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The factory by a Tuscan beach and the future of ESG investing

Some investors who want to assess the environmental record of companies worry about how ratings are compiled

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It is sometimes called the Italian Maldives. Rosignano is a Tuscan tourist destination that is home to 30,000 people and famous for its white beaches, which draw people from all over Europe.

The seemingly pristine sand contains a catch, however. It partly owes its colour to the limestone silt from a nearby factory owned by Solvay, the Belgian chemicals multinational. The plant is the company's only soda ash and bicarbonate production facility in Europe where chemical waste is discharged directly at sea without being treated.

Two decades ago, the World Health Organization described the area as "a priority pollution hotspot in the Mediterranean" and it has long been a source of conflict with local activists. But that controversy is now starting to intersect with a debate that goes to the heart of the future of the investment industry.

The plant in Tuscany is the subject of a campaign by a London-based hedge fund, Bluebell Capital Partners. Launched in 2019, the firm is starting a campaign focusing on one company a year which it believes has questionable practices on environmental, social and governance issues — or ESG as it is known in the investment sector. Solvay is its first target.

"This idyllic beach perfectly resembles that of a pristine Caribbean resort. But this apparent paradise is a mere illusion; the area is just an open landfill of Solvay's industrial chemical waste," Bluebell said in a letter to Solvay.

The Solvay site at Rosignano in Tuscany. Locals have long complained about the discharge from the plant that goes into the Mediterranean Sea © Vincenzo Pinto/AFP/Getty

Solvay rejects the accusation and says it adheres to strict environmental standards related to the discharge of effluent from the plant, which it says poses no risk to health or the environment. "We regret that occasional sensational and biased attacks continue to be made regarding our plant in Rosignano," it says.

One of the reasons that Solvay is attracting attention from investors is that it has a triple A rating on ESG risks by MSCI, a London-based firm which provides assessments of a company's record in these categories. MSCI certifies Solvay as a "sector leader" for chemical safety, water usage and clean tech opportunities.

"Solvay is rated very highly by companies specialising in providing an ESG ranking, which is quite revealing about the real relevance of those ratings," says Giuseppe Bivona, one of the founders of Bluebell.

ESG has become one of the fastest growing areas of asset management as demand in recent years for sustainable investments has ballooned. Investors with more than $100tn in combined assets have signed a commitment, the Principles for Responsible Investment, to integrate ESG information into their investment decisions.

To follow through on those commitments, investors are partly dependent on the new branch of rating agencies which assesses companies on their ESG performance. Yet there is little consensus on what criteria should be used to make such judgments. While Solvay has a triple A rating from MSCI, other agencies give it a lower score. Sustainalytics, another influential ratings provider, ranked it at medium risk from material ESG issues.

A ditch from Solvay's plant discharges waste into the sea. Solvay says that the discharge is not toxic and that it also helps mitigate the natural erosion of the coast © Vincenzo Pinto/AFP/Getty

Tourists walk next to a sign reading 'prohibition of bathing and parking' on the 'Spiagge Bianche' (white sand) beach in Rosignano © Vincenzo Pinto/AFP/Getty

For the asset management industry, the disagreements over these ratings increase the chances that ESG comes to be seen as a marketing exercise and ends up losing credibility among investors.

"It is important the financial community does not treat ESG as a new fashionable buzzword to direct investments," says Bluebell's Mr Bivona.

This month Mairead McGuinness, the EU's financial services commissioner, told an asset management conference that Brussels would probe ESG ratings when it launches its renewed sustainable finance strategy in 2021.

"We've heard some concerns from the asset management industry about the level of concentration in the market for ESG ratings and data, and possible conflicts of interest," she said.

Waste management

There has been a chemicals plant at Rosignano in Tuscany since 1913. Solvay's presence was so instrumental to the economic development of the local community, that the district where the plant is based has been renamed "Rosignano Solvay". In the first half of the 1900s, the Belgian company built housing, schools, a church and a football stadium for the local community.

During the time the plant has been there, a total of 13m tons of solids flowed into the sea from the chemicals factory, according to the Tuscan environmental agency.

The waste contains high levels of mercury, arsenic, ammonia, nitrogen and boron, according to the Italian environmental agency, Arpa. Data from the agency published in 2020 shows the levels of these heavy metals, which can be toxic for humans and alter plant growth, are above the legal limit in the waters surrounding the white beaches.

Solvay says that the water in the area is safe and in line with the rest of the Tuscan coast. It points to data from the Tuscan branch of the environmental agency which shows that the water quality was good when tested for bacteria and other elements.

Bathers in the cloudy waters of the Mediterranean at Rosignano. Last year, Italian television programme Rai Report aired footage showing poor visibility in the sea due to a thick white floating residue © Fabio Muzzi/EPA-EFE

The environmental agency's study also states water pollution has caused Posidonia oceanica, an aquatic plant of the Mediterranean Sea commonly know as Neptune grass, to disappear from the seabed in front of Rosignano's white beaches.

Last year, Italian television programme Rai Report aired footage showing poor visibility in the waters in front of the beaches due to a thick white residue floating in the sea.

According to a 2014 report produced by Arpa, the regional environmental agency, Solvay dumped more than 120,000 tons of toxic substances a year into the sea from 2005 to 2013.

Solvay says "it adheres to strict environmental standards related to our discharge effluent, operating safely, without impact on health or environment and in full compliance with all existing laws and regulations".

The company has been under pressure for its record at Rosignano for decades. In 2003, Solvay agreed with Italian institutions to slash waste levels from 200,000 tons a year to 60,000 by 2008 but later said the task was impossible.

Solvay said that "over the years and after significant investments, it became clear that the level of 60,000 tons [per year] was not technically achievable [and] the threshold was therefore revisited at a higher level".

In 2015, after an EU water directive was adapted into national law, the Italian authorities increased the limit from 60,000 to 250,000 tons a year.

A spokesperson for Italy's environment ministry said authorities had decided the amount of solid waste would have to be "proportional to production levels" and that the company would be responsible for monitoring activities.

Solvay chemicals plant. The Belgian multinational's presence has been so important to the economic development of the local community, that the district where the plant is based has been renamed Rosignano Solvay © Vincenzo Pinto/AFP/Getty

The beach at Rosignano. The colour of the sand is partly a result of limestone silt from the nearby chemicals factory © Vincenzo Pinto/AFP/Getty

According to Solvay the discharge is not toxic and it also helps mitigate the natural erosion of the coast. "Limestone naturally contains traces of heavy metals, but those remain imprisoned in the solid state of the limestone and cannot, in any event, be absorbed by living organisms, including people and fish," Solvay says.

"The cloudiness of the seawater close to the coast slows down the growth of seaweed, however, this level [of visibility] is considered 'sufficient' by the ecological classification of the sea in front of Solvay's Rosignano site, according to the EU directive 200/60/CE and the Tuscany environmental agency," a Solvay spokesperson said.

However, an EU official told the Financial Times that the "Italian authorities are looking into the situation [and they] should establish whether the current practice is in conformity with EU and national law [and] the Commission is monitoring the issue."

The EU official said the directive clearly mentions water transparency as a key parameter and "our checks indicate that the most relevant water bodies [in the Rosignano area] fail to achieve good chemical status (apparently because of mercury and tributyltin)."

Extraction rights

The pollution around the white beaches is not the only controversy involving Solvay in the region.

Under a 1997 agreement between Solvay and the Italian government, the company can also extract up to 2m tons a year of salt from the nearby salt pans of Volterra for its soda bicarbonate production.

The company's salt extraction has long been a source of dispute with local activists, who worry that the area will be destroyed.

"Everybody knows what happens at the plant, that Volterra is being wiped out, that high levels of carbon dioxide and other substances are being released into the air," says Maurizio Marchi, a member of Medicina Democratica, a group which has challenged Solvay on its environmental record. "I've seen it with my own eyes for as long as I can remember, anyone can see it, it's visible, but nobody has ever done anything."

Mr Marchi says "there was a time when the company employed over 2,500 people in Rosignano, no questions were asked, and institutions turned a blind eye". However, the 72-year-old activist adds: "But now it only employs 300 people, and companies and institutions fill their mouths with ESG strategy announcements, so they should know better."

Solvay CEO Ilham Kadri became the first female chief executive of a major global chemical company in 2019. In February she said: 'We are setting bolder objectives to solve key environmental and societal challenges through science and innovation.' © Thierry Roge/BELGA MAG/AFP/Getty

The Volterra salt pans. Under a 1997 agreement between Solvay and the Italian government, the company can extract up to 2m tons a year of salt from Volterra © Roberto Nencini/Alamy

Solvay says Italian authorities have done environmental assessments and approved the company's usage of rock salt at Volterra. It says that while it understands concerns about "the visible nature of Solvay's discharge effluent in Rosignano", data about the safety of the area is regularly published by the local authorities.

A 2017 study by a group of US-Italian researchers published in the International Journal of Occupational Medicine and Environmental Health, using data collected between 2001 and 2014, concluded that "an excess of mortality for chronic-degenerative diseases in the area" of Rosignano associated with "environmental pollution particularly due to heavy metals' contamination of water". It said that compared with the rest of Tuscany, the Rosignano area showed "significantly higher standardised mortality rates" for heart disease, Alzheimer's and other degenerative diseases of the nervous system.

The Belgian group points out that the study concluded it was "not possible to establish a causal link between environmental pollution and increased mortality". It says the discharge pumped into the sea is "non-dangerous, non-toxic and [composed of] inert natural materials" and that "heavy metals are neither deliberately introduced nor used in the soda ash process" at the Rosignano plant.

Solvay is "a science company with ESG at our core", it says.

Record scrutinised

Rosignano is one of 115 sites that Solvay operates in 64 countries. But the plant in Tuscany has now become fodder for a new activist investment fund.

Bluebell was set up in 2019 by Francesco Trapani, the former chief executive of Italian jewellery company Bulgari, and two former traders at Lehman Brothers and other investment banks, Giuseppe Bivona and Marco Taricco.

At the end of September, Bluebell's management wrote a letter to Solvay's board of directors demanding it undertake a review of its ESG record and to immediately halt the discharge of waste directly into the sea in Tuscany.

The Rosignano facility was "responsible for what we consider to be an ongoing, and without precedent, environmental disaster due to the contamination of several kilometres of Italian beaches, by chemical waste discharged directly from Solvay's factory, into the sea," the letter said.

Mr Bivona told the Financial Times that Bluebell asked Solvay for a full decontamination of the shores “as well as to implement the same technical solutions which clearly exist and Solvay already implemented at its other factories to discharge its waste”.

The letter also demanded Solvay’s board link part of the Solvay chief executive’s remuneration to such clean-up efforts and to the technical upgrade of the Rosignano site.

In February, Solvay’s Ilham Kadri, who in 2019 became the first female chief executive of a major global chemical company, announced a step change in the company’s environmental plans by launching a programme called Solvay One Planet, a 10-year-long strategy aimed at promoting sustainability across the company’s portfolio. “We are setting bolder objectives to solve key environmental and societal challenges through science and innovation,” Ms Kadri said at the time.

Solvay says the management’s compensation “already include sustainability targets in their short and long term incentives”. The company says its senior officials met Bluebell’s management and “corrected many of [their] inaccuracies and selective use of information”. Bluebell denies that it altered its criticisms of the company.

Bluebell Capital is a one-year old fund with only €60m in assets but it has quickly established itself in Italy through several controversial campaigns against the managements of large Italian employers such as Mediobanca and Leonardo. It has also tried to put pressure on the managements of companies such as Lufthansa, Hugo Boss and asset manager GAM.

“Nowadays ESG has become a great marketing tool, everyone talks about their great deeds in these spaces but is it always the case?” said Mr Bivona.

Ratings role

As demand for sustainable investing has ballooned in recent years, fund managers have been keen to show how they incorporate ESG issues into their investment decision.

Although many asset managers have hired specialists and developed bespoke systems in a bid to develop an advantage in sustainable investing, the first stop for portfolio managers is often the ESG rating issued by agencies. A recent study by the CFA Institute, the group for investment professionals, found that 73 per cent of UK investment professionals used ESG ratings in company analysis.

In response, big groups such as MSCI and S&P have invested heavily in their ESG ratings businesses, including buying up rivals, in a bid to cement their position as a trusted provider.

The Solvay plant in Saint-Fons Belle Etoile in France, one of the 115 sites it operates in 64 countries © Soudan Alpaca/Andia/UIG/Getty

In some cases, these ratings form the cornerstone of how a fund invests. Many asset managers sell funds that track, for example, MSCI indices that focus on stocks with good ESG ratings or exclude those with bad scores. More than 30 ESG funds that track an MSCI index hold Solvay, according to data provider Morningstar. In total, more than 170 funds that focus on sustainable or ESG investing hold Solvay.

But there are growing concerns about the quality of ESG ratings. Earlier this year, MSCI came under scrutiny after it emerged it had given fast-fashion retailer Boohoo an AA score, despite years of media reports alleging that workers in its supply chain were being treated unfairly.

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In other cases, it is possible for a company to score well overall even if there are concerns about some aspects of the business. MSCI scored Solvay below the industry average for toxic emissions and waste, but because it ranked above its peers on issues from carbon emission to chemical safety it received the top rating overall.

MSCI says "concerns over environmental impact are prevalent in the industry in which Solvay operates in". The ratings are meant to provide an outlook and assess a company's performance relative to the standards and performance of industry peers, it adds.

"MSCI ESG Ratings are based on the assessment of thousands of data points in relation to 35 ESG issues which are most likely to affect the long-term financial resilience of a company and the strength of a company's efforts to manage those risks."

"While MSCI ESG Ratings take into account company involvement in controversies, a company's legacy issues may not be reflective of future material ESG risks," said the spokesperson.

ESG ratings providers, however, use different methodologies to develop their rankings. A study this year by academics at Massachusetts Institute of Technology and the University of Zurich found the correlation among scores from six providers was on average just 0.54 — which suggests only a moderate similarity in the ratings. "The ambiguity around ESG ratings represents a challenge for decision makers trying to contribute to an environmentally sustainable and socially just economy," the academics said.

This ambiguity is apparent in the case of Solvay, where MSCI gave it a top score, while Sustainalytics, another influential ratings provider, ranked it as at medium risk from material ESG issues.

Sustainalytics says Solvay's "overall [ESG] risk is higher" because the group was "materially exposed to more ESG issues than most companies in our universe". This includes the business's production process potentially generating "air or water emissions and hazardous waste, exposing the company to the risk of accidental spills or violations of environmental regulations".

It adds: "Solvay's products contain substances that may have harmful effects on the environment and human health." However, it also gave the group a strong score for management of material ESG issues.