

Socially Responsible Investment Tobacco Companies Position Paper



Tobacco Companies

What are the fund's views on Tobacco Companies?

A key aspect of our Socially Responsible Investment (SRI) philosophy is to encourage all companies to strive towards sustainability and high levels of corporate social responsibility. There is a focus on those industries that are addressing the challenges and opportunities of sustainability. There is also a focus on providing a good financial return and so for our SRI funds to invest in a company it needs to be confident that the social and financial returns are acceptable. In some cases, the social and/or environmental costs may mean that we will decide not to invest in certain sectors or industries.

Tobacco, gambling and alcohol are three industries in which many social responsible or ethical investment funds do not invest. For many of those who set up the first ethical funds, eg. the Quakers, the reason for not investing in these industries was based on their moral beliefs.

The AMP Capital Sustainable Funds Team acknowledge that some investors' concerns towards gambling, alcohol and tobacco continue to be based on moral grounds. However, the fund also recognises that many individuals responsibly consume products produced by these industries.

The majority of Australians, approximately 55%, believe that the social issues associated with gambling, alcohol and tobacco are "very important" or "quite important"¹. Our fund shares this view and in particular we are concerned about the extent and distribution of the social costs associated with these industries.

This position paper outlines the basis for our views on our investment in tobacco companies, by outlining what we see as the main social costs and benefits of the industry. In summary, our AMP Capital Sustainable Fund will not invest in a company with a material interest in the tobacco industry.

The Social Impacts of Tobacco:

A number of studies have been undertaken on the social and economic impacts of tobacco, and other drugs, as part of the Federal Governments National Drug Strategy and by the tobacco industry itself. The sections below provide a summary of the social and economic costs and benefits of tobacco.

Social Benefits of Tobacco

- For some, smoking provides a form of stress relief and relaxation;
- 21% of Australians report that they are regular smokers (at least one cigarette a day) and a further 4% are occasional smokers;
- The tobacco industry directly employs approximately 311 growers, 3,200 in manufacturing² and a further 18,460 are involved in retailing and distribution;
- The industry generates over \$6 billion annually in retail sales, and contributes approximately \$5.0 billion each year in indirect taxes; and
- Household expenditure on tobacco products represents approximately 1.5% of total GDP.

The Social Costs of Tobacco

- Approximately 77% of regular smokers consume at a level indicating addiction (more than 10 cigarettes/day) and all tobacco consumption can be considered abusive since all tobacco consumption diminishes health status and the additional health costs are, in Australia, almost entirely passed on to the community as a whole³;
- Smokers who consume more than 10 cigarettes a day, a conservative addictive threshold, account for nearly 90% of all tobacco consumed;
- Smoking is a major cause of heart disease, stroke, several different forms of cancer, and a wide variety of other health problems⁴. The vast majority of deaths caused by smoking occur through development of heart disease

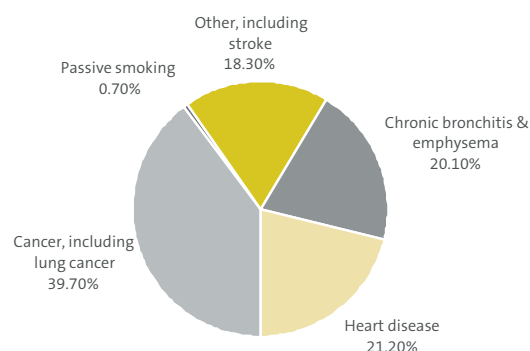
and lung cancer, followed by chronic bronchitis, stroke, peripheral vascular disease and other circulatory diseases, and cancers other than lung (Figure 1)^{5,6}.

- There is strong and consistent evidence that passive smoking increases non-smokers risk of lung cancer by around 30% and their risk of ischaemic heart disease by 23%.
- Children are particularly susceptible to the effects of environmental tobacco smoke and around 547,000 children under the age of 4 years live with one or more smokers;
- In 1998, 19,019 Australians died from tobacco related diseases. This accounted for 82% of all drug caused deaths, including alcohol and illicit drugs³, and for around 15% of deaths from all causes⁷.
- Smokers who die in middle age lose on average of 21 years of life⁸;
- In 1998, those smokers who died aged between 35-64 lost an estimated 68,000 potential years of life.
- Melbourne research examining cancer incidence and mortality related to socio-economic status has shown that lung cancer is clearly more prevalent among lower socio-economic groups and less prevalent among higher socioeconomic groups⁹. Between 1979 and 1983, the lowest socio-economic group experienced a mortality rate from lung cancer almost 50% higher than that of the highest socio-economic group.
- Analysis from the Australian Institute of Health and Welfare has estimated that between 1985-1987, males of lowest occupational prestige experienced 260% more lung cancer than those in the highest bracket¹⁰.
- Forty four percent of Indigenous Australians were regular smokers compared with 20% non-indigenous.
- Tangible costs of smoking include:
 - smokers' contribution to the cost of that proportion of their own health care that can be attributed to smoking – above what would be paid by Medicare

- the loss incurred to the community by extra smokers getting sick and dying early and therefore contributing less than they otherwise would to care of children, housework, shopping, voluntary work for charitable or community organisations
- the loss incurred to industry by extra smokers getting sick more often and more seriously, and therefore taking more time off work, and of smokers dying early and therefore contributing less than they otherwise would to the production of goods and services
- the money that smokers spend on cigarettes rather than other goods and services, calculated from the retail cost of buying cigarettes - less the components that would cover federal excise duty and state franchise fees - for anyone who smokes more than 10 cigarettes a day (and who therefore can safely be regarded as addicted)
- the net cost of providing extra medical services extra hospitalisation and extra nursing home care for smokers (over and above that which could be expected were these people lifelong non-smokers)
- total tangible costs in 1998-9 were estimated to be approximately \$13.5bn^{11,12}
- Total intangible costs, which includes loss of enjoyment of consumption forgone and the value of loss of life to deceased was estimated to be approximately \$6.2bn

Figure 1

Deaths from tobacco related disease: proportions of deaths from direct smoking by disease type and deaths from passive smoking (all).



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Conclusions on Tobacco

Most smokers consume tobacco at levels that are considered addictive and this raises doubts about the nature of any perceived intangible stress or relaxation benefits that smoking may bring, as well as the ethics of any tangible economic value.

It is clear that the social and economic costs associated with the tobacco industry significantly outweigh any social (or financial) benefit that may be attributed to smoking and the tobacco industry. As a result, the fund does not find any circumstances under which it would be prepared to invest in a company with a material interest in the tobacco industry.

Impact on Investment Decisions

The AMP Capital Sustainable Funds Team want to invest in companies in which there are clear net social and financial benefits and who are appropriately managing or mitigating the their social and environmental costs.

Based on our assessment, the tobacco industry, or any company within it, has social costs that significantly outweigh any social or economic benefit and therefore, we have an absolute negative screen on companies with a material interest industries (10% as measured by a relevant indicator such as investment or sales) in the tobacco industry.

There are a large number of companies that are involved in tobacco but whose interest may not be considered material. To assess if a company is considered “unacceptable” for the AMP Capital Sustainable Funds Team makes a judgement on “materiality” and “level of management responsibility” in each situation. For example, we regard **production** of cigarettes as more material than the **sale** of tobacco within a diversified retailer or a **loan** to such a company within a diversified loan portfolio.

Endnotes

- 1 "Socially Responsible Investment – Your Questions answered, An information guide for superannuation trustees and fund managers" <http://www.deh.gov.au/industry/finance/publications/pubs/respon-investment.pdf>
- 2 <http://www.bata.com.au/>
- 3 Collins DJ, Lapsley HM. The social costs of drug abuse in Australia in 1988 and 1992. National drug strategy monograph series No. 30. Canberra: Commonwealth Department of Human Services and Health, 1996;
- 4 US Department of Health and Human Services. Reducing the Health Consequences of Smoking: 25 Years of Progress. A report of the Surgeon General. Rockville, Maryland: US Department of Health and Human Services, Public Health Service, Centers for Disease Control, Center for Chronic Disease Prevention and Health Promotion, Office on Smoking and Health, 1989. DHHS Publication No (CDC) 89-8411.
- 5 English DR, Holman CDJ, Milne E, Winter MG, Hulse GK, Codde JP, Bower CI, Corti B, de Klerk N, Knuiiman MW, Kurinczuk JJ, Lewin GF, Ryan GA. The quantification of drug caused morbidity and mortality in Australia, 1995 edition. Canberra: Commonwealth Department of Human Services and Health, 1995
- 6 Ridolfo B, Stevenson C. The quantification of drug-caused mortality and morbidity in Australia, 1998. (Drug Statistics. Series No. 7) AIHW cat. no. PHE29. Canberra: Australian Institute of Health and Welfare, 2001.
- 7 Australian Bureau of Statistics. Deaths Australia 1998. Canberra: ABS, 1999.
- 8 http://www.quit.org.au/quit/pdf/Background_stats.pdf
- 9 Williams J, Clifford C, Hopper J, Giles G. Socioeconomic status and cancer mortality and incidence in Melbourne. Eur J Cancer 1991; 27: 917-921.
- 10 Australian Institute of Health and Welfare. Australia's Health 1992: the third biennial report of the Australian Institute of Health and Welfare. Canberra: Australian Government Publishing Service, 1992.
- 11 Collins DJ, Lapsley HM. Counting the Cost: Estimates of the Social Costs of Drug Abuse in Australia in 1998-9. Monograph Series No. 49. Canberra: Australian Government Publishing Service, 2002.
- 12 Collins DJ, Lapsley HM. Estimating the Economic Costs of Drug Abuse in Australia. Department of Human Services and Health Submission to the Industry Commission Inquiry into the Tobacco Growing and Manufacturing Industries. Canberra: Commonwealth Department of Human Services and Health, 1994.

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