

ATP

The case describes how ATP entered into a dialogue with Cheminova regarding Occupational Health and Safety issues in connection with the sale of toxic pesticides in India and Brazil.

The overall objective of ATP is to “ensure the basic financial security for all of Denmark”. ATP manages a number of statutory schemes, including ATP Livslang Pension (Lifelong Pension), a mandatory scheme which, through compulsory contributions, helps to provide secure and predictable lifelong pensions to its members.

ATP’s CSR (Corporate Social Responsibility) is applied in two main areas: ATP as an investor and ATP as a company. Social responsibility is taken into account in the investment decisions in order to achieve the highest possible risk-adjusted return for the benefit of ATP’s members. This overall objective is reflected in the *guidelines on social responsibility in investments* and in ATP’s active ownership. As a company, ATP practices CSR by ensuring inexpensive and efficient administration of the statutory schemes for its members; by being a good workplace for the employees of the company, and by taking relevant steps to protect the environment and climate.

ATP’s *guidelines for social responsibility in investments* are based on national legislation and international conventions ratified by Denmark. The purpose of the guidelines on active ownership is to protect and enhance the return on ATP’s investments. The six UN Principles for Responsible Investment (PRI), which ATP adopted in 2006, set out a process for integrating social responsibility in investments. The second principle of PRI concerns active ownership. ATP’s dialogue with Cheminova is an example of ATP’s work with active ownership.

Challenge: The sale of dangerous pesticides in India and Brazil by Cheminova

Cheminova is a Danish chemicals company, which primarily produces crop protection products (and weed killers and antifungal agents). Cheminova is owned by Auriga Industries A/S and is the workplace for some 2,100 employees (around 800 of whom work in Denmark). The majority shareholder, with a stake of 41 %, is the Aarhus University Research Foundation, which finances scientific research at the university. ATP owns 12 % and LD Equity just below 6 %.

In 2006, the journalist Tom Heinemann produced the TV documentary “Når Tilbud Dræber” (A killer bargain). Among other things, the programme questioned the sale of pesticides in India and Brazil by Cheminova – in particular, the highly dangerous substances, i.e. products classified as Class 1 by the WHO (World Health Organization). The products were not allowed in a number of EU countries, but were legal in India and Brazil. According to the WHO, many farm workers had been poisoned by the pesticides due to overdosing and misuse. The charge against Cheminova was that the pesticides constituted a health risk to users in Brazil and India. The documentary raised the question of whether Danish companies should be able to make money from producing and exporting toxic pesticides to Third World countries where safety standards are often very low. Before the documentary aired, Cheminova contacted the three major shareholders of Auriga

Industries A/S (ATP, the Aarhus University Research Foundation and Lønmodtagernes Dyrtidsfond (LD) to inform them about the coming television programme and to discuss how best to handle any criticism.

Dialogue with Cheminova

It soon became clear that Cheminova had not violated ATP's *guidelines for social responsibility in connection with investments*, but Cheminova's activities posed a potential business risk. ATP therefore opted to enter into dialogue with Cheminova. The dialogue took place between ATP and Cheminova alone, and also with the two other major shareholders of Auriga Industries A/S.

ATP's values have been established by the board of ATP and laid out in the *guidelines for social responsibility in connection with investments*. The expectation is that ATP's compliance with the guidelines (formulated as minimum requirements for ATP's investments) will help to generate a higher risk-adjusted return for ATP in the long term. However, ATP does not limit its interest in social responsibility to these minimum requirements. ATP also seeks – such as through active ownership – to identify the social responsibility-related risks of its investments.

ATP's dialogue with Cheminova was founded on such a risk assessment. The dialogue was based on the Food and Agriculture Organization of the United Nations' (FAO) International Code of Conduct on the Distribution and Use of Pesticides. The objective of the FAO guidelines is to promote food safety and reduce the risk of adverse effects on human health through the use of pesticides. The guidelines are specifically aimed at countries with little regulation and control, where users lack training in handling these substances and often do not have access to safety equipment. Cheminova subsequently decided to start phasing out the dangerous Class 1 products. At the end of 2009, 13 out of a total of 15 planned phase-outs had been completed, and by the end of 2010, all Class 1 products had been phased out.

ATP considered the phasing out of Class 1 products a better solution than a “full stop” solution. ATP supported Cheminova's phase-out plan, making it the object of some criticism in the press. If the sale and production of Class 1 pesticides by Cheminova had been stopped immediately, other suppliers may well have taken over the market before the products could be replaced by less toxic alternatives. Claus Wiinblad, Head of Equities at ATP said that “*ATP believes that it makes good business sense to phase out and replace Class 1 products, and we expect that it will create value for shareholders in the long term.*” According to Cheminova, the challenge with phase-outs is that the well-known and effective – but also toxic – pesticides to be phased out often have to be replaced by several new and more expensive products. It leaves the door open for competitors who are willing to continue to sell the old (toxic) products to take over the market. This shows the complexity of such cases, where the apparently “simple” solution – an immediate halt to the sale of Class 1 pesticides – may, on closer analysis, create other problems.

A learning curve for ATP

ATP's experiences with active ownership have generally been positive, and the Cheminova case is a good example. The main thing ATP learned is that active ownership in the form described is highly resource-intensive. ATP has therefore continued to devote more resources to this area, and put together an "ESG Team" (Environmental, Social and Governance Team), to assist ATP's portfolio managers in connection with active ownership, and also act as the secretariat for ATP's Social Responsibility Committee, which coordinates ATP's work with social responsibility in investments. The Committee consists of ATP's CEO, Chief Investment Officer and the heads of Danish equities and alternative investments respectively.

Lars Rohde, CEO of ATP, summarises the approach as follows: "*Social responsibility makes sense for ATP, when companies are, on the one hand, able to increase their return and, on the other, to reduce their risks. Here, the link is between CSR and corporate governance, and the code word is the integration of the two entities.*"

ATP recognises that there are many different ways of practicing active ownership. ATP's learning process with regard to the practice of active ownership has so far led to the following conclusions:

- *Integral part of the investment process* For ATP, it is essential that the work with active ownership is maintained as an integral part of the investment process and does not end up as a separate, disconnected process. ATP has therefore maintained its practice of ensuring that its active ownership is handled by portfolio managers and ATP's ESG Team to the greatest extent possible, rather than outsourcing the work to other players. Internally at ATP, the company goes to great lengths to maintain a common approach to active ownership across the portfolio managers and the ESG Team.
- *Dialogue not confrontation* Dialogue generally leads to better results than confrontation. ATP therefore uses many resources to build a trusting relationship with the company. As a general rule, ATP therefore does not make public the details of the dialogue with the companies.
- *Changing behaviour and improved knowledge* ATP does not only practice active ownership to change the behaviour of a company, but also to gain more knowledge, which can be used to make better investment decisions.