



Severe environmental damage

Severe environmental damage has been one of the Council's criteria since the start. Section 3 of the guidelines states: *"Companies may be put under observation or be excluded if there is an unacceptable risk that the company contributes to or is responsible for severe environmental damage"*.

In 2015, the Council continued the work started in previous years on selected topics. These are companies' operations relating to *illegal logging and other particularly damaging forms of logging, particularly valuable conservation areas and illegal fishing and other fishing activities causing particular damage to the environment*. After it became clear that the Norwegian parliament wanted to introduce a new criterion in order to exclude coal companies and companies with unacceptably high climate-gas emissions, the Council has spent some time and resources considering how the work on this criterion should be carried out. This is referred to separately in this annual report.

The Council recommended excluding four companies in 2015 due to an unacceptable risk of severe environmental damage in connection with the companies' conversion of tropical forest into palm oil plantations in Indonesia. Among other things, the Council placed emphasis on the fact that the licensed regions appear to be in areas with particularly rich and unique biodiversity, and that the measures stated by the companies would not be sufficient to reduce the risk of severe environmental damage linked to the ongoing and future conversion of forests into palm oil plantations. All these companies are conglomerates whose plantation operations only comprise a small part of their overall operations. The Council did not place emphasis on this. The starting point for the Council's risk assessment is the nature of the norm breach and the company's efforts to prevent the breach. In the Council's view, the severity and relevance of breaches are not reduced by the fact that the entity associated with the breach constitutes a small part of the group's activities. Nor is the company's degree of contribution to the breach reduced by responsible conduct in other areas.

The Council recommended placing under observation one of the companies that converts forests into palm oil plantations. The observation applies to the company's plantation operations in Indonesia. In a previous recommendation to the Ministry of Finance, the Council had recommended that this company should also be excluded from the GPF. In June 2015, the company declared that it would immediately stop all logging and forest conversions and would not carry out such activities in the future. Among other things due to the uncertainty about the actual consequences of the change in the company's strategy, the Council

decided that the company should be placed under observation. In order to assess the progress and impacts of the company's new practice, the Council recommended an observation period of four years.

So far, the Council has made 10 recommendations to exclude companies due to the risk of severe environmental damage linked to *illegal logging and other particularly damaging logging*. Companies are still being investigated and the work of assessing the environmental damage linked to logging and forest conversions will therefore continue in 2016.

The Council has also considered whether GPF companies have operations that may harm *particularly valuable conservation areas*. The threats against protected areas are particularly linked to the extraction of resources and building of infrastructure. In this work, the Council has particularly focused on nature that is protected as one of UNESCO's World Heritage Sites. So far, two recommendations have been made. Several companies are still under investigation.

The Council has continued its work on *illegal fishing and other fishing activities causing particular damage to the environment*. In this context, fishing activities comprise the entire value chain from when the fish is caught, transported to be bought/sold and then processed. The Council has particularly looked at the extent to which companies are involved in illegal, unreported or unregulated (IUU) fishing and the extent to which they catch globally threatened species. This includes companies that fish themselves and those that buy seafood from subcontractors. The Council has held dialogues with several companies where there appears to be a risk of IUU fishing in the company's own operations or supply chain. Often, companies do not have measures or systems in place to prevent them from being involved in IUU fishing. Several companies do not want to provide information to the Council, and in such cases the basis for assessing the company will often be limited. The Council finds that the risk of a company, through its fishing activities, contributing to severe environmental damage may be reinforced by lack of transparency in its operations and the fact that the company does not provide information. So far, the Council has recommended excluding one fishing company. A more detailed account of the Council's work on fishing companies was given in the 2014 annual report.