Go Eco and 350 Aotearoa joint submission to Waikato Regional Council on Responsible Investment

Go Eco and 350 Aotearoa welcome the opportunity to make a submission to Waikato Regional Council on its investment policy. Go Eco is an advocate for the environment, a centre for learning and a catalyst for change in the Waikato region. 350 Aotearoa strengthens and grows climate action in communities across Aotearoa, and has supported Auckland, Christchurch and Dunedin city councils to adopt responsible investment policies and divest from fossil fuels.

We call on Waikato Regional Council to fulfil its moral, legal and constitutional responsibilities as the guardian of our regional environment and align its investment fund with this commitment.
We call on Waikato Regional Council to adopt a socially and environmentally responsible investment policy with commitments to:
1. Freeze all new investments in companies involved in the extraction, production and manufacturing of coal, oil, and gas.
2. Divest all holdings from the fossil fuel industry by 31 December 2022.
3. Update the Waikato Regional Council's Statement of Investment Policy and Objectives to include a responsible investment policy that excludes harmful industries including fossil fuels, tobacco, gambling and firearms.

Alignment with Waikato Regional Council Climate Action Roadmap

Sustainable investment is a core pathway identified in the Waikato Regional Council Climate Action Roadmap. It is essential that the council's investments align with plans to build a more climate-resilient Waikato region, and support the region's plans to urgently reduce emissions to minimise significant adaptation costs and risks that the region will face.

The Sustainable Investment pathway lays out a clear moral and business case for Waikato Regional Council to divest from coal, oil, and gas companies. This includes an outline of the ways climate change can affect financial stability, including:

1. The physical risks of climate impacts that create insurance liabilities or impact the value of financial assets.
2. The risk of liability for parties that suffer loss and damage from the effect of climate change and seek compensation. As a regional council, the Waikato Regional Council is particularly vulnerable to this risk and therefore needs a well-managed investment fund to support this present and future liability.
3. The risks of transitioning towards a lower-carbon economy, and changes to policy that prompt reassessment of the value of carbon-intensive assets. Funds that continue to invest in coal, oil, and gas companies are vulnerable to the risk of stranded-assets and declining value of stocks.

Responsible Investment

Waikato Regional Council has a fiduciary responsibility to manage our regional funds well and has made a commitment to “endeavour to develop its investment practices consistent with evolving thinking regarding the significance of environment, social and governance factors within the decision-making process”. However, the fund currently has no responsible investment policy to exclude investments in harmful industries such as fossil fuels, tobacco, gambling and firearms.

Responsible investment is increasingly common practice across the finance sector, and there is growing evidence that responsibly invested funds typically outperform their equivalent mainstream counterparts. In New Zealand, assets managed in accordance with responsible investment principles now represent 52% – or $153.5 billion – of New Zealand’s total NZ$296.3 billion AUM. This represents a threefold increase over five years.” (Introduction to responsible investment, RIAA Fact Sheet Nov 2020).

We recommend a negative or exclusionary screening approach to responsible investment. This screening systematically excludes specific industries, sectors, companies, practices, countries or jurisdictions from funds that do not align with the responsible investment goals. This approach is also referred to as values-based or ethical screening, as well as divestment. Common criteria used in negative screening include gambling, tobacco, fossil fuels, weapons, alochol, pornography and animal testing. A negative screening approach means that Waikato Regional Council can guarantee its constituents that it does not invest in industries that cause direct harm to our communities and our environment.

The Case to Divest from Fossil Fuels

We are currently living in the fossil fuel era, but the science is clear that our dependency on carbon needs to end. In 2018, the Intergovernmental Panel on Climate Change released a special report in the impacts of global warming to 1.5° above pre-industrial levels, and set a clear mandate for policy-makers to rapidly transition away from high-polluting industries including fossil fuels, and towards a low-carbon future. Our public institutions like the Waikato Regional Council have a critical role to play in this transition by cutting off the investments that enable the fossil fuel industry to keep digging. We’re already seeing the impacts of climate change in Aotearoa, with more severe droughts, wildfires and floods, and we need to act now to limit further damages in the future. Adapting to and building resilience to climate change in the Waikato is already a core area of work for Waikato Regional Council. It is in line with the council’s goal to achieve a more environmentally sustainable, prosperous and inclusive Waikato region to limit the council’s complicity in exacerbating climate impacts by divesting from the fossil fuel industry, the industry most responsible for global emissions that are causing climate change.

Internationally, the finance sector is responding to citizens pushing for fossil fuel divestment. Over 1245 institutions, worth USD $14.48 trillion, have now committed to policies black-listing coal, oil and gas companies. Over 100 cities and regional councils have divested their public funds from fossil fuels, including Auckland City Council, Dunedin City Council and Christchurch

City Council in Aotearoa.

Fossil fuel stocks are increasingly underperforming and create financial risks for institutions and fund managers that have not excluded the industry from their investment portfolios."The fossil fuel sector provides a dramatic example of a failure to price ESG risk. Over five years, while the S&P 500 Index rose by 48%, the S&P Oil & Gas Index fell by 63% and the Coal Index by 84%. Investment gurus like Jeremy Grantham and Mark Carney, former Governor of the Bank of England, along with a host of other experts, have been warning of the financial risks from stranded assets and sector decline for the past five years" (Coates, 2020). The Waikato Regional Council must protect our public money from the risk of stranded assets and support the performance objective of a real return of at least 4 per cent per annum over 10 years.

Investing for Good

Waikato Regional Council's investment fund must be invested in, and used for public good. We call on Waikato Regional Council to use its investment funds in constructive ways, investing in projects, organisations and businesses that work to positively contribute to the environment, with the intention to generate measurable, beneficial social and environmental impacts.

It's time for the Waikato Regional Council to adopt a responsible investment policy and invest in sustainable industries that will build a healthier future for all of us.