



The work of the Council on Ethics

The Council on Ethics for the Government Pension Fund Global (GPF) is an independent council that makes recommendations to Norway's central bank, Norges Bank, to exclude companies from the fund or put them under observation. The Council assesses companies' activities on the basis of guidelines determined by the Ministry of Finance. These guidelines contain both product-based exclusion criteria, such as the production of tobacco or some types of weapons, and conduct-based exclusion criteria, such as gross corruption, human rights violations and environmental damage. The Council has five members and a secretariat with a staff of eight. The Council publishes all its recommendations on its website: etikkradet.no.

Overview of the Council's activities

The Council's task is to find and assess companies that should be excluded from the fund or put under observation, irrespective of the company's size, the fund's ownership stake or the country where the company is registered. Companies are identified by monitoring the portfolio and through systematic reviews of problem areas and reports received from third parties.

As for the product-based exclusion criteria, the Council is to have an overview of all the companies in the fund whose operations may meet any of these. A firm of consultants monitors whether companies have operations that contravene any of the product-based criteria and submits a quarterly report to the Council. The Council investigates any relevant companies in further detail.

In relation to the conduct-based criteria, the Council must select companies and topics on which to concentrate. While reviews of problem areas often follows a long-term plan, individual cases are usually raised as a result of news items. An external firm of consultants carries out daily searches of many news sources

and in several languages to find relevant news items about companies in the portfolio. The Council receives quarterly reports from this firm and investigates the companies where there seems to be the greatest risk of a future norm violation.

The activities in 2015

The Council obtains information from inter alia research environments, international, regional and national organisations, and often uses consultants to investigate suspected breaches of the guidelines. The companies in the portfolio are also themselves important sources of information. There is often an in-depth dialogue with the companies during the assessment process.

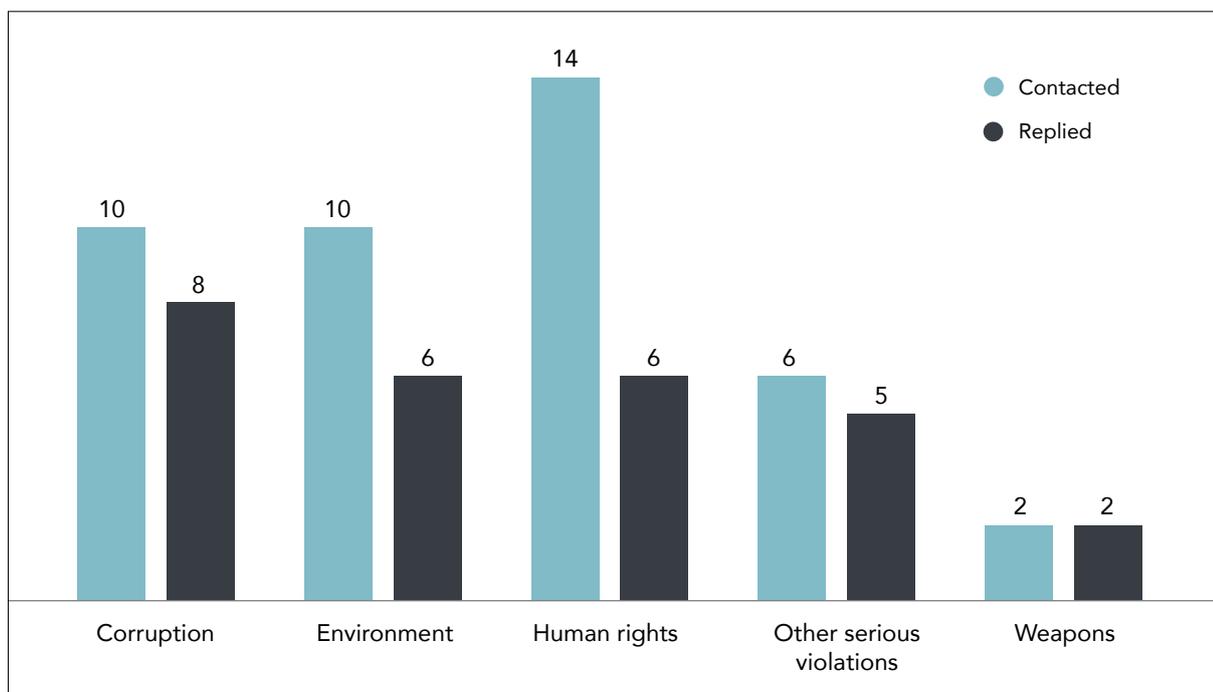
Table 1 summarises the Council on Ethics' investigations into companies in 2015 compared with the figures for 2013 and 2014.

Norges Bank received eight recommendations from the Council in 2015 and had at year-end made a decision on five of these. So far, it has accepted the Council's recommendations.

Table 1. Overview of the Council on Ethics' activities

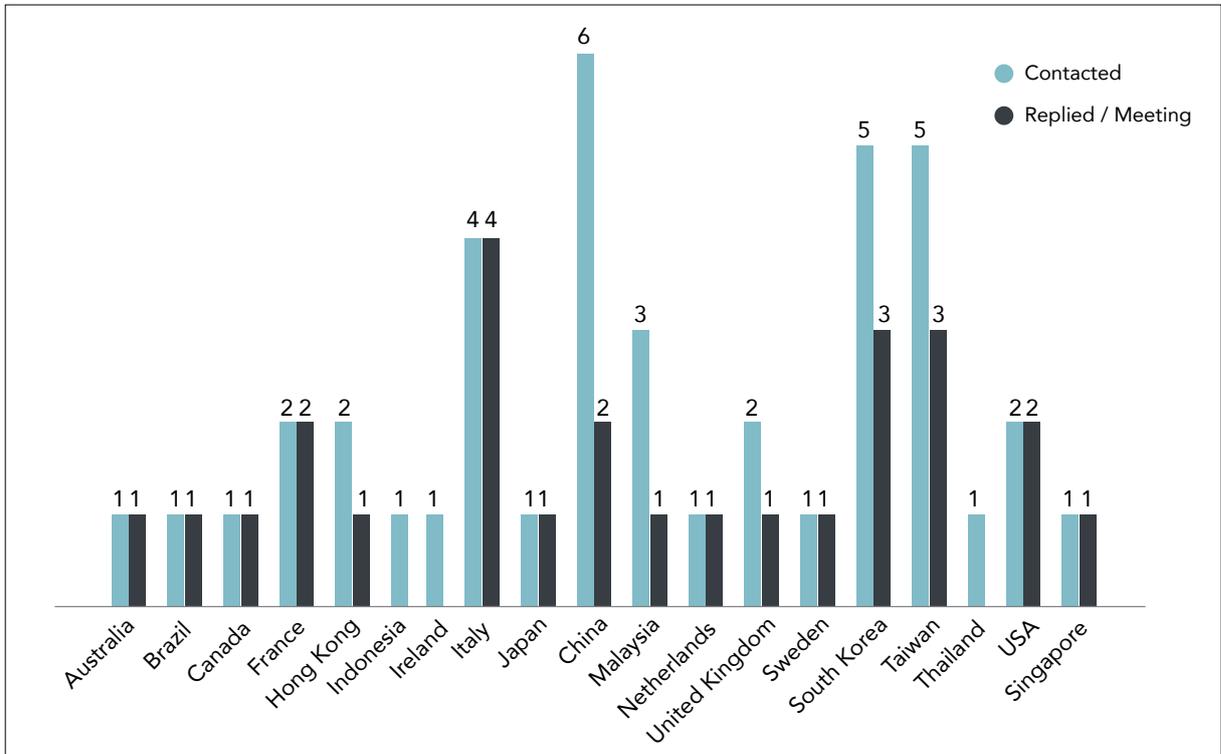
Year	2013	2014	2015
Limited companies in the GPFG at year-end (approx.)	8 500	9000	9050
Total number of excluded companies at year-end	60	60	64
Companies on the observation list at year-end	1	1	1
Recommendations submitted	11	12	8
Companies excluded during the year	9	3	4
Companies re-included during the year	5	3	0
Companies contacted by the Council	43	39	42
Companies with which the Council has had meetings	18	18	11
New cases			
New cases	30	30	69
Total number of companies examined during the year (approx.)	180	150	184
Total number of company studies concluded during the year (approx.)	70	85	73
Council meetings			
Council meetings	9	9	11
Secretariat members	9	8	8
Budget (NOK million)	12,5	13,5	14,8

Figure 1. Companies contacted in relation to each criterion



The figure shows the number of companies contacted by the Council in 2015, the exclusion criteria applied to the assessment of the companies and the number of companies that replied to the Council's questions. Most companies were contacted in connection with investigations into their working conditions.

Figure 2: Companies contacted by the Council, according to the country where the company is listed.



This figure shows where the companies contacted by the Council in 2015 are listed and which of these replied to the Council's questions. The companies contacted by the Council cover a wide geographical area. In 2015, most of the companies contacted were listed in Asia due to investigations into the working conditions in some Asian countries' textile industries.

In 2015, the Council was in contact with 42 companies and held meetings with 11 of them. The Council contacts companies that, following initial assessments, it wishes to study in greater detail. The Council starts off by writing a letter to the company asking questions and requesting documentation that can provide a basis for assessing the company's activities, such as a project's environmental impact assessment, emission data or information on the working conditions at a factory.

Replies from companies

Some companies respond well on how they seek to prevent environmental damage, corruption or human rights violations, while others seem to believe that investors have no grounds for asking for detailed information on, for example, working conditions or environmental management systems. Companies that are assessed are always given an opportunity to comment on a draft recommendation before the

Council advises Norges Bank to exclude them. The vast majority of companies take the opportunity to comment on the draft recommendation, but fewer reply to questions of a more general nature from the Council. The percentage that replies has been particularly low in relation to working conditions in the textile industry. Even if a company replies, it often does not provide enough information for the Council to ascertain there is no unacceptable risk of a breach of the GPF's guidelines.

The Council believes a company's refusal to share information is a risk factor. Companies must be expected to provide information both in their public reports and to investors about how they handle the risk of serious norm violations. It is important that this information is specific and can be verified. Companies often claim they have good systems in place but it can be difficult for third parties to understand whether the systems have been implemented in practice.

Meetings with companies

Most of the Council's meetings with companies in 2015 related to the issue of corruption. Companies' systems for detecting and preventing corruption are key to the Council's assessment of the risk of future corruption. Through meetings with companies, the Council tries to assess whether such systems are not just formally established but have also been implemented in practice. Over the past decade, international standards for best practice relating to company anti-corruption work have gradually been developed. More and more countries have also included corporate penalty provisions in their national legislation, according to which internal anti-corruption systems are crucial to the assessment of whether the company is to be held liable for acts of corruption committed by its representatives.

In relation to other exclusion criteria too, the Council finds it important to understand whether companies have good systems for discovering and preventing damage. Such systems contain goals, descriptions of responsibilities, risk-assessment rules, systems to allow learning from experience, notification procedures and other elements that are necessary for the company to have a continuous improvement process. The extent to which companies have such systems and comply with them provides valuable information on the future risk of violations.

More new companies assessed and more companies investigated

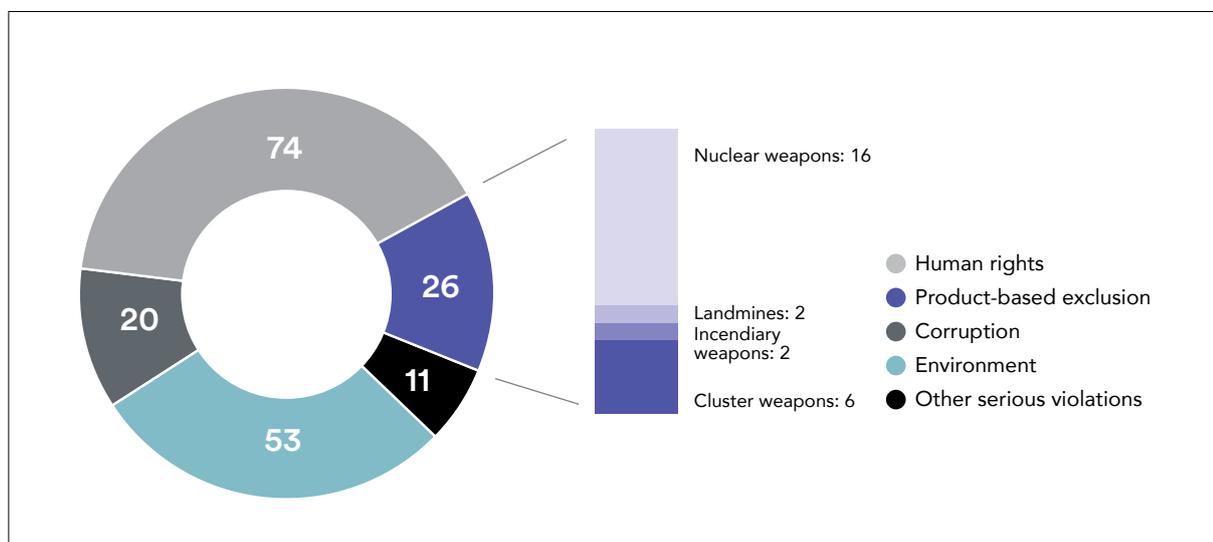
Table 1 shows that the Council considered 69 new companies in 2015 – more than twice as many as in the two previous years. This was due to the Council identifying all the portfolio companies that have either textile production operations in some Asian countries or construction operations in Qatar in 2015.

The Council investigated a total of 184 companies in 2015. The investigations into 73 of these have been concluded. Some investigations are very time-consuming. In other cases, the facts are more apparent, so that the Council must primarily consider whether there are grounds for exclusion.

Observation

A company may be put under observation when there is doubt as to whether the conditions for exclusion have been met or about future developments, or where observation is deemed appropriate for other reasons. The observation period is determined in each individual case. The Council may at any time during the observation period recommend excluding the company or removing the company from the observation list.

Figure 3. Companies under investigation, according to criteria.



The figure shows that the Council works in parallel on cases relating to all the exclusion criteria.

When the Council recommends putting a company under observation, it becomes publicly known that the Council is particularly monitoring the company. A formal observation decision indicates that it will not take much for the company to be excluded from the fund and may thus put extra pressure on the company. It also provides information to others about the Council's views on the company.

During the observation period, the Council provides the Fund's manager, Norges Bank, with an annual assessment of the company. The Council obtains information from open sources and in some cases also from studies by consultants. This information forms a starting point for the discussions at the Council's annual meeting with the company. A draft report to Norges Bank is also sent to the companies for their comments. The observation process is thus dependent on good cooperation between the companies being observed and the Council.

Currently, two companies are under observation, while the observation of one company was terminated in 2015.

Ongoing and new investigations

As from 2016, the observation and exclusion criteria have been extended to include a further two criteria relating to emissions of climate gases and the production or use of thermal coal. The Council has already started the work of identifying companies whose operations may conflict with the climate criterion and will expend further resources on this work in 2016.

Since 2010, the Council has systematically examined the Fund's investments in some types of operations that may cause serious environmental damage. In 2015, the Council worked extensively on assessing companies that establish plantations in tropical rain forests and companies that take part in illegal, unreported or unregulated fishing. These investigations will continue in 2016. The Council also still has some work to do on individual companies with operations in or close to particularly valuable protected areas. In addition, the Council will review companies within parts of the chemical industry.

Just as important as the systematic reviews of problem areas is the work on individual cases that come to the Council's attention through the monitoring of news items or information received from third parties. The Council conducted in-depth assessments of several companies with regard to environmental damage in 2015.

In 2013, the Council identified some industries and companies that were particularly vulnerable to forced labour and this has been the starting point for its systematic reviews in the human rights area. The work on the textile industry in some Asian countries and companies with building and construction activities in Qatar is based on this earlier identification. These investigations will continue in 2016. In addition, the Council will assess companies that manufacture electronic goods in Malaysia.

Previous exclusions mean that the Council more easily picks up on new, similar cases. If, for example, companies start to produce hybrid seeds in India, the Council will investigate whether they can be linked to child labour since child labour is very common in such companies. The Council also continuously monitors areas where law of belligerent occupation, may be applicable and companies that extract natural resources from disputed areas.

The Council's work on corruption cases is based on a risk based approach that involves reviewing countries and sectors that international rankings show are particularly prone to corruption. So far, the Council has concentrated on the building & construction, defence and telecommunications industries as well as the oil and gas sector. The Council has come quite far in its process of gathering information on several corruption cases, and plans to hold several meetings with companies in 2016.

This year's activity plan is published in Norwegian on the Council's website.