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It's hard investing ethically in a branch economy

WITH SO much debate at the moment about globalisation and Australia's branch office problems, it is interesting to assess the implications for ethical investment in subsidiaries of multinationals.

Shell Australia ran into problems with the Woodside Petroleum board when it did not offer a significant premium to the prevailing market price in return for majority control. The Woodside board would have had great difficulty mounting a political campaign against a knock-out cash bid of, say, $17.00 a share because the shareholder interest would have prevailed over the national interest.

Whilst Shell's record with Brent-Spar and in Nigeria is not pretty, the company's ethics never really came into the debate. Having honest and ethical multinationals operating key strategic assets and industries is surely in the national interest.

The tobacco industry is regularly screened out by ethical funds but this should not have stopped investors concerned about ethics from attending the final AGM of British American Tobacco Australia on April 30. I was the only shareholder to ask any detailed questions about the generous mop-up offer from BAT plc, the giant British parent which already owned 60 per cent of BATA.

Because the parent offered a knock-out $17.75 a share offer to BATA – a 40 per cent premium over the previous month's average trading price – the question of foreign ownership never really arose.

I personally think that foreign ownership should be a factor in ethical investing. All things being equal, you should buy Australian and argue for Australian control where possible. This is very different from actually blocking foreign investment because Australia is and always has been heavily dependent on foreign capital.

It is lamentable that Australia's tobacco industry is now totally foreign-owned. Lamentable because the industry is worth about $5.5 billion and pours about $400 million of profits a year into foreign hands. And we now have no ability to question the ethics and performance of the Australian tobacco industry unless we travel to London or New York each year for the BAT plc and Philip Morris AGMs.

Another important ethical issue for Australian subsidiaries is the old "oppression of minorities" argument. This is a question that the independent directors of Coca Cola Amatil should ponder from time to time.

CCA shareholders have lost about $1 billion buying and selling the Philippines bottling operation from its Atlanta-based parent, The Coca Cola Company.

Clearly the independent directors and minority shareholders are not pleased with this, but why aren't things changing? CCA had almost $1 billion worth of related party transactions with its parent last year relating to buying coke concentrate, packaging and marketing. The annual report makes some vague reference to these being done on "normal commercial terms" but there is no actual disclosure of the specific dealings and terms. There should be more disclosure to make sure the parent is not profiting excessively from these related party transactions.

Another important ethical question for multinationals is when the Australian subsidiary gets into financial trouble. New Zealand giant Fletcher Challenge walked away from its 60 per cent stake in construction company Jennings when it went broke in the early 1990s.

Similarly, Hong Kong telecommunications giant Hutchison Whampoa pledged to stand behind its ailing Australian subsidiary Hutchison Australia at the AGM on May 3, but the board rejected calls for a mop-up bid to help compensate minority shareholders who paid $5.00 a share and now find themselves sitting on stock worth about 65c.

The independent directors of regional pay-TV company Austar Communications are in a similar position. Investors paid $5.00 a share in 1999 and watched the stock peak at around $9.00 before the April 2000 tech crash. It is now wallowing below $1.00 and the ethical question for the parent company and Austar's independent directors is whether they can walk away leaving minority shareholders facing huge losses.

Multinationals would be far more likely to take the ethical course if ethical fund managers were attending AGMs and putting the pressure on.

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