

Why are Australian banks investing in Nuclear Weapons companies?

New Zealanders have strong and clear opinions about where our money is invested, and not supporting the manufacture of nuclear weapons is right at the top of the list. Our country has a long and proud anti-nuclear weapon history.

Yet, according to a just-released report by the Nobel Peace prize-winning report International Campaign to Abolish Nuclear Weapons (ICAN)¹, three Australian Banks (ANZ, Westpac and CBA – the owner of ASB), have loaned or invested over US\$2.7 billion to companies involved in the design, manufacture, testing and servicing of nuclear weapons. ANZ and Westpac are responsible for most of this lending and collectively manage more than 35% of the KiwiSaver market. Their shares, as investments, are owned by a substantial number of KiwiSaver schemes.

Each year ICAN publishes a report showing which financial institutions have invested in the 18 companies most heavily involved in the nuclear weapons industry. ANZ and Westpac are prominent on this list, with both banks providing significant capital (a total of more than US\$1.3 billion each in investment in equity and debt) to companies integral to the production of nuclear weapons.

The companies include names such as Aecom, Fluor Corp, General Dynamics, Honeywell International, Jacobs Engineering, Lockheed Martin, Northrop Grumman and Serco Group. AECOM, in which ANZ invested or loaned US\$28 million, for instance, is involved in the research, design, development and production of nuclear bombs at Lawrence Livermore National Laboratory in the US.

Fluor Corp, in which ANZ invested US\$70 million and Westpac invested US\$112 million, is involved in several US nuclear weapons enterprise facilities including Savannah River Nuclear Solutions where it develops key components for nuclear warheads. Honeywell International manages and operates numerous nuclear weapons production, design and testing facilities, as well as manufacturing numerous components for warheads and missiles. Westpac lends \$686 million, and ANZ \$112 million to this firm.

Jacobs Engineering, where ANZ invested US\$95 million, has a 25-year contract to maintain the UK nuclear missile arsenal. Lockheed Martin has numerous defence businesses in the USA and along with Serco manages the UK Atomic Weapons establishment. According to ICAN, ANZ invested US\$258 million in Lockheed, and US\$33 million in Serco.

This pattern of investment is problematic for two reasons. Firstly, in our view most KiwiSaver investors assume that their savings are not used to fund problem companies like the nuclear weapons industry. Yet any KiwiSaver scheme that owns either ANZ or Westpac shares is doing just that – supporting the nuclear weapons industry.

Secondly, it shows the weakness of the banks approach of applying different ethical standards to different parts of the business. ANZ has excluded companies that invest in firms involved in the testing or manufacture of nuclear weapons from its Kiwisaver scheme, while Westpac only excludes those involved in the manufacture of nuclear weapons. Yet both banks are content to lend money or invest in those same companies that they exclude from KiwiSaver.

¹ The study covers the period between January 2017 and January 2019.

That kind of selective ethical behaviour is not adequately explained to investors which just isn't good enough. In our view financial institutions face a very simple ethical choice: you either choose to do bad stuff or you choose to not do bad stuff, and you explain both very clearly to investors. There is no in-between.

However, as the Australia Royal Commission of Inquiry into the Banking, Superannuation and Financial Services Industry showed such compartmentalisation of ethical choices is rife in the banking industry. To date consumers have suffered the consequences.

Even before our company Pathfinder thinks about the ethical arguments of investment, ANZ has been a tough investment choice, we believe there are better places for us to deploy our investment capital. ANZ and Westpac have underperformed the best performing Australian Bank by more than 13% over the last year. We are committed to investing wisely but also with a close watch on how good the Environmental, Social and Governance standards are at each company.

The New Zealand Super Fund is among several investors in New Zealand that is setting the tone for responsible investment in New Zealand. It has taken the important step of publishing an exclusion list of companies in which it will not invest due to their involvement in the manufacture of cluster munitions; the manufacture or testing of nuclear explosive devices; the manufacture of anti-personnel mines; the manufacture of tobacco; the processing of whale meat; recreational cannabis, and the manufacture of civilian automatic and semi-automatic firearms, magazines or parts.

This list has become a solid baseline for what KiwiSaver schemes should or should not invest in. It is based on a comprehensive and principled approach to responsible investment that is aligned with a responsible investment framework, international conventions and New Zealand law.

In this respect Pathfinder and CareSaver share the Super Fund's approach. We establish a bottom-line list of exclusions as the first rung on a truly coherent and principled ethical investment strategy.

However, our exclusion list is based on a higher standard. One of our very first steps is to eschew investment in nuclear and other controversial weapons as well as investment in those who enable their manufacture and maintenance. Westpac and ANZ fall squarely into this camp.

We believe Westpac and ANZ (among many others) would do well to reconsider their approach. If companies purport to embrace responsible investment, they should hold themselves accountable to the same standards and abide by such exclusions across all their operations, not just those parts where it is expedient to do so.

- ***Paul Brownsey is Chief Investment Officer of Pathfinder Asset Management, a responsible investment specialist, which also runs the CareSaver ethical investment KiwiSaver scheme.***

Company	ANZ Investment (US\$ Millions)	Westpac Investment (US\$ Millions)	CBA Investment (US\$ millions)
AECOM	28	50	No
FLUOR CORPORATION	70	112	No
GENERAL DYNAMICS CORPORATION	42	No	No
HONEYWELL INTERNATIONAL INC.	145	686	No
HUNTINGTON INGALLS INDUSTRIES, INC.	No	No	No
JACOBS ENGINEERING GROUP INC.	95	No	No
LEIDOS HOLDINGS, INC.	No	No	No
LOCKHEED MARTIN CORPORATION	258	No	No

NORTHROP SYSTEMS, INC.	GRUMMAN	INNOVATION	137	No	No
SERCO GROUP PLC			33	No	73

Link to NZ Super fund exclusions: <https://nzsuperfund.nz/how-we-invest-responsible-investment/exclusions>

Link to ICAN report: <http://www.icanw.org/action/these-are-the-banks-and-financial-institutions-investing-748-billion-in-nuclear-weapon-producers/>