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The Role of Trade Associations in ESG

A Research Note
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Introduction

In the longer-term, advancing the integration of environmental, social, and governance (ESG) factors into business practices and reporting requires industry-level collaboration. While ESG integration is widely explored from company, investor, and broader capital market perspectives, there has been less focus on the role of trade associations in ESG integration and their influence on regulation and policy development on ESG issues like climate change.

Trade associations - membership organizations that are set up and funded by businesses within an industry to represent common views - exert influence by promoting industry views to government, launching sector-wide initiatives, and sharing information with members. Often, they are composed of smaller associations as members. For example, the International Federation of Pharmaceutical Manufacturers & Association (IFPMA), the overarching industry association for the Pharmaceuticals industry, is made up of 50 country or regional-level member associations.[1]

Trade associations were set up to represent the 'voice of business' within an industry to policy makers and the public to enable organizations of all sizes to form a collective voice on issues affecting their industry.[2] Historically, policymakers have paid more attention to trade associations than to individual companies as they are seen to have a more impartial and representative view.

Trade associations and ESG

Trade associations can promote ESG integration among their members by publishing relevant content online, in newsletters, in reports, and via events. They can also lobby in favor of legislation that has a positive impact on society and the environment. For example, of all mechanisms available to companies, businesses most frequently use trade associations to lobby on climate policy.[3] The Carbon Disclosure Project (CDP) found that 77% of the 500 biggest global companies utilized trade associations to lobby on climate policy.[4] Taking Europe as a case study, trade associations have recently influenced the 2030 framework for climate and energy policies, the structure of the new European Commission, and the EU Carbon leakage provisions.[5] The Investment Association, the UK trade body that represents asset managers, launched an industry-wide consultation on sustainability and responsible investment in January 2019. The consultation is focusing on sustainability definitions and proposals for a UK product label to assist retail investors and advisers to identify sustainable funds, and it will also look at ESG reporting.

In 2015, two academics examined five diverse trade associations to determine their role in promoting sustainability: the European Chemical Industry Council, the Consumer Goods Forum, the International Fertilizer Industry Association, and the International Federation of Pharmaceutical Manufacturers Association. They found that trade associations can drive sustainability agendas among their members at a speed and scale necessary to effect positive change and concluded that this could also be a value proposition for members.[6]

Conversely, it is also clear that some associations use their influence to lobby against ESG issues. While this is to be expected as trade associations represent the views of their members, investors are increasingly aware and concerned that corporates promoting climate action initiatives are often members of such associations. Essentially, this allows companies such as Exxon Mobil to reap the benefits of taking a publicly proactive stance on climate change while indirectly funding campaigns that undermine climate change policy.[7] In the US, one coalition of investors – led by Walden Asset Management and The American Federation of State, County and Municipal Employees (AFSCME) – have responded by

1. https://www.ifpma.org/who-we-are/our-membership/full-members/associations/#!/ **2.** http://www.psi.org.uk/pdf/2015/PSI%20Report_Lobbying%20by%20Trade%20Associations%20on%20EU%20Climate%20Policy.pdf, **3.** IBID, **4.** IBID, **5.** IBID, **6.** https://www.ifpma.org/wp-content/uploads/2016/02/Agents_of_Change.pdf, **7.** https://www.responsible-investor.com/home/article/agm_season_2019_need_to_know_topics_part_1_lobbying/P0/

filing lobbying resolutions at the largest listed companies to improve disclosure on their trade association membership.[8] Their shareholder resolution at Exxon Mobil specifically focused on Exxon's indirect lobbying against climate change policy. Similarly, Climate Action 100+, with backing from investors with $33 Tn in assets under management, was launched in December 2017 with the aim of ensuring that the world's 100 largest corporate greenhouse gas emitters take necessary action on climate change. The coalition is demanding greater transparency on corporate lobbying and trade association membership.

Transparency and trade associations

There are several barriers that prohibit investors from understanding whether company trade association memberships present risks or opportunities. Firstly, companies are not often transparent in disclosing full lists of their trade associations memberships and they, themselves do not always publish lists of their members.[6]

If companies disclose their memberships, they will usually do so via the following channels:

- Company websites – some companies will include a list of key trade associations to which they are members, often setting disclosure parameters around financial contributions, e.g. the company will disclose memberships to which they contribute over $20k per year.
- Sustainability and annual reports – companies will include a section on their engagement with trade associations in their annual sustainability report.[9]

The EU Transparency Register

A voluntary 'Transparency Register' was established by the European Commission and the European parliament that lists organizations that try to influence the law-making and policy implementation process of EU institutions. A consultation process is ongoing for a proposal to make the transparency register mandatory, which would shed more light on corporate climate lobbying.

Companies can also disclose memberships via transparency registers:

- EU Transparency Register – proactive companies can voluntarily disclose their trade association memberships via a public register for individuals and organizations wishing to engage with the EU institutions.[10] On this database companies can publicly declare their interest and share information about themselves.
- US Lobbying Disclosure Act - requires individuals who spend more than 20% of their time engaged in lobbying-related activities, over a 3-month period, to register themselves and their organization and disclose their activities on a quarterly basis. This act targets employees at both companies and trade associations who fit the specified criteria. The act enforces disclosure of lobbying activities; however, it is not focused specifically on trade association disclosure.

Alternative methods for determining trade association memberships include:

- Trade association websites – the International Council on Mining & Metals disclose their 27 members online, while the Grocery Manufacturers Association do not.[11]
- NGO reports – Influence Map, a UK-based NGO, regularly publishes research into company trade association membership, corporate lobbying, and the impact on climate change.

8. https://www.responsible-investor.com/home/article/agm_season_2019_need_to_know_topics_part_1_lobbying/P0/, **9.** https://www.unilever.com/sustainable-living/our-approach-to-reporting/engaging-with-stakeholders/, **10.** http://ec.europa.eu/transparencyregister/public/homePage.do, **11.** https://www.icmm.com/en-gb/members

The role of trade associations in climate lobbying – a changing tide

The negative influence of trade associations is increasingly being explored and critiqued by NGOs, investors, and companies. New research by the policy think tank Influence Map finds that the five largest publicly-traded oil and gas majors (ExxonMobil, Royal Dutch Shell, Chevron BP and Total) have invested over $1Bn of shareholder funds in lobbying against climate policy and climate-related branding in the three years since the Paris Agreement, and that company disclosures of spending on climate lobbying are very limited.[13] In 2015, they quantitatively scored companies on their influence on climate policy for the first time by analyzing over 30,000 pieces of evidence on 250 global companies and 50 large trade associations.[14] They found that 35 companies amongst the 50 most influential within the sample were actively opposing the Paris Agreement.

In addition, coalitions of investors, like those who back Climate Action 100+, are pushing companies to disclose more details on their links to trade associations. The Executive Director at Influence Map has said that trade groups have served as a way for some companies to shift their opposition to the Paris Accord “away from the spotlight.” It is problematic and indicative of “green washing” when a company publicly sets climate targets while simultaneously finances lobbying activities that directly or indirectly that seek to undermine climate regulation.

Thirdly, in recent years companies have questioned the role and necessity of trade associations. In 2018, a group of the largest food brands, including Nestle and Unilever, left the Grocery Manufacturer’s Association due to divergent views over its purpose and stance on controversial health topics and a diminishing need for shared political lobbying power and industry representation.[16,17] Specifically, large corporates now possess the power to lobby governments alone and the rise of

Trade association disclosure in the financial services industry

To understand more about how different organizations are declaring their trade association memberships, we investigated how the top five Investment Banking and Brokerage companies were disclosing them.

Organization	Trade association memberships disclosed on website	Trade association memberships disclosed in the EU Transparency Register	Overlap in disclosure
JP Morgan Chase	17	5	2
Goldman Sachs	3	9	0
Morgan Stanley	10	10	2
Bank of America	20	10	2
CitiBank	20	14	6

This sample investigation highlights some of the current challenges with trade association disclosure, including that reporting on memberships is not mandatory and disclosure is sporadic, inconsistent, and unstandardized.

Overall, without greater transparency, investors are unable to know if their investments are indirectly funding trade association campaigns that oppose their values and mission.[12]

12. https://www.responsible-investor.com/home/article/agm_season_2019_need_to_know_topics_part_1_lobbying/P0/, **13.** https://influencemap.org/report/How-Big-Oil-Continues-to-Oppose-the-Paris-Agreement-38212275958aa21196dae3b76220bddc, **14.** https://influencemap.org/report/Corporate-Carbon-Policy-Footprint-4274a464677481802bd502ffff008d74, **15.** https://www.responsible-investor.com/home/article/agm_season_2019_need_to_know_topics_part_1_lobbying/, **16.** https://www.triplepundit.com/story/2017/powerful-food-lobby-loses-big-members-over-shifting-consumer-concerns/14191, **17.** https://qz.com/1219503/food-manufacturers-are-leaving-the-grocery-manufacturers-association-signaling-an-end-of-the-big-food-era/

social media permits direct brand to consumer communication, essentially allowing corporates to leap frog trade associations.[18] The UK's Investment Association faced a similar dilemma in 2015 when two of the largest asset managers, Schroders and M&G Investments, threatened to leave. Speculators believe the asset managers were dissatisfied with the Investment Association's strong stances and regulatory focus on issues such as increasing transparency around fund fees.[19] As a result, we are seeing the rise of ESG issue specific associations in some industries such as the Sustainable Food Policy Alliance which has been set up by Unilever, Danone, Mars and Nestle.[20]

Responding to investors - Shell releases industry association climate review report

Shell's 2019 report responds to investor and NGO demand for greater transparency on trade association memberships and their advocacy on climate change. The report reviews Shell's relationships with 19 TAs that received investor attention due to their positions on climate policy, finding some misalignment on climate change with nine TAs and material misalignment with one TA, the American Fuel & Petrochemical Manufacturers (AFPM). Considering this, Shell is not renewing their membership with AFPM in 2020.[21]

Shell assesses alignment across four climate-related policies, using publicly available information:

- Does the trade association support the Paris Agreement goals?
- What is the trade association's policy on government-led carbon pricing mechanisms?
- What policy frameworks do they advocate for low carbon technologies?
- What is the trade association's view on the role of natural gas in the energy system?

The case for investors to understand trade association memberships

Currently most companies do not provide a transparent view of their trade association memberships or make clear their position within the association on ESG issues. This is problematic as investors face several hurdles when it comes to understanding whether a company's commitments on ESG are aligned with the policies of the industry associations they participate in. While it is not realistic to expect companies to drop out of industry associations over differences about a particular ESG issue, it is reasonable for investors to expect more transparency on the role of the company in the trade association in supporting ESG issuesto which they have committed. As we see in the example below, this kind of transparency may lead companies to reflect on their trade association memberships and withdraw from those associations that resolutely oppose the ESG commitments the company has made.

As we see in this brief review, trade associations are influential, and their actions can either support or hinder adoption of ESG policies and practices by their members. As ESG integration becomes a mainstream investment practice, it will be increasingly important for investors to think critically about the trade association memberships of the companies in which they invest. The PRI (2018) have released a guide on how investors can engage with companies on their trade association memberships and lobbying activities more generally.[22] It includes advice on how to identify red flags and how to ask the right questions.

At the High Meadows Institute, we are working with investors and other capital market actors to explore this topic through our Institutional Industry Engagement Project. Working with investors and companies in industry cohorts, we are exploring how to improve investor industry communication on ESG and, in that context, the role that industry associations are playing in facilitating ESG integration within the industry.

18. https://qz.com/1219503/food-manufacturers-are-leaving-the-grocery-manufacturers-association-signaling-an-end-of-the-big-food-era/, **19.** https://www.ft.com/content/21eaa072-6b5c-11e5-aca9-d87542bf8673, **20.** https://foodpolicyalliance.org/, **21.** https://www.pri.org/stories/2019-04-03/shell-oil-says-it-will-quit-lobbying-group-doesnt-support-climate-change, **22.** https://www.unpri.org/Uploads/g/v/q/PRI_Converging_on_climate_lobbying.pdf

About the Authors

The **High Meadows Institute** is focused on the role of business leadership in society. Our mission is to contribute to sustainable economic and social progress in a global economy and society. The High Meadows Institute was founded in 2013 by a small group of senior business and finance leaders with deep experience in the private and non-profit sectors. The Institute works in close partnership with other leading think tanks and academic and business organizations to advance its mission.

KKS Advisors is a leading consultancy firm providing innovative solutions that enable organizations to capture the enduring benefits of a sustainability approach. Applying our unique, research-backed approach, we work with corporations, foundations, NGOs and investors on sustainable strategies that deliver lasting impact. Our vision is to reshape markets, creating a world where business and investment decisions are made for the long term, taking environmental, social and governance factors into account. With offices in London, Boston and Athens, and associates around the world, our reach is global, and our focus is on efforts which foster systemic change.

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