



# Briefing into ACC's ethical investment policy

Report of the Education and Workforce Committee

November 2019

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Dr Parmjeet Parmar  
Chairperson

## Briefing into ACC's ethical investment policy

### Recommendation

The Education and Workforce Committee has considered a briefing into ACC's ethical investment policy, and recommends that the House take note of its report.

### Introduction to the briefing

We sought this briefing as we are interested in learning about the Accident Compensation Corporation's ethical investment policy. We are particularly interested in how ACC considers the ethical implications of its investments in companies involved with the production of fossil fuels. This is particularly relevant because the Climate Change Response (Zero Carbon) Amendment Bill has just passed through Parliament. We also heard from ACC about other areas that relate to its ethical investment policy, such as alcoholic beverages. ACC discussed its decision not to invest in tobacco, and what its approach may be to future law changes around cannabis use.

### Overview of ACC's investments

ACC holds more than \$40 billion dollars in investments. Earnings from these investments mean that ACC can cover the future cost of injuries without New Zealanders paying more for accident cover. ACC told us it has a responsibility to achieve the best possible mix of long-term return and risk on its investment funds. Two-thirds of ACC's investments are in New Zealand companies, with the largest proportion of this in Government bonds.

ACC's board has an investment subcommittee. It develops and approves ACC's investment strategy, including its policies and guidelines.

ACC told us that declining interest rates can have a significant impact on the Outstanding Claims Liability (that is, the amount that must be set aside to meet the future cost of injuries). Because ACC would expect to earn less income on the dollars it has today, it would need to set more funds aside. ACC differs in this respect from other independent investment funds that do not have a growing claims liability to cover.

To illustrate the importance of investment returns to cover claims liability, we were given the example that a brain injury to a child at birth is estimated to have a lifetime cost for each child of between \$36 million and \$56 million. ACC accepted an average of 16.6 claims of this type per year between 2013 and 2018.

ACC told us that the investment committee has been successful in earning investment income and that every \$100 that ACC invested 27 years ago is worth more than \$1,350 today.

## **ACC's ethical investment policy**

ACC has the responsibility to invest in an ethical and lawful way. It told us that it aims to conduct its investment activities in an ethical manner that avoids prejudice to New Zealand's reputation as a responsible member of the world community.

ACC recognises that views held by New Zealanders regarding what is ethical can vary. ACC told us that "an investment one person may support may cause concern for another". ACC believes the laws of New Zealand best reflect the principles widely held by the public. ACC therefore avoids investment in any areas that are banned under New Zealand law. These areas are:

- anti-personnel mines
- nuclear explosive devices
- cluster munitions
- whale meat processing
- cannabis
- North Korean munitions
- mercenary activities
- automatic or semi-automatic firearms.

In addition to this list, ACC does not directly invest in tobacco companies. This is because smoking, although legal, is widely discouraged in New Zealand public policy. We were told that investing in tobacco companies would also be inconsistent with ACC's role to promote health and safety.

We asked what variables ACC took into account when it decided that any relationship with tobacco companies was inconsistent with its role in the health sector. ACC said that, as legislative changes have progressively restricted the sale and consumption of tobacco, ACC has accordingly recognised that the majority of New Zealanders do not consider smoking an acceptable activity. It has therefore considered it appropriate to exclude any investments in tobacco-producing companies. ACC also stated it used polling of public opinion to discern what New Zealanders find ethical.

ACC said it also recognises that many New Zealanders have ethical issues with activities such as gambling, fast food, sugary soft drinks, factory farming, use of plastic, and coal mining. However, unless laws were passed to ban them, ACC would be unlikely to impose a blanket ban on investment in these areas.

## **ACC's investments relating to alcohol**

We also asked about ACC's investment in companies that produce alcoholic beverages. Specifically, we asked whether ACC considers alcohol and tobacco to be two different issues in relation to the health and safety of New Zealanders. ACC said that, in terms of a government policy approach, alcohol and tobacco are separate issues. ACC noted that it is concerned that alcohol can be a contributing factor in injuries. It has made investments in other areas to address this concern.

We were told that approximately 0.3 percent of ACC's total investments as at 15 August 2019 were in companies that produce alcoholic beverages. However, as these companies also produce non-alcoholic beverages, the actual investment percentage that can be directly linked to alcohol would be lower.

### **ACC's likely response to any cannabis law reforms**

We asked ACC how it might react to cannabis law reforms. It told us that if the law in this area changed, it would probably look at injury-prevention initiatives in the first instance. At present, it is waiting for advice about the evidence of health effects and accidents relating to cannabis use. The Prime Minister has asked for a summary of the evidence about the harms and benefits of legalised and controlled cannabis. This is expected to be released publicly in January 2020. Once it has this research, ACC will consider further research and initiatives.

### **Investment in fossil fuels**

ACC has approximately \$1 billion directly invested in fossil fuel production. This represents holdings of bonds or shares in:

- companies primarily involved in the production of fossil fuels
- companies like Genesis Energy and Rio Tinto, which have a small involvement in the production of fossil fuels, alongside their main activities
- companies that operate gas pipelines or gas distribution networks
- contractors that derive a significant proportion of their revenue from the fossil fuel sector
- bonds issued by the governments of countries that derived a large share of their export revenue from fossil fuels.

The total does not include companies that merely use fossil fuels. ACC added that many of the fossil fuel production companies it invests in have taken steps to reduce their carbon footprint.

We were told that ACC also holds investments in companies that are involved with the production of renewable energy. They include Meridian Energy, Trustpower, Contact Energy, Infratil, Tilt Renewables, Infigen Energy, Huaneng Renewables, Vestas (a manufacturer of wind turbines), and Solar City. We note that ACC's direct investment in renewable energy is \$778 million.

ACC told us that although it invests in fossil-fuel-related companies, this does not mean it does not think about climate change. Its investment portfolio managers take climate change threats into account when making decisions. ACC believes this aligns with its objective of maintaining a good balance between investment return and risk.

ACC told us that it also expects its investment managers to take into account the challenges, risks, and opportunities of climate change. This includes considering what effects the shift away from fossil fuels may have on each investment and the reputation of ACC. We were told that ACC supports the transition to a lower-carbon economy and supports companies heading in that direction.

ACC told us that its investment team is aware of the discussion around climate change. It would review its stance and ensure it is consistent with the Climate Change Response (Zero

Carbon) Amendment Act 2019. ACC noted that, although the bill would signal a movement away from the use of fossil fuels and towards carbon neutrality, this is not a change that would happen instantly.

## Conclusion

We note that section 271(3A)((c)(v)) of the Accident Compensation Act 2001 requires that the ACC Board report to the responsible Minister, “the Corporation’s investment statement, being a statement of policies, standards, and procedures that must include a statement relating to ethical investment for avoiding prejudice to New Zealand’s reputation as a responsible member of the world community”.

During our briefing, ACC offered two major rationales as to how they formulate those ethical standards. They were whether something is lawful, and whether “the majority of New Zealanders consider it an acceptable activity”. To elaborate on the latter, it stated that it was not an easy calculation, but factors that were typically taken into account were the direction of travel with regards to domestic law, and polling of the New Zealand public. Despite tobacco not being illegal, these social standards have been applied to tobacco, meaning ACC has not invested in such products since 2006.

Since the Committee opened this briefing, the Climate Change Response (Zero Carbon) Amendment Bill has passed its third and final reading in the House of Representatives with unanimity. There have also been strong showings of public support for climate action, such as the Friday 27 October School Strike 4 Climate that saw 170,000 New Zealanders (according to media reports) marching across the country. So too, in July 2019, Stuff.co.nz reported 79 percent of New Zealanders now feel climate change is important to them personally.

In the international context, reporting from International Energy has shown that investment in renewable energy is at its lowest since 2014, dropping 1 percent in 2018, while investment in oil and gas extraction has risen 3.7 percent and investment in coal mining has risen 2.6 percent since last year.

ACC accepted at our briefing with it that as a multi-billion dollar investor, and the largest Crown investor, it has substantial market power and influence.

At present, the decision about divestment from fossil fuels presently rests with the ACC Board to take into account all of the above, and our “reputation as a responsible member of the world community”. Given Cabinet Ministers and the Prime Minister herself have all stated with regards to climate action, and particularly the Zero Carbon Bill that New Zealand’s role is to lead, it would make sense that we also lead the world in the next phase of divestment and decarbonisation.

If the Government wishes to direct ACC to do so, it is entirely within its power under the Crown Entities Act 2019.

The Green member encourages such action in the face of the climate crises, especially with a Crown entity that has the ability to meaningfully and substantially resource investment in transitional technology and renewable energy in place of fossil fuels.

### **National Party minority view**

National recognises the operational independence of ACC and the ethical investment policy that ACC currently has. We understand that these issues can be complex and we respect its ability to weigh up the different factors to continue to develop and refine its ethical investment policy to ensure it is investing funds in a responsible and ethical way. While the Minister of ACC does have the power to make a ministerial direction under the ACC Act, we are not aware that this has occurred since the scheme has been in operation, or if it has occurred, it is very rare.

## Appendix

### **Committee procedure**

We met between 26 June 2019 and 20 November 2019 to consider this briefing. We heard evidence from Accident Compensation Corporation.

### **Committee members**

Dr Parmjeet Parmar (Chairperson)  
Simeon Brown  
Hon Clare Curran  
Hon Nikki Kaye  
Denise Lee  
Marja Lubeck  
Jo Luxton  
Mark Patterson  
Chlöe Swarbrick  
Jan Tinetti  
Nicola Willis