

New Zealand Equity Monthly

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Focusing on carbon neutrality and modern slavery from a New Zealand perspective

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This month we focus on two ESG-linked themes that generate a significant amount of investor interest: carbon neutrality and modern slavery.

Carbon neutrality

As part of our regular interactions with market experts, recently we engaged with an entity in New Zealand that helps companies calculate their carbon footprints, assists them in setting targets, and provides accreditation where appropriate. While many countries have pledged to reduce their carbon footprint by 2050 in alignment with the Paris Agreement, it was a little surprising to learn that only six countries have passed their carbon neutral targets by law. These six countries are Sweden, Denmark, France, Hungary, the UK and New Zealand.

In New Zealand we are seeing increasing costs, especially to high carbon emitters, who have to buy certain amounts of carbon units to offset the carbon they emit. We would obviously like to see countries and companies get to net carbon zero not just by purchasing carbon credits but by improving their operations. The carbon credit space is something to watch as it consists of different quality credits. In terms of regulation, there have been a few updates by the government regarding the Emissions Trading Scheme (ETS), in which carbon-emitting entities have to buy units from the ETS. The government recently proposed to exclude exotic trees such as pine from the ETS, seemingly backtracking from its earlier proposal. We will be keeping an eye on further developments. Pine trees are quite easy to grow, reaching maturity faster than native species and can therefore sequester more carbon in a shorter period of time; this, however, has incentivised the conversion of farmland into pine forests, which can lead to biodiversity changes in our landscape. Our preferred metric is the weighted average carbon intensity (WACI), which estimates a portfolio's exposure to carbon-intensive companies.

Modern slavery

An estimated 40 million people in the world live in modern slavery. Of those, about 30 million are in the Asia-Pacific, including 15,000 in Australia and 3,000 in New Zealand. Modern slavery is not just about sex trafficking—it includes debt bondage and forced labour. Modern slavery may not be very visible in New Zealand, but it does reportedly exist in areas such as construction, healthcare and orchards.

New Zealand has moved toward proposing modern slavery legislation that would create new compliance obligations for every business in the country. We keep abreast of current updates when engaging with different companies, funneling all our knowledge into our research process. We question the management or the board on this topic during the research process.

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