

## UNOFFICIAL ENGLISH TRANSLATION

### To the Ministry of Finance

June 10<sup>th</sup>, 2008

## **Regarding recommendation to exclude the company Monsanto Co from the investment universe of the Government Pension Fund – Global**

The Council on Ethics refers to the letter from the Ministry of Finance dated April 11<sup>th</sup> this year requesting the presentation of any new information in the case under consideration.

### **Background**

On the November 20<sup>th</sup> 2006, the Council on Ethics submitted a recommendation to the Ministry of Finance proposing the exclusion of the company Monsanto Co. (“Monsanto”) from the investment universe of the Government Pension Fund – Global. The recommendation was based on surveys commissioned by the Council on Ethics which look into the occurrence of child labour in hybrid cotton seed production for Monsanto in India. The draft recommendation was presented to Monsanto before being submitted.

The Ministry of Finance deemed it opportune to attempt the exercise of ownership rights during a limited period of time in order to see if this would reduce the risk of the Fund contributing to serious violations.

After submitting the recommendation, the Council on Ethics has carried out further surveys with a view to mapping the occurrences of child labour in Monsanto-related seed production.

The Council on Ethics’ assessment refers to the risk of the company’s complicity in violations and is not necessarily limited to the company’s legal entities, but may also apply to the conditions at the company’s suppliers, licensees and others over whose operations the company must be considered to wield influence.

In the following, an account is given of the surveys carried out in the period after the recommendation was presented, as well as the Council on Ethics’ evaluation of whether investments in Monsanto still implies an unacceptable risk of the Fund contributing to serious violations.

The Council on Ethics bases its assessment on three sources of information regarding the occurrence of child labour in Monsanto-related seed production in India:

- In 2006, 2007, and 2008 the Council on Ethics commissioned surveys on the occurrence of child labour in Monsanto-related hybrid cotton seed production in the Indian states of Andhra Pradesh, Tamil Nadu, Gujarat, and Karnataka. Similar surveys have also been carried out on hybrid vegetable seed production for Monsanto in Karnataka state.
- In November 2007, the Council on Ethics' Secretariat undertook visits in the Indian states of Andhra Pradesh, Tamil Nadu, and Karnataka in order to form an impression of the production conditions. Visits were made to Monsanto-related farms that produce hybrid cotton and vegetable seeds.
- The Council on Ethics also bases its assessment on a survey commissioned by a Dutch NGO<sup>1</sup>.

On the whole, hybrid vegetable seed production is organised in the same way as hybrid cotton seed production, but the actual cultivation process is different. The work with hybrid vegetable seed may be more labour intensive than hybrid cotton seed farming, whereas the growing season is normally shorter. There are also some species-related variations.

### **Companies under consideration**

The Council on Ethics takes as its point of departure that several companies are in charge of the Indian hybrid cotton seed production associated with Monsanto. The first three of those listed below produce hybrid cotton seed:

- Monsanto Genetics Pvt Ltd (this company was formerly known as Emergent Genetics). Monsanto Genetics is a wholly-owned subsidiary of Monsanto Co.
- Mahyco (Maharashtra Hybrid Seed Company), in which Monsanto holds a 26% stake.
- Companies with licence production agreements with MMB (Mahyco Monsanto Biotech), a 50/50% joint venture between Mahyco and Monsanto.
- The company Seminis Vegetable Seeds (India) Pvt. Ltd ("Seminis"), which is 100% owned by Monsanto. The company produces hybrid vegetable seeds.

In 2006, 2007, and 2008, the Council on Ethics carried out investigations at a total of 175 farms involved in production for Monsanto Genetics. 40 of these farms were found in Andhra Pradesh, 87 in Tamil Nadu, and 48 in Gujarat.

With regard to the surveys conducted in Gujarat, these have been carried out by two consultants who have worked independently of one another.

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<sup>1</sup> The report "Seeds of Change", prepared by Dr. Venkateswurlu and commissioned by the organisations OECD Watch, India Committee of the Netherlands, Eine Welt Netz NRW, and International Labor Rights Fund, June 2007; see <http://www.indianet.nl/pdf/seedschangefinal.pdf>

Furthermore, visits have been carried out at 66 farms, in three states, with licence production for MMB, and also at 26 farms in Gujarat that produce for Mahyco.

The surveys have been conducted in the same way as those forming the basis for the recommendation regarding exclusion. Please refer to this recommendation for a more detailed description of survey methods, including farm selection and age determination of children.

When it comes to hybrid vegetable seed production, investigations have been performed at 17 production sites in Karnataka pertaining to the company Seminis.

## **Survey findings**

### *Occurrence of child labour*

The occurrence of child labour in agricultural production may be presented in different ways. As an example, it may be expressed as a percentage of the total workforce, as the number of children per unit of cultivated area, or as the total number of children working in the production related to a company. If one is to assess the development over time with regard to the occurrence of child labour, the choice of figures may lead to divergent conclusions. For instance, it may be that the total number of children increases over a period of time, while the number of children per unit of cultivated land decreases, provided there has been an expansion in the overall production area over the same period.

The Council on Ethics' surveys indicate that the child labour rate, measured as the number of children per acre in production for Monsanto Genetics has been considerably reduced since 2006. This development is most evident in Andhra Pradesh, where surveys conducted in 2005/2006 found 2.0 children per acre<sup>2</sup>. Research done in the two subsequent growing seasons shows that this rate had decreased to 0.4 and 0.2 respectively, which may be said to constitute a 90% reduction in the occurrence of child labour. Measured as a reduction in the total number of children, the percentage will not be as high, but the total number of children also appears to have decreased significantly over the same time period.

Moreover, in Tamil Nadu, there seems to have been a decrease in the occurrence of child labour in the production for Monsanto Genetics. From the 2006/2007 to the 2007/2008 season the number of children per acre went down from 1.5 to 0.5, amounting to a 70% reduction.

Concerning the occurrence of child labour in the production for Monsanto Genetics in Gujarat state, the surveys show that the number of children per acre for the 2007/ 2008 season totalled about 1.2. This is a high rate compared with other states in the same period, but not as high as the rate registered in Andhra Pradesh in the 2005/2006 season, which formed an important basis for the Council on Ethics' recommendation for exclusion.

The biggest number of children employed in Monsanto-linked operations are found in production for the company MMB. A series of Indian companies have licence agreements with MMB. It has been difficult to form a comprehensive picture of MMB's operations, which include licence production in various states and different companies. Based on surveys conducted in the states of Andhra Pradesh, Gujarat, and Tamil Nadu, the occurrence of child labour connected with licence production for MMB in the 2007/2008 season may be estimated at some 50 000- 60 000 children. Additionally, there is the child labour associated

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<sup>2</sup> An acre is the equivalent of 0.404 hectares

with production for the company Mahyco. Estimates of this number total 10 000-20 000 children in the 2007/2008 season.

With regard to Seminis' hybrid vegetable seed production, the Council on Ethics has focused its studies on the following species: chilli, okra, and tomatoes. For the 2007/2008 season it is estimated that some 850 children were employed in the cultivation of these seed species for Seminis.

The Council on Ethics presumes that it is impossible to establish the exact number of children working in the production of different types of hybrid seeds for Monsanto. Such surveys will, regardless of who conducts them, be debilitated by several sources of uncertainty.

Nevertheless, the Council on Ethics finds that the conducted surveys, combined with the Secretariat's visits of the areas, provide a realistic picture of the working conditions in general, and the occurrence of child labour in particular.

#### *Further details on the conditions in Gujarat state*

The conditions with regard to child labour in Gujarat state are presumed to differ from the conditions in the other investigated regions. This is partly due to the fact that the children often come from more remote areas, for instance the neighbouring state of Rajasthan, and that as a rule the transport and mediation of child labourers are coordinated through the use of middlemen and organised networks.

In Gujarat, it was difficult for the Council on Ethics to investigate the occurrence of child labour in hybrid cotton seed production. The Council on Ethics' consultants were in different ways prevented from carrying out their work, and in order to preserve their personal safety the scope of the studies was reduced in relation to the original plan.

### **Observations made during the Council on Ethics' visits**

In November 2007, the Council on Ethics' Secretariat carried out a visit covering production sites linked to Monsanto in the states of Andhra Pradesh, Tamil Nadu, and Karnataka.

In general, few children were observed in Monsanto Genetics-related production in Andhra Pradesh. Only at one of the five farms visited, one or two persons appeared to be under 15 years of age. A number of fields had signs saying "*Monsanto Child Labor Free Farms*". On farms producing hybrid cotton seed for Monsanto Genetics in the state of Tamil Nadu, some children were observed working: At the three visited farms, 14 children were registered.

The occurrence of child labour appeared to be very high at one visited farm in Andhra Pradesh engaged in production for local seed companies under licence from MMB. During one visit, 13 out of 22 persons working on the farm seemed to be under 15 years of age, and 4-5 of the children appeared to be below 7 years of age.

The visit to the farm producing hybrid vegetable seed for Seminis revealed a somewhat complex picture. The cultivation takes place in greenhouses, so-called *net houses*, and these were emptied of people as soon as the Secretariat arrived. However, it may be estimated that around half the workforce, some 20 people, were children under the age of 15.

With regard to protective measures during pesticide application, the Secretariat was informed, through discussions with local producers in Andhra Pradesh, that Monsanto has held meetings and provided information about the safe use of pesticides. Monsanto is also said to have

promised to distribute protective equipment and offer training in the use of this. However, the scope of this initiative is not known. During the Secretariat's inspection, only one instance of pesticide application was observed, and this was carried out without any kind of protective equipment and while people remained in the field.

The farm visits made it absolutely clear that inspections must occur without prior notice in order to gain as representative a picture as possible of the working conditions in the production. At the same time it was clear that an inspection without prior warning may also be problematic. Children were plainly seen to leave the fields as soon as a car stopped on the road or a stranger approached on foot. Moreover, a large number of farms, probably several thousand, produce hybrid seed for Monsanto. The farms are scattered over large and, in part, barely accessible areas. To the Council on Ethics' Secretariat it seemed a very difficult task to continuously monitor the working conditions at a great number of farms in order to detect child labour, and very difficult indeed to carry out unannounced inspections on a large scale. Inspections occurring with the farmers' previous knowledge may easily give the wrong impression of child labour occurrence .

### **The Council on Ethics' assessment**

The Council on Ethics is to assess whether the investment by the Government Pension Fund – Global in the company Monsanto Co, may still be said to constitute an unacceptable risk of the Fund's future complicity in unethical actions. The Council on Ethics' mandate is limited to a concrete evaluation of whether the company's operations fall within or without the scope of the Fund's Ethical Guidelines.

A key element that makes the detected violations fall within "*the worst forms of child labour*" is the obvious health risk the children are subject to because of the nearly constant exposure to hazardous pesticides. The Council on Ethics is aware that Monsanto, at least to a certain extent, has taken steps to provide those who apply the pesticides with protective equipment, and that it also offers training in the safe use of pesticides. Such measures are likely to reduce the health risks to those who carry out the actual spraying. A remaining problem is that persons are staying in the fields during and after the application and therefore are exposed to hazardous pesticides. It is particularly serious when children are exposed to health risks in this way. Children's exposure to hazardous pesticides constituted an important part of the grounds for the Council on Ethics' recommendation to exclude Monsanto.

Often suffering from strong heat and hazardous exposure to pesticides, the children are also subject to very long hours (up to 14 hours a day) of work that tends to be physically straining.

However, the good results that have been achieved in Andhra Pradesh with regard to reducing the occurrence of child labour in the hybrid seed production chain show that the problem of child labour in this industry is to a great extent solvable. Through determined efforts and constant follow-up it seems possible to reduce the occurrence of child labour to a level where it can be regarded as constituting isolated and rare incidents rather than a systematic and recurring feature of a production system.

The Council on Ethics is aware that Monsanto has intensified its efforts aimed at reducing the rate of child labour in its supply chain, both in Gujarat and in other geographical areas where hybrid cotton seed is produced for the company. Moreover, the Council on Ethics knows that the company will introduce third-party audits to assess the occurrence of child labour in its supply chain.

It also seems clear that the extent of child labour in Monsanto's production chain increases as the connection with the company becomes more peripheral. Monsanto has implemented measures to reduce the occurrence of child labour in the parts of the production chain that are most closely related to the company. The large number of children contributing to licence production for the company MMB seem to fall outside the scope of Monsanto's improvement programmes. The Council on Ethics has a certain understanding for the fact that Monsanto's leverage vis-à-vis the conditions in licence production for MMB is not as strong as in production for the company itself, but, at the same time, it presumes that Monsanto can wield significant influence also when it comes to this production.

The issue of pesticide exposure also seems to be a problem that can be remedied. First, protection for those who apply the pesticides may be achieved by giving them access to and training in the use of protective equipment, as well as in the safe use of pesticides. Such measures have already been introduced to a limited extent and it should be possible to pursue them further. Training and raised awareness should also make it possible to enjoin everyone to leave the fields during spraying. In the Council on Ethics' view, measures aimed at preventing the harmful exposure of children to pesticides are of major importance. The best means to achieve this will obviously be to reduce the occurrence of child labour so that fewer children are exposed to such health risks.

The Council on Ethics is aware that Norges Bank, through its exercise of ownership rights, has taken an initiative aimed at influencing Monsanto to step up measures designed to reduce the occurrence of child labour in hybrid seed production. Moreover, Norges Bank has proposed a sector-wide programme encompassing various companies within the industry, and Monsanto has endorsed this initiative.

The Council on Ethics presumes that industry cooperation aimed at reducing the occurrence of child labour may represent a suitable instrument. Previously, various seed producers launched a joint project (CLEP), but for various reasons this seems to have come to a halt. In order for such an initiative to succeed, it will evidently be crucial that influential companies participate. Monsanto's participation in this programme may lead to a reduction in the occurrence of child labour both in the value chain of the company itself and hopefully in the industry as a whole. Since local Indian companies for the most part are in charge of MMB licence production, strengthened sector-wide cooperation may have a positive effect also when it comes to reducing the extent of child labour here.

The Council on Ethics is aware that in developing countries the problem of child labour in agricultural production can be very extensive and linked to established socio-economic factors. At the same time, it seems clear that if influential companies work in a focused and systematic way, it is possible for them to drastically lower the occurrence of the worst forms of child labour in their own value chain.

## **Conclusion**

The Council's assessment is that the detected violations in this case must be considered ongoing and, seen in isolation, deemed to count as "*the worst forms of child labour*", and thus as grave violations which, in principle, qualify for exclusion from the Fund's investment universe. In this context, particular attention is called to the conditions in Gujarat, to the large number of children contributing to licence production for MMB, and to the health hazards that children are subject to as a result of exposure to pesticides. The use of child labour in

vegetable seed production is also an issue that the Council on Ethics has become more aware of after submitting the recommendation to exclude Monsanto in 2006.

At the same time, the Council on Ethics finds that Monsanto has achieved considerable improvements, particularly within certain geographical areas, when it comes to reducing the occurrence of child labour use.

The Council on Ethics is not aware that other investors have established a dialogue with Monsanto regarding the issues raised in this case. The role of Norges Bank in the improvement efforts are thus even more essential, and it seems clear that a possible exclusion of the company may undermine the ongoing process initiated by Norges Bank. Norges Bank's continued exercise of ownership rights in relation to Monsanto, and thus also the maintenance of the investment in the company, seems to be a necessary prerequisite for real improvement.

To the Council on Ethics it appears to be of particular importance that monitoring systems are established through independent third-party audits evaluating the occurrence of child labour in the supply chain, that the factors leading to children's harmful exposure to pesticides are eliminated, and that the child labour rate in the company's own production and licence production is drastically reduced.

Given that the improvement efforts are further strengthened and their application extended so that these goals are met, and also that the sector-wide initiative succeeds in reducing the occurrence of child labour in the production linked to MMB and Mahyco in the same way as in the company's own operations, the risk of future violations may be reduced to a level where the Fund's investment in Monsanto no longer must be regarded as constituting a breach of the Fund's Ethical Guidelines.

As the conditions for the exclusion of Monsanto in principle are met, but the aforementioned specific factors mean that the company will not be excluded at this point in time, the Council on Ethics expects that the ongoing efforts aimed at eliminating the worst forms of child labour will yield results. In the time to come, the Council on Ethics will closely follow the development.

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(sign.)

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