Targeted corporate action can really make the difference

The contrarian

Be careful what you wish for in Darfur

Jon Entine explains why he is supporting the Darfur divestment movement, and why he hopes it will not fully succeed

Over the years, I have criticised the use by social investors of negative screening, economic boycotts, and divestiture – litmus tests to filter investments in companies deemed "bad".

So, why does this sceptic support the targeted boycott of investment firms with holdings in companies doing business in Sudan? And why should supporters of divestiture hope those arguing for complete divestment fail?

My traditional scepticism about divestments and the like is grounded in the dark secret of social investing: it is neither art nor science, but image and impulse, based on, at best, ideologically tainted research. It is foolish to trade on social perceptions when there's little empirical evidence about which corporate behaviours actually lead to progressive change.

Campaigns pushed most aggressively by social investors, such as those against Nestlé, Exxon or Big Pharma, have uniformly flopped. Divestitures almost never lead to the progressive reforms their backers support. Almost never. While campaigns have a dismal record at changing corporate behaviour, they have succeeded in reforming governments through targeting companies. The most potent example is boycotts of companies in apartheid South Africa.

That brings us to Sudan. As was the case with South Africa, its wealth is concentrated. It is swimming in petrodollars, thanks significantly to China, which buys more than half of its oil exports. Yet, with Khartoum spending upwards of 70% of oil profits on its military, armed mostly by purchases from China, its mainly Islamic population is as poor as a temple mouse. Government-backed militia groups have savaged the squalid populace in Darfur, in western Sudan, contributing to 450,000 deaths from violence and disease since 2003.

So how do you target China? Here's the pressure point: Warren Buffett's Berkshire Hathaway and various Fidelity Funds are among the publicly traded companies that own large, profitable blocks of PetroChina, a subsidiary of the state-controlled China National Petroleum Corporation. Will pressure to sell PetroChina and other Sudan-related stocks make a difference?

Pulling the plug

No and yes. The most radical voices in the "Divest Darfur" movement, which includes politicians from Sam Brownback on the right to liberal Dick Durbin, more than two dozen states and localities, as well as some 50 colleges and universities, call for complete divestiture.

That would be a disaster for those interested in saving lives. "Be careful what you wish for," said Buffet in his response to a total divestiture resolution at his company's AGM. PetroChina would be forced to sell the oil infrastructure to the Sudanese or a deep-pocketed foreign entity, perhaps a Russian oil company, which would sell its oil on the open market. That could leave Sudan better off financially and even less subject to international pressure.

To their credit, the most thoughtful leaders in the ethical investment community are sounding a bit like Warren Buffett.

"Divestment must be carefully targeted to pressure the government of Sudan where it counts – oil and other infrastructure – and to avoid denying the Sudanese people food, medicines and other basic humanitarian needs," says Bennett Freeman, Calvert's senior vice president for social research and policy.

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"A targeted divestment approach, backed by company engagement with the government and reinforced by diplomatic pressure can make a difference. Major multinationals ABB, Siemens and Rolls-Royce all announced decisions to leave Sudan," he says. Freeman also notes Sudan's apparent willingness to accept the deployment of a UN peacekeeping force in Darfur after months of resistance.

Calvert's approach also seems to be working with Buffet. For the targeted divestment movement to work, it needs the oxygen of publicity, and the Omaha billionaire handed it to them. While Buffet successfully opposed the resolution on divesting from Darfur, he did his own part to stoke public outrage by allowing an unprecedented open debate on the issue. The dialogue received enormous international media coverage.

Obsessed with its reputation with the Olympics – only one year away – Beijing has seemed unusually receptive to altering any number of its policies.

Will this strategy work? We will never know for certain. We do know that the alternatives – sitting on our hands or complete divestiture – are neither morally nor pragmatically acceptable. ■

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