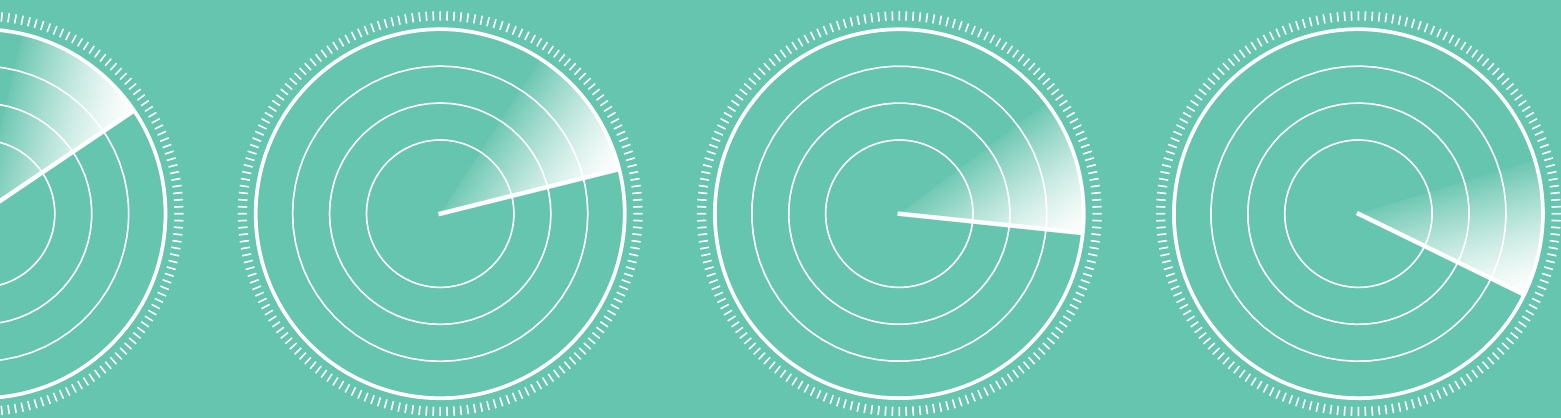


Council on Ethics

for the Norwegian Government Pension Fund Global



Annual Report 2018



**The Council on Ethics gives recommendations
to Norges Bank on observation and exclusion of
companies from the Norwegian Government
Pension Fund Global**

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Contents



The Chair's report	4
Members of the Council on Ethics and the Secretariat	6
The work of the Council on Ethics	7
The Council's work under the human rights criterion	14
Working conditions in the textiles and garment industry	16
The Council's work under the environment and climate criteria	18
Environmentally harmful fishing	21
The Council's work under the corruption criterion	23
Companies' sales of weapons to parties in armed conflict	27
List of excluded companies by March 2019	30
List of companies placed under observation	31
Recommendations on exclusion and observation	32
Summaries of recommendations published since the previous annual report	34
• UPL Ltd	34
• JBS SA	34
• Luthai Textile Co Ltd	36
• Nien Hsing Textile Co Ltd	38
• Kosmos Energy Ltd ANd Cairn Energy Plc	39
• Texwinca Holdings Ltd	39
Overview of published observation reports	41
Other Correspondence	42
Guidelines for observation and exclusion from the GPFG	58



Johan H. Andresen, Chair of the Council on Ethics

The Chair's report

Outside Norway, the Council on Ethics is widely praised for what we do. In Norway, we are roundly criticised for what we do not do. That is as it should be. The Council on Ethics as an institution, and the ethical guidelines we adhere to, were created by Norway's Ministry of Finance in 2004 to help ensure that Norway's oil wealth is not invested in companies that violate fundamental ethical values. At that time, such guidelines for such a significant investment fund were one of a kind. Now, increasing numbers of investors focus on responsible investment, and the demands made of both investors and companies have become stricter. Over time, the ethical guidelines have been adjusted through democratic processes to reflect this development. This is a dynamic process that is still ongoing. Regardless of how the guidelines are worded, there will always be substantial room for discretion, which the Council on Ethics and Norges Bank exercise jointly.

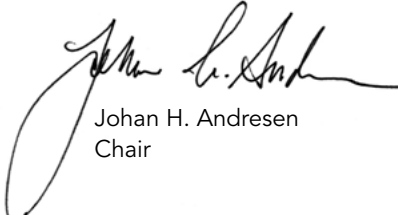
Translating overarching guidelines into consistent practice can be challenging. One example is the climate criterion. The operationalisation of this criterion has proved difficult. The Council has issued a handful of recommendations, which Norges Bank has so far not taken a position on. Although the criterion has only existed since 2016, many of its underpinnings have already changed. Both the Paris Agreement and ever changing emission trading regimes turn what constitutes a conduct-based norm violation into a moving target. Nevertheless, the Council must issue recommendations based on what we now know to be behaviour that leads to unacceptable emission levels. This includes our assessment of companies' willingness and ability to change such behaviour in the future.

Another example of where the Council on Ethics' universe is ever changing is the field of human rights. More and more countries with differing views on such universal rights are being admitted to the Government Pension Fund Global (GPF). When these countries do not give investors, their advisors, NGOs or the media insight into companies' behaviour, the Council faces a major challenge. We must apply the criteria consistently, irrespective of geography, culture, type of regime or level of social development. But when access to information is unequal, this is almost impossible in practice. One relevant issue today is a recruitment practice used by companies worldwide, where workers are recruited in their home countries to work abroad, and in some cases must pay the entire cost of the recruitment process themselves. When low-paid workers must pay out several months' wages to secure work, they can become trapped in a situation they cannot escape. This behaviour is widespread and can verge on modern slavery.

We have previously expressed concern that the development of entirely autonomous weapons systems could lead to a risk that companies contribute to the violation of international humanitarian law principles. Such weapons systems will soon be available. Other technology, which enables the collection and manipulation of data, surveillance and intervention in government systems, has been paid less attention. The Council on Ethics may not be best suited to prevent the GPFG from investing in companies that are involved in such activities. It is difficult to identify new issues in advance, nor is it easy to place responsibility on companies in the fund. The Council focuses its efforts on norm violations that lie within the core of its mandate, such as hazardous working conditions, the payment of bribes or serious environmental pollution, and are closely linked to companies in the fund. We often feel that we should have done more – followed up more cases, investigated new issues and acquired an understanding of complex situations, where companies facilitate unacceptable actions without bearing primary responsibility for the norm violations themselves.

Nevertheless, I would primarily like to highlight all the positive effects of the Council's work has had. During the year, we have seen that the assessment we made on norm violations relating to "beaching" had an impact far beyond our shores. The textiles industry study, now in its fourth year, has given us considerable insight, allowing us to assess where the line should be drawn for serious and/or systematic human rights violations. Furthermore, during a three-country visit in Asia in the autumn of 2018, we again received clear indications that companies not only want to avoid being excluded from the GPFG, but are also capable of changing their behaviour relatively quickly – if they so desire.

This last point, that the Council on Ethics – in its dialogue with companies – actually contributes to them changing their behaviour, is the least well known, but also one of the most striking effects of our work. But remember, it is the mandate we have to recommend exclusion on an entirely independent basis, and to publish our decisions, that gives our dialogue credibility and thus makes this contribution to reduced ethical risk for the fund possible.



Johan H. Andresen
Chair



Members of the Council on Ethics and the Secretariat

The Council on Ethics



Johan H. Andresen (Chair)

Andresen holds an MBA from Rotterdam School of Management, and is the owner and chairman of Ferd, where he was CEO for 14 years. His previous positions include that of Product Manager for International Paper Co. in the US and partner at the Tiedemann Group. He is a member of various boards, including SEB-Skandinaviske Enskilda Banken, NMI-Norwegian Microfinance Initiative and Junior Achievement Europe.



Hans Christian Bugge (Vice Chair)

Bugge has a doctorate in law from the University of Paris and a doctorate from the University of Oslo. He is now Professor Emeritus at the Department of Public and International Law at the University of Oslo. Bugge works with national and international environmental law. He has been employed at the Norwegian Ministry of Environment and Ministry of Finance, was Director of the Norwegian Pollution Control Authority, Secretary General of Save the Children Norway and State Secretary at the Ministry of Development Cooperation.



Cecilie Hellestveit

Hellestveit is a lawyer by background, with a doctorate in humanitarian law from the University in Oslo. She also holds a degree in area- and conflict studies, with a particular emphasis on the Middle East. Hellestveit has worked at various research institutions, including PRIO, SMR, NUPI, IKOS and ILPI. She has been a non-resident fellow at the Atlantic Council in Washington DC, and is currently employed by the Norwegian Defense Establishment. Hellestveit has previously held an appointment with the Immigration Appeals Board (UNE) and been a member of medical and health research ethics committees under South-Eastern Norway Regional Health Authority. She has served at the Norwegian Refugee Council's board of directors, and has been a columnist on foreign affairs in the weekly Morgenbladet and the financial newspaper Dagens Næringsliv.



Trude Myklebust

Myklebust is a lawyer, with an MSc from the University of Oxford. She is currently a PhD student at the University of Oslo's Department of Private Law. Myklebust spent many years at the Ministry of Finance, where she worked with ethical guidelines for and responsible management of Norway's Government Pension Fund, among other matters. Myklebust has previously served as a deputy judge and as a senior advisor for the Director of the Supreme Court of Norway. She has also authored a textbook on financial market law.



Brit Kristin Sæbø Rugland

Rugland holds a Master of Management degree from BI Norwegian Business School. She is the CEO of Rugland Investering AS, Stavanger Investering AS and Rugland Finans AS. Rugland was a member of Norges Bank's Executive Board from 2004 until 2013. In addition, she has served on the boards of Storebrand ASA (1995–2002) and Stavanger Aftenblad (2002–2010), and chaired the boards of Gassco AS (2001–2011) and Rogaland Theatre (2006–2016). Rugland currently serves on the board of Norfund and chairs the boards of KBN-Kommunalbanken AS and Figgjo AS.

The Secretariat

The Council has a Secretariat that investigates and prepares cases for the Council. The Secretariat has the following employees:

- Eli Lund, Executive Head of Secretariat (Economist)
- Magnus Bain (LL.M.)
- Lone Fedders Dybdal (MPhil)
- Kjell Kristian Dørum (Cand. Polit.)
- Erik Forberg (Cand. scient)
- Hilde Jervan (Cand. agric.)
- Aslak Skancke (Graduate Engineer)
- Ingrid Thorsnes (LL.M.)



The work of the Council on Ethics

The Council on Ethics for the Government Pension Fund Global (GPF) is an independent body that makes recommendations to Norges Bank with regard to either excluding companies from the GPF or placing them under observation. The Council has five members and a secretariat with a staff of eight. The Council assesses a company's operations on the basis of ethical guidelines determined by the Norwegian Ministry of Finance. The guidelines contain both product-based exclusion criteria, such as the production of tobacco, coal or certain types of weapons, and conduct-based exclusion criteria, such as gross corruption, human rights violations, environmental damage and unacceptably high greenhouse gas emissions. The threshold for exclusion is intentionally high, and companies may be excluded only if they represent an unacceptable future risk to the fund's ethical standards. All the Council's recommendations are published on its website as soon as Norges Bank has announced its decision.

The Council continuously monitors whether companies in which the fund is invested could be operating in ways that infringe the fund's guidelines for observation and exclusion from the GPF. As a result, the Council works on many different cases and issues in parallel.

A consulting firm provides the Council with a quarterly report on any companies it has identified whose operations may infringe the guidelines' product-based criteria. The report also includes relevant new information on companies that are already excluded from investment by the fund. In addition, the Council follows up information provided by other sources and investigates all relevant companies on an ongoing basis.

With regard to the guidelines' conduct criteria, companies are identified as a result of portfolio monitoring, external reporting and systematic reviews of areas associated with a high ethical risk. Every day, a consulting firm goes through a large number of news sources in several languages in search of relevant reports on companies in the GPF's portfolio. The Council receives reports from the consultants and monitors a number of databases containing information on issues such as corruption or human rights violations. The Council is also approached, either directly or indirectly through Norges Bank, from

organisations and individuals who call on it to consider specific cases. When selecting cases to examine in more detail, the Council gives weight to the violation's scope and seriousness, its consequences, the company's responsibility for or contribution to the matter concerned, the measures that have been implemented to prevent or remedy the harm caused, and the risk of similar incidents occurring in the future.

Reviews of areas associated with a high ethical risk generally follow a long-term plan. Once the Council on Ethics has selected an area for examination, it follows through over a period of several years. For example, the Council has followed up textiles producers in some Southeast Asian countries since 2015, while it has focused on deforestation of tropical forests since 2009.

The Council on Ethics obtains information from research environments as well as regional, national and international organisations, and often commissions third-party consultants to investigate indications of infringements of its guidelines. Furthermore, the companies in the GPF's portfolio are themselves important sources of information, with the Council frequently engaging in lengthy dialogues with company officials during the assessment process.

Table 1: Activities undertaken by the Council on Ethics in 2016–2018

Year	2016	2017	2018
No. of limited companies in the GPFG at year-end (approx.)	9000	9100	9150
Total no. of companies excluded at the recommendation of the Council on Ethics at year-end	66	64 ¹	70 ²
No. of companies placed under observation at the recommendation of the Council on Ethics at year-end	2	6	8
No. of recommendations made	15	12	10
No. of companies excluded during the year	5	1	11
No. of companies placed under observation during the year	1	4	2
No. of revoked exclusions during the year	1	1	2
No. of companies the Council has contacted	86	62	34
No. of companies the Council has met with	22	12	22
No. of new companies the Council has assessed			46 ³
Total no. of companies under assessment during the year	162	149	202
Total no. of company assessments concluded during the year	53	75	120
No. of Council meetings	12	10	11
Secretariat (no. of staff)	8	8	8
Budget (NOK million)	15,9	18,1	18,5

The table summarises the scope of the Council's investigations in 2018, compared with 2016 and 2017. Companies excluded by Norges Bank under the coal criterion, without the Council's recommendation, are not included in the table.

¹ Two companies were delisted from stock exchanges in 2017 and deleted from the list of excluded companies.

² Three companies were delisted from stock exchanges in 2018 or acquired by other excluded companies and deleted from the list of excluded companies.

³ A change in the count from "new cases" to "new companies" means that the figures for 2016 and 2017 are not comparable with 2018.

Overview of activities undertaken by the Council on Ethics in 2018

In 2018, the Council on Ethics issued five recommendations of exclusion and two recommendations on observation of companies. The Council also recommended to revoke the exclusion of three companies. On the basis of the Council's recommendations from 2016, 2017 and 2018, Norges Bank announced that 11 companies had been excluded, two had been placed under observation, while two exclusions had been revoked. In one case, Norges Bank elected the exercise of ownership rights, where the Council had recommended observation. The Council has no mandate to recommend active ownership.

Following the close of the year, Norges Bank announced its decision to exclude one additional company. As at 1 March 2019, 71 companies have been excluded from the GPFG, while eight are under observation on the basis of the Council's recommendations. A further 69 companies have been excluded and 14 placed under observation at Norges Bank's own initiative under the coal criterion.

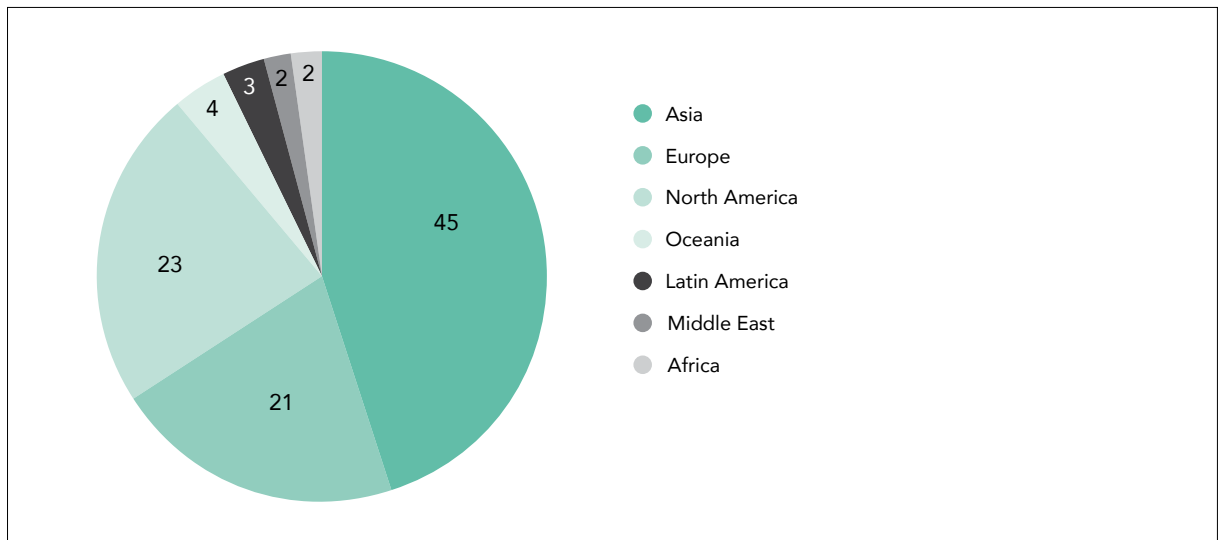
Of the approx. 200 companies that the Council considered in 2018, around 50 were new in that year. The Council concluded around 120 company assessments during the year. The number of companies under assessment rose from 2017 to 2018, partly because the Council has investigated certain new areas, where a large number of companies have been identified through portfolio monitoring activities.

Following an initial review of this kind, the Council selects a limited number of cases for further investigation. Only serious cases, involving an unacceptable risk that the unethical practices will continue, may lead to exclusion from the fund.

At the close of 2018, the GPFG had investments in around 9,000 companies in 70 countries. The geographic spread of the 200 or so companies on which the Council has worked over the course of the year reflects the geographic spread of the companies in

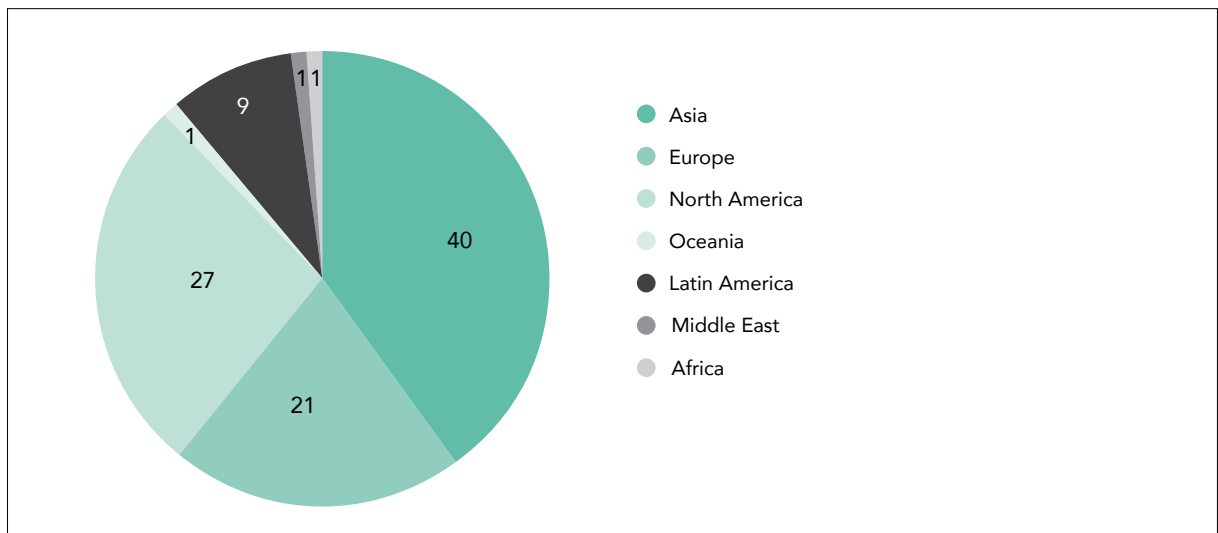
the fund. Certain geographic areas are, however, overrepresented – particularly with regard to certain criteria. For example, the production of nuclear weapons is carried out by listed companies only in a few countries. Access to information also varies from country to country, and this can be significant for whether cases are picked up by the Council’s portfolio monitoring activities. Many of the Asian companies the Council is looking into, are being investigated as part of a general assessment of areas with a high ethical risk, not as the result of media coverage.

Fig.1 Companies in the GPFG, by region in percentage



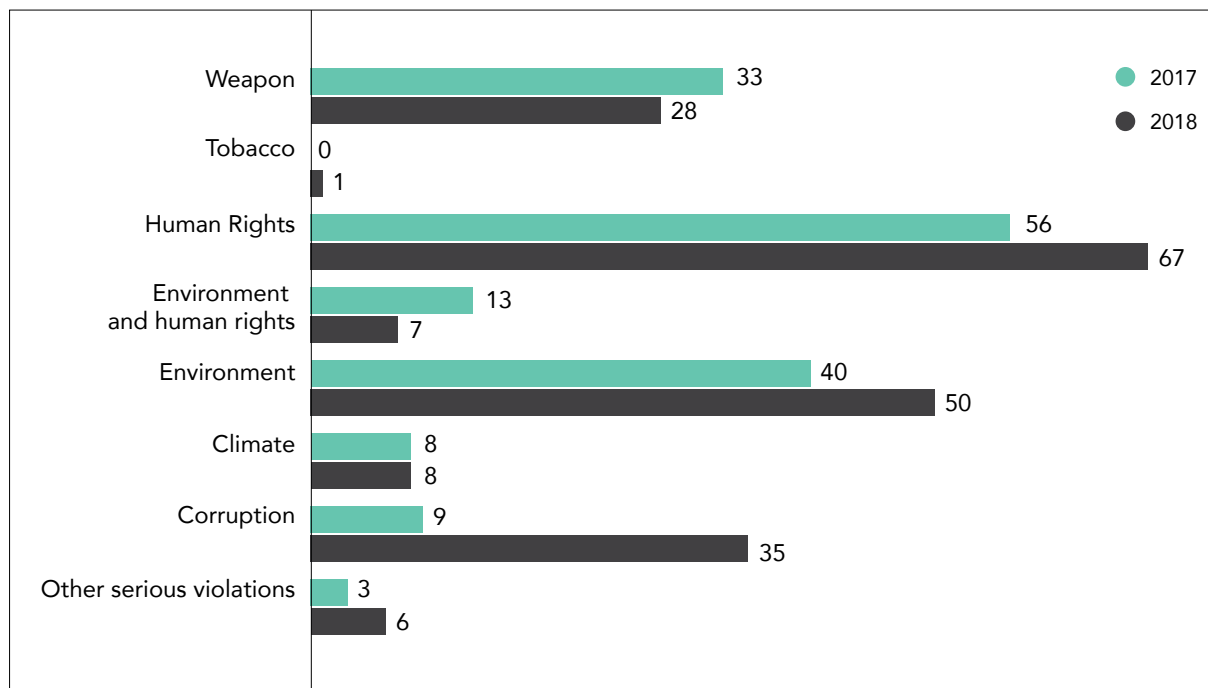
The figure shows the share of companies in GPFG by region where they are listed.

Fig.2 Companies the Council is working on, by region in percentage



The figure shows the share of companies the Council has investigated by region where they are listed.

Fig. 3 Companies under assessment, by criterion



The figure shows which exclusion criteria the companies examined by the Council on Ethics in 2017 and 2018 have been assessed against.

The Council’s work under the various criteria

In 2018, human rights violations was once again the conduct-based criterion against which a majority of companies was assessed.

In 2018, the Council assessed cases relating to children’s rights, the rights of indigenous peoples, freedom of expression and labour rights, among others. The criterion encompasses a variety of rights, with a wide range of issues coming up for assessment. The Council has looked at cases where people have been forcibly relocated to make way for economic activity, where migrants or minorities have been assaulted, where opponents of a project have been prosecuted without cause, and cases where workers, including children, have been exploited through unacceptable working conditions or misleading recruitment processes.

Violation of labour rights is fairly widespread, but is often not picked up through news monitoring efforts. The Council therefore commissions investigations into selected companies in countries and sectors where the risk of norm violations is high. A large number of companies must often be examined to identify those

which should be excluded from the fund. The number of companies in the GPF from countries where human rights violations is widespread has increased. This represents a challenge for the Council, both because there is a larger number of cases to consider and because it is not possible to investigate human rights violations in the same way in every country. The Council explained this in greater detail in a letter to the Ministry of Finance in November 2018. This letter is included on page 47 of this annual report.

During the year, many allegations of corruption against companies are picked up on through the Council’s portfolio monitoring efforts. If there are many corruption cases in a specific sector, the Council will often consider them collectively. It will then investigate those companies within a sector against which the most serious allegations have been made. In 2018, such a review was made of pharmaceutical companies. As far as possible, the Council strives to ensure its efforts form a chain of responses alongside Norges Bank’s exercise of ownerships rights. When it became clear that Norges Bank also wished to follow up a pharmaceutical company that the Council had identified for closer examination, the Council elected to await the results of this process.

Even though the Council has issued several recommendations under the climate criterion in both 2017 and 2018, no company has so far been excluded from the GPFG on these grounds. Work on the climate criterion and the reason why no companies have so far been excluded are described in the chapter on the environmental and climate criteria on page 20. Under the environment criterion, the Council has worked on cases relating to deforestation and conservation areas, as well as mining and industrial pollution. In 2018, the Council concluded its systematic mapping of companies engaged in fishing activities that are particularly damaging to the environment, but will consider other such cases if they are identified through portfolio monitoring activities.

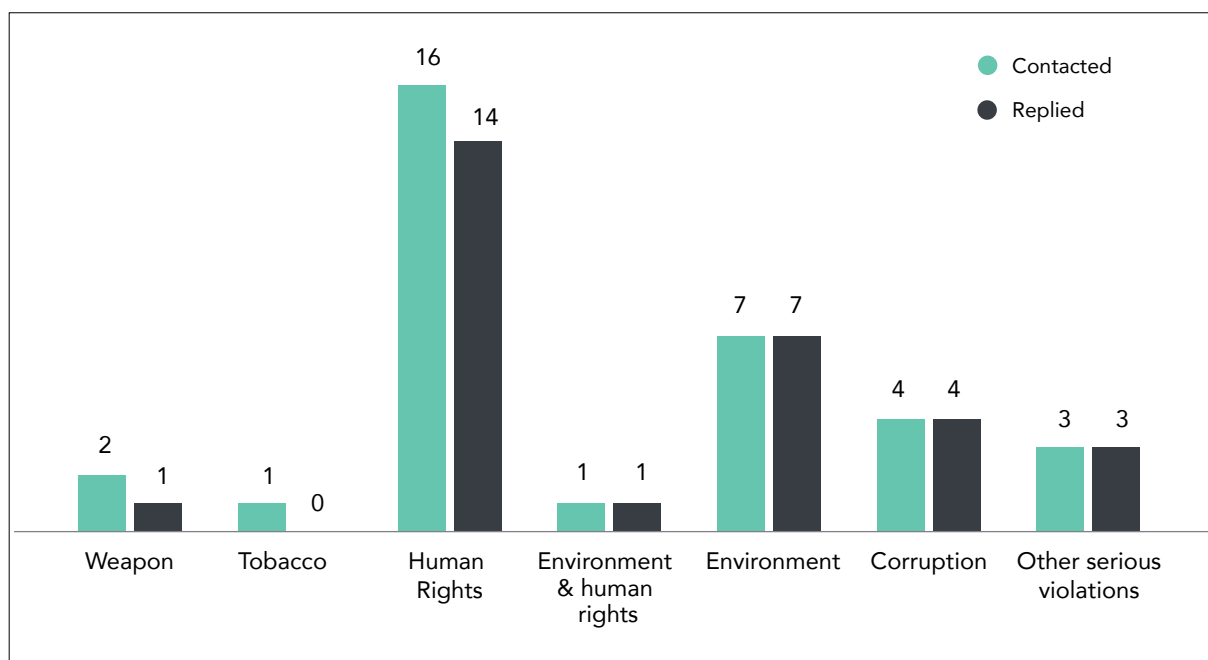
Norges Bank can exclude companies under the coal criterion without a recommendation from the Council. Norges Bank and the Council have agreed a division of labour, whereby the Bank identifies companies that fall within the scope of the coal criterion. The Bank will follow up such companies going forward. The Council will assess those companies to which it may be alerted.

In 2018, the Council has looked at certain companies which sell weapons to states engaged in the war in Yemen. Although the weapons themselves are not covered by the weapons criterion, the question is whether they, by selling weapons to these countries, contribute to the violation of international humanitarian law or human rights in armed conflict. The Council's assessment of this is presented on page 27.

Contact with companies in 2018

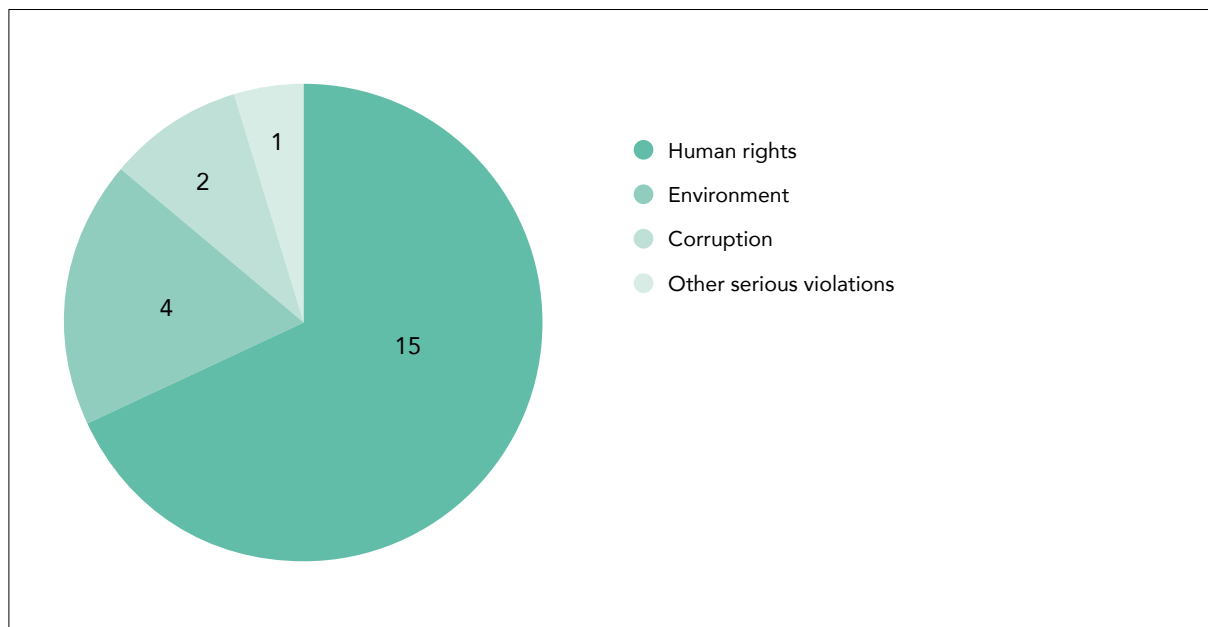
In 2018, the Council contacted 34 companies and held meetings with 22 of them. The Council contacts companies which, after an initial assessment, it wishes to investigate more closely. First, the Council writes a letter to the company concerned, asking for information which can provide a better basis for assessing its operations. All the companies which are assessed in relation to conduct-based criteria are also given the opportunity to comment on a draft recommendation before the Council forwards its decision to Norges Bank.

Fig. 4. Companies contacted under each criterion



The figure shows how many companies the Council on Ethics has been in contact with in 2018, which criteria these companies are being assessed against, and how many of the companies have replied to the Council's questions.

Fig. 5. No. of companies the Council has held meetings with, by criterion



The figure shows a breakdown of the meetings with companies in 2018 by criterion.

The Council attaches importance to the information provided by companies and deems it a risk factor if companies do not provide specific and verifiable information about their businesses.

In 2018, the Council held meetings with textiles companies in Vietnam, Taiwan and Korea, and seed companies in India, among others. The fact that several companies are under observation also increases the need to meet with companies to obtain information for the Council's observation reports.

Ongoing and new assessments

One of the first cases the Council on Ethics considered, as far back as 2005, concerned child labour in the production of hybrid seed varieties in India. This is an issue that the Council has monitored continuously ever since. Only one company has been excluded as a result of this effort, but several companies have been followed up by Norges Bank as a result of the Council's recommendation to observe or exclude companies. An encouraging result of recent studies is that the percentage of child labour has fallen at several companies. The Council

is convinced that such results can be achieved through a persistent effort in priority areas. Although the Council will always assess individual cases that are identified through its portfolio monitoring efforts, the Council wishes to concentrate on areas where the risk of human rights violations is particularly high. In 2019, the Council will draw up a plan for its work with respect to the human rights criterion over the next 3–5 years. The plan will be based on an evaluation of its previous work and an evaluation of high-risk areas. Until such a plan is finalised, investigations into the labour rights situation will continue in the same areas as in 2018.

Under the environment criterion, the Council is now pursuing a three-year plan that was drawn up in 2017. Work with the deforestation of tropical forests, which has been ongoing since 2009, was expanded in 2018 from Asia and Africa to Latin America. In 2018, the Council also began identifying companies located in an area that has been highly polluted by the pharmaceuticals industry. In addition, the Council will continue working with companies that threaten conservation areas, and will map serious pollution from mining and oil production activities.

The Council continues to assess companies' greenhouse gas emissions, and will focus especially on cement production, steelworks and shipping in 2019. Nevertheless, the Council will not issue any further recommendations until the interpretation of the climate criterion has been clarified.

Previous exclusions make it easier for the Council to identify similar new cases. The Council continues to monitor areas where the regulations governing rights in occupied territories may apply, and companies that engage in the extraction of natural resources in disputed areas.

Under the corruption criterion, the Council is currently working with companies in the oil & gas, defence and transport sectors. The Council will otherwise in 2019 follow up the three companies that have been placed under observation. The Council focuses primarily on whether the companies' anti-corruption efforts are sufficient to reduce the risk of future corruption, and whether information has emerged regarding serious new cases of corruption linked to the companies. If so, the Council assesses how the company concerned responds to these cases, and also attaches importance to the extent to which companies demonstrate a willingness to share information.

Reassessment of excluded companies

A company is not excluded for a predetermined period of time. It can be readmitted to the fund as soon as the grounds for exclusion no longer apply. Each year, the Council makes an assessment of all excluded companies to check whether they still engage in the activities that led to their exclusion, or whether their operations have altered. A more thorough investigation is made of some companies, for example if a company so requests, or if there are indications of a material change in their circumstances. If a company has carried out measures that have led to sufficient improvements in the factors on which exclusion was based, the Council issues a recommendation to revoke its exclusion. The improvements must be observable in practice and not simply mentioned in the company's strategies or plans.

In special cases, the Council may issue a new recommendation to exclude a company, even though it is already excluded from the GPFG. This applies, for example, to companies that have stopped producing one type of weapon, but continue to produce other weapons that constitute grounds for exclusion. If the grounds for exclusion under the conduct-based criteria have changed materially, the Council can also issue a new recommendation to exclude that company on the basis of the new actual situation. In this way, Norges Bank has the opportunity to assess whether the company should remain excluded.

The exclusion of two companies engaged in oil exploration off the coast of Western Sahara was revoked in 2018, since the companies' exploration activities had been discontinued.



The Council's work under the human rights criterion

Section 3 of the GPFG's guidelines states that "Companies may be put under observation or be excluded if there is an unacceptable risk that the company contributes to or is responsible for serious or systematic human rights violations."

Over several years, the Council has worked systematically with some sectors where the risk of human rights violations seems particularly high. The Council's main thrust in 2018 was focused on the investigation of labour rights violations in the textiles industry in Southeast Asia, conditions akin to forced labour for migrant workers in the Gulf states, child labour in the seed production sector and hazardous working conditions in shipbreaking in Bangladesh and Pakistan. The Council's work with respect to textiles companies is presented in more detail on page 16. The Council also consecutively investigates cases identified through its portfolio monitoring efforts. In 2018, the Council spent a lot of time on cases where infrastructure projects have been in conflict with the rights of indigenous peoples.

Migrant workers in the Gulf states

Since 2016, nine companies in the construction and service sectors in the Gulf states have been investigated to assess whether they contribute to migrant workers being placed in a situation akin to forced labour. The Council has focused particularly on the recruitment process, where workers often bear the bulk of the cost. At the same time, prior to leaving their homelands, they are told they will receive better wages and working conditions than are actually offered when they arrive at their workplace. Two of these companies have left the GPFG without the Council having issued any recommendation, while the assessment of one company has been shelved because the Council considered that it did not contribute to serious human rights violations. In 2018, the Council commissioned new investigations of three of the companies and held meetings with two of them. Investigating working conditions in these countries is difficult. It is also difficult to assess whether the companies in the GPFG are responsible for norm violations that could lead to exclusion. The investigations have also revealed other violations of labour rights, such as illegal overtime and harassment. In 2019, the Council will conclude its assessment of the companies where data has been collected. It will also decide how further to pursue this issue.

Child labour in seed production

Since 2005, the Council has investigated child labour in seed production in India. Eight companies have been examined, and one company has been excluded as a result of this work. Norges Bank decided in 2018 to follow up one such company through the exercise of ownership rights, based on the Council's recommendation to place it under observation. Both the Council and Norges Bank are still engaged in this issue, which both organisations have worked on ever since the ethical guidelines were established. In 2018, the Council held meetings with five Indian seed companies. Since 2005, the occurrence of child labour in this industry has decreased considerably. Nevertheless, the number of children working to produce hybrid seed varieties remains substantial. The Council will continue to monitor developments in this area closely.

Beaching

In 2017, the Council started investigating ship-owning companies which dispose of their vessels by sending them to be broken up on the beaches of Bangladesh and Pakistan. The environmental and working conditions associated with shipbreaking in these countries are extremely poor, and these cases are assessed against both the environment and human rights criteria. Four companies were excluded on these grounds in 2018, while one company was placed under observation. The Council will follow up this work in 2019 and will also assess companies that dispose of ships for breakup in India.

Infrastructure projects that impact indigenous peoples

In recent years, the Council's portfolio monitoring efforts have picked up several media reports of infrastructure projects in areas where indigenous peoples are living, particularly in South America. The cases the Council has assessed in 2018 concern indigenous peoples' rights to land and natural resources, cultural rights and the right to self-determination. Work on such assessments will continue in 2019.



Working conditions in the textiles and garment industry

The GPFG is invested in a large number of textiles companies, from spinning mills to major fashion brands, in many different countries. Most of the textiles companies in which the fund invests do not have their own manufacturing operations, but buy textiles and garments from different factories in many countries. It is well known that working conditions in the garment industry are poor. Media reports of low wages, extremely long working hours and unsafe working conditions abound. The criticism is often directed at famous brands which fail to ensure good working conditions in their supply chains.

Although these are important issues, the Council's starting point has been slightly different. In 2015, the Council embarked on a systematic investigation of textiles producers with factories in countries where the risk of labour rights violations seems particularly high. This effort was not directed at the buyers, but at the companies in the GPFG that actually produce textiles and garments. The Council considers that these companies, in their capacity as employers, have a direct responsibility for the working conditions in their factories. Many of them are multinational companies with factories in many countries and thousands of employees.

According to the human rights criterion, companies may be excluded if there is an unacceptable risk of 'serious or systematic' human rights violations. The textiles industry cases relate primarily to systematic norm violations. 'Systematic' means that such violations do not appear to be isolated incidents, but constitute a pattern of behaviour. In other words, the norm violations are numerous, different types of rights are infringed or they take place in several of the company's production units. The Council considers that higher standards can be expected from companies when norm violations take place within their own operation than when a company contributes to the norm violations carried out by third parties. Assessments of norm violations are based partly on the International Covenant on Economic, Social and Cultural Rights, ILO conventions and authoritative interpretations thereof. In its assessment of the risk of new human rights violations, the Council attaches importance to how a company has previously responded when norm violations have been revealed, and what the company has done to prevent norm violations from happening again.

With the help of external consultants, 27 investigations into working conditions at the factories of 17 companies have been carried out. These companies have production facilities in Cambodia, Vietnam, Bangladesh, Lesotho and Myanmar. Investigations into factories in India are ongoing. Many of the companies have been investigated several times, either the same factory over time, or other factories belonging to the company. The investigations are based on interviews with workers and factory inspections. The interviews are carried out in safe surroundings, where the workers can speak freely without fear of reprisal. The most serious violations uncovered relate to sexual and

physical harassment, hazardous conditions leading to fainting due to a high pressure of work and heat, and young people under the age of 18 working under the same conditions as adults. More widespread, however, is discrimination relating to pregnancy, forced overtime, illegal short-term contracts, the illegal docking of wages and measures by factory management to prevent unionisation.

This work has revealed substantial differences in working conditions between the companies. In some companies, working conditions are so bad and management's willingness to improve them so poor that they have been excluded. Other companies show that it is possible to produce textiles and garments under relatively good working condition, while others demonstrate a willingness to change what were, at the outset, poor working conditions. This often happens after the companies have received a draft recommendation to exclude them, in which the labour rights violations are described. Even though almost all the companies have so-called codes of conduct based on requirements from customers, the level of compliance with these varies considerably. It is a cause for concern that even when textiles companies are inspected by customers or their representatives many times a year, the Council has uncovered multiple norm violations at the same factories.

A draft recommendation to exclude has on several occasions proved to be a good starting point for a constructive dialogue with companies about change. To avoid exclusion, the Council requires any improvements to be of an enduring nature and expects companies to make improvements in other factories they own as well. Management must therefore address and take overall responsibility for working conditions throughout the company. This includes changes in corporate governance to ensure that improvements are lasting.

So far, two companies have been excluded, while three companies are under observation as a result of this work. The Council is engaged in dialogues with several textiles companies, and will continue to investigate working conditions in the textiles sector. Specific knowledge of what working conditions in the factories are actually like, and the publicity surrounding an exclusion from the fund have proved to be a good starting point for influencing companies to change.



The Council's work under the environment and climate criteria

In Section 3 of the GPFG's ethical guidelines, it says: "Companies may be excluded or placed under observation if there is an unacceptable risk that they contribute to or are themselves responsible for:

- c) severe environmental damage
- d) acts or omissions that on an aggregate company level lead to unacceptable greenhouse gas emissions".

Severe environmental damage

The environment criterion is the conduct-based criterion that up to now has led to the largest number of recommendations to exclude. The criterion is wide ranging, and over the years the Council has analysed in detail many problem areas linked to mining and industrial operations, electricity generation, logging and plantation operations and the dismantling of ships. The companies that have been excluded engage in activities that threaten particularly valuable conservation areas, cause serious pollution or harm important ecosystems and biodiversity.

In 2018, the Council continued its efforts to assess companies that damage conservation areas. These assessments relate to companies which have started or are planning activities that can be severely harmful to the environment in or near areas that UNESCO has classified as World Heritage Sites. In 2018, the exclusion of one company was recommended on such grounds. The threats to conservation areas are connected especially to the exploitation of natural resources, plantation operations and infra-structure construction. In recent years, the Council has assessed several such cases, where companies operate water-borne transport through a World Heritage Site, establish an activity that opens for an influx of people into a World Heritage Site or affect a watercourse that is important for a World Heritage Site. In such cases, the Council attaches considerable importance to UNESCO's assessment of whether the company's activities pose a threat to the World Heritage Site.

There are a large number of areas whose conservation value is incontestably as high as those designated World Heritage Sites, but which are not subject to the same types of restriction and which are therefore more open for the establishment of industrial operations. In some cases, such activities constitute a major threat to biodiversity. Going forward, the Council will increase its focus on these areas.

In 2018, the Council continued to assess companies that contribute to the deforestation of tropical forests. This effort has previously concentrated on Asia and Africa, but has now been expanded to include Latin America. Norges Bank is also engaged in dialogues with companies in Latin America on the same topic. The Council has therefore decided to postpone its assessment of the companies the Bank is working with. However, there are some companies in the fund that are involved in deforestation in Latin America, but which are not being followed up through the exercise of Norges Bank's ownership rights. The Council will conclude its assessment of these companies in 2019.

Emissions from the pharmaceutical industry, particularly from antibiotic production, can be both a serious local pollution issue and a global problem, since this type of pollution can also lead to bacteria developing a resistance to antibiotics. In some places, emission levels are high, with substantial concentrations of these substances found in the environment around the factories. The Council is currently assessing an area containing several factories where there is an extremely high level of pollution deriving from such substances in the environment. In 2019, the Council will contact the companies concerned and may commission its own study of the problem.

Other assessments in 2018 have related to the breakup of ships, pollution from mining operations and companies in the supply chain leading to the deforestation of tropical forests. Work on these issues will continue in 2019.

Over several years, the Council has focused particularly on the fisheries sector, particularly the extent to which companies are involved in illegal, unreported or unregulated commercial fishing. This includes both those companies engaged in the actual fishing and those who buy seafood from such suppliers. The Council's experience in this area is summarised on page 21.

Climate criterion

Work relating to the climate criterion has been challenging, partly because it is pioneering work, and partly because the criterion is open to different interpretations. In 2017 and 2018, the Council recommended the exclusion of a total of five companies under this criterion. In May 2018, Norges Bank sent the Council a letter asking for further clarification of how the Council understands the criterion. The Council and the bank have also held several meetings to discuss the criterion. The Council's reply to Norges Bank is presented on page 43. In a letter dated 7 November 2018, Norges Bank asked the Ministry of Finance for clarification of certain key aspects of the criterion.

While awaiting this clarification, the Council has continued to collect information about various business sectors. However, it will not issue any further recommendations until the merits of the recommendations already issued have been determined by Norges Bank. In 2018, we have examined cement producers and international shipping companies, among others. It seems as though there could be substantial differences in greenhouse gas emissions between comparable operations owned by different cement producers and different shipowners. The total amount of greenhouse gas emissions from international shipping is roughly the same as the total amount of greenhouse gases emitted by the whole of Germany, but are not covered by the Paris Agreement. The International Maritime Organisation (IMO) has said its target is for emissions to be halved in the period to 2050. We will monitor how the sector follows up this development.



Environmentally harmful fishing

Over the past 20–30 years, the fisheries sector has developed into a global industry, in which major companies are involved in the catching, transport and processing of fish.

These companies operate in all the world's oceans in which fish resources can be found and fishing can be carried out profitably.

In 2011, the Council decided to look into fishing companies in the GPFG. The aim was to identify companies which were at risk of contributing to particularly harmful fishing activities through their own operations or through the purchase of fish. How fishing affects the environment and to what extent it seriously damages the environment is a complex issue that depends on many factors: which species are caught, how much fish is caught, what types of nets are used and how the fish stocks are managed. The Council chose to focus on so-called illegal, unreported or unregulated fishing (IUU fishing) and catches of globally threatened species. IUU fishing is a material cause of overfishing and one of the biggest threats to the world's fish populations and marine ecosystems.

During the Council's work in this field, human rights and working conditions at the fishing companies has also emerged as an important topic. In the most recent assessments, this issue has been raised with the companies being investigated.

At the outset, a dozen or so companies were identified for further study. Some of these have since left the GPFG, while new companies have been added. Seven companies have been assessed. All but one of them have been accused or penalised for illegal fishing. The Council has recommended the exclusion of only one company, the Korea-based China Ocean Resources (2013). By tracking the company's boats, it was possible to document that it had been fishing without a licence. In addition, the company itself reported catching globally endangered shark species.

The fisheries sector is an extremely opaque business. In-depth investigations and specialist expertise are often needed to find all the vessels a company owns, or identify where they have purchased fish. Frequent reregistration of vessels, changes of flag state and complicated corporate structures make such investigations difficult. Sometimes, one can suspect that companies make such changes precisely to make it difficult to track their fishing operations. For the individual company, fishing without a licence or without reporting a catch can help to reduce costs and therefore boost profits.

Apart from China Ocean Resources, two companies have been sent draft recommendations to exclude them. In both cases, the risk of contributing to illegal fishing was linked to the companies' purchases of fish. On the basis of the information on fish purchases that one company shared with the Council, it was possible to determine that around half of the purchased catches from the Indian Ocean were from suppliers that had no licences to fish there. In the other case, the perceived risk was that the company was buying in and reselling illegal catches from India, Senegal, Thailand and Morocco to markets that did not require catch certificates. Following a fruitful dialogue with the Council, both companies implemented measures to reduce their risk of contributing to illegal fishing. As a result, the Council did not pursue the matter further.

Experience from this work has shown that the risk of GPFG companies contributing to illegal fishing relates primarily to their purchase of fish. Each company's supply chain is traceable along its whole length, from the fishing boat to the individual purchase. The companies have been extremely reluctant to share this information with the Council. In general, they provide very little information about where they buy fish or what they are doing to avoid buying IUU fish. Nor do they provide much information about the systems and procedures they have in place to avoid IUU fishing, either in their own fishing operations or via fish purchases.

The companies are also tight-lipped about what they are doing to prevent human rights violations aboard their own vessels and in the supply chain. Without this information, it is difficult to assess their contribution to IUU fishing. Such a lack of transparency in itself reinforces the risk, because it makes unlawful activity even harder to uncover. It is therefore important that illegal fishing, onboard working conditions and transparency about supply chains are raised by investors as part of their exercise of influence over fishing and seafood companies. In this way, both the ethical and financial risks that such activities create can be reduced.



The Council's work under the corruption criterion

In Section 3 of the GPFG's ethical guidelines, it says: "Companies may be put under observation or be excluded if there is an unacceptable risk that the company contributes to or is responsible for gross corruption."

The process by which the Council may recommend the exclusion or observation of companies under the corruption criterion is twofold. First, it must be possible to determine that there is an unacceptable risk that a company has been involved in gross corruption. The Council then considers the extent to which there is also an unacceptable risk that the company may once again become involved in new corrupt practices in the future. Both these conditions must be met before the Council will recommend the exclusion of a company under the corruption criterion.

Selection of companies

Through the monitoring of news reports on companies in the GPFG portfolio, performed by a consultant, and ongoing reviews of several other information sources, the Council regularly receives information about allegations of corruption levelled at companies in which the GPFG is invested – generally on a daily basis. In addition, the Council sometimes receives information about relevant corruption cases through independent approaches by NGOs or private individuals. As far as possible, all these cases are given an immediate initial assessment that focuses on the substance of the allegations, whether they are new allegations and whether the alleged offences are of recent date.

The companies selected as a result of this initial assessment are investigated more closely, through comprehensive searches of national and international media, as well as the companies' own websites. In addition, legal documents relating to the corruption allegations are obtained, where these are publicly available.

For companies that are investigated in further detail, the key issue is whether the corrupt practices seem to have been carried out over time, whether they relate to several unconnected incidents, whether the corruption involves the company's senior executives and whether the bribes are substantial in size. In certain cases, it can be necessary to await the outcome of an ongoing investigation or trial in order to obtain sufficient clarity about the company's association with the corrupt acts. This means that some corruption cases can take a long time to investigate fully.

Over several years, the Council has carried out studies that have focused specifically on companies in countries and business sectors where the risk of corruption is deemed to be particularly high on international corruption indices. So far, the Council has focused on companies within the construction, oil & gas, defence and telecoms sectors. These sectoral studies have given the Council a better insight into the most important corruption risks within each sector. Where several companies within the same sector have been revealed to be linked to corruption within a specific period of time, the Council has also obtained a better basis for comparing companies' anti-corruption systems than where it performs parallel assessments of companies in different sectors.

The fact that corruption involves concealed acts is a major challenge. It can therefore be difficult for the Council to gain access to sufficient documentary evidence to permit it to recommend that a company be excluded or placed under observation. The situation is further complicated by the fact that the corruption risk is normally higher in countries where the volume of information from the media, the courts, civil society organisations and the companies themselves is less abundant and less reliable, i.e. authoritarian states. This challenge has become gradually larger as the GPFG has invested more and more in emerging markets.

Political turmoil and regime change in countries may, however, give renewed impetus to corruption investigations and open up access to information. In general, the investigation and prosecution of widespread corruption in a country's top political circles can also be an important source of new cases, if it is revealed that many companies are involved. The most prominent example here is the so-called 'Lava Jato' case in Brazil, which has resulted in the Council paying a particular attention to this country in recent years. The food company JBS, which was excluded in 2018, is an example of a company that was picked up on in part as a result of this increased focus on Brazil.

Since 2017, the Council has adopted a more flexible approach, with a greater emphasis on selecting individual cases that are identified through ongoing portfolio monitoring activities. Companies which are selected on the basis of the initial review of corruption

allegations are systematically recorded, sorted by sector and ranked with respect to risk. This overview is continuously updated and expanded. Within certain sectors, allegations have gradually been recorded against so many companies that it is possible to perform a collective investigation into them, in the same way as a sectoral study. In 2018, for example, an in-depth review of this kind was done on 15 pharmaceutical companies,

Irrespective of sector, country or year, many of the corruption cases that the Council investigates and assesses share a few common features. They frequently relate to large public-sector contracts, either procurements or licences. Fairly often, they involve wholly or partly state-owned enterprises. The procurements can range from construction contracts or major orders for vehicles, defence materiel, etc. Licences can be for the production of oil & gas or the development and operation of mobile phone networks. The corruption can also be motivated by a desire to obtain other financial benefits from the state, e.g. financing from state banks or tax breaks.

Some of the same features can be found in several of the corruption allegations levelled at the pharmaceutical companies that the Council focused on in 2018. The cases here relate to bribery at a relatively high level, either to obtain approval for the use of a certain medicine, or to influence major procurements of medicines for public hospitals or other parts of the health service. However, what seems to be more widespread in the pharmaceutical industry is corruption at lower levels in the form of sweeteners or bribes through the payment of illegal commissions (kickbacks) to doctors and pharmacists for promoting certain medications. Sweeteners can, for example, take the form of dinners, entertainments, travel, gifts, etc. The bribery has often been camouflaged as speaking fees or consulting fees. The general impression is nevertheless that the practice of giving sweeteners and kickbacks to healthcare workers and pharmacists is less widespread now than it was ten years ago. This is not least because the US authorities have started to crack down on such practices. This applies not only to US companies, but to foreign companies that are subject to the Foreign Corrupt Practices Act (FCPA).

Assessment of future risk

The Council's assessment of future risk is based on several key elements. Firstly, how the company concerned has reacted to the corruption allegations. For example, has the company itself initiated an inquiry into the allegations and implemented specific measures to put a stop to the practices concerned? Or has it remained passive and been most preoccupied with denying responsibility? The company's response to the allegations can give a certain indication of its true willingness to prevent similar events from happening in the future.

What measures the company has initiated or plans to initiate to prevent, detect and respond to corruption constitutes the second key element. Together, these measures make up the company's anti-corruption programme, which is often part of an internal compliance system. The company's anti-corruption programme is often what the Council attaches most importance to in its assessment of future risk. It is also this aspect that the Council usually spends most time considering.

Over time, a number of international standards for compliance and anti-corruption programmes have been drawn up for multinational companies. On the basis of these, it is possible to deduce some key principles for the measures an enterprise should take to establish and implement an effective anti-corruption programme. Inter alia, the standards presume that a company's senior management must send out a clear message of zero tolerance for corruption (tone from the top), that there must be regular assessments of corruption risk throughout the organisation, written anti-corruption guidelines and procedures that apply to all managers, employees and business partners (code of conduct), effective and systematic training, background checks of third parties (due-diligence), systems and procedures for reporting and responding to wrongdoing, as well as constant monitoring and improvement of the programme. According to international standards of best practice, it is also recommended that a company's anti-corruption efforts be delegated to a dedicated unit that has the necessary resources and autonomy.

In its initial review of a company's anti-corruption programme – which normally takes as its starting point information drawn from the company's website and annual reports – the Council will normally look at whether all the elements deemed to be the most important according to best practice seem to be reflected in the programme. However, during the more in-depth investigation into the individual company, the elements the Council attaches most importance to will vary. In addition to any findings from the initial review, the Council will also take into account the sector and countries in which the company operates, and – not least – what emerge as the largest risk factors based on previous corrupt acts. This will also determine with who and which bodies within the company the Council will primarily want to speak. Irrespective of what is the focus, it is important to obtain the best possible impression of how the company's anti-corruption programme works in practice. This is generally best achieved through tangible examples. Establishing a good dialogue with the company concerned is generally a necessary, but not always sufficient precondition for gaining access to such information.

A third key element that has gradually gained in importance is the way the company's board of directors and management exercise their different roles (corporate governance). Although the primary focus in the assessment of future risk has so far been

a company's compliance systems or anti-corruption programme, experience from the largest corruption cases shows that senior executives and/or members of the board have often been directly involved in the corrupt practices. In such cases, it is generally not sufficient to note that the company has a fully operational compliance system. The Council must also be able to assure itself that the board has real and effective control of the company's day-to-day management, and that board members have the right background to perform this oversight role. The exclusion of JBS is an example of this greater focus on corporate governance.

The fourth key element relates to the company's degree of cooperation and assistance in connection with the Council's investigations. In the report to the Storting (white paper) in 2009 (Meld. St. 20 (2008–2009) on the management of the Government Pension Fund in 2008, it states that "a lack of information regarding a company's behaviour and, not least, a lack of willingness on the part of the company to provide information, may in itself contribute to the risk of contributing to unethical behaviour being deemed unacceptably high". In certain cases, therefore, a lack of willingness to share information could also have a decisive impact on the Council's assessment of the future corruption risk associated with the company concerned.



Companies' sales of weapons to parties in armed conflict

The GPFG's ethical guidelines place a variety of restrictions on the fund's investments in companies that produce weapons and military materiel. In 2018, attention has been paid to the GPFG's investments in companies that sell weapons and military materiel to the parties in the Yemen conflict. Questions have been raised about whether such sales could constitute grounds for the companies' exclusion from the fund. The background to this is the disastrous humanitarian situation in Yemen, and that the use of military force results in serious violation of individuals' rights in the armed conflict.

In principle, the GPFG's ethical guidelines distinguish between exclusion based on what a company produces (product-based criteria) and exclusion based on a company's behaviour (conduct-based criteria) – irrespective of what they produce.

The exclusion of companies that produce weapons or sell weapons and military materiel is dealt with primarily in section 2(1) of the ethical guidelines, product-based criteria:

"The Fund shall not be invested in companies which themselves or through entities they control:

- a. *produce weapons that violate fundamental humanitarian principles through their normal use [...]*
- c. *sell weapons or military materiel to states that are subject to investment restrictions on government bonds as described in the management mandate for the Government Pension Fund Global, section 3-1(2)(c).*

In subsection (a), the term "normal use" is central. This refers to the weapon's intended use, which implies that any weapon can, in principle, be used in ways that violate fundamental humanitarian principles for armed conflict, but that for some types of weapon practically any use would do so. An exhaustive list of weapon types covered (the weapons list) has been provided by the Ministry of Finance and includes i.a. cluster munitions and nuclear weapons. Twenty companies have been excluded from the GPFG on the grounds that they produce weapons included in the weapons list.

Pursuant to subsection (c), the GPFG must not be invested in companies that sell weapons or military materiel to certain, specified states. This provision is in turn linked to the government bond exemption rule in section 3-1 of the mandate for the management of the GPFG:

"The Bank may not invest the investment portfolio in [...] Fixed-income instruments issued by governments or government-linked entities in the exceptional cases where the Ministry has barred such investments based on particularly large-scale UN sanctions or other international initiatives of a particularly large scale that are aimed at a specific country and where Norway supports the initiatives."

The Norwegian Ministry of Finance decides which states this applies to (country list). The states on the country list are states subject to extensive international sanctions that Norway has endorsed. This currently applies to North Korea and Syria. Previously, both Iran and Myanmar were included in the list. One company was for a period excluded from the GPFG at the recommendation of the Council because it supplied military vehicles to the government of Myanmar.

Consequently, if a company produces weapons which are not included in the weapons list, or sells weapons to states that are not on the country list, they will not be subject to the product-based criteria in the GPFG's ethical guidelines. There will therefore be no grounds to recommend their exclusion from the fund under the product-based criteria.

The question will then be whether such sales can nevertheless be considered grounds for exclusion under the conduct-based criteria in the ethical guidelines' section 3:

"Companies may be put under observation or be excluded if there is an unacceptable risk that the company contributes to or is responsible for: [...]

- b. *serious violations of the rights of individuals in situations of war or conflict*
 - f. *other particularly serious violations of fundamental ethical norms"*
-

Under the conduct-based criteria, it is the company's actions that must be assessed, and companies may be excluded only if it is reasonable to censure the company for acts or omissions that result in serious norm violations. The Council has previously taken the position that a company's sale of a product or object may be deemed to constitute an act that is grounds for exclusion. In principle, therefore, it might also be possible to assess companies' weapons sales under the conduct-related criteria. So far, the Council has published assessments in three cases which relate to companies' contribution to norm violations through sales.

In 2005, the GPFG was criticised for its investment in the US company Caterpillar. This was because Caterpillar supplied bulldozers to the Israel Defence Force (IDF). These are fundamentally civilian machines that were modified in Israel with the addition of armour plating and equipped for military use. Such armoured bulldozers have been used by the IDF against the Palestinian civilian population, for example to demolish Palestinian homes and destroy Palestinian farmland. The Council assessed the company's responsibility thus:

"The Council on Ethics deems it clear that Israeli authorities have used equipment supplied by Caterpillar to commit acts which probably can be considered as amounting to human rights violations. However, since the equipment Caterpillar delivers to Israeli authorities also is destined for legitimate use, it is problematic to hold the company accountable for all uses of its products. The Council on Ethics takes as a basis that, similarly to other military equipment, including different types of legal weapons, the applications may be both legitimate and legal, but the equipment may also be used for acts which must be considered unethical or even illegal. In the same way as for the components of inhumane weapons, which have several areas of use (see discussion of "dual use" in the recommendation on exclusion of companies that manufacture components for nuclear weapons), the main rule will be that such products do not fall within the scope of the Fund's Ethical Guidelines. Consequently, there must be a strong element of complicity by Caterpillar in any possible violations if the company is to be excluded in spite of this. The Council on Ethics assumes that it will be difficult to find facts which will provide grounds for exclusion of the company based on its supply of materials to the Israeli authorities."

In 2009, the Council recommended the exclusion of the Israeli company Elbit. This was because the company supplied surveillance equipment to the Israeli Separation Barrier (the wall) on the West Bank. Parts of the barrier's course are deemed to be illegal. In its assessment, the Council attached importance to the fact that the equipment Elbit supplied was specially developed for the barrier and had no other areas of application. It would therefore be known to Elbit that (part of) the purpose of the delivery was illegal.

In 2017, the Council recommended the exclusion of ship-owning companies that disposed of vessels by sending them to be broken up by a process called "beaching". This process creates unacceptable environmental and working conditions. Ship-owning companies sell their decommissioned vessels to cash buyers for the sole purpose of beaching. These companies are fully aware of the circumstances of the beaching process, but choose nevertheless to dispose of obsolete vessels in this way to maximise their profit.

The three cases detailed above deal, each in their own way, with companies' contribution to norm violations through the sale of items. A common theme in the assessments has been what knowledge of future norm violations resulting from the sale companies must be expected to have had when the sale was made. Any such expected knowledge would be linked, in part, to the proximity in time between the company's action (the sale) and the underlying norm violation.

If the Council is to recommend exclusion of companies under the conduct-based criteria on the basis of their sales of weapons to parties in an armed conflict, in which widespread violations of international humanitarian law or human rights takes place, there must be a clear element of contribution to these violations on the part of the company, through the sale and later use of these weapons. The Council is continuously assessing whether this can be said to apply to any of the companies in the GPFG's portfolio.

List of excluded companies by March 2019

Severe environmental damage

- Barrick Gold Corp
- Bharat Heavy Electricals Ltd
- Duke Energy Corp Corp (including the below wholly-owned subsidiaries)
 - Duke Energy Carolinas LLC
 - Duke Energy Progress LLC
 - Progress Energy Inc.
- Freeport-McMoRan Inc
- Genting Bhd
- IJM Corp Bhd
- MMC Norilsk Nickel PJSC
- POSCO
- Posco Daewoo Corp
- Rio Tinto Ltd
- Rio Tinto Plc
- Ta Ann Holdings Bhd
- Volcan Cia Minera SAA
- WTK Holdings Bhd
- Zijin Mining Group Co Ltd

Severe environmental damage | Serious or systematic human rights violations

- Evergreen Marine Corp Taiwan Ltd
- Korea Line Corp
- Precious Shipping PCL
- Thoresen Thai Agencies PCL
- Vedanta Ltd
- Vedanta Resources Plc

Serious violations of the rights of individuals in situations of war or conflict

- Africa Israel Investments Ltd
- Shikun & Binui Ltd

Other particularly serious violations of fundamental ethical norms

- Elbit Systems Ltd
- Nutrien Ltd (tidligere Potash Corporation of Saskatchewan)
- San Leon Energy Plc

Gross corruption

- JBS SA
- ZTE Corp

Serious or systematic human rights violations

- Atal SA/Poland
- Luthai Textile Co Ltd
- Texwinca Holdings Co
- Wal-Mart de Mexico SAB de CV
- Walmart Inc
- Zuari Agro Chemicals Ltd

Production of nuclear weapons

- AECOM
- Aerojet Rocketdyne Holdings Inc
- Airbus Finance BV
- Airbus SE
- BAE Systems Plc
- Boeing Co/The
- BWX Technologies Inc
- Fluor Corp
- Honeywell International Inc
- Huntington Ingalls Industries Inc
- Jacobs Engineering Group Inc
- Lockheed Martin Corp
- Northrop Grumman Corp
- Safran SA
- Serco Group Plc

Production of cluster munitions

- General Dynamics Corp
- Hanwha Corp
- Poongsan Corp
- Textron Inc

Production of tobacco

- Altria Group Inc
- British American Tobacco Malaysia Bhd
- British American Tobacco Plc
- Grupo Carso SAB de CV
- Gudang Garam Tbk Pt
- Huabao International Holdings Ltd
- Imperial Brands Plc
- ITC Ltd
- Japan Tobacco Inc
- KT&G Corp
- Philip Morris Cr AS
- Philip Morris International Inc
- Pyxus International Inc
- Schweitzer-Mauduit International Inc
- Shanghai Industrial Holdings Ltd
- Swedish Match AB
- Universal Corp/VA
- Vector Group Ltd

Production of coal or coal-based energy

- Aboitiz Power Corp
- AES Corp/VA
- AES Gener SA
- ALLETE Inc
- Alliant Energy Corp
- Ameren Corp
- American Electric Power Co Inc
- Capital Power Corp
- CESC Ltd
- CEZ AS
- China Coal Energy Co Ltd
- China Power International Development Ltd
- China Resources Power Holdings Co Ltd
- China Shenhua Energy Co Ltd
- Chugoku Electric Power Co Inc/The
- CLP Holdings Ltd
- Coal India Ltd
- CONSOL Energy Inc
- Datang International Power Generation Co Ltd
- DMCI Holdings Inc
- Drax Group PLC
- DTE Energy Co
- Electric Power Development Co Ltd
- Electricity Generating PCL
- Emera Inc
- Eneva SA
- Engie Energia Chile SA
- Evergy Inc
- Exxaro Resources Ltd
- FirstEnergy Corp
- Great River Energy
- Guangdong Electric Power Development Co Ltd
- Gujarat Mineral Development Corp Ltd
- HK Electric Investments & HK Electric Investments Ltd
- Hokkaido Electric Power Co Inc
- Hokuriku Electric Power Co
- Huadian Energy Co Ltd
- Huadian Power International Corp Ltd
- Huaneng Power International Inc
- IDACORP Inc
- Inner Mongolia Yitai Coal Co Ltd
- Jastrzebska Spolka Weglowa SA
- Korea Electric Power Corp
- Lubelski Wegiel Bogdanka SA
- Malakoff Corp Bhd
- MGE Energy Inc
- New Hope Corp Ltd
- NRG Energy Inc
- NTPC Ltd
- Okinawa Electric Power Co Inc/The
- Otter Tail Corp
- PacifiCorp
- Peabody Energy Corp
- PGE Polska Grupa Energetyczna SA
- PNM Resources Inc
- Public Power Corp SA

- Reliance Infrastructure Ltd
- Reliance Power Ltd
- SDIC Power Holdings Co Ltd
- Shikoku Electric Power Co Inc
- Tata Power Co Ltd/The
- Tenaga Nasional Bhd
- TransAlta Corp
- Tri-State Generation and Transmission Association Inc
- Washington H. Soul Pattinson & Co Ltd
- WEC Energy Group Inc
- Whitehaven Coal Ltd
- Xcel Energy Inc
- Yanzhou Coal Mining Co Ltd

List of companies placed under observation

Severe environmental damage

- Astra International Tbk PT

Severe environmental damage | Serious or systematic human rights violations

- Pan Ocean Co Ltd

Serious or systematic human rights violations

- Hansae Co Ltd
- Hansae Yes24 Holdings Co Ltd
- Nien Hsing Textile Co Ltd

Gross corruption

- Leonardo SpA
- PetroChina Co Ltd
- Petroleo Brasileiro SA

Production of coal or coal-based energy

- Berkshire Hathaway Energy Co
- CMS Energy Corp
- EDP - Energias de Portugal SA
- Endesa SA
- Glow Energy PCL
- Kyushu Electric Power Co Inc
- MidAmerican Energy Co
- NorthWestern Corp
- OGE Energy Corp
- Pinnacle West Capital Corp
- Portland General Electric Co
- SCANA CORP
- Southern Co/The
- Tohoku Electric Power Co Inc

An updated list can be found at <https://www.nbim.no/en/the-fund/responsible-investment/exclusion-of-companies/>



Recommendations on exclusion and observation

Table 2: List of recommendations published since the previous annual report

Company	Criterion	Recommendation	Issued	Decision	Published
UPL Ltd	Human rights	Observation	01.03.2018	Active ownership	10.07.2018
JBS SA	Corruption	Exclusion	01.03.2018	Exclusion	10.07.2018
Luthai Textile Co Ltd	Human rights	Exclusion	21.06.2018	Exclusion	10.07.2018
Nien Hsing Textile Co Ltd	Human rights	Observation	07.05.2018	Observation	10.07.2018
Cairn Energy PLC	Other serious violations of ethical norms	Revoke exclusion	30.05.2018	Revoke exclusion	27.11.2018
Kosmos Energy Ltd	Other serious violations of ethical norms	Revoke exclusion	30.05.2018	Revoke exclusion	27.11.2018
Texwinca Holdings Ltd	Human rights	Exclusion	05.06.2018	Exclusion	17.01.2019

In March 2018, the Council on Ethics recommended that the company UPL Ltd be placed under observation because child labour was being used in connection with its seed production in India. Norges Bank decided to follow up the company through active ownership. As a result, the company will be followed up by NBIM and not the Council on Ethics.

At the same time, the company JBS SA was excluded on the grounds of gross corruption. A legal settlement with the Brazilian authorities revealed that the company had bribed approx. 1,800 Brazilian politicians with amounts corresponding to a total of NOK 1.5 billion over a period of 10 to 15 years.

Three of the Council's recommendations relating to textiles companies were published in 2018. The Council recommended the exclusion of Luthai Textile Co Ltd and Texwinca Holdings Ltd on the grounds of systematic violations of labour rights at the companies' factories. These companies provided little information

about how they run their businesses and do not appear to have a plan for improving working conditions or preventing further labour rights violations. The Council recommended that Nien Hsing Textile Co Ltd be placed under observation, even though the human rights violations at this company seemed to be more serious, not least with respect to widespread sexual harassment at its factories in Lesotho. However, in its dialogue with the Council, the company stated that it would implement immediate countermeasures. Norges Bank accepted these recommendations.

The exclusion of the companies Cairn Energy PLC and Kosmos Energy was revoked in 2018 after they had disclosed that they no longer had licences to explore for petroleum off the coast of Western Sahara and that they had therefore discontinued exploration activities in the area.

Summaries of recommendations published since the previous annual report

UPL LTD Submitted 1 March 2018



The Council on Ethics recommends that UPL Ltd. (UPL) be placed under observation due to the use of child labour in connection with its seed business in India. Over a period of several years, the Council on Ethics has investigated the extent of child labour on behalf of the seed company Advanta Seeds (Advanta), which is a wholly owned subsidiary of UPL. Field studies carried out in the 2016–2017 growing season indicate that children under the age of 15 still make up approximately 10 per cent of the workers engaged in seed production for the company.

The Council considers that this must be deemed to be among the worst forms of child labour, due to the youth of the children and the health hazards associated with the work, and because children who work in this industry generally receive very little or no education. In addition, most of the child workers are separated their families or guardians, and often belong to groups which, in Indian society, have a low social status. This makes the children particularly vulnerable to exploitation.

Since their merger in 2016, UPL and Advanta must be reckoned to constitute one company. In a letter to the Council on Ethics, UPL has explained that it will continue and reinforce its efforts to scale back the use of child labour, for example through unannounced spot checks at production sites. Advanta's measures against child labour are now included in UPL's legal compliance procedures and its auditing plan. The Council presumes that this will add greater weight to and result in closer follow up of the improvement initiatives than was previously the case at Advanta.

The Council on Ethics considers that the conditions, in and of themselves, are sufficient grounds to recommend the company's exclusion from investment by the Government Pension Fund Global (GPF). The Council's decision to recommend that the company be placed under observation springs from a wish to wait and see the outcome of these additional efforts. However, if the conditions concerned do not improve during the proposed three-year observation period, the Council may recommend that the company be excluded from the GPF.

JBS SA Submitted 1 March 2018



The Council on Ethics recommends that JBS SA be excluded from investment by the Government Pension Fund Global (GPF) due to an unacceptable risk that the company is responsible for gross corruption.

JBS, which is listed on the São Paulo stock exchange, is the world's second largest food company. In May 2017, it had over 235 000 employees in more than 20 countries worldwide. The family-owned holding company J&F owns approx. 42 per cent of the shares in JBS. Two of the sons of the founder of J&F and JBS have previously held the posts of Board Chair and CEO at JBS, and have also been the most important players in the corruption cases in which the company has been involved.

Former members of JBS' management and board of directors have admitted to bribing more than 1,800 politicians from 28 different political parties in Brazil. This is said to include almost 200 members of parliament, a number of district governors, as well as several of the country's presidents. In total, the bribes could amount to almost NOK 1.5 billion, paid out over the past 10–15 years.

The Council on Ethics has assessed whether there exists an unacceptable risk that JBS may, once again, become involved in similar actions. The seriousness and the scale of the corrupt practices, and the company's response to them, are important elements in this assessment. The Council has also attached importance to the measures the company has implemented to prevent, detect and respond to corruption, as well as the political landscape in which the company operates.

In light of the seriousness and the scale of the corruption in question, the Council on Ethics takes the view that the company should, at an early stage, have investigated the allegations, cracked down on financial impropriety and taken steps to prevent any new incidents of corruption. This does not seem to have been the case. Neither the Board Chair nor the CEO were suspended when they came under investigation. Even when the CEO admitted corruption and entered into a plea bargain agreement with the prosecuting authorities, he retained his position until his arrest in September 2017. Nor did the company, at its own initiative, launch any investigation into the corruption allegations or implement any new measures in the area of compliance. Such measures were, in fact, imposed on it through a leniency agreement that the parent company entered into with the prosecuting authorities.

The Council on Ethics concludes that, up until May 2017, JBS had no comprehensive plan for combatting corruption. The compliance measures presented in its annual reports appear rather random and disjointed. The Council also wonders how real those measures have been, both in light of the corruption that was going on continuously, and the new initiatives that the company launched in 2017.

The Council has been in contact with JBS on numerous occasions, and the company has both submitted comments to a draft recommendation and provided information about its compliance programme. The Council has taken ad notam that the company is now attempting to put a comprehensive compliance programme in place, in line with international best practice in the field.

However, companies' efforts to prevent corruption are not limited to the establishment of a compliance programme. Corporate governance must also be tailored to the risk of corruption. In a situation where former members of the board and management have been directly responsible for gross corruption, the Council on Ethics considers that the present composition of the board and management does not create sufficient distance to the corrupt acts and the people responsible for them. The Board Chair has been with the company throughout the period in which the corruption has taken place. This is also true of the CEO, who is – at the same time – the board's Deputy Chair. Both the CEO and another board member have close family ties to the primary perpetrators in the corruption case. For the Council on Ethics, it would seem to be particularly challenging for the company to pursue any internal investigations when both the chief executive and several board members are so lacking in impartiality. Furthermore, the Council notes that JBS' other major shareholder, BNDES, has criticised the company's poor corporate governance, even after the new measures to improve corporate governance were announced. The Council therefore concludes that there remains an unacceptable risk of gross corruption associated with JBS.

LUTHAI TEXTILE CO LTD
Submitted 21 June 2018



The Council on Ethics for the Government Pension Fund Global (GPF) recommends that Luthai Textile Co Ltd (Luthai) be excluded from the GPF due to the working conditions at the company's textile factories.

Luthai is a vertically integrated textiles company that is engaged in the production of cotton, yarn, fabrics and shirts. Luthai has nine production companies in China, Vietnam, Cambodia and Myanmar. Luthai is listed on the Shenzhen Stock Exchange in China.

The Council on Ethics has considered whether there is an unacceptable risk that Luthai contributes to or is itself responsible for systematic violations of internationally recognised human rights and labour rights.

To qualify as systematic, the human rights violations must be substantial in scope, ie that they are numerous in quantity, that different types of rights are infringed or that abuses take place in many entities within the company. The Council takes the position that "systematic" requires an accumulation of such violations and not merely isolated incidents; in other words that they constitute a pattern of behaviour. Furthermore, in its capacity as employer, each company has an individual and direct responsibility for its workforce and for preventing their employees' labour rights from being infringed at its own operations. The Council takes the position that, with respect to norm violations perpetrated within a company's own operations, the threshold for what can be accepted must be lower than when a company contributes to norm violations perpetrated by a third party.

In its assessment of the risk of further human rights violations, the Council attaches importance to how a company has responded when norm violations have been uncovered, and what it has done to prevent their reoccurrence.

The Council on Ethics' recommendation is based on its own investigations into working conditions at Luthai's garment factories in Cambodia and Myanmar from 2015 to 2018. The Council considers that labour rights violations have been extensive, particularly at the factory in Myanmar. The conditions reported by the workers include overwork driven by unreasonably high production quotas, a lack of rest breaks, high temperatures in the factory premises, widespread harassment by supervisors, and restrictions on employees' use of toilet facilities and access to drinking water. Employees are threatened with dismissal if they do not work overtime or meet production quotas, and there are unlawful restrictions on and wage deductions for sick leave and holidays.

The use of young people below the age of 18 under the same terms and conditions as adults, extensive use of temporary contracts, which are, in some cases, unlawful and which are used to pressure employees into accepting infringement of their rights and restrictions on their freedom of association, appear to occur at both the factories.

Based on the information to which the Council has had access, the company's practices in many areas contravene both internationally recognised labour rights and national legislation. The number of norm violations is substantial, several different types of rights have been abused, the practices seem to be widespread in several of the company's factories and applied over a period of time. In the Council's opinion, this demonstrates a pattern of behaviour indicating that norm violation is systematic. It also shows a failure to comply with national laws and implement necessary measures, as well as poor control and follow-up on the part of management to ensure that requirements relating to working conditions at the factories are actually fulfilled.

The Council has communicated with Luthai on several occasions between 2015 and 2017. Luthai has commented on draft recommendations and provided some information relating to its policies and procedures for preventing norm violations, among other things. The company has not permitted the factories to be inspected or granted the Council's request for access to inspection reports. Luthai itself denies many of the reported norm violations at its factories. However, the company has chosen not to substantiate its position and has provided little information. The Council on Ethics therefore bases its assessment on its own investigations.

The Council on Ethics gives weight to the fact that, previously, Luthai seems only to a limited extent to have implemented measures resulting in lasting improvements in working conditions. Many of the norm violations that were uncovered in the survey in Cambodia in 2015 were again found in 2016, despite the company's assurances that policies and procedures to prevent norm violations had been implemented. Although Luthai subsequently seems to have implemented improvements at the factory, the Council finds it concerning that a number of norm violations still do not seem to have been corrected. In its communications with the Council, Luthai has pointed out that the factory in Cambodia is certified in accordance with the SA8000 standard, an ethical standard which sets out requirements intended to secure good working conditions for employees, and that the factory therefore complies with requirements intended to ensure good working conditions. However, this can have little significance for the Council's assessment as long as the basis for certification is secret and cannot be verified. The fact that Luthai has elected not to substantiate its replies and follow-up investigations cannot confirm many of the company's claims weakens the Council's confidence that the company's procedures and initiatives will be effective enough to prevent future norm violations.

The Council also notes that the above-mentioned certification applies only to the factory in Cambodia. In the Council's view, the scale of the reported norm violations at the factory in Myanmar confirm that Luthai does not have a system in place that is capable of preventing, uncovering or correcting abuses of labour rights at its operations. The changes that have been made in Cambodia appear to be the result of a fragmented and reactive response to norm violations that have been pointed out to Luthai, rather than the expression of any change in the company's attitude to labour rights. The norm violations at the factory in Myanmar remain ongoing, and there is little to indicate that Luthai is taking effective steps to correct them.

The Council considers that systematic human rights violations within a company's own operations do not occur by accident, but are a consequence of the way the company organises its business. In this case, it appears as though the many different violations of and restrictions on the employees' statutory rights are intended to reduce the entities' operating costs. Executives at Luthai are also managers at its subsidiaries. The parent company is therefore obviously aware of and accepts the working conditions at its own factories. This must be assumed to include widespread failures to comply with the company's own guidelines and national labour laws. In the Council's opinion, this reinforces the impression that rights abuses are not accidental, but are an established and ingrained practice on the part of the company.

Luthai has more than 20,000 employees and operations in countries where the risk of human rights violations and poor working conditions is known to be high. The Council considers that a company with so many employees must be expected to have robust systems in place to safeguard their labour rights, in accordance with the United Nations Guiding Principles on Business and Human Rights. The Council cannot see that Luthai has such systems. The company has shown little desire to change its attitude to labour rights. Combined with the fact that Luthai is unwilling to provide insights into how it runs its business operations, this leads the Council to conclude that there is an unacceptable risk of Luthai being responsible for systematic human rights violations in the future, too. The Council therefore recommends that the company be excluded from investment by the GPF.

NIEN HSING TEXTILE CO LTD
Submitted 7 May 2018



The Government Pension Fund Global (GPF) recommends that Nien Hsing Textile Co Ltd (Nien Hsing) be placed under observation due to working conditions at its textiles factories.

Nien Hsing produces yarn, fabrics and apparel (jeans and leisurewear). The company has nine production facilities in Taiwan, Vietnam, Lesotho and Mexico, and employs a total of 25,000 people. The company produces largely for US brands.

The Council on Ethics has considered whether there is an unacceptable risk that Nien Hsing contributes to or is itself responsible for systematic violations of internationally recognised human rights and labour rights.

To qualify as systematic, the human rights violations must be substantial in scope, ie that they are large in number, that different types of rights are infringed or that abuses take place in several of the company's operating units. The Council takes the position that "systematic" implies that violations do not appear as isolated incidents; but that they constitute a pattern of behaviour. Furthermore, in its capacity as employer, each company has an individual and direct responsibility for its workforce and for preventing their employees' labour rights from being infringed at its own operations. The Council takes the position that, with respect to norm violations perpetrated within a company's own operations, the threshold for what can be accepted must be lower than when a company contributes to norm violations perpetrated by a third party.

In its assessment of the risk of further human rights violations, the Council attaches importance to how a company has responded when norm violations have been uncovered, and what it has done to prevent their reoccurrence.

This recommendation is based on the Council on Ethics' own investigations into working conditions at Nien Hsing's factories in Lesotho and Vietnam in the period 2017–2018. The Council considers that, in particular, the norm violations at the factories in Lesotho appear to be serious. The Council's investigations indicate that female employees at all three factories are subjected to widespread sexual harassment by managers and supervisors. The Council considers this to be a serious violation of ethical norms.

The Council also notes that the women fear dismissal should they become pregnant and report verbal and physical abuse when they make mistakes in their work or fail to meet their production quotas. The Council's investigations also indicate poor air quality, temperatures that are unpleasantly hot or cold, high noise levels in places, hazardous use of chemicals and inadequate protective equipment. It also appears to the Council as though the company restricts freedom of association in a number of ways.

Furthermore, violation of labour rights has been reported at Nien Hsing's factory in Vietnam, though on a smaller scale. Issues here relate to working conditions, such as high temperatures inside the factory, dust, hazardous use of chemicals and inadequate personal protective equipment, as well as involuntary overtime, unlawful restrictions on sickness absence and company interference in trade union activity.

Nien Hsing confirms some of the norm violations, but denies allegations relating to others. The company has initiated efforts to prevent verbal abuse of employees in Lesotho, and has dismissed workers involved in sexual harassment. In the Council's opinion, this demonstrates that the problems exist and that the company has to some degree taken steps to address them. Nien Hsing has also launched its own inquiries into working conditions and reports that it will take further steps to prevent harassment, including the dismissal of those involved in such acts. Nien Hsing recognises that it must improve its information, training and communication with employees and managers in many areas.

The Council notes that the company's board and management have taken steps to put management systems in place that can reduce the risk of human rights violations. The company has told the Council that it is implementing measures and changes to its management system, which the company believes will, over time, improve

working conditions at its factories. It has also disclosed that the factories are now measured on their compliance with the company's standards. Nevertheless, the Council notes that the company's description of its new systems and policies does not address compliance with national legislation and requirements or important labour rights, such as freedom of association or the protection of whistleblowers.

An important point for the Council is that several of the factory managers in Lesotho have held these positions for many years. The reported sexual harassment is of such a scale that managers must have, or should have, been aware of it. Harassment and other occupational health and safety issues at the factories in Lesotho were reported as far back as 2001. In the Council's opinion, the seriousness of the harassment, as well as the scale of other norm violations, prompt expectations that Nien Hsing will make significant changes in the factories' managements and rapidly implement effective measures to reduce the risk of harassment and other human rights violations.

The GPF's ethical guidelines permit the Council on Ethics to recommend that a company be placed under observation if there is some doubt about whether the conditions for exclusion have been met or about its development going forward. In this case, the Council considers that there is no doubt that the conditions for exclusion have been met. The Council deems that the company's practices in several areas violate both internationally recognised labour rights and national legislation. These practices comprise both serious norm violations which, by themselves, could constitute grounds for the company's exclusion, and systematic norm violations. The Council's decision not to recommend that the company be excluded from investment by the GPF at this time rests on the fact that Nien Hsing is currently implementing changes and measures which could improve working conditions, even though their implementation so far has been weak. In the Council's view, the fact that the company is now providing the Council with information and, furthermore, acknowledges that it must take steps to address the most serious issues, could reduce the risk of future norm violations. The Council will monitor developments at the company and if the most serious norm violations are not materially curtailed within a short space of time, the Council will consider recommending Nien Hsing's exclusion.

KOSMOS ENERGY LTD AND CAIRN ENERGY PLC
Submitted 30 May 2018



Kosmos Energy Ltd. (Kosmos) and Cairn Energy Plc. (Cairn) were excluded from the Government Pension Fund Global (GPF) in 2016 due to the companies' petroleum prospecting activities off the coast of Western Sahara. Since the activities on which the exclusion was based have ceased, the Council on Ethics recommends that the companies' exclusion be revoked.

TEXWINCA HOLDINGS LTD
Submitted 5 June 2018



The Council on Ethics recommends that Texwinca Holdings Ltd be excluded from investment by the Government Pension Fund Global (GPF) due to an unacceptable risk that the company is responsible for systematic human rights violations.

Texwinca is a Chinese company that produces yarn, knitted fabrics and garments, and has its own retail division in China. Texwinca owns 50 per cent of the shares in Megawell Industrial Ltd (Megawell), making it that company's largest shareholder. Megawell owns the garment factories Hugo Knit and Kollan in Vietnam as wholly owned subsidiaries. Texwinca states that it does not have a controlling influence over Megawell and that the company's strategy is to remain a passive shareholder.

The Council on Ethics has assessed the risk that Texwinca contributes to or is itself responsible for systematic violations of internationally recognised human rights and labour rights. The company's corporate ownership structure has led the Council to conclude that norm violations at Kollan and Hugo Knit constitute norm violations in Texwinca's own operations. The Council's assessment rests on investigations into working conditions at Megawell's factories in Vietnam.

To qualify as systematic, the human rights violations must be substantial in scope, ie that they are numerous in quantity, that different types of rights are infringed or that abuses take place in many entities within the company. The Council takes the position that "systematic" requires an accumulation of such violations and not merely isolated incidents; in other words that they constitute a pattern of behaviour. Furthermore, in its capacity as employer, each company has an individual and direct responsibility for its workforce and for preventing their employees' labour rights from being infringed. The Council takes the position that, with respect to norm violations perpetrated within a company's own operations, the threshold for what can be accepted must be lower than when a company contributes to norm violations perpetrated by a third party.

In its assessment of the risk of future human rights violations, the Council attaches importance to how a company has responded when norm violations have been uncovered, and what it has done to prevent their reoccurrence.

The Council's investigations point to a working environment at Kollan and Hugo Knit that may be harmful to employees' health. Employees at both factories have reported substantial overtime, high production quotas, high indoor temperatures and widespread harassment and abuse by supervisory staff which, at Kollan, is said to have contributed to employees fainting at their posts. Employees also report violations of fire safety regulations and restrictions on bathroom breaks, and say that legitimate sick leave is penalised through wage deductions and that the company, in practice, forces people to work overtime. Other norm violations relate to discrimination, in that female workers do not have their contracts renewed if they become pregnant, and restrictions on freedom of association, since management representatives run the trade unions at the factories. The Council finds it substantiated that the company's practices in many areas contravene both internationally recognised labour rights and national legislation.

The Council attaches importance to the fact that Texwinca has not helped to clarify this matter. The company has provided limited information about its relationship with Megawell, has not allowed the factory to be inspected and has failed to make any comment on draft recommendations to exclude the company from the GPF. Texwinca argues that conditions at the factories of which it is the principal shareholder are none of its business. The Council therefore has access to less information in this case than in other similar cases it has assessed. The information deficit also relates to the scale of norm violations and what the company is doing to prevent them. In accordance with the wording of Report No. 20 (2008–2009) to the Norwegian Storting (parliament), the Council on Ethics has concluded that a lack of information on the company's conduct and, not least, a lack of willingness on the part of the company to provide information may, in and of itself, add to the risk of contributing to unethical behaviour being deemed unacceptably high.

Texwinca has had the same position as Megawell's major shareholder for more than 20 years and presents Megawell as part of its corporate structure. Texwinca's dominant shareholding, combined with the fact that several individuals have been members of the boards and managements of both companies for many years, causes the Council to presume that Texwinca's management is aware of and has accepted the working conditions at Megawell's factories in Vietnam. Neither Texwinca nor Megawell have disclosed what the companies are doing to improve those working conditions, nor have they indicated any commitment to preventing labour rights violations at the factories in Vietnam. When Texwinca claims that it has no influence over manufacturing operations in Vietnam, and Megawell does not publish any information about its business, it is natural for the Council to draw the conclusion that neither Texwinca nor Megawell are taking any responsibility for the prevention of human rights violations at the factories in Vietnam. The Council on Ethics considers that when a company in this way disclaims responsibility for preventing norm violation and fails to provide information about conditions or its own initiatives in its operations the risk of systematic labour rights violations becomes unacceptably high.



Overview of published observation reports

Section 6 (4) of the GPFG's guidelines states that "observation may be decided when there is doubt as to whether the conditions for exclusion are met or as to future developments, or where observation is deemed appropriate for other reasons."

Table 3: Overview of published observation reports

Company	Criterion	Issued
Astra International Tbk	Environment	15.03.2018
Leonardo SpA	Corruption	15.11.2018
PetroChina Co Ltd	Corruption	15.11.2018
Petroleo Brasileiro SA	Corruption	20.12.2018

The Council is responsible for following up companies that have been placed under observation on the basis of a recommendation it itself has issued. The Council can, at any time during the observation period, recommend that the company be excluded or removed from the observation list. Norges Bank is responsible for following up companies that it has placed under observation under the coal criterion at its own initiative.

During the observation period, the Council provides Norges Bank with an annual assessment of each company. The Council obtains information from

open sources, but can also commission its own investigations. A draft of the report to Norges Bank is always sent to the company concerned for comment, and meetings with companies are often held. The observation process thus depends on good cooperation between the companies and the Council. In 2018, the Council issued four observation reports and held meetings with four companies.

The observation reports are published on the Council's website along with the original recommendation to place the companies under observation.



Other Correspondence

During the year, the Council on Ethics has corresponded with Norges Bank with regard to application of the climate criterion, and with the Ministry of Finance on the Council's work with respect to the human rights criterion and the organisation of the efforts with respect to responsible management of the GPF. These letters are included in this annual report.

Norges Bank, 12 June 2018
Unofficial English translation

Application of the climate criterion

We refer to the letter from Norges Bank dated 2 May 2018. The letter requests an extended assessment of the principles underpinning the application of the climate criterion. This includes what aspects of a company's specific behaviour should be deemed unacceptable in the criterion's sense. In its letter, Norges Bank states that companies' own management of greenhouse gas emissions, or lack thereof, will be a key factor in assessments under the climate criterion.

The Council on Ethics takes as its starting point the wording of the criterion, which says "acts or omissions that on an aggregate company level lead to unacceptable greenhouse gas emissions" could lead to exclusion from the GPF. It is therefore the actual greenhouse gas emissions that may constitute grounds for exclusion. The criterion does not distinguish between greenhouse gases or types of business operation.

The interpretation of the criterion is expanded upon in Report No. 21 to the Storting (2014–2015). The Ministry makes it clear that the expression "unacceptable" is intended to cover serious norm violations, in line with the established threshold for exclusion under the already existing exclusion criteria. Reference is also made to the fact that the expert group which proposed the criteria considered that serious norm violations should be assessed in relation to comparable operations, sectors and industries, based on, for example, generally accepted international standards. Emission intensity is pointed out as the most expedient basis for assessing comparable companies against each other. The Ministry further considers that emission trading systems and other forms of greenhouse gas regulations, as well as companies' active opposition to international climate agreements, may be included in an overall assessment. It is also specified that assessments under the climate criterion must be forward looking, in the same way as for the other exclusion criteria.

These guidelines being referenced in Report No. 26 to the Storting (2016–2017). Nevertheless, the Ministry also write "In its 2014 report on the GPF, the Ministry pointed out that the behaviour-based climate criterion will not be restricted to any particular type of industry or sector or type of greenhouse gas. Application of the criterion should take account of the fact that norms in this area may develop over time, in line with changes in energy production and technology. The climate criterion is an area in which there is little previous experience and few norms and standards to refer to. The Ministry has noted the challenges the Council on Ethics points to in its letter. It is important at the outset to make a thorough assessment of how the criterion is to be interpreted, so that it can be applied across business sectors and companies, as the Council points out."

The Council on Ethics takes the position that the key factor is emission-related behaviour, and that there are two qualifying aspects of a company's behaviour which determine whether its exclusion can be recommended. Firstly, if the company's emissions are large, and secondly whether the emissions are clearly larger per unit produced than naturally comparable companies. Companies with small emissions should, in the Council's opinion, not normally be excluded, even if they have a high emission intensity. Some companies report their emission levels relatively precisely, while others do not do so to the same extent. Where precise data does not exist, the Council has so far based its assessment on average values, research reports and modelling.

The Council then assesses future risk, primarily based on the company's own emission management activities. The Council considers whether the company has tangible, credible, timetabled plans to reduce its emissions, so that they – within a reasonable period of time – achieve a level that does not differ materially from other producers of the same product. If they do, exclusion will not be recommended. In the Council's opinion, it is not sufficient for the company to have a general policy for greenhouse gas reductions at some point far in the future.

In its assessment, the Council also attaches importance to the likelihood of emission reductions in other, comparable companies. In some sectors with major emissions, new technology will have to be developed and emission reductions will follow a trajectory determined by when that technology becomes available. The Council also assesses the feasibility of the companies' plans in light of such industry-wide challenges.

A difficult issue for the Council has been the importance that should be attached to whether companies are subject to emission trading systems, levies and other measures countries implement to reduce greenhouse gas emissions. In Report No. 21 to the Storting (2014–2015), the Ministry writes: "This type of holistic company assessment is natural in light of the fact that the existing systems for the prevention of greenhouse gas emissions and reduction of global climate change are based on an underlying presumption that activity in one area can be offset by activity in other areas, eg through the trading of emission quotas. To exclude a company that operates in line with such a system's guidelines could constitute an unfortunate signal." In the same report, the Ministry also writes: "It is also natural that the extent to which companies' emissions are subject to levies, quota obligations or other regulations be included in an overall assessment."

In its consideration of this matter, the Council has attached importance to the report to the Storting, developments that have taken place between the Kyoto Protocol and the Paris Agreement, and the practical consequences of various interpretations. Only 20 per cent of the world's emissions are currently subject to some form of carbon pricing (levies, taxes or emission trading systems).¹ Furthermore, in most jurisdictions, the level of taxes/levies and emission caps is far lower than can be said to be necessary to reach the goals set out in the Paris Agreement. China is expected shortly to introduce a quota system, which will substantially increase the proportion of regulated emissions.

The EU/EEA stand out in this respect because it has adopted an overarching goal of reducing greenhouse gas emissions by at least 40 per cent by 2030 compared with 2005 levels. In 2018, a scheme was approved for a reduction in the quota surplus that has built up. As a result, quota prices have more than trebled in the past year to approx. EUR 15 per quota (tonne carbon equivalent). According to an analysis performed by Carbon Tracker, in 2020–2021 the quota price will increase further to reach a level (EUR 25–30) that will eventually make coal-fired electricity uncompetitive. Such a move is probably necessary if the EU is to reach its goal.² This could argue in favour of companies regulated by this or similar systems not being excluded from the GPFG under the climate criterion.

On the other hand, there are no established norms against which companies subject to different regulatory regimes can be measured in order to ensure they are treated equally. It is difficult for the Council to conclude that companies with high emissions and a high emission intensity in some regulatory regimes are acceptable, while identical companies with equally large emissions in other regulatory regimes are not. According to our mandate, we must identify companies whose behaviour is grossly unethical. In other words, the basis for exclusion is that the company can be blamed for its behaviour. In our opinion, there is a risk of moving away from this fundamental principle in such cases.

1 State and Trends of Carbon Pricing 2018, World Bank, May 2018.

2 <https://www.carbontracker.org/reports/carbon-clampdown/>

It has been a fundamental principle of the UN's efforts to combat climate change that emission reductions must not be divided equally between countries.³ By means of the Paris Agreement, which every nation in the world has signed, countries report in the goals that they themselves have determined and by which they are then bound. Since it has been decided that countries shall base their goals on their individual circumstances, it is not possible to extract one country's goals and plans and assess whether they are sufficiently ambitious with respect to the Paris Agreement's target. Goals are normally set for the year 2030. Every five years, countries are supposed to determine and report in updated plans with more ambitious goals. The sum of the national goals reported in to date falls far short of the Paris Agreement's global target.

The Council would like to point out that Report No. 21 to the Storting (2014–2015), in which the climate criterion was proposed and discussed, was issued before the Paris Agreement had been negotiated. The differences between countries' obligations under the Paris Agreement and Kyoto Protocol are significant. The Kyoto Protocol required a small number of countries to achieve specific emission reduction targets, while no such demands were made of other nations. Under the Paris Agreement, which will in practice replace the Kyoto Protocol, almost every country has set targets for themselves. These targets will often be tailored to the measures the individual country finds acceptable and necessary.

It is not possible for the Council on Ethics to make independent assessments of various goals and regulatory regimes. However, it is the Paris Agreement's intention that, in the longer term, both the overall level of ambition and the individual countries' measures will be reviewed and followed up. In 2018, the parties to the Paris Agreement will sum up their efforts to establish goals and measures. Then, every fifth year from 2023, the UN will carry out a 'global stocktake' and assess the world's collective progress.⁴ The Paris Agreement presumes that countries' performance will be the subject of an international review.⁵ Nevertheless, it remains uncertain whether these assessments can be used as a basis for judging companies' emissions, since the Paris Agreement does not contain obligations at the industry or company level.

Following an overall assessment, therefore, the Council on Ethics has concluded that it is difficult, at this time, to attach decisive importance to whether a company is encompassed by an emission trading system or other emission regulation mechanisms.

In the absence of company-specific requirements for greenhouse gas emission reductions, the Council has taken the position that all companies with substantial emissions have a particular ethical duty to help reach the target of keeping the global temperature rise well below 2 °C. At the same time, we have concluded that if the level of emissions is unacceptable at the outset, it must be decreased by more than the average for the industry as a whole. If not, the company's decrease in emissions will fail to bring its level closer to the industry average.

In its letter, Norges Bank points out that Report No. 21 to the Storting (2014–2015) mentions companies' active opposition to international agreements as a telling factor. Lobbying is often part of a democratic process, but the extent to which such activities are conducted out in the open differs from country to country. Several NGOs monitor companies' statements, policies and funding of lobbying campaigns relating to climate change to highlight the various companies' lobbying activities. However, they focus almost entirely on major western corporations. Although the information available on such activities is inconsistent, the Council will count it in a company's disfavour if its lobbying is found to demonstrate a fundamentally critical or negative attitude to national and international efforts to reduce climate change, if it systematically withholds key information or deliberately makes statements it knows to be untrue.

3 See, for example, Article 4(3) of the Paris Agreement.

4 Art. 14, Paris Agreement.

5 See, for example, Articles 13 and 15 of the Paris Agreement.

In its letter, Norges Bank addresses the way companies organise their efforts relating to climate change and their reporting of greenhouse gas emissions. With respect to all the behaviour-related criteria, a company's refusal to supply information or failure to supply adequate information will normally cause the Council to consider the future risk attached thereto to be higher than if plenty of information was provided. Many companies share necessary information with us. Initiatives such as the Task Force on Climate Related Financial Disclosures could lead to improved information sharing and take the lead with proposals for standardising such disclosures. However, the primary focus for their efforts is the impact of climate change on the companies themselves, and only to a lesser extent on the companies' impact on the climate.

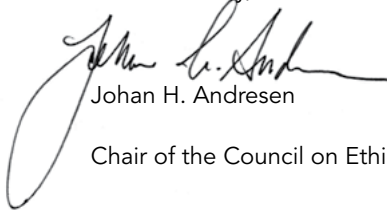
There are also other factors which give an indication about companies' efforts relating to the challenge of climate change. These include participation in sector-wide benchmarking and investments in technology development, or participation in publicly accessible reporting systems, such as CDP. Nevertheless, it will only be in marginal cases that such factors could cause a company that has a fundamentally unacceptable emission level to be considered acceptable.

In the Council's opinion, the primary basis for assessment must be the companies' emission levels, if the climate criterion is to have any practical consequences in the form of exclusion.

It is probable that companies' freedom of action with respect to greenhouse gas emissions will be reduced as international agreements and national regulations are gradually tightened up. The tightening up of the EU's emission trading system, such that fewer quotas will be available after 2020, and China's imminent establishment of a functioning emission regulation system, are recent examples. This could also have consequences for the Council on Ethics' assessments.

The Council is pleased to have this opportunity to explain our assessments and would like to invite Norges Bank to a meeting for a further exchange of views on this important issue.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Johan H. Andresen', with a large, sweeping flourish extending from the bottom left of the signature.

Johan H. Andresen

Chair of the Council on Ethics

Follow-up of the report on The Government Pension Fund 2018

Reference is made to the Ministry's letter concerning the above, dated 28 June 2018. In connection with its deliberations on Meld. St. 13 (2017–2018) The Government Pension Fund 2018, the Standing Committee on Finance and Economic Affairs has, in its Recommendation 370 S (2017–2018), raised various issues relating to the work of the Council on Ethics and the ethical guidelines. The Council on Ethics' response follows below. The Council would initially like to remark that the various aspects of the GPFG's management must be seen in relation to each other. If any changes are to be made in the Guidelines for Observation and Exclusion, they should come as a result of a more thorough evaluation.

Otherwise, the Council on Ethics notes that its proposed amendment to the regulations in connection with the GDPR is still under consideration by the Ministry of Finance. The outcome of the Ministry's deliberations will have a particular impact on the Council's ongoing and future investigations under the corruption criterion.

1. The Council on Ethics' activities with respect to the human rights criterion

In its Recommendation 370 S (2017–2018), the Standing Committee on Finance and Economic Affairs states: "When the GPFG's benchmark index is extended to include countries where there are grounds for concern about the human rights situation in general, it is important that the Guidelines for Observation and Exclusion be reviewed and operationalised to make them sufficiently robust in relation to the challenges in these markets." On this basis, the Ministry has asked the Council on Ethics to give an account of its activities with respect to the human rights criterion.

As the Council on Ethics pointed out in its 2017 annual report, the world is becoming more open and accessible to the GPFG as an investor. This also has an impact on the Council's role as investigator, analyst and advisor. When the Council was established, the GPFG was invested in 27 developed markets and around 3,000 companies. Now the GPFG is invested in over 9,000 companies listed in more than 70 countries. As a result, the GPFG is invested in more companies with operations in countries where the ethical risk is high. Even though many actors are making great efforts to uncover problematic issues relating to companies worldwide, their work is hampered by a lack of transparency in many countries.

Companies may have activities anywhere in the world, irrespective of the country on whose stock exchange they are listed or where their head office is located. The challenges posed by countries with a high risk of human rights violations are therefore not new. However, they can intensify when such countries are included in the reference index and more companies from these countries are included in the GPFG's portfolio.

In the following, the Council on Ethics will give an account of today's situation with respect to operationalising the human rights criterion. Furthermore, it will discuss some issues that could pose a challenge for the Council's activities, should more countries with a high risk of human rights violations be included in the reference index.

1.1 Operationalisation

The Council on Ethics' interpretation of the human rights criterion

According to section 3(a) of the Guidelines for Observation and Exclusion from the GPF, a company may be placed under observation or excluded from investment if there is an unacceptable risk that the company contributes to or is itself responsible for serious or systematic human rights violations, such as murder, torture, kidnapping, forced labour or the worst forms of child labour. The decision is taken by Norges Bank on advice from the Council on Ethics. The assessment must be forward looking. In other words, there must be an unacceptable risk of future norm violations before the Council on Ethics can advise that a company be excluded or placed under observation.

The human rights criterion encompasses highly disparate categories of norm violation, ranging from murder and torture to poor working conditions and infringements of the right to join a trade union or freedom of expression. In assessing whether a violation has taken place, the Council relies on internationally recognised conventions and authoritative interpretations thereof. In addition, the Council makes use of guidelines issued by UN bodies, the OECD, the World Bank, etc. In its operationalisation of the various categories under the human rights criterion, the Council strives to ensure its approach is consistent, predictable and based on principle.

The threshold for exclusion is high, with only qualified human rights violations being taken into account. The wording of the guidelines means that human rights violations qualify for exclusion or observation if they are "serious" or "systematic". Serious violations relate particularly to infringements of physical integrity – torture, murder, kidnapping, the worst forms of child labour, forced labour, etc.

That human rights violations are systematic implies that they occur on a considerable scale. This can mean that the norm violations are numerous, that different types of rights are violated, or that violations occur in more than one of the company's units. That human rights violations are systematic also implies that they do not appear to be isolated incidents, but amount to a pattern of behaviour. In its practising of the guidelines, the Council has taken the position that if human rights violations are serious, a few incidents may suffice for a company to be excluded from the GPF. Equally, violations which are not individually serious, may qualify for exclusion if they occur systematically.

It follows from the guidelines that there must be a clear link between a company's operations and the norm violations that may form the basis for exclusion from the GPF. The Council on Ethics takes the position that the threshold for exclusion is lower for norm violations which a company is directly responsible for than for those to which the company contributes, but where direct responsibility lies with public authorities or business partners. If there is a risk of serious human rights violations, e.g forced labour or the worst forms of child labour, the Council on Ethics takes the position that companies may, in principle, be held accountable for any such violations that take place in its supply chain. Companies' liability as contributors is assessed on a case by case basis. The Council attaches weight to the company's proximity to and knowledge of the norm violations and the measures it implements to prevent their occurrence.

From a legal point of view, it is states not companies that are bound by international human rights conventions. However, the Council on Ethics takes no position on the extent to which the state is responsible for any human rights violations in specific cases. Rather, the Council assesses whether the company concerned behaves in a way that contributes to the violation of internationally recognised human rights. This applies irrespective of whether the state where the violations take place has ratified the conventions against which the violations are assessed.

Even though the criterion applies to an “unacceptable risk” of human rights violations, the Council on Ethics has interpreted it so that an overall risk assessment is inadequate. Recommendations to exclude must be based on a documented risk linked to a tangible situation and to a company’s actions or lack thereof. In some cases, the Council on Ethics has nevertheless deemed the risk of human rights violations to be so great and so well documented that it has recommended the exclusion of all companies engaged in a certain type of operation. This previously applied to infrastructure investments in Myanmar, and currently applies to the use of North Korean labour and the breakup of ships on the beaches of Bangladesh and Pakistan.

How the Council on Ethics works

The Council on Ethics assesses those cases that are identified through portfolio monitoring, information from external sources and systematic reviews of areas with a high ethical risk. The Council has commissioned a firm of consultants to monitor the news. This firm makes daily searches among news sources in several languages for relevant reports on companies in the portfolio. The Council receives reports from the consultants every second month, and investigates those companies where the risk of future norm violations is high. When selecting cases to pursue, the Council attaches importance to the seriousness and scope of the norm violation, its consequences, the company’s responsibility for or contribution to the matter in question, what the company has done to prevent or ameliorate the harm caused, and the risk of similar events happening again in the future.

Based on the risk of human rights violations, the Council also commissions special investigations into selected companies and business sectors. Reviews of areas with a high ethical risk are generally conducted in accordance with a long-term plan. When the Council has selected an area for review, it generally continues to monitor it over several years. For example, the Council has followed up seed producers in India since 2005 and textiles producers in some Southeast Asian countries since 2015.

The Council on Ethics obtains information from research environments, as well as international, regional and national organisations. It often commissions external consultants to investigate indications that the guidelines have been violated. Furthermore, the companies in the portfolio are themselves important sources of information. The Council frequently engages in an extensive dialogue with the companies concerned during the assessment process. In accordance with the guidelines, this dialogue is also coordinated with Norges Bank.

Indications that companies in the fund are contributing to serious human rights violations will, in principle, be treated the same irrespective of country or business sector. The Council will always try to investigate the situation. However, access to information from the media, civil society, the judicial system and the companies themselves may be significantly less abundant or reliable in some countries than in others. This applies, for example, to states with authoritarian regimes or those involved in conflicts of various kinds. It also applies to certain business sectors, such as the defence industry or high-tech industries. In such situations, it can be difficult for the Council to obtain sufficiently reliable or neutral sources to enable it to prove or substantiate norm violations or other facts.

In the majority of cases, the Council on Ethics must commission its own investigations to substantiate the risk of norm violations. At the same time, its ability to perform such investigations may be limited by factors relating to capacity, security or legal issues. The Council on Ethics selects business sectors and companies on the basis of a risk assessment. The scale of its investigations is nevertheless limited in relation to the number of companies in the portfolio.

The Council on Ethics aims to perform an evaluation of its activities under the human rights criterion in 2019. External consultants will be commissioned to review what the Council has done to date, how consistently it has practised the criterion, its use of information sources and other factors linked to its operationalisation of the criterion. The consultants will also make recommendations about areas of operation or matters to which the Council should pay greater attention.

1.2 Challenges posed by the expansion of the benchmark index

The Norwegian Ministry of Finance determines the GPFG's benchmark index, which builds on indices put together by international index providers. The benchmark index for shares includes companies from every country apart from Norway that the index provider has classified as a developed market, advanced emerging market or secondary emerging market. Norges Bank's mandate affords little room to deviate from the benchmark index.

New countries are included in the index following an assessment by the index provider. The Council on Ethics presumes that the index providers do not make a specific assessment of the risk that companies may be linked to human rights violations when markets are classified and included in an index, but restrict themselves to criteria relating to well-functioning financial markets. In the Council's experience, there need not be any connection between a well-functioning financial market and a well-functioning state in which the rule of law and citizens' rights are upheld.

The GPFG may invest in markets outside the benchmark index with the explicit consent of Norges Bank. As far as the Council is aware, this assessment is also based on the characteristics of the financial market.

The Council on Ethics does not assess companies prior to investment by the GPFG. Its activities concentrate on the companies that are already in the fund's portfolio. This follows from Section 5 of the Guidelines for Observation and Exclusion from the GPFG, according to which the Council is to monitor the fund's portfolio, i.e. only those companies in which the GPFG has actually invested.

In practice, the effectiveness of the Council's portfolio monitoring is largely dependent on its access to information about the companies in the fund. In the Council's experience, much less information is available from more opaque and repressive countries, where the human rights situation is also a cause for general concern. There are few local sources available, and they tend to be less critical in their reporting. In countries which do not protect human rights, there are often few NGOs, functioning media or independent academic institutions, or none at all. In some situations, it must also be presumed that the problem is not merely whether information about human rights violations can be obtained, but whether it exists at all.

For large international companies which operate in countries with a high degree of government control and a low tolerance for criticism of government authorities, the Council generally has access to some information from international NGO networks and western media that track the corporate majors. These are mostly western companies. What goes on in companies that both operate and are domiciled in more authoritarian states is subject to significantly less scrutiny. The combination of a more government-friendly press, the lack of independent NGOs and, to varying degrees, a co-opted legal system will result in the Council having limited access to the type of information needed to establish the facts of a case.

For example, the GPFG has invested in companies domiciled in Saudi Arabia since 2015, when the index provider gave notice that the market was in the process of meeting the requirements for classification as a so-called secondary emerging market. The Council on Ethics' news-based portfolio surveillance is, in principle, meant to cover every company in every country. In the past three years, however, the Council has not seen any cases linked to Saudi companies in the Saudi news sources included in its portfolio surveillance efforts.

Differences in access to information could lead to western and local companies being treated differently. In practice the Council may continue recommending the exclusion of foreign companies operating in a country, while lacking sufficient information to enable it to recommend the exclusion of local companies for equivalent actions or offences. Two companies that both contribute to the same human rights violations may be treated differently by the Council on Ethics as a result of differences in access to information.

Another issue relates to how consistently the Council practices the human rights criterion. In principle, the Council makes no distinction between countries with regard to human rights standards, even though it is obvious that the risk of human rights violations varies significantly from country to country. The Council takes the view that the risk of norm violations affects the extent of due diligence that must be expected of a company. If a company operates in a business sector in which the risk of human rights violations is high (e.g. security companies) or in countries with a greater risk of contributing to human rights violations (e.g. the labour market in Gulf states), the Council attaches importance to the particular precautions a company takes to reduce the risk of norm violations. Here the Council looks at what similar companies are doing, i.e. what is possible, practical and usual on the part of corresponding companies in corresponding countries to avoid or reduce the risk of contributing to human rights violations. The Council's focus is trained on the companies, but the backdrop is nevertheless the practices that a country's authorities facilitate.

In some countries, companies' ability to protect human rights will be limited. Certain states are bound by other norms under international human rights conventions. This applies to Saudi Arabia, for example, which has been a so-called "persistent objector" since 1948 with respect to women's rights. In Saudi Arabia, women cannot apply for a passport, visit a foreign country or open a bank account without the consent of a male relative. Companies can therefore become involved in violations of women's rights at the same time as they comply with local laws. This must be considered foreseeable by both companies and investors operating in countries with a different set of norms. This constitutes a dilemma for the Council, with two potential outcomes:

1. The Council on Ethics could apply the human rights criterion in the same way as in other assessments, and recommend the exclusion of companies based on their violation of international norms. In such a case, a recommendation to exclude could be perceived as criticism of the government of that country, since companies cannot do otherwise than comply with the law of the land.
2. The Council on Ethics could deviate from previous practice, and assess only those conditions that a company is itself capable of influencing (beyond pulling out of the country altogether). In practice, this would lead to the application of a double standard, which could, in turn, be perceived as legitimising conditions which in other circumstances would have led to a recommendation to exclude. This would have an unfortunate impact on confidence in the Council's integrity, both at home and abroad.

In some cases, the Council on Ethics may conclude that operations within a certain business sector in a certain country constitutes per se such a risk as to warrant exclusion, because it is impossible to envisage the companies involved behaving in any other way. The Council does not perceive it to be part of its mandate to advise that every listed company in specific countries be excluded from the GPF. The present regulations require the Council on Ethics' to perform an ethical risk assessment – resulting in a recommendation to observe or exclude a specific company – after an investment has been made. It would therefore not be possible for the Council to make any statement in advance about which countries/sectors this might apply to.

Summary

Changes in the GPF's investment strategy cause it to enter more and more new markets. Some markets are more challenging for the Council on Ethics to address than others. This is largely due to a lack of access to information and the companies' latitude in states subject to tight government control, particularly for companies domiciled in such states. Furthermore, certain types of recommendation relating to human rights violations may be perceived as implicit criticism of a country's governing institutions.

The Council addresses these challenges by attempting to identify risk in the portfolio and selecting those companies and issues where it is most likely to find companies that should be excluded from the GPF.

As the presentation above demonstrates, new markets will nevertheless challenge the Council's application of the human rights criterion set out in the Guidelines for Observation and Exclusion from the GPFG.

If the means available to Norges Bank and the Council on Ethics are insufficient to manage the ethical risk in particularly exposed countries, it could be called into question if the requirements for responsible management are met. An alternative would be to provide for a greater degree of ethical risk assessment before new markets are included. The Council sees the need for these issues to be examined in more detail, and is therefore pleased that the Ministry of Finance, in its letter of 6 November 2018, has asked Norges Bank to assess the benchmark index for equities.

2. Ethics watchdog for the Government Pension Fund Norway (GPFN)

The Ministry of Finance has asked the Council on Ethics to assess what would constitute an appropriate organisation of an ethics watchdog for the GPFN. It appears from the Finance Committee's recommendation that the Council on Ethics for the GPFG could also perform the same function for the GPFN. The Finance Committee considers that the establishment of an ethics watchdog for the GPFN would be positive for the GPFN's activities relating to ethics and social responsibility, and the reputation of the GPFN's ethics-related activities. It has been argued that exempting Norwegian companies from being "looked into" by an ethics watchdog constitutes an unfortunate signal.

2.1 Matters relating to the management of the GPFG and the GPFN with a bearing on the Council on Ethics' assessment

The framework for management of the GPFN is set out in guidelines determined by the Ministry of Finance and approved by the Norwegian Storting (parliament). Within the responsible management of the GPFG, exclusion is considered as a measure of last resort. The preferred choice is exercise of ownership rights. Exclusion only becomes relevant when the behaviour is so grossly unethical that it falls within the scope of the Guidelines for Observation and Exclusion from the GPFG, and the company refuses to change course. It is not part of the Council on Ethics' mandate to exercise ownership rights or engage in general efforts to affect companies' ethical performance. Nor does the Council give advice in this area.

While the GPFG is invested in a very large number of companies in many countries, the GPFN is invested in around 430 companies in 4 countries. 85 per cent of the GPFN's investments are in Norwegian companies, while 15 per cent are in Nordic companies. At the close of the year, the GPFN owned shares in 56 Norwegian companies, 19 Danish companies, 18 Finnish companies and 47 Swedish companies – a total of 140 companies. The GPFN is a significant shareholder and lender in the Norwegian capital market. The Norwegian share portfolio accounted for around 10 per cent of the market value of the Oslo Stock Exchange's main index at the close of 2016, while the interest portfolio accounted for around 3 per cent of the bond and certificate market. The GPFN typically owns 4–8 per cent of the Norwegian companies in which it is invested, with an upper limit of 15 per cent. Its shareholding in Nordic companies is less than 1 per cent. The Norwegian state has direct shareholdings in several of the Norwegian companies in which the GPFN is invested. The Ministry of Trade, Industry and Fisheries follows up the state's shareholdings.

According to the GPFN's investment strategy, the fund's unique characteristics, such as its size and long-term perspective, distinguish it from many other investors in the Norwegian market. The fund's relative size in the Norwegian capital market makes it difficult to quickly change the composition of the portfolio. The market is otherwise characterised by several companies' low tradability. The GPFN points out that this increases the difficulty of making major portfolio adjustments.

The GPFN's mandate states that companies excluded from the GPFG are also excluded from the GPFN's Nordic portfolio. A comparison of the GPFN's Nordic portfolio with the GPFG's shows that practically all of the companies are "covered" by the Council on Ethics for the GPFG. However, there is little overlap with respect to bond investments. According to the GPFN's investment strategy, bond investments are made only after considerable efforts have been made with respect to environment, social and governance

(ESG) analyses and dialogue with the companies concerned. No ownership rights follow from interest securities, so an investor's best opportunity for influence comes before an investment is made.

2.2 Assessment of a possible ethics watchdog for the GPFN

The Council on Ethics does not consider the creation of an independent ethics watchdog for the GPFN to be expedient for several reasons. The Council is an advisory body, while Norges Bank makes the actual decisions to observe or exclude companies from the GPFG. It is not given that the GPFG and the GPFN would make the same decision based on identical recommendations from the Council on Ethics.

Management of the Norwegian state's direct ownership of individual companies must also be considered if an ethics watchdog is to be created for the GPFN. It would be rather inconsistent for the GPFN to dispose of its shares in a company on the recommendation of an ethics watchdog, while the Norwegian state holds shares directly in the same company.

The GPFN's portfolio is small and transparent compared with that of the GPFG. The GPFN is also closer to the market and the companies in which it invests than is the case for the GPFG. The two funds are materially different. The GPFG invests in a very large number of companies distributed worldwide (except Norway), while the GPFN has 85 per cent of its investments in Norway and the rest in Denmark, Sweden and Finland. It seems reasonable to assume that the GPFN will generally be more able to exercise ownership rights over the companies in whose shares it is invested than the GPFG can. With a small portfolio, it is also easier to maintain an overview of all the companies it contains.

Although the GPFG, in its role as shareholder, is able to engage in a dialogue with some of the companies the Council on Ethics investigates with respect to the environment, corruption and human rights, for example, there will not be any such overlap in the majority of cases. In those cases where Norges Bank or the Council focus on the same issues and companies, the division of labour must be clarified. Where Norges Bank has a good dialogue with a company, the Council will often hold back, given that the exercise of ownership rights is the preferred approach according to the preparatory works to the guidelines for responsible investment management.

For the GPFN, it is probable that the majority of companies an ethics watchdog would assess, would also be picked up by the GPFN's shareholder dialogue. It is therefore unlikely that the work of an independent ethics watchdog would have any particular impact, given that the fund must be assumed to have a significant influence over the companies in which it invests and that it also has the capacity to handle the majority of companies through the exercise of ownership rights.

Due to limitations on its capacity, the Council on Ethics does not investigate every company against which allegations of ethical norm violations are made. The Council performs a risk assessment and prioritises those cases which seem particularly serious, as well as business sectors and countries where the risk seems particularly high. In light of the high threshold for exclusion and the restrictions on its capacity that already exist, it seems inexpedient to allocate resources to an analysis of Norwegian companies. Most Nordic share investments are already encompassed by the Council on Ethics' activities, due to the coincidence between the GPFG and the GPFN's portfolios.

The Council has difficulty envisaging what role an ethics watchdog for the GPFN could play that is not already taken care of by the GPFN as an active owner or through the Norwegian authorities' enforcement of statutory provisions. If the establishment of an ethics watchdog for the GPFN is nevertheless desired, the Council on Ethics recommends that this function only performs such assessments at the behest of the GPFN. This would enable companies not susceptible to the exercise of ownership rights on the part of the fund and which the fund does not wish to sell for financial reasons, to be passed on to this watchdog. To avoid duplication of effort, the GPFN should, in that case, also pass on any information it may have collected in the course of its foregoing shareholder dialogue. The Council on Ethics for the GPFG could potentially undertake to perform such a task if sufficient resources were made available.

3. Exclusion of gambling companies

In its Request for Action No. 693, the Norwegian Storting asked the government "to report on the basis by which the Government Pension Fund Global (GPF) may pull its investments out of gambling companies, with a view to an assessment in connection with the annual report" on the management of the GPF. In this connection, the Council on Ethics has been asked to "assess whether there may be conditions relating to such companies that could be encompassed by applicable criteria in the Guidelines for Observation and Exclusion from the GPF."

While companies must be excluded from the GPF if they produce certain clearly defined products, companies may be excluded or placed under observation if there is an unacceptable risk that they contribute to or are responsible for certain, clearly specified norm violations. The product criteria now apply to certain types of weapon, tobacco, coal and coal-based energy production, as well as the sale of weapons to certain states. Gambling is therefore not included in the product criteria.

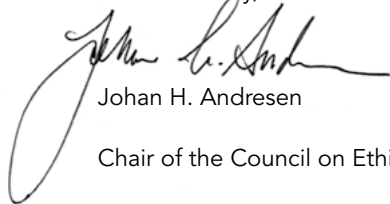
The behaviour-based criteria currently encompass serious or systematic human rights violations, serious violation of individual's rights in war or conflict situations, serious environmental damage, acts or omissions which, to an unacceptable degree, lead to greenhouse gas emissions, gross corruption and other serious violations of fundamental ethical norms. The threshold for exclusion is intentionally high, as expressed in the public report NOU 2003:22, which formed the basis for the proposal for ethical guidelines and which still informs the efforts relating to observation and exclusion. "Only the most serious violations of these norms should form the basis for exclusion. In other words, not all violations of the law that a company is alleged to have committed or contributed to are relevant to the assessment of whether the GPF should exclude it."

Based on the risk of norm violations and news reports identified through its portfolio monitoring programme, the Council on Ethics selects certain companies that are investigated and assessed in relation to the behaviour-based criteria. These criteria provide no basis for exclusion solely because a company offers gambling games, but gambling companies are assessed against the behaviour-based criteria in the same way as other companies.

If one wishes to exclude companies because they offer gambling games, the most effective method would be to establish a product criterion. Such a criterion could, however, lead to the exclusion of many companies from the GPF. Today, 69 of the companies in which the GPF is invested are indexed as gambling companies. These generate 50–100 per cent of their revenues from gambling activities. If one were to lower the threshold and include all the companies that derive any revenue (1–5 per cent) from gambling, the list would become extremely long and wide-ranging. They would include airlines, broadcasters, cruise ship operators, telecoms companies, restaurant chains, supermarkets, etc.

The Council on Ethics considers that any changes in the guidelines should come as a result of a more thorough assessment.

Yours sincerely,



Johan H. Andresen

Chair of the Council on Ethics

Periodic evaluation of how the responsible management efforts are organised

We refer to the Ministry of Finance's letter of 5 November 2018, in which it asks the Council on Ethics to give an account of the division of labour between it and Norges Bank, including how the two organisations share information and collaborate.

More specifically, the Ministry requests:

- An account of what is being done to achieve a shared understanding of the criteria set out in the guidelines,
- A review of what is being done to ensure uniform communications with companies,
- An assessment of how the organisation of the responsible management efforts contributes to achieving the objective of clearer lines of responsibility, better interaction between the Council on Ethics and Norges Bank, and a coherent use of measures to promote responsible management.

In 2014, the Norwegian Storting elected to retain the Council on Ethics as an independent body, i.e. an arrangement whereby exclusion on ethical grounds is assessed independently of other considerations, and that such assessments are made public. Nevertheless, efforts must be made to ensure good coordination of the measures employed to promote responsible management.

Relations between Norges Bank and the Council on Ethics are good. In addition to the scheduled quarterly meetings at the administrative level and annual meetings between the Executive Board/Ownership Committee and the Council on Ethics, we have many points of contact through the year. In 2018, we held meetings on the topics: climate change, deforestation, corruption, unlawful fishing and formula milk. We also held a meeting on our plans for next year. Moreover, Norges Bank attended a seminar that the Council organised on the production of nuclear weapons, while the Council attended seminars on capital management organised by the Bank. In addition, we have shared some minutes from meetings we have had with companies. With respect to some companies, we have established a division of labour to avoid both the Council and NBIM contacting the same company about the same issue. If the NBIM learns of corporate actions that could be of significance for excluded companies, this information is communicated to the Council on Ethics. Norges Bank also forwards external enquiries it receives about companies whose practices could result in exclusion under the Guidelines for Observation and Exclusion to the Council on Ethics.

A shared understanding of the criteria in the guidelines

Our understanding of the criteria in the guidelines is based on references thereto in reports to the Storting, etc. It has been further developed through the criteria's practical application, in that the Council issues a recommendation in which the facts, norms in question and assessments are discussed in detail, while Norges Bank makes the final decision. The Council can attach weight to Norges Bank's previous decisions in its assessment of similar new cases.

Since decision-making powers were transferred to Norges Bank, decisions relating to the observation and exclusion of 32 companies on the recommendation of the Council on Ethics have been published. In 25 cases, Norges Bank has followed the Council's advice. In three cases, the Bank elected to exercise ownership rights, where the Council had recommended observation. In four cases, Norges Bank decided to place companies under observation, where the Council had recommended exclusion. The Council has also issued seven recommendations relating to observation or exclusion on which Norges Bank has not

yet published a decision. Thus, in general, Norges Bank accepts the Council on Ethics' understanding of the guidelines as the basis for its decisions.

After receiving the Council on Ethics' recommendation to exclude, Norges Bank has, in some cases, asked for more extensive information. This occurred in 2016 when the Council had recommended the exclusion of several companies that manufacture components for nuclear weapons. In a letter dated 18 October 2016, Norges Bank asked the Council for further details on the operationalisation of the weapons criterion as applied to nuclear weapons. The Council issued such an account in its letter of 23 November 2016. At the same time, it pointed out that the preparatory works do not provide comprehensive instructions for how the exclusion criterion should be operationalised with respect to nuclear weapons producers. This applies not only to which products should be considered key components of such weapons but also to the types of operations that must be considered production. Following a meeting with Norges Bank, the Council decided to commission a group of external consultants to evaluate the work under this criterion. After the evaluation was completed, the Council maintained its interpretation of the criterion and Norges Bank accepted the recommendations previously issued.

With respect to the climate criterion, too, the Council on Ethics and Norges Bank have differed in their interpretations. After the Council had issued several recommendations under the climate criterion in 2017 and 2018, Norges Bank requested, in a letter dated 2 May 2018, an extended assessment of the principles that should underpin application of the climate criterion. The Council explained its views in its letter of 12 June 2018. Norges Bank and the Council on Ethics have also held several meetings during which the climate criterion has been discussed, both before and after this correspondence. In a letter dated 7 November 2018 to the Ministry of Finance, Norges Bank asked for further clarification of certain aspects of the climate criterion's application.

Section 6.2 of the Guidelines for Observation and Exclusion state that Norges Bank shall make an independent assessment that may include both matters which the Council on Ethics has considered and other matters. In a situation where Norges Bank and the Council do not share the same understanding of the criterion, Norges Bank will have to decide not to accept the Council's recommendation or ask the Ministry of Finance to clarify how the criterion must be interpreted. This is what the bank has now done in relation to the climate criterion.

Uniform communication with companies

When the Council on Ethics is about to contact a company for the first time, it asks whether the NBIM wishes to coordinate contacts with that company. Coordination of company contacts is established in a shared written routine that is updated as required.

In its letters to companies that are being assessed, the Council gives an account of its role as independent advisor to Norges Bank, and states that Norges Bank is owner of the securities and makes decisions regarding observation and exclusion. There should therefore be no room for misunderstanding about who does what.

In most cases, there will be no overlap between the Council on Ethics and Norges Bank's contacts with companies. However, in some cases the bank and the Council may raise the same issues with the same companies. Norges Bank has a complete overview of the contacts the Council has with companies and can ask for information, such as copies of letters and the minutes of meetings. This happens rarely. The Council receives regular information about the companies the Bank has met, and which main topics were addressed. It can also ask for further information. This is generally done at the quarterly meetings.

Norges Bank and the Council on Ethics do not express joint expectations to companies, nor do they hold joint meetings with them. The two institutions have different mandates, and this is reflected in the

way they work. Norges Bank expresses expectations and attempts to influence companies to adopt good practices, while the Council on Ethics gathers information to assess the risk that the guidelines may have been violated. Nevertheless, companies may feel that they are subjected to the same degree of pressure through the Council's processes as through the Bank's exercise of ownership rights. The Council asks companies for information early in its assessment processes. Furthermore, companies that are assessed against the conduct-based criteria always receive a draft copy of the Council's recommendation. At that point, they often ask for meetings with the Council, where they outline the initiatives they intend to implement to avoid exclusion. The Council also follows up companies that are under observation, through meetings and annual observation reports. The recommendations issued can also affect other players, and can therefore have a normative effect that transcends the work being done with the individual company.

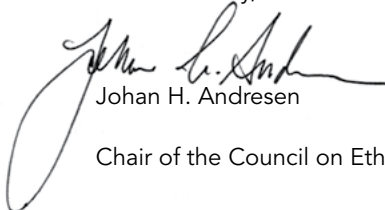
In recent years, a number of guidelines for good business practice have emerged. These include the UN's Guiding Principles on Business and Human Rights, and various corruption prevention guidelines. The Council rests on such recognised principles in its dialogue with companies. The Bank's expectation documents are also based on such guidelines. This reduces the risk that companies may perceive the Council on Ethics and Norges Bank to have different expectations. However, such guidelines do not exist in all areas. Given the two institutions' different mandates and independence from each other, there is no guarantee that companies will perceive complete uniformity in the GPF's combined communications.

Clearer lines of responsibility, better interaction between the Council on Ethics and Norges Bank, and a coherent use of measures to promote responsible management

The Council on Ethics' sole task is to advise Norges Bank on the observation or exclusion of companies, and to assess whether the basis for observation and exclusion still exists. With respect to the coal criterion, responsibility for identifying companies is divided between Norges Bank and the Council on Ethics. However, the bank has assumed the primary responsibility for this. The Council considers that this division of labour is clear and has worked well.

As previously indicated, Norges Bank and the Council on Ethics share information in several ways. The sharing of information and collaboration between the Bank and the Council was very limited before decision-making with respect to observation and exclusion was transferred to the Bank. Interaction between the two is thus much better than before. The Council can, for example, await the outcome of the Bank's exercise of ownership rights, if the Bank and the Council assess a company on the basis of the same factors. Even greater interaction could have been achieved if Norges Bank and the Council on Ethics had coordinated their planning processes and efforts more closely. We also believe that it is possible to exploit the two institutions' combined information more effectively. The Council considers, for example, that when Norges Bank discovers that there may be a risk that a company is violating ethical norms, it could pass that information to the Council without compromising the Council's independence. All in all, however, the Council considers that interaction between the organisations is improving steadily. The Council will strive to ensure that this development continues.

Yours sincerely,



Johan H. Andresen

Chair of the Council on Ethics



Guidelines for observation and exclusion from the GPFG

Guidelines for observation and exclusion from the Government Pension Fund Global

This translation is for informational purposes only. Legal authenticity remains with the original Norwegian version. The Norwegian version, Retningslinjer for observasjon og utelukkelse fra Statens pensjonsfond utland, can be found on lovdata.no. The Guidelines were last updated on 2 November 2018.

Section 1. Scope

(1) These guidelines apply to the work of the Council on Ethics for the Government Pension Fund Global (the Council on Ethics) and Norges Bank (the Bank) on the observation and exclusion of companies from the portfolio of the Government Pension Fund Global (the Fund) in accordance with the criteria in sections 2 and 3.

(2) The guidelines cover investments in the Fund's equity and fixed-income portfolios.

(3) The Council on Ethics makes recommendations to the Bank on the observation and exclusion of companies in the Fund's portfolio in accordance with the criteria in sections 2 and 3, and on the revocation of observation and exclusion decisions; cf. section 5(5) and section 6(6).

(4) The Bank makes decisions on the observation and exclusion of companies in the Fund's portfolio in accordance with the criteria in sections 2 and 3, and on the revocation of observation and exclusion decisions; cf. section 5(5) and section 6(6). The Bank may on its own initiative make decisions on observation and exclusion and on the revocation of such decisions; cf. section 2(2)–(4).

Section 2. Criteria for product-based observation and exclusion of companies

(1) The Fund shall not be invested in companies which themselves or through entities they control:

- a) produce weapons that violate fundamental humanitarian principles through their normal use
- b) produce tobacco
- c) sell weapons or military materiel to states that are subject to investment restrictions on government bonds as described in the management mandate for the Government Pension Fund Global, section 3–1(2)(c).

(2) Observation or exclusion may be decided for mining companies and power producers which themselves or through entities they control derive 30 per cent or more of their income from thermal coal or base 30 per cent or more of their operations on thermal coal.

(3) In assessments pursuant to subsection (2) above, in addition to the company's current share of income or activity from thermal coal, importance shall also be attached to forward-looking assessments, including any plans the company may have that will change the share of its business based on thermal coal and the share of its business based on renewable energy sources.

(4) Recommendations and decisions on exclusion of companies based on subsections (2) and (3) above shall not include green bonds issued by the company in question where such bonds are recognised through inclusion in specific indices for green bonds or are verified by a recognised third party.

Section 3. Criteria for conduct-based observation and exclusion of companies

Companies may be put under observation or be excluded if there is an unacceptable risk that the company contributes to or is responsible for:

- a) serious or systematic human rights violations, such as murder, torture, deprivation of liberty, forced labour and the worst forms of child labour
- b) serious violations of the rights of individuals in situations of war or conflict
- c) severe environmental damage
- d) acts or omissions that on an aggregate company level lead to unacceptable greenhouse gas emissions
- e) gross corruption
- f) other particularly serious violations of fundamental ethical norms.

Section 4. The Council on Ethics

(1) The Council on Ethics consists of five members appointed by the Ministry of Finance (the Ministry) after receiving a nomination from the Bank. The Ministry also appoints a chair and deputy chair after receiving a nomination from the Bank. The Bank's nomination shall be submitted to the Ministry no later than three months prior to the expiry of the appointment period.

Guidelines

(2) The composition of members shall ensure that the Council on Ethics possesses the required expertise to perform its functions as defined in these guidelines.

(3) Members of the Council on Ethics shall be appointed for a period of four years. Upon the initial appointment, the Ministry may adopt transitional provisions.

(4) The Ministry sets the remuneration of the members of the Council on Ethics and the Council on Ethics' budget.

(5) The Council on Ethics has its own secretariat, which administratively is under the Ministry. The Council on Ethics shall ensure that the secretariat has appropriate procedures and routines in place.

(6) The Council on Ethics shall prepare an annual operating plan, which shall be submitted to the Ministry. The operating plan shall describe the priorities set by the Council on Ethics for its work; cf. section 5.

(7) The Council on Ethics shall submit an annual report on its activities to the Ministry. This report shall be submitted no later than three months after the end of each calendar year.

(8) The Council on Ethics shall evaluate its work regularly.

Section 5. The work of the Council on Ethics on recommendations concerning observation and exclusion

(1) The Council on Ethics shall continuously monitor the Fund's portfolio, cf. section 1(2), with the aim of identifying companies that contribute to or are responsible for production or conduct as mentioned in sections 2 and 3.

(2) The Council on Ethics may investigate matters on its own initiative or at the request of the Bank. The Council on Ethics shall develop and publish principles for the selection of companies for closer investigation. The Bank may adopt more detailed requirements relating to these principles.

(3) The Council on Ethics shall be free to gather the information it deems necessary, and shall ensure that each matter is thoroughly investigated before making a recommendation regarding observation, exclusion or revocation of such decisions.

(4) A company that is being considered for observation or exclusion shall be given an opportunity to present information and opinions to the Council on Ethics at an early stage of the process. In this context, the Council on Ethics shall clarify to the company what circumstances may form the basis for observation or exclusion. If the Council on Ethics decides to recommend observation or exclusion according to section 3, its draft recommendation shall be presented to the company for comments; cf. section 7.

(5) The Council on Ethics shall regularly assess whether the basis for observation or exclusion still exists. In light of new information, the Council on Ethics may recommend that the Bank revoke an observation or exclusion decision.

(6) The Council on Ethics shall describe the grounds for its recommendations to the Bank; cf. sections 2 and 3. The Bank may adopt more detailed requirements relating to the form of such recommendations.

(7) The Council on Ethics shall publish its routines for the consideration of possible revocation of an observation or exclusion decision. Excluded companies shall be informed specifically of these routines.

Section 6. Norges Bank

(1) The Bank shall make decisions on observation and exclusion in accordance with the criteria in sections 2 and 3 and on the revocation of such decisions, after receiving recommendations from the Council on Ethics. The Bank may on its own initiative make decisions on observation and exclusion in accordance with section 2(2)-(4) and on the revocation of such decisions.

(2) In assessing whether a company is to be excluded under section 3, the Bank may consider factors such as the probability of future norm violations, the severity and extent of the violations and the connection between the norm violation and the company in which the Fund is invested. The Bank may also consider the breadth of the company's operations and governance, including whether the company is doing what can reasonably be expected to reduce the risk of future norm violations within a reasonable time frame. Relevant factors in these assessments include the company's guidelines for, and work on, safeguarding good corporate governance, the environment and social conditions, and whether the company is making a positive contribution for those who are or have been affected by the company's conduct.

Guidelines

(3) Before making a decision on observation and exclusion in accordance with section 6(1), the Bank shall consider whether other measures, including the exercise of ownership rights, may be more suited to reduce the risk of continued norm violations, or whether such alternative measures may be more appropriate for other reasons. The Bank shall consider the full range of measures at its disposal and apply the measures in a coherent manner.

(4) Observation may be decided when there is doubt as to whether the conditions for exclusion are met or as to future developments, or where observation is deemed appropriate for other reasons.

(5) The Bank shall ensure that sufficient information is available before making a individual observation, exclusion or revocation decision.

(6) The Bank shall regularly assess whether the basis for observation or exclusion still exists

Section 7. Exchange of information and coordination between the Bank and the Council on Ethics

(1) To help ensure the most coherent use of measures possible in the context of promoting responsible management, the Bank and the Council on Ethics shall meet regularly to exchange information and coordinate their work.

(2) Communication with companies shall be coordinated and aim to be perceived as consistent. The Bank shall exercise the Fund's ownership rights. The Bank shall seek to integrate the Council on Ethics' communication with companies into its general company follow-up. The Bank shall have access to the Council on Ethics' communication with companies, and may participate in meetings between the Council on Ethics and companies.

(3) The Council on Ethics may ask the Bank for information on matters concerning individual companies, including how specific companies are dealt with in the context of the exercise of ownership rights. The Bank may request the Council on Ethics to make its assessments of individual companies available.

(4) The Bank and the Council on Ethics shall establish detailed procedures for the exchange of information and coordination to clarify responsibilities and promote productive communication and integration of the work of the Bank and the Council on Ethics.

Section 8. Publication

(1) The Bank shall publish its decisions pursuant to these guidelines. Such public disclosure shall be in accordance with the management mandate for the Fund, section 6–2(4). When the Bank publishes its decisions, the Council on Ethics shall publish its recommendations. When the Bank on its own initiative makes decisions in accordance with section 6(1), the grounds for the decision shall be included in the publication.

(2) The Bank shall maintain a public list of companies excluded from the Fund or placed under observation pursuant to these guidelines.

Section 9. Meetings with the Ministry of Finance

(1) The Ministry, the Bank and the Council on Ethics shall meet at least once a year. The information exchanged at such meetings shall be part of the basis for the reporting on responsible management included in the annual report to the Storting (the Norwegian parliament) on the management of the Fund.

(2) The Ministry and the Council on Ethics shall meet at least once a year. The following matters shall be discussed at the meetings

a) activities in the preceding year

b) other matters reported by the Ministry and the Council on Ethics for further consideration.

Section 10. Power of amendment

The Ministry may supplement or amend these guidelines.







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