "*Responsible investment is now commonly considered to be 'best practice' as consideration of ESG factors is seen to assist in the management of investment risks.*"²
5. The regulatory environment for tobacco is changing because of the ratification of the WHO Framework Convention on Tobacco Control (FCTC) – the world's first health treaty ratified by 176 countries, including Australia. The FCTC aims to reverse the global tobacco epidemic by requiring parties to implement legislation and tougher regulatory controls including: smokefree laws; tobacco tax increases; comprehensive bans on all forms of tobacco advertising; mass media campaigns on dangers of tobacco; and protecting health policies from tobacco industry interference.³

¹ <http://tobacco.health.usyd.edu.au/assets/pdfs/AHNRC-Media-Releases/Global-industry-survey-16-June.pdf>

² RIAA submission to government inquiry 27/7/12

³ Article 5.3 and its guidelines in particular require governments to not invest in tobacco companies at www.who.int/fctc/guidelines/article_5_3/en/index.html

6. It is conservatively estimated that several billion dollars of members' money is funding the tobacco industry's global expansion, particularly into poor countries where young children are successfully targeted by the industry. In most cases these holdings occur without the direct knowledge of fund members – itself highlighting significant transparency issues within the superannuation industry. Many members object to having their money invested in tobacco – especially when they become aware that these investments are essentially funding death and misery by underpinning the global profits of these companies' investments.
7. There are risks for funds in managing their brand and reputation, as the “MySuper” reforms are expected to result in greater transparency and increased opposition to tobacco investments by members. A survey of 800 pension fund members (2007) found that two-thirds object to their funds being invested in the tobacco industry, seeing this as investment in ill-health.⁴
8. The future of the tobacco industry is rapidly becoming uncertain, with markets in developed countries shrinking due to tighter legislation and increasing consumer awareness. Business reports from Euromonitor and Citigroup raise significant doubts about the future of the industry, basing these doubts on 50 years of data showing falls in the prevalence of smoking.⁵
9. Momentum for tobacco control laws and reforms is accelerated by significant financial backing. For example, the Bloomberg Initiative, with funding from the Gates Foundation, is an investment of US\$600m to reverse the tobacco epidemic. Since the Bloomberg Initiative began in 2007, 21 countries have passed 100% smoke-free laws, the percentage of people protected from second-hand smoke has increased by 400%, and almost four billion people worldwide are now protected by at least one of six proven tobacco control policies.⁶
10. Plain or standardised tobacco packaging has been successfully implemented in Australia and other countries such as the United Kingdom, France, Ireland, among others. The global ratings agency Fitch has described standardised packaging as the “biggest regulatory risk” facing the tobacco industry, elaborating:

*The threat primarily arises from loss of pricing power, where tobacco companies would be unable to justify significant price differences in premium and above-premium brands which would look exactly the same as budget brands.*⁷
11. The next major regulatory impact for the tobacco industry is the global push to regulate tobacco product contents and additives - including making products less palatable and reducing their addictiveness-in line with FCTC Article 10. The Australian government is completing a consultation process on an options paper and other leading countries have commenced similar regulation in support of FCTC Article 10.

Who is the tobacco industry?

The tobacco industry in Australia is dominated by three transnational corporations with billions in assets: British American Tobacco (BAT), Philip Morris and Imperial Tobacco. The Australian companies are all wholly owned subsidiaries of their overseas parents.

⁴ <http://heapro.oxfordjournals.org/content/23/1/35.full>

⁵ www.tobaccoinaustralia.org.au/chapter-10-tobacco-industry/10-24-the-future-of-the-tobacco-industry#x3

⁶ www.mikebloomberg.com/index.cfm?objectid=B30497B1-C29C-7CA2-F9F7AABDE96F87E7 and www.gatesfoundation.org/What-We-Do/Global-Policy/Tobacco-Control

⁷ www.cfoworld.co.uk/news/risk/3427621/plain-packaging-should-worry-big-tobacco-says-fitch/

The rapidly growing trend for tobacco divestment

1. The Australian Government's Future Fund made the decision to divest tobacco industry investment from all its portfolios. (\$230m)
2. Three Australian Governments (NSW, SA and ACT) have announced whole-of-government socially responsible investment policies that exclude direct and indirect investments in the tobacco industry. The other states/territories are currently reviewing their investment policies and treaty obligations. The commitment to the FCTC was reinforced this year when all nine Australian governments endorsed the National Tobacco Strategy 2012-2018 and its goal to reduce smoking rates to 10% or less by 2018.
3. Since 2011 several large investment and superannuation funds have divested tobacco stocks including:
 - a. HESTA with 730,000 members announced its progressive divestment policy applicable to all options.⁸ (\$35m)
 - b. GESB (\$52m)
 - c. VicSuper
 - d. First State Super announced that it is excluding tobacco from all investment options⁹
 - e. SunSuper (\$54m)
 - f. Local Government Super
 - g. Christian Super
 - h. Industry Superfund Cbus (\$20m)
 - i. Commonwealth Superannuation Corporation (\$100m)
 - j. The Funds SA
 - k. UniSuper¹⁰
 - l. SunSuper (\$54m)
4. Internationally sovereign wealth funds in Norway, New Zealand, Alberta Canada, and five US states, and the New Zealand Superannuation Fund have all made the decision to divest from the tobacco industry.
5. Investment funds have decided not to invest in the tobacco industry on ethical grounds, including:
 - a. AMP Capital
 - b. Australian Ethical Investments
 - c. Hunter Hall
 - d. UCA Funds
 - e. Victorian Funds Management Corporation (VFMC) (\$100m)

⁸ www.hesta.com.au/Media/docs/5077FACT-SHEET-TOBACCO-FREE-NOV12-FINAL-79cbe20e-7c1b-473a-95bf-60b47d51aa07-0.pdf

⁹ www.firststatesuper.com.au/tmp/6657%20HS%20FSS%20Tobacco%20Fact%20Sheet_Web.pdf

¹⁰ www.unisuper.com.au/investments/frequently-asked-questions

Environment, Social and Governance (ESG) principles – the tobacco industry’s record

The total social costs of tobacco use in Australia alone are \$31b a year – nearly five times what the government collects in tobacco excise revenue.¹¹

1. Globally the social costs are escalating in low-to-middle income countries where governments are already struggling with poverty, communicable diseases and inadequate health and safety laws.
2. Decades of tobacco industry conspiracy and deception including intimidation, economic and legal threats to governments and health leaders are well documented in the public record. For example, the industry’s global strategy to deny, block and undermine health policies is reported by WHO.¹²
3. Ethical principles, laws and human rights are regularly violated by the tobacco industry.¹³
4. The scale of tobacco industry litigation and tobacco control laws is growing rapidly.¹⁴
5. Global tobacco production has been exposed as relying on slave labour, causing child and human rights abuses, large-scale deforestation, soil depletion and green tobacco sickness.¹⁵
6. The environmental impact of tobacco litter and pollution is increasing. Around 5.5 trillion cigarettes are consumed and discarded every year. The massive clean-up costs are shifted to ratepayers.¹⁶
7. Tobacco companies attempt to counter opposition to their unethical practices by claiming to reinvent themselves as “socially responsible” - giving generous donations to political parties and worthy causes such as disaster relief, aid and homelessness. They use front groups and sponsor ineffective campaigns to reduce tobacco litter, youth smoking and child labour. Yet the fact remains: there is no safe level of tobacco consumption. Because of the tobacco industry’s well-documented history of secretive and deceptive conduct, it is difficult to imagine how investment funds engaging with tobacco companies can claim any tangible or acceptable improvement in the business of producing, marketing and selling these addictive, lethal products.

Support for tobacco divestment

There is strong and growing support from political leaders, medical and science professionals, super fund members and the community at large to make investment decisions based upon socially and ethically responsible principles, and in doing so, exclude tobacco investments completely. Organisations such as Tobacco Free Portfolios and ACOSH continue to raise awareness about this important issue.

¹¹ www.nationaldrugstrategy.gov.au/internet/drugstrategy/publishing.nsf/Content/mono64

¹² http://whqlibdoc.who.int/publications/2008/9789241597340_eng.pdf.

¹³ <http://tobaccocontrol.bmj.com/content/21/2/208.full?sid=b782eeb7-6e87-4798-8258-937478925dbc>
http://tobaccocontrol.bmj.com/content/14/suppl_2/ii26.full?sid=806c3eb4-d61f-4610-b528-eb76fcb0acc
<http://tobaccocontrol.bmj.com/content/15/3/224.full?sid=c5dbe9ea-4887-475e-ac86-5363784750c9> \

¹⁴ For example, the Washington-based Campaign for Tobacco-Free Kids has a searchable global data base at www.tobaccocontrol.org/

¹⁵ Evidence of the devastating environmental and health impacts of tobacco production is examined at www.fairtradetobacco.org/

¹⁶ Science reports at www.cigwaste.org/