

The Exclusion Criterion «Genetic Engineering» in Sustainable Finance

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Outline of the presentation

- 1. State of play: Exclusion criterion «Genetic Engineering» in *Sustainable Finance*:**
 - Worldwide
 - Europe
 - Switzerland
- 2. Who is using the «Genetic Engineering» exclusion criterion and why and what might be the effects ?**
 - «Sin stocks»
- 3. Final remarks and conclusions**

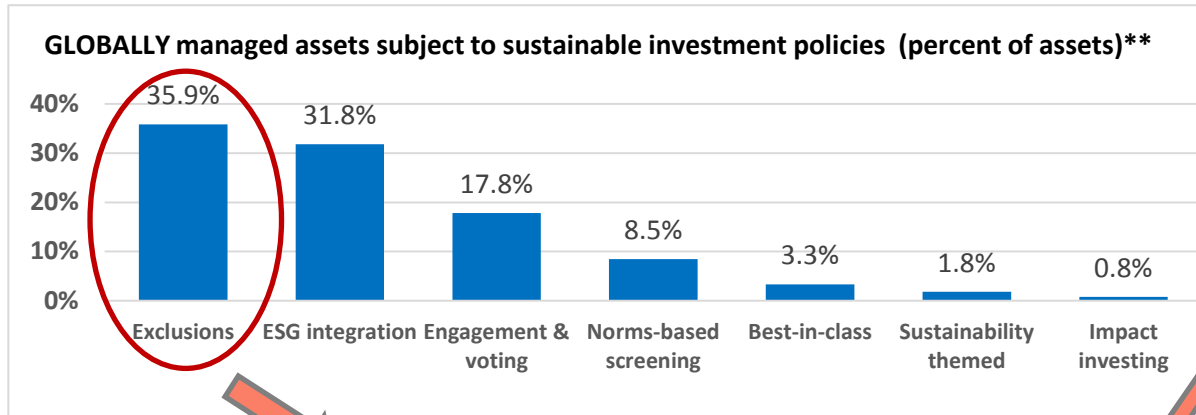
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STATE OF PLAY:

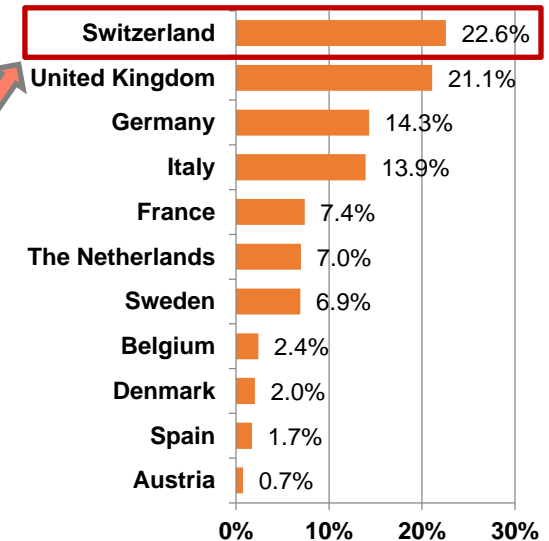
**EXCLUSION CRITERION «GENETIC
ENGINEERING» IN SUSTAINABLE
FINANCE**

The exclusion criterion: Worldwide tendencies

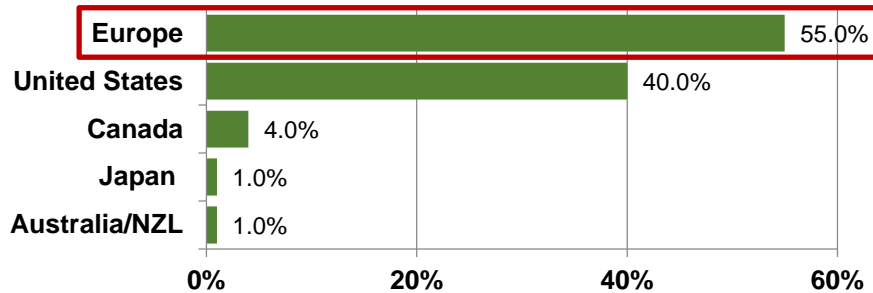
- Exclusions remain the most popular sustainable investment policy worldwide (2017/18)*



- Switzerland has largest share of managed assets subject to exclusion criteria in Europe (2017)****



Regional shares in use of exclusion criteria in Europe (2017/18)***



*Source: Global Sustainable Investment Alliance (GSIA), Global Sustainable Investment Review 2018:

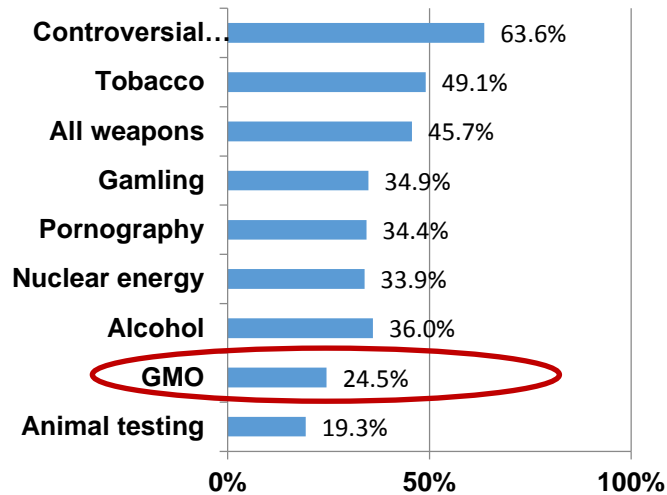
Data from Fig. 6, p. 10; *Data from Fig. 7, p. 11; http://www.gsi-alliance.org/wp-content/uploads/2019/03/GSIR_Review2018.3.28.pdf

****Source: Eurosif: European SRI Study 2018, European Data Table p. 83.

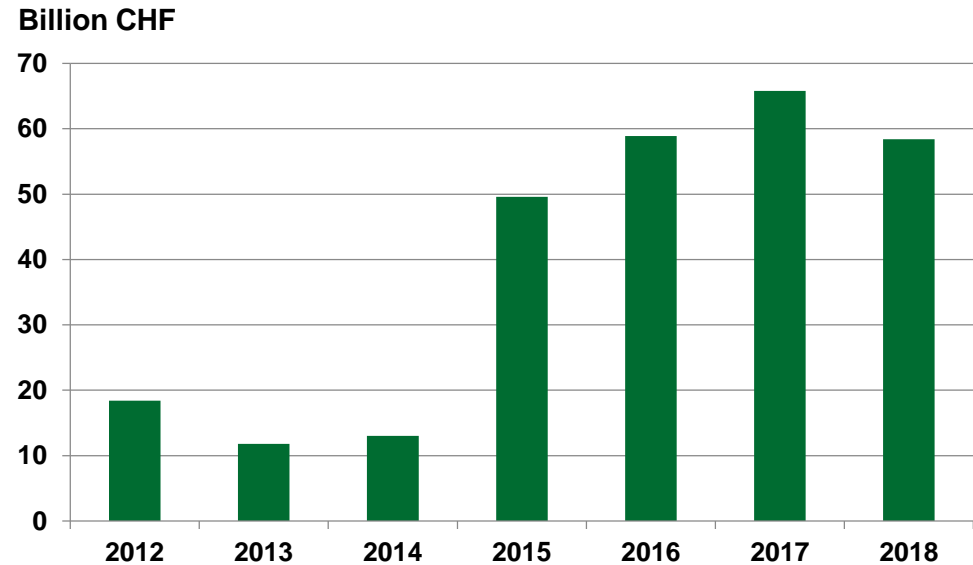
The exclusion criterion «Genetic Engineering»

- Top exclusion criteria in Europe (2017)

Exclusion criteria applied in percent of respondents*



- Switzerland: Applied exclusion criteria «**GENETIC ENGINEERING**» for companies in billion CHF **



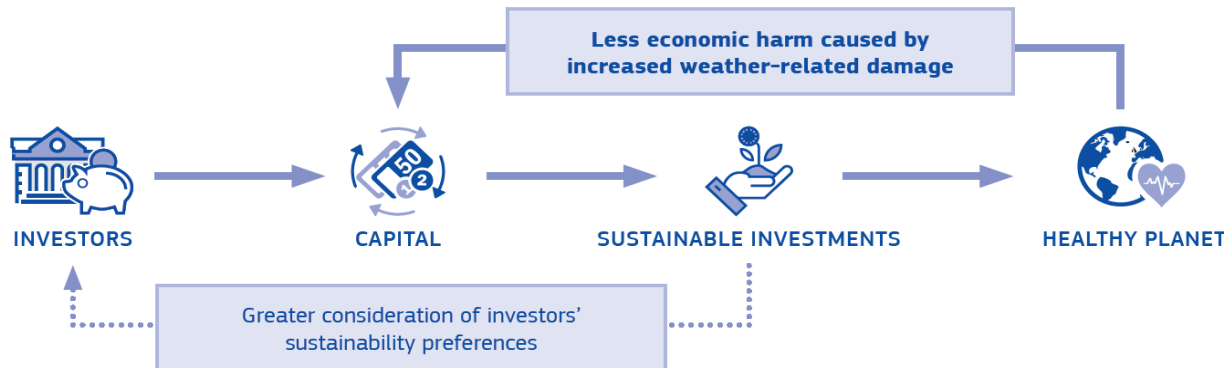
*Eurosif: European SRI Study 2018, Fig. 14: Top exclusion criteria, p. 24

** Swiss Sustainable Investment Market Reports 2013-2019; <http://www.sustainablefinance.ch/en/ssf-publications-content---1--3037.html>;
<https://www.forum-ng.org/en/publications-and-literature/publications.html>

2 WHO IS USING THE «GENETIC ENGINEERING» EXCLUSION CRITERION AND WHY AND WHAT MIGHT BE THE EFFECTS ?

Who applies «Genetic Engineering» exclusions ?

- **International Finance Corporation** (IFC, exclusion criteria since 2007): **NO**
- **UN Global Compact**: **NO**
- United Nations-supported **Principles for Responsible Investment** (PRI, since 2008): **NO**
- **EU Action Plan on Sustainable Finance** (2018 -; climate focus): Will affect industrial companies (i.e. through green loans & bonds) – **NO**
- **Private equity firms**: **NO**
- **Pension Funds**: **YES**
- **Banks**: **YES**



European Commission: **Financing Sustainable Growth** (2018);
https://ec.europa.eu/info/sites/info/files/180926-sustainable-finance-factsheet_en.pdf

Why is «Genetic Engineering» exclusion popular ?

«Genetic Engineering (GMO)» exclusion is practiced in «sustainable finance» even though:

- No international/national legal foundations
- Scientifically unfounded
 - **BUT:** Responds to societal concerns related to GMO's (environment, health, safety, etc.)
 - **BUT:** Responds to political and regulatory trends (precautionary principle, EU strict regulation of green biotechnology, etc.)
- *Are banks and other institutions applying the «Genetic Engineering (GMO)» exclusion criterion behaving in an **opportunistic** way and are **not assuming their responsibility** to correctly inform customers?*
- *Is this a form of **greenwashing** ?*



What might be the effects the «Genetic Engineering» exclusion?

«Genetic Engineering (GMO)» exclusion criterion in «sustainable finance» :

- «Genetic Engineering (GMO)» is treated like «sin stocks» (weapons, tobacco, alcohol, or gaming):
 - » **aligning investment choices with moral codes** («socially responsible investing – SRI» was already practiced in 18th century by religious groups)*
- «The price of sin stocks»** :
 - » **Less held** by norm-constrained institutions (i.e. pension funds)
 - » Receive **less coverage** from analysts
 - » **Higher expected returns** than otherwise comparable stocks, consistent with them being **neglected** by norm-constrained investors and facing **greater litigation risk**
 - » **Significant price effect** of 15-20% from large institutional investors shunning sin stocks
 - » Divestment offers **limited leverage** as targeted industries are often not so capital intensive***



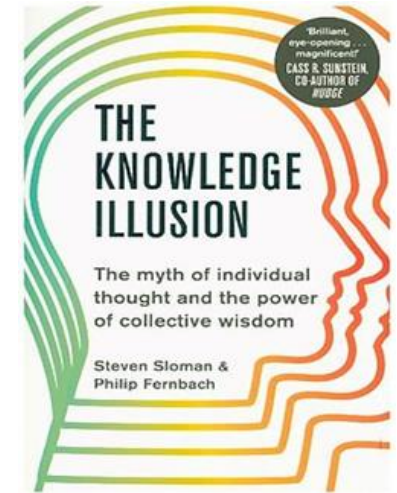
*Eurosif, European SRI Study 2018, p. 22.; **Hong, H., Kacperczyk, M. (2009). The price of sin: The effects of social norms on markets. *Journal of Financial Economics*, 93: 15-36; ***Schroders (2017). Demystifying negative screens: The full implications of ESG exclusions.

<https://www.schroders.com/el/sysglobalassets/digital/insights/2018/thought-leadership/demystifying-negative-screens---the-full-implications-of-esg-exclusions.pdf>

3 FINAL REMARKS AND CONCLUSIONS

The challenge of communication

- **Misleading assumption in classic risk communication:** You involve lay people, you inform them, you listen to them, you regulate, you gain trust
 - **Lesson learnt from green biotechnology:** More (self-)regulation does not lead to more trust
 - Sloman and Fernbach (2018): **presumed knowledge about motives matter, knowledge about actual performance is secondary**
 - **Effective communication** requires a meaningful (counter-) narrative combined with hands on experience and a **culture of openness** toward **curious stakeholders**
 - > critical third party look is important > **restoring moral agency**



Conclusions

- **Agenda 2030 for Sustainable Development** aims at fundamental transformation of society, and its patterns of production and consumption > need for innovative technologies
 - **Sustainable finance exclusion criterion on «Genetic engineering»**
 - goes against the Sustainable Development Goals (SDGs)
 - Goes against the UN Convention on Biological Diversity (Art. 19)
 - **Banks, pension funds etc. are acting in an opportunistic and long term unsustainable manner**
 - ***The exclusion criterion «Genetic engineering» in sustainable finance is a sign of shunning rather than assuming corporate responsibility***



THANK YOU FOR YOUR ATTENTION



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