TRANSCRIPT

Unions & ESG and the IPCC Climate Report

Featuring:

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Mike Disabato:

What's up everyone and welcome to the weekly addition of ESG now, where we cover how the environment, our society and corporate governance effects and are affected by our economy. I'm your host, Mike Disabato. And this week we have two stories for you. The first is we discuss the landmark win for labor as Amazon workers on Staten Island vote to unionize. Then we discuss the latest climate assessment report from the intergovernmental panel on climate change. Thanks as always for joining us, stay tuned.

Mike Disabato:

There's been a slew of high-profile wins for American labor in 2022. Starbucks recently announced it would halt that stock buyback program to invest more profit in its people and stores after workers voted to unionize in early December, and more are discussing the same. Recently, workers at an REI store in New York City voted 88 to 14 to unionize and more are discussing the same. But no story this year has been bigger than the decision by Amazon workers at its Staten Island warehouse in New York to unionize. The final vote went like this: 55% of workers at the facility voted in favor of being represented by what's called the Amazon Labor Union, which is an independent and internally formed union. It has no outside influence. It was made by the workers and it will likely be kept by the workers. And so because of that, Staten Island became the first Amazon warehouse in the US to be unionized.

Mike Disabato:

And it's been heralded as a generational victory for organized labor in the US. And now I put emphasis on the US there because there are, of course, Amazon workers in Europe that are unionized. But it might seem obvious as to why this happened. Workers were unhappy with how they were being treated at the Amazon warehouse. But if you were just to look at Amazon from a policy and structure standpoint, as my colleague and guest, Liz Houston, who covers Amazon told me, you'd see a company that has good benefits in place relative to larger American corporations.

Liz Houston:

I mean, there are lots of reasons why you would think that Amazon should be a great place to work. They've been very vocal on the $15 minimum wage. They've had this in place for a few years n ow, and they've been lobbying for that to be nationally mandated. Only this week, they've come out and said that they've been voted the number one place where Americans want to work on LinkedIn. So, from the outside, this looks like a great employer. The only way that we're able to see that there might be something else going on is when we are tracking all the controversies relating to labor-management relations or relating to collective bargaining that seem to come up with Amazon. And that's the only thing really that gives an indication that there might be something else going on.

Mike Disabato:

Controversies are scandals or things that are private then brought into the public sphere because of lawsuits or media reports or NGOs allegations, things like that. Some of the controversies that we collected are the alleged poor working conditions and an adequate safety measures for employees during the COVID 19 pandemic, class action lawsuits that claimed Amazon withheld bonuses and overtime pay, there's even been accusations of punitive action brought against employees for taking too many bathroom breaks. There's even this controversy we have from 2020 about a former employee at an Amazon fulfillment center in Staten Island named Christian Smalls that filed a legal complaint against Amazon for racial discrimination. In his firing, Christian Smalls, of course, became one of the leaders of the union push at Staten Island that we're talking about today. So, the writing was on the wall for Amazon for some time. And this is where the ESG risks comes in.

Mike Disabato:

Academic research is split on the overall impact that unionization has on a company's productivity. So, we look at it as neither a good nor bad thing for it to be formed. Yet once that union is formed, or even once big discussions about a union start to begin, in our view, management might want to begin working with their employees to understand why they feel their basic rights aren't being met. Instead, it seems Amazon was intransigent and a bit disorganized in how they responded to employees' concerns in this instance. And the reason for that is because Amazon's strategy is to be anti-union and they have a stated reason for why they are anti-union.

Liz Houston:

They have this stated goal of being Earth's best place to work. One of their clear strategies is that they believe that unions would get the way of them achieving this and that it is better for them to have a direct relationship with employees. Now, that may be true. It may be the case that Amazon if it wants to be the best employee in the world, unions would stand in the way of that. It's worth noting that that goes against everything that's generally accepted in global norms. So, I think the International Labor Organization and the UN Global Compact would disagree with Amazon on that point.

Mike Disabato:

Principle three of the UN Global Compact states that businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining. Amazon does not seem to be doing that. And I should note that most every company that has ever argued against unionization has said exactly the same thing that Amazon is saying. We think we can provide a better workplace by negotiating with our employees directly, which is fine, but it would be important for management to then signal to employees that their concerns will actually be heard. And that management is organized in its efforts to address those concerns. However, that does not seem to be the case, take this leaked memo from a meeting that was forwarded widely to the company by Amazon general counsel David Sapolsky, it says, "Smalls is not smart or articulate. And to the extent the press wants to focus on us versus him, we will be in a much stronger PR position than simply explaining for the umpteenth time how we're trying to protect workers."

Mike Disabato:

So for us, for ESG analysts, when we see this type of correspondence, when we see this sort of mismanagement of that correspondence, we think immediately about what the board has done and how it has set the top-down culture of a company like Amazon. It's not really clear to what extent the Amazon board has been involved in crafting or even fully endorsing the company's existing anti-union strategy, but this is exactly the sort of question that investors in Amazon and other companies like it are likely to be asking in coming proxy season.

Liz Houston:

What their strategy was for dealing with this unionization, whether it was something that was being considered at a board level, or whether it was something that was being entirely managed further down the chain, and whether they needed to rethink the level of oversight that they had over cases like this?

Mike Disabato:

There's a chance it was just arrogance. A system that had always worked was going to continue to work and nothing was going to stop them because, overall, companies have had the upper hand for some time in the US. Organized labor is at its lowest point ever. There's only around 10% of American workers that are represented by a union, that's a steady decline from the 1980s when rates were around the 20% mark. According to the Bureau of Labor Statistics, corporate profits have soared while wage increases have been anemic, Amazon CEO, for example, makes 1,236 times more than the average Amazon employee. According to our data, its competitor, if you can call it a competitor, Target has a CEO that makes about 105 times the average employee. And this is sort of representative of what America's like in terms of the struggle between corporations and labor.

Mike Disabato:

America is alone in the industrialized world and not guaranteeing paid parental leave or paid vacation among the 36 OECD countries, only the US and South Korea do not guarantee paid sick days. We have the lowest minimum wage as the percentage of the median wage of the 36 OECD nations. We have the highest percentage of low-wage workers among the 36, except for Latvia. And we work three more weeks than the Brits, four to five more weeks than the French, and six to seven more weeks than the

Germans. So, how did Amazon lose in a society with such weak labor rights? Maybe this is the beginning of a long-term change in labor relations due to COVID that have been highly discussed.

Liz Houston:

People aren't talking about the Great Resignation for nothing. There does seem to have been a shift in attitude to work and to labor versus employers since the pandemic. I think it's reasonable to expect that you will get more cases like this. There's momentum behind the movement. I would suspect that one successful case of unionization may well lead to more. Amazon itself has another vote coming at another New York warehouse later in April. So it'll be really interesting to see what happens with that, but I think companies really do need to have a think about how they deal with unions and maybe adjust their expectation to the view that maybe there will be more unions and they can't just be anti-union. They have to be better at dealing with unions once they're in place.

Mike Disabato:

And that might be seen in what Starbucks is doing. Stock buybacks no matter their use in providing shareholder wealth can paint a cold picture when your workers are claiming they don't have basic rights, or maybe the Amazon union succeeded because, unlike other warehouses, their employees have been there more than a couple years. Turnover has been lower at the Staten Island warehouse. And so the culture of the warehouse was more formed, something hard to measure, but a background qualitative input that we pay attention to, or maybe this really is a due day for labor organization in the US. It's very telling that the Amazon Group didn't allow themselves with an existing labor group. They created their own unit called the Amazon Labor Union or the ALU. That's a new form. Usually, you would get an outside group to come in, but the Amazon workers decide to take the old and splashed a bit with the new.

Mike Disabato:

Take Starbucks, that's another example of how this might be changing. As we're recording this, three more Starbucks, one in Buffalo and two in Rochester, New York have voted yes on unionization. Last week, the company's flagship store in Manhattan, which voted in favor of a union 46 to 36, became the largest Starbucks to unionize. And Starbucks, like Amazon, has a relatively good set of labor benefits on paper compared to other large American employers. They provide long-term incentives known as bean stock. If you want to know what that is, just Google it. And they provide paid sick leave to eligible employees. Remember I said, that's not a guarantee in America.

Mike Disabato:

They've been even recognized like Amazon as an employer of choice by external organizations. Yet like Amazon, they have a large complex workforce that may be going through a change in perception of who holds the power, management or labor. And so companies like Amazon, companies like Starbucks, they may be dealing with these sort of union risks for years to come. And so we will have to see how these companies can actually manage those risks.

Mike Disabato:

This year marks the sixth installment of the Intergovernmental Panel on Climate Changes report on climate change. The IPCC, as everyone calls it, puts out what can be considered the definitive report on what climate change is doing and will likely do to our world. If you haven't read any of them, I suggest it. It gives more meaning to the expansive term that is climate change, but they are long, and everyone is busy. So, today, we're going to give you some short takes on the report, specifically, on the third part of the IPCC's Sixth Assessment, and it's titled, "The mitigation of climate change." And it was released this week on April 4th. By the way, if you're curious, climate change mitigation refers to efforts to reduce or prevent emissions of greenhouse gases. Nothing fancy. Anyway, I called up my colleague, Chris Cote, that covers everything that is climate for us. And I asked him, what stood out for him in this report. And here's what he had to say.

Chris Cote:

This probably doesn't come as a surprise to you, Mike. But I was interested in chapter 15 of the report about finance and investment, and climate change. And the report basically says investors are going far too slow. Some colleagues and I have looked at this, and we've basically seen that investors have the tools they need to reduce their portfolio emissions and actually drive the real-world economy toward net zero, reducing emissions significantly over time. Some of the tools they have at their disposal are changing the cost of capital, where we've seen the cost of capital for the emissions-intensive companies, the higher polluters. We've seen that rise over time compared, especially, to the lower emitters. Investors can also shape the trajectories and the strategy and the management of companies related to climate change by engaging with them.

Chris Cote:

We've seen instances here and there of this working, but they haven't been to doing it enough to accomplish their net-zero goals. Finally, investors can also play on a different level. They can advocate for policy and regulatory shifts like removing subsidies or enacting a carbon price or some other similar mechanism like a standard, and help level the playing field for, let's say, energy providers. And so investors have these levers at their disposal, but they really haven't been using them at the right scale or with the right frequency to reach net zero.

Mike Disabato:

Do you have any idea what would be an appropriate carbon tax in your mind per ton of CO_2? That's usually what these taxes are, per ton of CO_2 equivalent. Right now, I know there's roughly a 70 to $80 per ton of CO_2 equivalent in effect in the EU. I assume it needs to be higher than that because this report says greenhouse gas emissions have risen for every sector and in every region. And even though we have become more efficient, we still have just emitted more on an absolute basis. So, it's got to be higher, right?

Chris Cote:

Well, so we can look at this using tools like scenario analysis by sort of seeing if the carbon prices are at this level, what's the effect on companies, and if it's at this higher level, what would the effect be? And a few colleagues and I recently did this looking at some European companies and US companies to see sort of the question that the IPCC is asking in this report. What's the cost of delayed action to these companies or the investors holding them in their portfolios? And what we find out is at least for some scenarios, delayed action would mean a carbon price rising to four or $500 in the mid-2030s to keep us on track for this like net-zero pathway keeping global temperature rises to 1.5 or below two degrees.

Chris Cote:

That sounds really extreme, but that could be what it takes at that point. If, as we talked about a couple weeks ago, coal continues to rise in different parts of the world, and just generally we continue to head in the wrong direction, it could take a major course correction. And it's sort of like putting off some of your work, where you can get it done later but you're going to have to stay up late at night or you're going to have to put in those extra hours and it's going to be a pretty painful. I think that's the situation we're beginning to face.

Mike Disabato:

I mean, that's the delayed transition scenario that we've talked about often. And I know you've written about how sectors like the material and energy sectors could face a 60% or so decline in their value if these climate costs come to bear on them in the future. I remember reading once that the IPCC used to put out kind of doom and gloom reports. It was always a bit apocalyptic, and people stopped reading them because it was just too hard. So, they started to add in some positives that they were seeing. I'm wondering if you could end us with that, some silver lining that this report discusses, or some good news or some advancement that is being adapted in a quicker way than we had expected.

Chris Cote:

It's never been cheaper to try to decarbonize. The cost of solar, the cost of wind, the cost of batteries have all declined very steeply over the last decade, making it much easier to try to install those things now, deploy them at scale. So, there is an opportunity before us, and I would say one other reason for some optimism here is that the investment community has organized itself significantly in the past year, especially, through the Glasgow Financial Alliance for Net Zero and other groups, the net-zero alliances. And they're gaining steam, there's more rules being discussed for increasing climate disclosures. And we are on this path. It's just a question of pace at this point and whether the level of urgency that the IPCC is highlighting is there.

Mike Disabato:

We might follow up with some more on this report. It's very long. It's like 3000 pages. There's a lot in it. As I said, it's the definitive report, usually on what's going on with climate change and how it's likely to affect us in the future. I'll put a link to the report in our podcast and you can read it at your leisure.

Mike Disabato:

And that's it for the week. I want to thank Liz and Chris for talking to me about the news with the ESG twist. I want to thank [Gabriela De La Serna 00:18:30], who was our researcher for this episode. Thank you so much, Gabriela. And I want to thank you so much for listening. I really appreciate it always. If you like what you heard, don't forget to rate and review us, that puts us up on podcast list and more people can get access to our content. And if you want to hear my voice every week, which I hope you do, then subscribe and our podcast will be downloaded to wherever you get your podcasts. Thanks as always, and talk to you next week.

Speaker 4:

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