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Standing Committee on Agriculture and Water Resources
PO Box 6021
Parliament House
Canberra ACT 2600

Submission to inquiry into superannuation fund investment in agriculture

Who we are

Australian Ethical Investment Limited was established in 1986 to manage the retirement and other savings of Australians in an environmentally and socially responsible way. Today we manage over $2 billion in superannuation and managed funds for over 40,000 Australians.

As a super fund we invest with long term interests and responsibilities across society and the economy. This perspective is important to consider alongside the voices of individual companies, industries and civil society groups which often focus on narrower business, social or environmental interests. Our broader perspective is embodied in our Ethical Charter (https://www.australianethical.com.au/australian-ethical-charter/).

Our submission

Introduction

We support investment in sustainable agriculture. For example, we currently invest in Costa Group Holdings, Australia's largest horticultural company. However, our ethical charter impacts the extent to which we can invest in the Australian agricultural industry more broadly. For example, environmental, human rights and animal welfare considerations mean we rule out large-scale commercial animal agriculture companies and invest selectively in other forms of food agriculture.

While historically it may have been somewhat unusual to factor all these types of considerations into investment decisions, we see this shifting rapidly for two reasons.

First there is significant growth in responsible investment in Australia.[1] As at 31 December 2016, responsible investment constituted $622 billion assets under management up 9% from $569 billion in 2015, representing

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[1] Responsible investment in this context includes both "core responsible investment approaches" (which involve at least one of negative, positive or norms-based screening; sustainability themed investing; impact investing, community finance; or corporate engagement) and "broad responsible investment approaches" (which use ESG integration as the principle responsible investment strategy).

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around half of all assets professionally managed in Australia (44%).[2] This trend is reflected in the superannuation industry as well. As of 2018, 81% of the largest super funds have embedded a formal commitment to responsible investment (up from 70% in 2016).[3] We expect this trend to continue, driven largely by consumer demand. Consumer research conducted in 2017 revealed that nine in ten Australians expect their super or other investments to be invested responsibly and ethically.[4]

Second there is growing acceptance that ESG factors are important drivers of risk and value in companies and assets. This means even 'traditional' investors are increasingly likely to consider the ESG concerns associated with a particular industry or company.

We think there are significant environmental, human rights and animal welfare issues that could impact on the extent to which responsible investors, or investors taking into consideration ESG factors, will invest in the Australian agricultural issues.

We set out below:

- what we perceive to be the main ethical / ESG risks facing the agricultural industry;
- our suggestions for how these risks could be better disclosed and managed by industry; and
- our perspectives on the need for improved legal and regulatory frameworks to engender trust in the industry.

Risks facing the agricultural industry

The agricultural industry, particularly the food agricultural industry, faces a number of ethical or ESG challenges. The 2018 Coller FAIRR Protein Producer Index Report (**FAIRR Report**)[5] has identified the nine largest ESG risk factors for animal-based agriculture industries globally. These include: greenhouse gas emissions, deforestation and biodiversity loss, water scarcity and water use, antibiotics, waste and water pollution, working conditions, food safety, sustainable proteins and animal welfare. Many of these risk factors are applicable to Australian companies and are increasingly on investors' radars.

Environment

The agricultural industry generally is particularly exposed to environmental risks (including greenhouse gas emissions, deforestation and pollution) and there are significant concerns that these are not being managed appropriately by Australian producers. For example, following an ABC report, there were protests and business boycotts against Tassal's plans to expand its operations because of concerns about the impacts of salmon farming on local ecosystems. In 2017, Tassal was ordered to destock a leased farm property close to a World Heritage area after a report found that all marine fauna at least 500 metres around the property were dead. Australian Ethical divested from Tassal in February 2017 because we had concerns about the sustainability of farmed salmon feed supply.

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[2] Responsible Investment Association Australasia (RIAA), Responsible Investment Benchmark Report Australia 2017.

[3] RIAA, Super Fund Responsible Investment Benchmark Report 2018.

[4] RIAA, Super Fund Responsible Investment Benchmark Report 2018.

[5] https://index.fairr.org/.

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There are also growing concerns in the community about the contribution of agriculture to deforestation in Australia. In Queensland, land clearance and deforestation (mainly for pastoral land) reportedly increased by 100,000 hectares per year to nearly 395,000 hectares in 2015–16, releasing an additional 45 million tons of greenhouse gases into the atmosphere.[6] When the Queensland government passed a suite of new land-clearing laws, it was met with strong protests from farmers, suggesting parts of Australia's agricultural industry may not be ready to meet the challenge of ensuring businesses are both profitable and sustainable.

The animal agricultural industry is also a large contributor to greenhouse gas emissions. In anticipation that there will eventually be regulatory measures to help Australia transition toward a 2-degree aligned economy, investors perceive a degree of risk in investing in companies that have high greenhouse gas emissions and poor management strategies. Greenhouse gas emissions disclosure and reduction targets vary considerably between different businesses, but for example, the Australian Agricultural Company (one of the few livestock producers listed on the ASX) has not disclosed any greenhouse gas emissions strategy.[7] The company ranks as 'high risk' in the FAIRR Report and MSCI (a leading provider of investment decision support tools) reports that the company is in the 'bottom quartile' and 'weak' relative to global peers on carbon footprint performance.

Human rights

Investors are increasingly concerned about whether businesses are managing basic human rights risks in their workforce and their supply chains. This investor scrutiny of working conditions is increasing with Australia's proposed Modern Slavery Act. Food production can be labour intensive and workforces are often seasonal and isolated, creating high risk of human rights breaches. A recent survey into wage theft in Australia found that almost a third of survey participants earned half the minimum wage for a casual employee or less. While large-scale wage theft was prevalent across a range of industries, the worst paid jobs were in fruit and vegetable picking and farm work.[8] This finding is complemented by repeat reports of systemic exploitation and abuse of workers throughout rural Australia, including ABC 4 Corners' 2015 report *Slaving Away* and the 2016 report of the *Victorian Inquiry into the Labour Hire Industry and Insecure Work*.[9]

Animal welfare

In recent years animal welfare has emerged as a material issue for companies across the food value chain, and there is growing awareness that there are significant financial risks associated with industries or companies that have poor animal welfare practices.

Allegations of animal abuse can quickly become corporate crises. While in most cases, these may not impact the share price, there is always the threat of the 'Blackfish effect' (a reference to the movie that caused Seaworld's profits to drop by 84% in three months).[10] For livestock producers, an added risk is the loss of corporate customers who may terminate contracts under pressure from consumers. For example, caged egg

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[6] FAIRR Report.

[7] See AACo 2017 Annual Report and AACo Corporate Governance Statement.

[8] Wage Theft in Australia, Findings of the National Temporary Migrant Work Survey (November, 2017).

[9] See e.g. http://www.abc.net.au/4corners/slaving-away-promo/6437876; https://economicdevelopment.vic.gov.au/inquiry-into-the-labour-hire-industry/final-report; https://www.news.com.au/lifestyle/real-life/news-life/i-wonder-how-long-youll-last-backpacker-exploitation-goes-even-deeper/news-story/a49524652574425c2680f902c749f017; http://www.abc.net.au/news/2017-07-17/rosie-ayliffe-uncovers-backpacker-farm-work-horror-stories/8687868.

[10] FAIRR Report.

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sales are now less than 50% of egg sales, largely because of the animal welfare concerns associated with this type of production system, and consumer-driven campaigns for large food retailers to phase out their use of caged eggs. [11] Further, animal welfare risks are also linked to other risks such as inappropriate antibiotic use.

Australian businesses are not immune to these risks. Australian animal agriculture producers rely on Australia's reputation for producing high quality products at world leading animal welfare standards. But that reputation is being challenged including as a result of:

- Growing awareness that Australian animal welfare standards are behind those of many other developed countries. For example, Australia has yet to phase out extreme confinement systems such as the battery cage (notwithstanding that conventional cages have been banned or are being phased out in Europe, New Zealand and Canada, as well as in California, Michigan and Oregon in the United States).[12] This in part contributed to Australia being given a relatively low ranking on the international Animal Protection Index.[13] Further the recent live export exposé supports findings made by the Productivity Commission that there may be a lack of independent oversight over the agricultural industry generally.[14]
- Undercover investigations and exposés documenting systemic animal welfare problems in Australian businesses and industries, for example in intensive poultry, egg and pig farming facilities, in abattoirs and in the live export trade.

New animal agriculture companies in Asia are reportedly looking to exploit these issues by adopting animal welfare standards better than Australian standards with a view to building their export markets.[15] Further, growing awareness of the animal welfare impacts of animal agriculture, as well as the disproportionate environmental impact of this industry, is leading to trends away from animal-based protein toward plant-based protein. Between 2012 and 2016, the number of Australian adults whose diet was all or almost all vegetarian rose from 1.7 million people (or 9.7% of the population) to almost 2.1 million (11.2%).[16]

In our view, Australian animal agricultural businesses are not appropriately managing these risks e.g. by diversifying into plant-based alternatives or supporting large scale improvements in animal welfare. Rather, industry response has been to deny or dismiss concerns. For example, the egg industry has sought to ensure that the current poultry code review does not result in a phase out of caged eggs, dismissing the growing negative public sentiment toward this type of farming. Accordingly, investors might increasingly perceive there to be significant risk in investing in Australia's animal agriculture industry.

Disclosure and management of risks

Australian agricultural businesses need to do more to disclose how they are managing environmental, human rights and animal welfare risks. This is crucial to allow investors to properly assess the risks and returns of investment in the sector. The FAIRR Report sets out best practice for risk disclosure and management. These include:

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[11] http://www.abc.net.au/news/rural/2017-01-05/caged-egg-market-trending-down-in-response-to-free-range/8164004.

[12] Agriculture Victoria, Farmed Bird Welfare Science Review (October 2017).

[13] https://api.worldanimalprotection.org.

[14] Productivity Commission, Regulation of Agriculture Final Report (28 March 2017).

[15] Findings shared with us by the Business Benchmark on Farm Animal Welfare (April, 2018).

[16] Roy Morgan, 'The slow but steady rise of vegetarianism in Australia' (August, 2016).

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- Companies reporting on five subcategories of greenhouse gas emissions including mechanical sources (such as equipment, refrigeration and air-conditioning systems), non-mechanical sources (such as enteric fermentation and manure management), emissions from land use change, purchased energy and all other indirect sources (such as agrichemicals and purchased feed).
- Companies having clear, science-based targets to reduce greenhouse gas emissions to limit their exposure. Targets should be quantitative (with a base year and target year), long term and apply to entire operations. Companies should also set an internal price on carbon to help model future investments.
- Companies having quantitative, time-bound targets to achieve zero-deforestation as well as certification from a credible NGO.
- Companies disclosing their water use, having a clear policy or strategy on water use management and having quantitative, time-bound targets to reduce water use.
- Companies disclosing their waste management policy based on an accepted standard (e.g. ISO 14001), as well as any instances of non-compliance with local environmental regulations.
- Companies disclosing their antibiotic use and having a policy to avoid routine use of antibiotics.
- Companies having robust animal welfare policies and strategies to reduce confinement and provide environmental enrichment and pain relief.
- Companies disclosing annual injury-rate data, and their policies and commitments to protect labour and human rights.

Legal and regulatory frameworks to support investment

In our view, trust in the Australian agricultural industry as a whole is contingent on strong laws and regulatory frameworks that prevent or minimise the negative externalities of the sector. Australia trades its agricultural products on the back of a reputation for selling high quality, sustainable products meeting the highest production standards. However our laws and regulatory frameworks do not safeguard that reputation.

Australia is behind many developed countries on both environmental and animal welfare standards. For example, legislation to prevent deforestation was wound back in the last decade at the behest of the agricultural industry and now Australia is one of the world's worst fronts for deforestation (comparable to Borneo and the Congo Basin) and loss of biodiversity.[17] Australia has no carbon price to encourage companies to minimise emissions. Australia has not yet banned controversial farming practices such as the use of battery cages and sow stalls. And Australia continues to export live animals notwithstanding the litany of animal welfare crises associated with the trade since its inception.

There are also significant structural governance concerns. The fact state and federal departments of agriculture are responsible for both regulating and promoting the agricultural sector creates a conflict of interest, contributes to regulatory capture, and results in weak laws that may serve the industry in the short term but damages its sustainability long term.[18] We have seen this manifested in the live sheep export industry, which faces significant risk of a legislative ban and withdrawal of financial, insurance and other support and services. (We are already aware of companies in the financial sector which are seeking to limit their exposure to the

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[17] https://www.economist.com/asia/2018/02/24/queensland-is-one-of-the-worlds-worst-places-for-deforestation.

[18] Productivity Commission, Regulation of Agriculture Final Report (28 March 2017).

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trade following the latest exposé.) This event demonstrates that there is urgent need for an independent office of animal welfare.

Environmental, worker and animal protections need to be strengthened and independently enforced to make the Australian agricultural industry more attractive for investors.

We look forward to your response to our submission, and would be happy to discuss.

Yours sincerely

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