

Our position on arms

PREAMBLE

Triodos Bank has a very deliberate, positive approach to how it uses the money its customers save and invest with it. The Bank only finances organisations that help to build a sustainable future for individuals, the community and the environment.

We identify socially, environmentally and culturally responsible businesses delivering lasting, positive change - in both our lending and investment activity. This positive approach guides our lending decisions, and our wider philosophy as an institution. But as well as this positive focus we also meet negative criteria, helping to provide clarity about who we will not finance. These negative criteria are applicable to all our products and services, but are particularly relevant for customers who want to invest their money as sustainably as possible in stock-market listed companies (typically large, multi-national companies whose brand names are very familiar).

These companies, by definition, are very big with connections to many other industries. We want to influence these organisations, and encourage a more sustainable approach to what they do. At the same time, if we used the same positive criteria as we do in our lending and other investment funds we would have a very limited pool of companies to choose from. So, instead, we use a combination of negative criteria and a 'best-in-class' approach. The latter means we can compare the sustainable performance of different companies in the same sector. The results of both 'best-in-class' and negative criteria are used to make decisions about which companies are available for a fund manager to invest in, on behalf of a group of investors who choose to invest in this way. The issues explored in this paper are particularly relevant for these private banking services and the management funds they relate to.

SUMMARY

The use of arms contradicts Triodos Bank's mission and we do not finance companies that make or sell them. While we acknowledge the right of democratic governments to defend their citizens and to safeguard internal security, as a point of principle we do not want to be involved in the privately-held arms industry.

In exceptional circumstances, we will accept investment in companies that have limited financial links to some

of these organisations. Triodos Bank has funds that invest in the listed companies mentioned in the preamble, for example, and it is possible that one of these may have minor shareholdings in the arms industry. Where we accept a very limited, indirect involvement of this kind, we assess it regularly to avoid taking positions that contradict our values.

In any event we will not accept involvement - either directly or indirectly through a secondary financial relationship - in the production, sale, or transfer of anti-personnel mines and cluster bombs.

WHAT WE BELIEVE IN

The mission of Triodos Bank is:

- To help create a society that promotes people's quality of life and that has human dignity at its core.
- To enable individuals, institutions and businesses to use money more consciously in ways that benefit people and the environment, and promote sustainable development.
- To offer our customers sustainable financial products and high quality service.

Financing the arms industry contradicts this mission, because it affects both people's quality of life and human dignity. Nevertheless in civil society, sometimes the use of physical force - including the use of arms - is necessary to protect people against the violent behaviour of others. This can, however, easily deteriorate into excessive and uncontrolled aggression. Therefore, sanctioned physical force (both the production and use of arms) must remain the exclusive responsibility of democratic governments.

HOW WE ACT

In accordance with its vision, we do not invest in, or cooperate with private companies using, producing or selling arms. This also applies to companies providing tailor-made components and services for the arms industry that are essential to the functioning of arms.

Triodos Bank is also reluctant to invest in, or cooperate with, companies that have established business relationships with the arms industry. Any companies with shareholdings in the arms industry are very carefully assessed to understand the nature and extent of this involvement in detail.

DILEMMAS WE FACE

We do not want to invest in arms at all, and believe it is unacceptable for private companies to profit from the production and distribution of them. Our position on arms producing companies is unequivocal: we do not want to be involved with them in any way, even if the arms business constitutes a small part of a company's activities. The dilemma we face is whether, and under what circumstances, we should allow indirect involvement in the arms industry.

This is particularly relevant to the kind of investment in listed companies outlined in the preamble to this paper. These companies are assessed for potential investment on the basis of their positive social and environmental performance relative to the rest of their industry. At the same time they are measured against negative criteria - including any involvement in arms. When balancing these considerations, we will consider a company for possible investment which has very limited shareholdings in, or services to, the arms industry. If we rejected any limited and indirect involvement of this kind, it would be almost impossible to invest in some sectors, such as the banking industry. However, we have a zero tolerance approach to direct or indirect involvement with anti-personnel mines and cluster bombs.

Accepting sanctioned physical force by governments raises the dilemma of the sourcing of government arms. Governments must strictly control the production, storage and sale of arms. And they should be responsible for producing them. However, in practice private companies usually produce the weapons that governments use. As private companies will often look to maximise the production and trade of arms, there is the risk of arms proliferation, allowing arms to find their way into illegitimate hands. As a consequence we oppose arms production by private companies, even if delivered to governments.

ANNUAL REVIEW

As part of our monitoring procedures this policy paper is reviewed on an annual basis. New insights with respect to this industry, or inputs from stakeholders, may result in modifications to it.

BACKGROUND INFORMATION

Arms are tools that are specifically designed for the execution of physical force by people towards other people or animals. Tools that are aimed at other or more general purposes, but can also be used to execute physical force, are not considered arms. Examples include flare guns and knives.

Although there are a wide variety of arms with offensive and defensive characteristics, all arms can be used in both ways. Therefore, a clear distinction between offensive and defensive arms is impossible.

In 2008, world military expenditure is estimated to have reached USD 1,464 billion, an increase of 4% since 2007 and 45% since 1999. This represents over USD 200 per capita and 2.4% of world GDP. Furthermore, sales of the world's 100 largest arms producers amounted to USD 388 billion in 2007. During the last decade these figures have steadily increased, whereas the proportion of military expenditure in GDP has stayed at approximately 2.5%¹.

In a large number of conflicts worldwide, a wide range of arms are systematically employed, resulting in hundreds of thousands of fatalities and millions of wounded victims on an annual basis. Of the victims, 90%² are civilians and 80%³ are women and children. As well as war victims, tens of thousands of people die every year through arms used in personal conflicts and criminal acts.

Arms have always been important tools in human history, for securing food through hunting, defence against wildlife and criminals, or the preservation of public order. Many people feel the need to protect themselves against aggressors. And most people feel sufficiently comforted if governments have arms at their disposal to protect themselves against aggressors such as dictators, terrorist groups and criminals. This is true of police and military arms, and can arguably be extended to nuclear deterrents. Some governments also allow their citizens to buy arms for personal safety.

Consent in the use of arms should only be given to governments for national defense purposes and internal security. As a result, authorised governments have a strong responsibility to apply minimal physical force appropriately. Governments need to be democratically controlled to safeguard this responsibility. If they are not, there is a risk of excessive force being used against civilians. Examples can frequently be seen when dictatorial regimes respond aggressively to non-violent civilians exercising their democratic right to free speech. Democratic governments can also misuse these powers, particularly when exercising public control.

In practice, repressive regimes, terrorist groups and criminal organisations have relatively easy access to a wide range of arms. In rare exceptions, successful cases of disarmament or blocking arms sales to such entities

1. www.sipri.org and SIPRI yearbook 2009

2. New Internationalist - issue 311

3. UN World Food Programme, 1998

have been reported. In addition, arms production and sales are often in the hands of private companies. Despite diversified worldwide legislation prohibiting sales of arms to repressive regimes, in reality these products are still distributed, through extensive illegal arms trade networks. Civilians also have legal access to personal weapons in many countries. This leads to societies in which people become accustomed to arms, and well-documented levels of violence.

In recent decades, opposition has grown against weapons of mass destruction and weapons that make no distinction between tactical targets and civilians. This has led to several international treaties which aim to reduce or prohibit the production, trade and use of nuclear weapons (1968), biological weapons (1972), chemical weapons (1993), anti-personnel mines (1997) and, recently, cluster munitions (2008). Apart from these treaties, there is growing public interest in investor responsibility in the arms industry. Financial institutions and large investors, such as pension funds, are increasingly criticised for investing in the arms industry. In 2006, this led to legislation in Belgium that not only prohibits the production of, and trade in, anti-personnel mines and cluster munitions, but also prohibits investment in companies that are involved in these arms systems. It is expected that such legislation may come into force in other countries, specifically in Western and Northern Europe.

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