

To Norges Bank

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UNOFICIAL ENGLISH TRANSLATION

**Recommendation to exclude Daewoo International Corporation and
POSCO from the Government Pension Fund Global**

Summary

The Council on Ethics for the Government Pension Fund Global (GPF) recommends the exclusion of POSCO and its subsidiary Daewoo International Corporation (Daewoo) from the GPF. The Council has concluded that there is an unacceptable risk that Daewoo, and thus also its parent company POSCO, may be responsible for severe environmental damage in connection with the conversion of tropical forest into oil palm plantations in Indonesia. The scale of conversion and the fact that the concession area lies in a region of unusually rich and, unique biodiversity entails an obvious risk that conversion will cause severe environmental damage. The lack of data reinforces this risk further. The Council has also emphasised that illegal methods appear to have been used in the clearance of the concession area, and that the company appears to be doing little to reduce the environmental damage.

About the companies

POSCO and Daewoo are South Korean industrial companies. POSCO is a global steelmaker with an ownership interest of 60.3 per cent in Daewoo. Daewoo engages in steel and raw materials trading, oil and gas production, mine development, forestry and food production, among other things. Daewoo owns 85 per cent of the Indonesian plantation company PT Bio Inti Agrindo (PT BIA).

At the end of 2014, the GPF owned shares in POSCO valued at approximately 198.1 million USD, corresponding to an ownership interest of 0.91 per cent, and shares in Daewoo valued at about 9 million USD, corresponding to a stake of 0.28 per cent.

What the Council on Ethics has assessed

The Council has assessed whether there is an unacceptable risk of POSCO and its subsidiary Daewoo contributing to or being responsible for severe environmental damage as per section 3, first paragraph, sub-paragraph 3, of the Guidelines for Observation and Exclusion of Companies from the Government Pension Fund Global.

Through its subsidiary PT BIA, Daewoo is currently converting tropical forest into oil palm plantations in the province of West Papua, Indonesia.

The preparatory works to the Ethical Guidelines for the Fund state that corporate structure shall not determine the ethical assessment regarding whether a company is contributing to or responsible for unethical conduct. Based on this starting point and the outcomes in previous recommendations, the Council follows the guiding principle that if a parent company is the controlling owner of a subsidiary, the parent company must also be excluded if the subsidiary breaches the guidelines. As the controlling owner, the parent company has deciding influence on the activities of the subsidiary. POSCO is Daewoo's controlling owner, and indirectly also the controlling owner of PT BIA. Accordingly, this recommendation covers both Daewoo and POSCO. The GPF has no shares in PT BIA.

The nature of the breach and the company's efforts to prevent the breach is the point of departure for the Council's risk assessment. Daewoo is a conglomerate, and the plantation activities comprise only a small part of its overall operation. The Council has not given weight to this fact. Only the most severe breaches of standards are considered with respect to exclusion. 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.

In its assessment of environmental damage associated with the logging and conversion of tropical forests, the Council emphasises the scale of conversion, to what extent the company's concession areas overlap with areas containing important ecological values, and what consequences the conversion of forest will have for threatened species and their habitats.

Conversion involves the felling of trees and the removal of other vegetation before an area is used to set up plantations for the production of palm oil or lumber. Plantations are monocultures with little ecological value compared to natural forests.

The Council on Ethics' findings and assessment

The assessment is based on the Council's own research. In the present case, the Council has been in touch with Daewoo several times over the course of 2014. Both POSCO and Daewoo were given an opportunity to comment on a draft recommendation in September 2014. Daewoo has also replied on behalf of POSCO.

Daewoo's concession area in Papua covers 32,500 hectares. The Council's findings suggest that the conversion of forest into plantations began towards the end of 2012, and is ongoing. Plantation development is expected to be finalized in 2018.

The island of New Guinea has the world's third-largest tract of contiguous rainforest, after the Amazon and the Democratic Republic of the Congo. It is home to an estimated five per cent of the world's animal and plant species, and two-thirds of its species are only found on New Guinea. Although Papua is a biodiversity hotspot, its flora and fauna remain poorly documented, including in the vast tracts of forest where Daewoo's concession area is situated. This raises the question of whether the conversion of rainforest in this part of Papua, and on such a large scale, is at all possible without running a high risk of irreversible damage to biodiversity and ecosystems in these unique areas.

The concession area is largely covered by dense, continuous forest which the company describes as rainforest. The concession area lies within the Southern New Guinea Lowland Forests Eco-region, which is considered to be one of the Earth's most biologically valuable areas. It is a region of particularly rich and unique biodiversity, and is home to numerous threatened and protected flora and fauna species. Many species are only found in this region, which is considered critically endangered by logging, the conversion of forests into plantations and other activities.

The Council has requested information from Daewoo about the environmental and biodiversity impacts associated with the clearing of forests. The information Daewoo has provided to the Council provides few answers.

According to the environmental impact assessment for the concession which Daewoo has sent to the Council, most of the concession area is covered by shrubs, bushes and secondary forest. This is inconsistent with the Council's findings. Maps from the Indonesian Ministry of Forests show that almost half of the concession area – 15,800 hectares – appears covered by primary forest which has not been logged previously. The Council assumes that the company's activities will entail the conversion of primary rainforest and forest in good condition into plantations.

The company's environmental impact assessment contains little information on the condition of the forest, ecosystems or species diversity in the concession area. The actual number of threatened, protected or endemic species appears to have been underestimated. Flora, fauna and ecosystems have not been surveyed, and the company has not carried out assessments to identify high conservation values in the concession area. The company's actions have focused on safeguarding protected species, and comprise the establishment of three limited buffer

zones along waterways. It is unclear to the Council which species these actions are designed to protect, and how narrow strips of forest in a large plantation landscape will help to preserve ecological values in the concession area. Moreover, the company is obliged to preserve these areas under Indonesian national requirements in any event.

In the Council's view, Daewoo is doing little to preserve biodiversity and important ecological values in the concession area. The company has emphasised that areas were excluded from the concession area on environmental grounds before Daewoo was granted permission to develop plantations. This, however, is insufficient to protect important conservation values in the concession area. Although Daewoo has also written that it plans to conduct a high conservation value (HCV) assessment, it has not specified any timetable for the assessment, the methods to be used, or the consequences of the assessment for ongoing or future conversion. The conversion of forest does not appear to have been suspended pending the HCV assessment. In the Council's view, this measure is therefore inadequate to prevent severe environmental damage. Neither Daewoo nor PT BIA are members of the Roundtable on Sustainable Palm Oil (RSPO).

The Council has also given weight to the fact that satellite images show an abnormally large number of fire hot spots in Daewoo's concession area, which suggests that land is being cleared by burning. This practice is illegal in Indonesia, and regarded internationally as unacceptable due to the air pollution it entails. The company has denied that it uses such methods, and has claimed that the fires are caused by the negligence of workers or local people. This cannot be ruled out. Nevertheless, the Council finds it unlikely that so many fires would occur in the concession area without any connection to the land clearing. In the Council's view, the sheer number of fires and the fact that the burning has been ongoing for several years should have prompted the company to investigate the cause of the fires, and to consider whether its measures are adequate to prevent fires from occurring.

There is no information about the condition of the forests, biodiversity or ecosystems in the 32,500 hectares of forest slated for conversion into plantations. Accordingly, no information is available on the extent and nature of the biodiversity loss that conversion will cause in these ecologically important areas. The Council finds that the scope of conversion, which includes large tracts of pristine forest, and the fact that the concession area lies in a region of exceptionally rich, unique biodiversity present an obvious risk that conversion will cause irreversible environmental damage. The lack of data reinforces the risk. Further factors emphasised by the Council are that illegal land clearing methods appear to have been employed in the concession area and that the company does not appear to have taken significant steps to rectify the environmental damage. Overall, the Council finds that there is an unacceptable risk of severe environmental damage through the company's conversion of tropical forest into oil palm plantations. The Council on Ethics therefore recommends the exclusion of POSCO and Daewoo from the GPF.

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1 Introduction

The Council on Ethics has assessed the GPFG's investments in Daewoo International Corporation (Daewoo)¹ and Daewoo's parent company POSCO² against the Guidelines for Observation and Exclusion of Companies from the Government Pension Fund Global (the Ethical Guidelines).³

POSCO is a global steelmaker with operations in South Korea, Indonesia and India. Daewoo is one of South Korea's largest trading companies, and engages in steel and raw materials trading, oil and gas production, mine development, forestry and food production, among other things. In 2010, POSCO acquired a majority stake in Daewoo, and as at 2013 had an ownership interest of 60.3 per cent in the company.⁴ In 2011, Daewoo acquired an 85 per cent stake in the Indonesian plantation company PT Bio Inti Agrindo (PT BIA).⁵

At the end of 2014, the GPFG owned shares in POSCO valued at approximately 198.1 million USD, corresponding to an ownership interest of 0.91 per cent, and shares in Daewoo valued at about 9 million USD, corresponding to a stake of 0.28 per cent.

1.1 What the Council on Ethics has assessed

Daewoo is currently converting tropical forest into oil palm plantations in West Papua province through its subsidiary PT BIA. The Council has assessed whether there is an unacceptable risk that POSCO and its subsidiary Daewoo – through these activities – are contributing to or responsible for severe environmental damage as per section 3, c) of the Ethical Guidelines.

The preparatory works to the ethical guidelines state that corporate structure shall not determine the ethical assessment regarding whether a company is contributing to or responsible for unethical conduct. Based on this starting point and the outcomes in previous recommendations, the Council follows the guiding principle that if a parent company is the controlling owner of a subsidiary, the parent company must also be excluded if the subsidiary breaches the guidelines. As the controlling owner, the parent company has deciding influence on the activities of the subsidiary. POSCO is Daewoo's controlling owner, and indirectly also the controlling owner of PT BIA. Accordingly, this recommendation covers both Daewoo and POSCO. PT BIA has been excluded because the GPFG has no shares in it.

The Council's risk assessment begins with the nature of the breach and the company's efforts to prevent the breach. Daewoo is a conglomerate, and the plantation activities comprise only a small part of its overall operation. The Council has not given weight to this fact. Only the most severe norm breaches are considered with respect to exclusion. In the Council's view,

¹ Issuer Id: 1456300.

² Issuer Id: 129309.

³ Guidelines for Observation and Exclusion of Companies from the Government Pension Fund Global. Adopted by the Ministry of Finance on 18 December 2014: <http://etikkradet.no/mandat/>.

⁴ POSCO Form 20 F, filed with the US Securities and Exchange Commission on 12 May 2014, available at <http://www.posco.co.kr/homepage/docs/eng2/jsp/invest/archive/s91b6010020l.jsp>.

⁵ Daewoo International Corp. Separate Financial Statements Years ended December 31, 2012 and 2013: http://www.daewoo.com/eng/investor/financial/audit_report.jsp; The Korea Herald: *Daewoo International buys Indonesia palm oil firm*, 8 September 2011.

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.

In previous recommendations regarding severe environmental damage, the Council has emphasised whether:⁶

- the damage is significant;
- the damage causes irreversible or long-term effects;
- the damage has considerable negative impact on human life and health;
- the damage is a result of violations of national laws or international norms;
- the company has neglected to act in order to prevent the damage;
- the company has not implemented adequate measures to rectify the damage;
- it is probable that the company's unacceptable practice will continue.

Commercial logging and conversion of tropical forest into plantations is considered one of the primary causes of deforestation and loss of biodiversity. It also contributes significantly to greenhouse gas emissions.⁷ Conversion involves the felling of trees and the removal of other vegetation before an area is used to set up plantations for the production of palm oil or lumber. Plantations are monocultures which have little ecological value compared to natural forests.

When assessing environmental damage in connection with the logging and conversion of tropical forest, the Council proceeds on the basis that tropical forests constitute some of the world's most species diverse ecosystems. They are habitats for many threatened species, and provide important ecosystem services such as carbon storage, water management and protection against erosion. Logging and conversion of forests presents a severe threat to the future existence of these ecosystems. Tropical forests are important to the global state of the environment, as illustrated by the many international and national initiatives taken to reduce deforestation and degradation of tropical forest. Accordingly, the Council has considered the risk of severe environmental damage in connection with the conversion of tropical forest and peatlands. In its assessment, the Council has emphasised the scale of conversion, the extent to which the company's concession area overlaps with areas containing important ecological values, and the consequences of conversion for threatened species and their habitats.

1.2 Sources

Little public information is available on Daewoo's plantation operations or the environmental impacts associated with its conversion of tropical forests. The Council has requested information from Daewoo. The company has made the environmental impact assessments (EIA) for the concession area available to the Council, but these reports provide little information on biodiversity in the concession area.

The assessment of the company's plantation operation is therefore largely based on the Council's own research. The Council has used information from Daewoo's website, satellite

⁶ See e.g. the Council on Ethics' recommendations regarding Ta Ann Berhad, WTK Berhad and Noble Group: www.etikkradet.no.

⁷ IPCC (2013): Climate Change 2013. *The Physical Science Basis. Working Group I contribution to the IPCC 5th Assessment Report*: <http://www.ipcc.ch/index.htm>.

imagery, different types of maps (land cover maps identifying forest types and peatlands, and maps showing areas included in the Norway–Indonesia moratorium), publicly available data from national and local authorities in Indonesia, and academic literature. Nevertheless, these sources do not provide concrete information about the condition of the forest or biodiversity in the concession area.

All websites referred to in this recommendation were last visited on 25 March 2015.

2 The Council on Ethics' findings

Daewoo's concession area is located to the east of the Digoel River in Indonesian Papua and west of the Fly River in Papua New Guinea, 5 km from the border between the two countries (see Figure 1 and Figure 2). The concession area is divided into two blocks, which cover a total of 32,500 hectares. According to Daewoo, the area between the blocks is a wildlife sanctuary.⁸ This area, and a peatland area in the north-eastern corner of the eastern block, was excluded from the original concession area before Daewoo secured plantation development rights.

The company started operations in 2010. Plantation development is expected to be completed in 2018.⁹

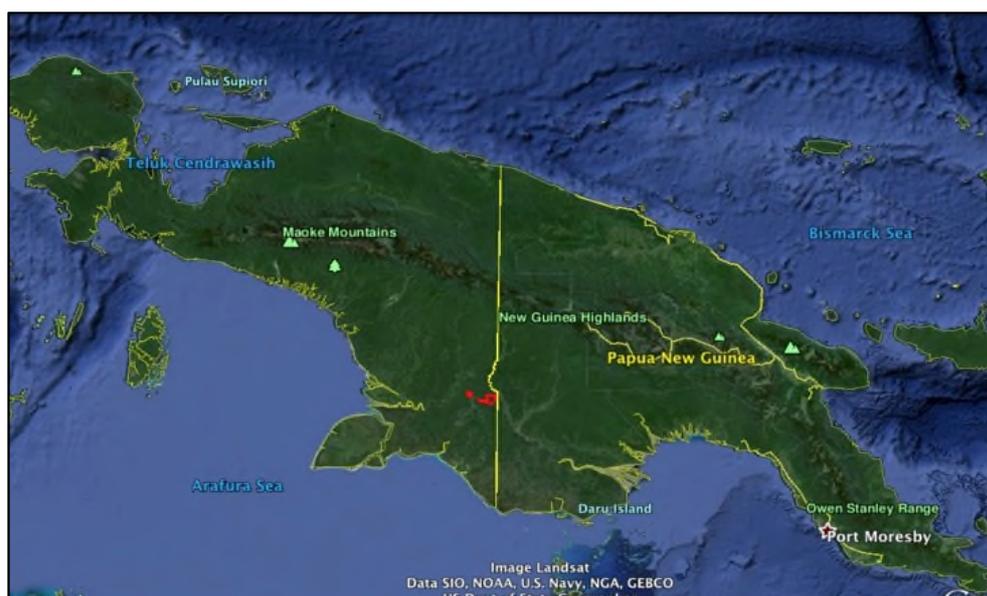


Figure 1: Map showing the location of Daewoo's concession area in Papua (red area). The yellow line marks the border between Indonesia and Papua New Guinea.

⁸ Letters from Daewoo to the Council on Ethics dated 8 August 2014 and 26 September 2014.

⁹ PT Bio Inti Agrindo: <http://ptbia.co.id/>.



Figure 2: Daewoo's concession area is divided into two blocks, separated by a wildlife sanctuary. (The yellow line represents the border between Indonesia and Papua New Guinea.)¹⁰

Daewoo's subsidiary, PT BIA, describes the vegetation in the concession area as rainforest.¹¹ Maps from the Indonesian Ministry of Forests show that the concession area is covered by 16,000 hectares of primary forest; see Figure 3.¹²

High-resolution Google Earth imagery from September 2009 show no trace of logging activity, roads or settlements, suggesting that the forest in large parts of the concession area was in relatively pristine condition before the company commenced operations. A land cover map from 2013 also shows significant areas of primary and secondary forest in the concession area.¹³

According to the EIA for the concession, the concession area is mainly covered by shrubs and bushes (66 per cent or 26,500 hectares), with the remaining area comprising secondary forest (33 per cent or more than 13,000 hectares).¹⁴ This is inconsistent with information in official maps and satellite images. Nor is the data basis for company's vegetation survey clear.¹⁵ The Council's findings suggest that the conversion of forest into plantations began in the westernmost block towards the end of 2012. In 2014, it appears that clearing has also commenced in the other block, see Figure 3. Based on satellite images, there seems to be no buffer zone between the sanctuary and the plantation, which would have been important to prevent damage to the conservation area.

¹⁰ Concession maps were obtained from authorities in Indonesia (National Land Agency (BPN) Location Permits and Cadastral Maps and Ministry of Forestry Forestland release maps). Daewoo has also provided maps.

¹¹ Company website <http://ptbia.co.id/>.

¹² Primary forest is forest which has not been logged previously. Secondary forest is forest which has regenerated naturally after removal or disturbance of original forest; see <https://www.cbd.int/forest/definitions.shtml>.

¹³ Unpublished map from the Center for International Forestry Research (CIFOR) and Tropenbos International: *Penutupan lahan tahun 2013 kabupaten Merauke* (Land cover map of Merauke district in 2013, based on Landsat imagery).

¹⁴ EIA for PT BIA 2009: *Laporan Utama. Analisis Dampak Lingkungan Hidup (Andal). Pembangunan Perkebunan dan Pabrik Pengolahan Kelapa Sawit*, p. III-11.

¹⁵ The EIA includes a map showing the distribution of bush and secondary forest in the concession area. The sources on which the map is based are unclear; p. III-14.

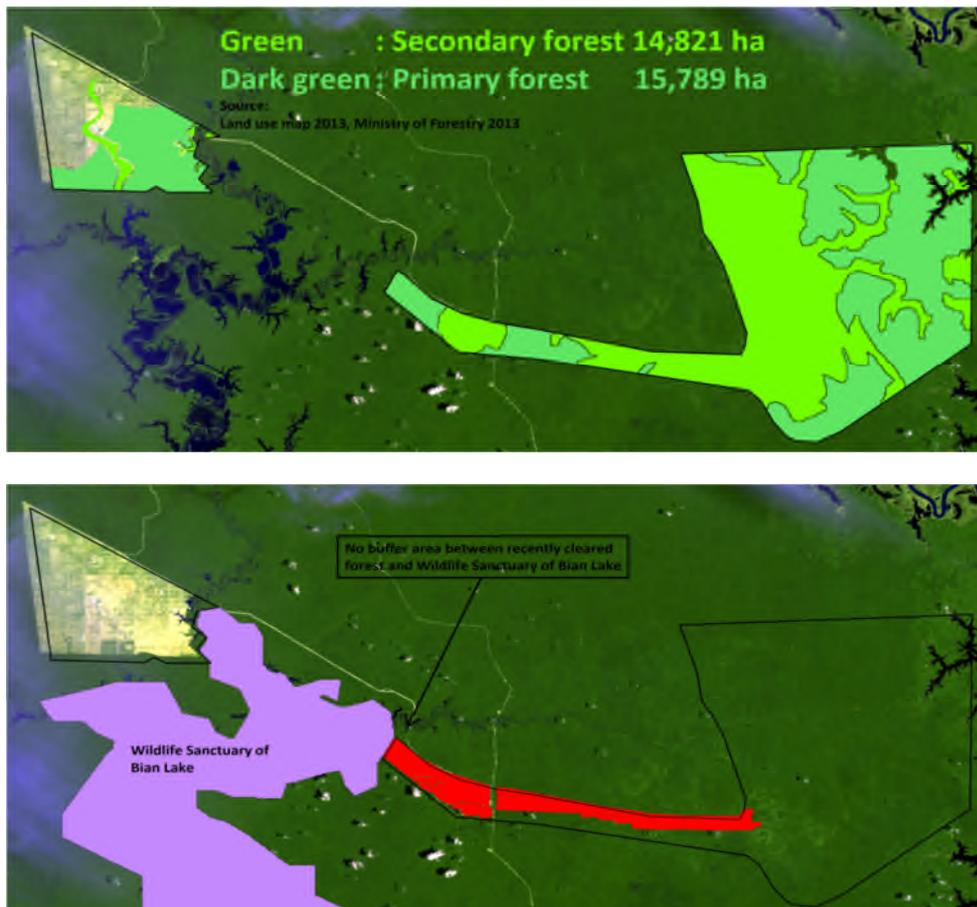


Figure 3: The upper image shows primary or untouched forest (dark green areas) in Daewoo's concession area in 2013.¹⁶ At that time, the company had already cleared large parts of the left-hand block. The lower image shows an area cleared between February and November 2014 (red field, measuring approximately 3,000 hectares). All forest in the western block now appears to have been removed.¹⁷

There are strong indications that vegetation has been removed by burning; see Figure 4. About 260 fire hot spots were registered in and close to the concession area in the period from 1 January 2011 to 15 August 2014; the vast majority of these within the concession boundaries. The burning of vegetation to clear land is prohibited in Indonesia.¹⁸ Daewoo denies the use of fire in land clearing (see section 3.2).

¹⁶ Ministry of Forestry's Forestland release map. Base maps are from USGS Landsat 8, 7 February 2014.

¹⁷ Landsat 8, 7 February 2014 and Landsat 7 SLC OFF, 29 October 2014.

¹⁸ Environmental Protection and Management Act No. 32/2009.

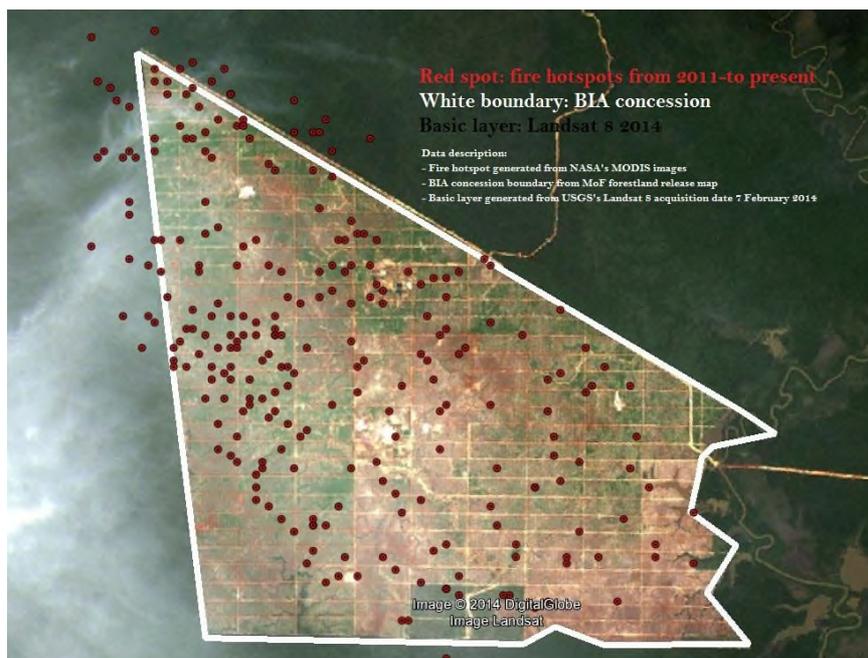


Figure 4: The use of fire in Daewoo's concession area (white lines). The red spots show fire hot spots registered in the period 1 January 2011 to 15 August 2014.¹⁹

Biodiversity loss

The concession area lies in one of the WWF's eco-regions, the Southern New Guinea Lowland Forests Eco-region, and is included on the WWF's Global 200 Priority Eco-regions list due to its exceptionally rich biodiversity.²⁰ The region is considered critically endangered by logging, planned habitat conversion and hunting.²¹ The Global Eco-regions list is a scientific global ranking of the world's most biologically valuable terrestrial, freshwater and marine habitats. These threatened habitats are also particularly important for the protection of biodiversity.²² The concession area also overlaps with the South Papuan Lowlands Endemic Bird Area, one of BirdLife International's Important Bird Areas.²³ BirdLife describes the area as follows: "Annual observations made during flights over this region since 1985 indicate that there appears to be very little overall change to the status of the forests. Large areas are inaccessible and pristine."

Daewoo's concession area thus lies in an ecologically important area of exceptionally rich and unusual biodiversity. The flora and fauna have many common characteristics with Australian animals and plants, and the ecoregion is known for its unusual richness of plants.²⁴ The area is

¹⁹ Fire hot spots are generated from NASA's MODIS images. The concession boundaries are from the Ministry of Forestry's Forestland release map. Base maps are from USGS Landsat 8, 7 February 2014.

²⁰ The Global 200 is a list of eco-regions identified by the World Wildlife Fund (WWF) as priorities for conservation. An eco-region is defined as "a large unit of land or water containing a geographically distinct assemblage of species, natural communities, and environmental conditions". See http://wwf.panda.org/about_our_earth/ecoregions/about/.

²¹ Wikramanayake et al. (2002): *Terrestrial Ecoregions of the Indo-Pacific. A Conservation Assessment*. USA: Island Press.

²² See footnote 20.

²³ BirdLife International 2014: Endemic Bird Area factsheet: South Papuan lowlands. <http://www.birdlife.org>.

²⁴ The Southern New Guinea Lowland Rain Forests Ecoregion: <http://worldwildlife.org/ecoregions/aa0122>.

home to 344 registered bird species and 69 species of mammal, of which 13 are endemic.²⁵ This includes numerous types of marsupials, such as the tree kangaroo, flying possums and birds of paradise.²⁶ The Dusky Wallaby (*Thylogale brunii*) is only found in three locations on earth, and is included in the International Union for the Conservation of Nature (IUCN) Red List of Threatened Species.²⁷ Daewoo's concession area overlaps with one of these three locations.²⁸

Although Papua is a biodiversity hotspot, its flora and fauna remain poorly documented, including in the vast tracts of forests in which Daewoo's concession area is situated.²⁹ Since 1998, more than 1,100 new species have been discovered and officially described in Papua, but much of the island's biodiversity is yet to be documented.³⁰

Daewoo's environmental impact assessment has done little to identify species diversity in the concession area. The flora specification includes an overview of the timber potential of the concession area which lists tree species based on a summary provided by the forestry authorities in Papua. Eight tree species important to the local population are mentioned. The fauna specification describes four species of mammal, two reptile species and eight bird species in the concession area.³¹ Several of these are on the IUCN Red List of Threatened Species. Moreover, five groups of fish are mentioned, which according to the EIA may be affected by the plantation operation due to reduced water quality. No information is provided on the scientific basis for the survey. It is stated that the local population has been interviewed regarding the utilisation of these resources.

With the exception of 66 hectares to be set aside as border zones along waterways, both blocks in the concession area will be converted.³² The EIA concluded that natural vegetation would be replaced by monocultures, and that the change is irreversible. The EIA concluded that wildlife could migrate to surrounding areas.³³ This evidences limited ecological understanding, since neighbouring areas normally lack the capacity to absorb additional individuals displaced by the loss of their own habitats. Conversion into plantations will most likely entail the loss of wildlife populations in the concession area.

The measures recommended to protect flora and fauna appear to focus solely on a minority of protected species. The most important measure seems to be the establishment of 200 m wide buffer zones along waterways. In addition, signs are to be erected which show that logging and hunting are prohibited in these zones. It is unclear how long, narrow strips of residual

²⁵ Flannery, T.F. 1995: *Mammals of New Guinea*, rev. ed. Cornell University Press, Ithaca, New York; Flannery, T.F. and C.P. Groves. 1998: A revision of the genus *Zaglossus* (Monotremata, Tachyglossidae), with description of new species and subspecies. *Mammalia* 62:367-396.

²⁶ Flannery, T.F. 1995: *Mammals of New Guinea*.

²⁷ The IUCN Red List of Threatened Species. Version 2014.3, www.iucnredlist.org.

²⁸ Leary, T., L. Seri, T. Flannery, D. Wright, S. Hamilton, K. Helgen, R. Singadan, J. Menzies, A. Allison, and R. James. 2008: *Thylogale brunii*. IUCN Red List of Threatened Species. Version 2014.3, www.iucnredlist.org.

²⁹ Beehler, B.M. 2007: Papuan terrestrial biogeography, with special reference to birds; Helger, K.M. 2007. Taxonomic and geographic overview of the mammals of Papua. Both articles in: *Marshall, A.J. and B.M. Beehler (eds). 2007. The Ecology of Papua. The ecology of Indonesia series volume VI.* Periplus Editions, Hong Kong.

³⁰ WWF 2011: *Final frontier: newly discovered species of New Guinea (1998-2008)*. WWF Western Melanesia Programme Office.

³¹ The EIA, table III-13.

³² The EIA, p. VI-14.

³³ The EIA, p VI-15-16.

forest, separated by large oil palm plantations, will help to preserve protected species and biodiversity in the plantation landscape.

3 Information from the company

3.1 The Council on Ethics' contact with the company

The Council sent a letter to Daewoo in April 2014, requesting information on the environmental impacts of the plantation operation. The Council was particularly interested in learning more about how the plantation development would impact forest areas, habitats and biodiversity, and how areas containing high conservation values would be protected. At that time, Daewoo did not provide any information to the Council. After the company received a draft of the Council's recommendation at the beginning of July 2014, it submitted documents including maps of the concession area and a presentation of the 2009 environmental impact assessment. POSCO and Daewoo were given an opportunity to comment on a revised draft of the recommendation in September 2014. Daewoo replied on its own and POSCO's behalf in October, also submitting the full 2009 EIA for the concession area.

3.2 Daewoo's response to the Council on Ethics

Neither Daewoo nor PT BIA has addressed the environmental challenges associated with the plantation development in Papua on its website. Nor has Daewoo discussed the matter in its two letters to the Council, which cover certification and the assessment of high conservation values (HCV) in the forests, peatlands and preservation areas in the concession area.

Regarding HCV assessment, Daewoo has stated:

“The assessment for the high conservation value area at the oil palm plantation of PT. Bio Inti Agrindo (PT.BIA) had been executed through the legitimate process, which can be proven by the boundary mapping from Indonesian forest Department (2009) and Land Certificate from National Land Agency of the Republic of Indonesia (2012 & 2013) [] and Report of the Palm oil plantation area measurement implementation.”³⁴

Daewoo expanded on this matter in its second letter to the Council, in which it wrote that areas containing high conservation values had to be excluded from the concession area before the company could secure plantation development rights. As a result, 5,700 hectares were excluded to reduce the environmental damage resulting from conversion. This includes the area between the two blocks set aside as a wildlife preserve (see Figure 3), as well as an area in the north-eastern corner of the eastern block. The latter area is described by Daewoo as peatlands and “low lands”, and comprises preservation areas which will not be developed. According to maps provided by the company, three areas in the eastern block have been set aside for preservation. These appear to be buffer zones along waterways passing through the concession area, which the company is required by law to protect.

³⁴ Daewoo's letter to the Council on Ethics of 8 August 2014.

The maps and area measurement reports referred to by Daewoo provide no information on other conservation values in the concession area. Daewoo has stated that it plans to carry out further HCV assessments:³⁵

“Even though PT. BIA has already excluded the conservation area, we are also planning to perform our self – HCV assessment to identify species, ecosystems or conservation values in our concession [...] to analyze biodiversity impacts associated with the conversion of forests to plantations.”³⁶

Daewoo disputes that the company is burning vegetation in the course of clearing the land, but has said that it is aware that fires are occurring in the concession area: “We have also noticed that there have been some fires inside or outside of our concession areas.” The company has also written:

“Land Clearing at PT.BIA’s Palm oil plantation has never been done by burning. Land clearing system has been only done by using heavy equipment with no burning system. ... The fire incident maybe occurred because of the tribesmen/cultivator’s negligence who throws the cigarette butt or burn the farmland carelessly. As is frequently pointed out, PT. BIA never used the burning method.”³⁷

Daewoo has stated that it owns many machines, rendering the use of fire unnecessary. Moreover, PT BIA is well equipped with fire-fighting equipment and fire crews. “No Fire” signs have been erected around the plantation, and training programmes are run to prevent the use of fire.

Neither Daewoo nor PT BIA is a member of the Roundtable on Sustainable Palm Oil (RSPO). With regard to certification, the company has stated that it intends to obtain Indonesian ISPO certification by 2016, and RSPO certification after that.

4 The Council on Ethics’ assessment

On the basis of the available information, the Council has assessed whether Daewoo’s conversion of tropical forest into oil palm plantations in Papua is inconsistent with the ethical guidelines’ criteria concerning severe environmental damage.

A company’s contribution to and responsibility for breaches of standards is assessed by reference to ownership and the degree of control over the entity directly associated with the unethical matters. In line with previous practice, the Council applies the principle that when a subsidiary breaches the guidelines and the parent company is a controlling shareholder (i.e. has an ownership interest of more than 50 per cent), the parent company must also be excluded. As the controlling owner, the parent company has deciding influence on the activities of the subsidiary. Corporate structure should not determine the outcome of the ethical assessment of whether a company is contributing to or responsible for unethical

³⁵ HCV assessments are important for identifying exceptional environmental and social values in forest areas, such as habitats of threatened species, rare or threatened ecosystems and places of importance for the livelihoods of local people. HCV assessments are voluntary, but regarded internationally as an important tool for reducing environmental and social impacts linked to the conversion of forest. See e.g. *Guidelines for the Identification of High Conservation Values in Indonesia (2009)*: https://www.hcvnetwork.org/resources/national-hcv-interpretations/Toolkit%20HCVF%20English%20version_final-26Jan10.pdf.

³⁶ Daewoo’s letter to the Council on Ethics of 8 August 2014.

³⁷ See footnote 36.

conduct. Accordingly, the exclusion of POSCO has also been recommended based on the actions of Daewoo's subsidiary.

Daewoo's concession area lies in a particularly important ecological region with an exceptionally rich, unique biodiversity. The island of New Guinea is home to the world's third-largest tract of contiguous rainforest, after the Amazon and the Democratic Republic of the Congo. It is home to an estimated five per cent of the world's animal and plant species, and two-thirds of its species are only found on New Guinea. Much of this species diversity remains undocumented. This raises the question of whether the conversion of rainforest in this part of Papua, and on such a large scale, is at all possible without running a high risk of irreversible damage to biodiversity and ecosystems in these unique areas.

According to the environmental impact assessment for the concession which Daewoo has sent to the Council, most of the concession area was covered by shrubs, bushes and secondary forest prior to 2009. This is inconsistent with the Council's findings. Maps from the Indonesian Ministry of Forests show that the concession area comprises large areas of primary forest which has not been logged previously, as well as secondary forest. Daewoo's subsidiary, PT BIA, has described the forest as rainforest. The Council assumes that the company's activities will entail the conversion of untouched rainforest and forest in good condition into plantations.

The company's environmental impact assessment contains little information on the condition of the forest, ecosystems or species diversity in the concession area. Flora and fauna have not been surveyed. The actual number of threatened, protected or endemic species appears to have been underestimated. The company's actions are focused on safeguarding protected species, and comprise the establishment of three limited buffer zones along waterways. The company is obliged to preserve these areas under Indonesian national requirements in any event. Moreover, in the Council's view these areas will have little effect in preserving biodiversity in the concession area.

In the Council's view, Daewoo is doing little to preserve biodiversity and important ecological values in the concession area. Although areas were excluded from the concession area and set aside for preservation before Daewoo was granted permission to develop plantations, this is insufficient to protect important conservation values in the concession area. Daewoo's replies to the Council have not adequately described the conservation values found in the concession area, and the company does not appear to have initiated investigations to identify such values. The Council considers it positive that the company plans to conduct HCV surveys. However, it has not specified any timetable for the surveys, the methods to be used, or the consequences of such surveys for ongoing or future conversion. The conversion of forest does not appear to have been suspended pending the HCV survey findings. The Council has therefore concluded that this measure is inadequate to prevent severe environmental damage.

The Council has also given weight to the fact that satellite images show an abnormally large number of fire hot spots in Daewoo's concession area. Land clearance by burning is illegal in Indonesia, and regarded internationally as unacceptable due to the air pollution it entails. In its replies to Council, the company has denied that it uses such methods, and has claimed that the fires are caused by the negligence of workers or local people. This cannot be ruled out. Nevertheless, the Council finds it unlikely that so many fires would occur in the concession area without any connection to the land clearing. In the Council's view, the sheer number of fires and the fact that the burning has been ongoing for several years should have prompted the company to investigate the cause of the fires, and to consider whether its measures are adequate to prevent fires from occurring.

No information is available on the condition of the forest, species diversity and ecosystems in the 32,500 hectares of forest which are to be converted into plantations. Accordingly, the resulting loss of biodiversity in these ecologically important areas remains unknown. It is highly likely that endemic, threatened species and other important ecological values are present throughout the concession area.

The Council has concluded that the scale of conversion and the fact that the concession area encompasses large tracts of untouched forest in a region of unusually rich, unique biodiversity entail an obvious risk that conversion will cause irreversible environmental damage. The lack of data reinforces this risk further. The Council has also emphasised that illegal methods appear to have been used in the clearance of the concession area, and that the company appears to be doing little to reduce the environmental damage. In the Council's view, the company's conversion of tropical forest into oil palm plantations entails an unacceptable risk of severe environmental damage.

5 Recommendation

The Council on Ethics recommends the exclusion of POSCO and Daewoo International Corporation from the Government Pension Fund Global due to an unacceptable risk of the companies being responsible for severe environmental damage.

Johan H. Andresen Chair (Signature)	Hans Christian Bugge (Signature)	Cecilie Hellestveit (Signature)	Arthur Sletteberg (Signature)	Guro Slettemark (Signature)
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