

23rd July 2012

Senator Helen Polley
Chair, Senate Finance and Public Administration Legislation Committee
PO Box 6100
Senate
Parliament House
Canberra ACT 2600



*"When you can't breathe...
nothing else matters"™™*

Dear Senator Polley,

The Australian Lung Foundation appeals to the Federal Government to review and amend:

- **The Future Fund Act 2006 and**
- **The Nation-building Funds Act 2008**

...To ensure a sustainable yet ethically conscious Future Fund investment portfolio

The Australian Lung Foundation welcomes the opportunity to make this submission to the Senate Standing Committee on Finance and Public Administration in its ***Inquiry into the Government Investment Funds Amendment (Ethical Investments) Bill 2011***. We strongly support the proposed amendment or repealing of Schedule 1 – Amendments of Future Fund Act 2006 and Nation-building Funds Act 2008, items 1 – 44 as indicated in the Government Investment Funds Amendment (Ethical Investments) Bill 2011 Explanatory Memorandum.

Introduction

The Australian Lung Foundation is the only national charitable organisation devoted to serving everyone with poor lung health in Australia. The Australian Lung Foundation strives to meet the need in the community of reducing the significant and debilitating cost of lung disease, both in human and financial terms.

15,000 Australians die each year from tobacco related diseases. That is forty Australians dying each day from a preventable disease. Smoking is the single largest preventable cause of death in Australia and costs the economy \$31.5 billion each year. Of all the risk factors for ill health, tobacco smoking is responsible for the greatest burden on the health of Australians. Tobacco smoking is a major risk factor for chronic obstructive pulmonary disease (COPD), coronary heart disease, stroke, peripheral vascular disease, numerous cancers including cancers of the lung, mouth, oesophagus, larynx, kidney, pancreas, bladder, stomach and cervix and other diseases and conditions. Around 13% of deaths from cardiovascular disease are due to smoking tobacco (*AIHW, The burden of disease and injury in Australia 2003, published 2007*).

Tobacco is the only legally available consumer product which has the potential to kill people when used entirely as intended.

The Future Fund and Ethical Investment

While we understand the need for government to meet the rapid rise in public pension expenditures in coming years: we implore government to consider divestment by the Future Fund of investments in companies involved in the production, manufacture or supply of cigarettes and other tobacco products .

The Australian Lung Foundation believes that it is inappropriate to have Australia's national sovereign wealth fund investing in ways that undermine major national health initiatives, especially when the significant and adverse personal and economic impacts of tobacco is unequivocal. Some might also consider it unacceptable for our Future Fund to be financing companies which actively seek to challenge and undermine our national policies and laws designed to minimise tobacco harm.

Below we outline why The Australian Lung Foundation welcomes the inquiry into Government Investment Funds, and specifically the importance of not investing in companies involved in the production, manufacture or supply of cigarettes and other tobacco products;

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Medical and Broader Economic Costs to the Community

Every day over forty Australians die of tobacco related diseases and cancers. That is over 15,500 deaths a year. Tobacco remains the nation's number one preventable health problem.

According to the latest publicly available figures, the Future Fund now holds more than \$225 million in investments in the tobacco sector, an increase of nearly 50% on the previous year. In contrast smoking costs the national economy \$31.5 billion a year (*D.J. Collins (UQ), H.M Lapsley, (UNSW) for the Department of Health and Ageing, National drug Strategy, 2008*). This figure is an increase of six billion dollars since the last survey in 1998/99. The measurable cost of tobacco to our community is increasing at over one billion dollars a year.

Tobacco is Australia's number one drug problem, far ahead of alcohol and all other drugs as a cause of death and disease.

Earnings benefits versus broader risks and costs

The Australian Lung Foundation believes that a critical issue for the Committee to examine is whether there is broader financial benefit to the Future Fund investing in tobacco. Are such investments required to achieve the funds target returns? Particularly when balanced with the costs to the community of tobacco related disease.

On the 19th of July 2012, First State Super announced that they have excluded companies involved in the manufacture of cigarettes and other tobacco products from their entire investment portfolio. First State Super is one of the nation's largest non-for-profit superannuation funds with over 770,000 members and thirty three billion dollars funds under management.

In the announcement, CEO Mr Michael Dwyer stated that their decision will have inconsequential impact on investment returns. In the press release (attached), First State Super CEO Mr. Dwyer said "Our decision reflects both the strong views expressed by our employers and members and our support for Government initiatives to minimise tobacco consumption."

Future Fund support for Tobacco and the National Health Policy

The Australian Lung Foundation understands that at least three major tobacco companies are currently suing Australia in the High Court (under bilateral investment treaties) in a bid to overturn the Commonwealth's landmark plain cigarette packaging legislation, which is due to come into effect in December this year.

Australia has rightly earned the accolade of being a global leader in tobacco reform policies in order to minimise the potentially lethal dangers of tobacco consumption. Those in the Health Ministry should be acknowledged for this. Disappointingly, some of the key policy reforms of recent years, especially plain cigarette packaging, are under legal challenge by the companies in which the Future Fund is a shareholder. Ironically, it appears that in addition to investment by the Future Fund in tobacco related interests being incongruous with National Health Policy, this investment may also be contributing financing the legal challenge against our new innovative plain cigarette packaging laws.

Conclusion

The Australian Lung Foundation notes that the Future Fund has already established a precedent for divesting from certain stocks on the basis of a public policy test, namely its divestment in 2010 from Lockheed Martin, a manufacturer of cluster bombs. We hope that this precedent will inform the current review.

The Norwegian Sovereign Wealth Fund provides an international model for ethical future fund investment management. We hope that the Government will implement a review into the governance, transparency and other structures surrounding the activities of the Australian Future Fund with a view to considering the implementation of key components of the Norwegian Fund as a guide to best practice. Preferably, this will also include the establishment of a Council of Ethics that operates alongside the Guardians.

Based on our above rationale, The Australian Lung Foundation urges both immediate divestment of tobacco related investments from the Future Fund; and that appropriate mechanisms are instituted to ensure that the integrity and social responsibility of the fund is not tarnished by such investments in the future.

The Australian Lung Foundation advocate that government should amend the Future Fund Act 2006 and Nation-building Funds Act 2008 to require the ministers responsible for certain funds to develop, by legislative instrument, ethical investment guidelines for each fund (the Future Fund, the Building Australia Fund, the Education Investment Fund and the Health and Hospitals Fund) and direct the Future Fund Board to have regard to the guidelines when making investment policies.

Thank you for your consideration of our submission. We applaud the Committee for undertaking this review and The Australian Lung Foundation would welcome the opportunity to present our case at the inquiry and we look forward to hearing from the Committee.

Yours faithfully

William Darbshire
Chief Executive Officer