

Darren Jones MP  
Chair, Business, Energy and Industrial Strategy Committee  
House of Commons  
London  
SW1A 0AA

29<sup>th</sup> May 2020

Sent via online form

Dear Mr Jones,

### **'My BEIS Inquiry' response**

Congratulations on your appointment as Chair of the Business, Energy and Industrial Strategy Select Committee. I am writing on behalf of ShareAction, a registered charity established to promote transparency and responsible investment practices. We are a member organisation and count amongst our members well-known NGOs and charitable foundations, as well as over 26,000 individual supporters.

We welcome the 'My BEIS Inquiry' initiative in which the Committee is holding an open call for proposals for new inquiry topics; our proposal is detailed below.

#### **Please outline the issues that you would like to Committee to look into.**

We propose the Committee examines how the Government can take action on financial risk related to the 'S' component of ESG (environmental, social and governance) factors. A fresh policy agenda is needed to get institutional investors engaging with companies in this area. ShareAction's recent research has highlighted two especially pertinent aspects of 'S'-related financial risk that need addressing: labour rights, and childhood obesity. Investors are not exerting their huge influence to improve standards in either area; the Committee should look at how Government policy can catalyse this.

Labour rights (domestic and international) and childhood obesity are issues entailing multiple financial risks. When compared to other aspects of ESG however (e.g. climate change), little has been done to mitigate them. An inquiry explicitly focused on 'S' factors would redress this. The Committee should look at how investors are thinking about 'S' factors, and why there is currently a lack of engagement. It should consider what role investors should be playing, and what good practice would look like. It should explore whether reporting standards in relation to 'S' issues are fit for purpose, and what the barriers to success on stewardship of assets in relation to these issues are.

#### **Why does this issue deserve attention?**

Covid-19 has exposed the fragile state of our economy. It has raised questions about the welfare of those working throughout supply chains. The strain on the NHS has cast a spotlight on public health in general. The human cost of the crisis is clear; it has also starkly shown what the crystallisation of financial risk looks like. The FT reported that in the current downturn, 60% of

European ESG ETFs outperformed the MSCI Europe Index.<sup>1</sup> Mitigation of ESG risk is clearly in our long-term economic interest. In rebuilding the economy, BEIS must spur a greater investor focus on 'S' factors.

Many in the hospitality and retail sectors were already on low wages and insecure contracts, and Covid-19 has compounded this problem. We have seen from the labour of those still permitted to work, e.g. supermarket staff, how vital they are to keeping our economy moving. We need investors to act to rebuild a stronger economy, with a stronger workforce.

Similarly, although Covid-19 is an extraordinary event, it came amidst a long-term decline in public health. According to ICNARC, over 70% of Covid-19 hospital admissions are overweight or obese.<sup>2</sup> Investors can also play a substantial role in improving the public's health.

### **How could Government policy in this area be improved? (This might include the creation of new policy or changes to existing policy)**

Government policy should build on its existing work on climate-related financial risk, by improving disclosures to investors on 'S' issues. ShareAction's research has filled some of the data gaps; e.g. our 'Healthy Competition' report<sup>3</sup> surveyed how UK food retailers were responding to regulatory and consumer trends in reaction to childhood obesity. The Government should drive provision of 'S'-related data, enabling investors to improve company standards.

Investors must also be compelled to use the data for engagement. The Government should introduce statutory duties of investors to be proactive on 'S' issues, and strengthen the UK Stewardship Code 2020, e.g. with a sanction mechanism for non-compliance. Our 'Point of No Returns: Part II' report, a survey of asset managers, found 61% of them had a weak/non-existent approach to human rights engagement,<sup>4</sup> with a further 20% pursuing only reactive engagement.<sup>5</sup> To change this state of affairs, Government policy must establish responsibilities for investors to act. This must be done in tandem with responsibilities for investee companies. New mandatory human rights due diligence reporting for companies is needed, so investor and investee work towards a common goal: to pursue better worker welfare, healthier lifestyles, and safeguarding financial assets in the long-term.

Yours sincerely,

David O'Sullivan  
UK Policy Officer, ShareAction

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<sup>1</sup> Financial Times (3 April 2020). "ESG funds continue to outperform wider market". Available online at: <https://www.ft.com/content/46bb05a9-23b2-4958-888a-c3e614d75199> [accessed 29 May 2020].

<sup>2</sup> Bariatric News (27 March 2020). "70 per cent of ICU coronavirus patients are overweight". Available online at: <https://bariatricnews.net/node70-cent-icu-coronavirus-patients-are-overweight> [accessed 29 May 2020].

<sup>3</sup> ShareAction (March 2020) *Healthy Competition: Why the safest best for investors is healthier retail markets and how to get there*. Available online at: [https://shareaction.org/wp-content/uploads/2020/03/Healthy\\_Competition.pdf](https://shareaction.org/wp-content/uploads/2020/03/Healthy_Competition.pdf) [accessed 29 May 2020].

<sup>4</sup> ShareAction (May 2020). *Point of No Returns: Part II – Human Rights*, p. 6. Available online at: <https://shareaction.org/wp-content/uploads/2020/05/ShareAction-Human-Rights-Report-2020-Final.pdf> [accessed 29 May 2020].

<sup>5</sup> Ibid.