



(Getty Images)

### **The need to combat climate change collides with supporting human rights for Uyghurs in China**

The Intergovernmental Panel on Climate Change issued a stark warning this month that human-led warming from burning of fossil fuels is causing climate change and removing carbon emissions will cause warming to cease.

That makes transitioning to renewable energy like solar power even more urgent. However, reports that China forced Uyghurs to work in labor camps to manufacture the key ingredients in solar panels puts socially responsible investors in an uncomfortable position between weighing preventing climate catastrophe and supporting human rights.

Further, human-rights advocates pushing for better treatment of the ethnic group were inadvertently handed a setback with the U.S.'s withdrawal from Afghanistan. Now that the Taliban have regained control of Afghanistan, China may have heightened

# ESG INVESTORS STRUGGLE TO FIND THE RIGHT BALANCE IN DOING GOOD – AND SOLAR PANELS SHOW WHY

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concerns of renewed militancy in central Asia, which is near Xinjiang, home to the Uyghurs, who are Muslims, a religious minority in China.

All of this underscores the limits to investing according to environmental, social and governance principles. Global supply chains are often murky and opaque, as many clothing manufacturers have learned.

Some issues can best be tackled by governments rather than gaining board seats or otherwise influencing company strategy. In the best-case scenarios, change can take years, but sometimes change never comes despite activists' efforts. And ESG proponents regularly must weigh competing concerns, in this case environmental and labor interests, and decide where they can have the most influence.

### **The labor allegations in China**

While concerns that Uyghurs worked in forced labor camps were around for several years, a report from Sheffield Hallam University earlier this year uncovered a connection to the solar industry. The report, "In Broad Daylight: Uyghur Forced Labor and Global Solar Supply Chains," detailed accusations that the Chinese government put millions of indigenous Uyghur and Kazakh citizens from the Xinjiang region into labor camps to mine polysilicon, a key material in panel manufacturing.

The Chinese government characterizes these camps as a voluntary, government-supported poverty-alleviation effort and a way to counter terrorism. Officials repeatedly deny all allegations of human-rights violations.

Some 95% of solar modules rely on polysilicon, the feedstock to create solar cells, and according to the report, polysilicon manufacturers in the Uyghur region account for approximately 45% of the world's solar-grade supply. "In 2020, China produced an additional 30% of the world's polysilicon on top of that produced in the Uyghur Region, a significant proportion of which may be affected by forced labor in the Uyghur Region as well," the authors say.

The U.S. recently began paying more attention to products imported from the region that might be made forced labor. In June, the Biden administration banned the import of solar panels and other goods produced by Hoshine Silicon 603260, +2.82%, a Shanghai-listed company that produces and sells silicon-based materials and operates plants in Xinjiang. The company has a market value of about \$22.2 billion, but less than 13% of its shares are freely traded. It accounts for a small part of U.S. solar imports.

The U.S. also placed some restrictions on four other Xinjiang silicon producers, including Daqo New Energy Corp. 688303, +1.42%, a \$3.35 billion company that is

one of the world's largest polysilicon producers and has an ADR listing in the U.S. DQ, +8.13%

The Solar Energy Industries Association, a U.S. industry group, encourages companies to move supply chains out of the region and for companies to sign a forced labor prevention pledge, among other actions. So far more than 280 companies have signed this pledge, including utility Duke Energy DUK, -1.35%, Tesla TSLA, -0.42% (which acquired SolarCity in 2016 and now is part of Tesla Energy) and JinkoSolar U.S., the U.S. subsidiary of the Chinese panel maker JKS, +11.00%.

### **ESG managers in a tough spot**

Chris Meyer, manager of stewardship investing research and advocacy for Praxis Mutual Funds, a faith-based ESG fund, says the report's findings help to illustrate the gray areas of investing and that global supply chains are complex and often opaque. "It's not what we want to see associated with solar. I say we in the ESG community more broadly, and also we at Praxis, but I think we're better for knowing it because we can begin to address it now," he says.

But at the same time, he adds, "it's not a reason to avoid solar renewable energy entirely. The world is in climate triage."

Praxis works with utilities to retire coal plants and switch to renewable energy in a way that supports utility employees and the communities where the plants are located as part of a "just" transition that ensures people of all backgrounds take part in a non-carbon economy.

That's another reason why the Uyghur situation is tricky for ESG funds. Although renewable-energy use is expanding in the U.S., "we don't want it to come at the expense of people or planet on the production side," he says.

Meyer says Praxis is increasing its advocacy with its portfolio companies on the solar supply chain, but doing so is tough. He declined to name which companies. "It's a pretty raw issue right now," he says.

### **The limits of ESG investing**

There are limits to what fund managers can do, and the remedies to the situation are complex. A European environmental institutional fund manager who does not have direct exposure to investments in Xinjiang says normally ESG fund managers advocate with companies to improve corporate behavior to benefit all stakeholders, but this situation is different because the fate of the Uyghurs is up to the Chinese government.

“There is absolutely no way that because U.S. utilities aren’t using Xinjiang polysilicon, the Chinese government will change their policy,” the fund manager says, adding that even if solar manufacturers move out of the country, Uyghur life won’t change.

The U.S. government raised concerns about China’s treatment of Uyghurs only recently. After the terrorist attacks on Sept. 11, 2001, the Bush administration sought to enlist China’s help in counterterrorism to fight al Qaeda. By 2002, the Bush White House designated the “East-Turkistan Islamic Movement” a terrorist organization, blaming it for terrorist attacks including arson and assassination in China. The group is a target of Chinese counterterrorism and has used it to justify cracking down on the Muslim-majority Xinjiang region. The U.S. State Department removed the group from its terrorist list in November 2020, saying there was no credible evidence the group still existed.

### **Potential benefit for U.S.-based solar production**

Of course, ESG investors could look for other solar-panel manufacturers to support their environmental interests. There is some push to onshore U.S. solar production, and in June four Democratic senators introduced the Solar Energy Manufacturing for America Act to provide tax credits for American manufacturers across the solar-manufacturing supply chain to ramp up domestic solar production capacity. But building an industry from near-scratch will take time.

Cindy Bohlen, research analyst at Riverwater Partners, an ESG financial adviser, says there may be an opportunity for a company such as First Solar FSLR, +2.35% to benefit from investor interest in a U.S.-based solar panel manufacturer. First Solar, which has a market cap of about \$9.9 billion, uses a thin-film manufacturing process, rather than polysilicon. However, it is more costly to produce than the panels made with polysilicon.

“It seemed to us that this whole situation would present a good opportunity for them,” Bohlen says, noting her firm hadn’t invested in any solar stocks to this point and is doing further due diligence.

Meyer says the rate of renewable-energy buildout could slow as the industry tries to make sense of the Uyghur issue, but it won’t stop installations. Panels may rise in price, but he still thinks renewable energy will remain cost-competitive with fossil fuels.

“I don’t think this is going to dramatically alter the trajectory that we are on for the adoption of cleaner power,” he says.