



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 to either exclude companies from the GPF or place them under observation. The Council's assessments are based on 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 corruption, human rights abuses, 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 ethical risk to the GPF. All the Council's recommendations are published on its website as soon as Norges Bank has announced its decision.

Portfolio monitoring and information gathering

The Council continuously monitors whether companies in which the GPF is invested could be operating in ways that infringe the fund's guidelines for observation and exclusion. 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 as being operations which may infringe the guidelines' product-based criteria. 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-based criteria, companies are identified as a result of portfolio monitoring, third-party approaches 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 every two months, and monitors a number of databases containing information on issues such as corruption or human rights abuses. The Council is also approached, either directly or indirectly through Norges Bank, by 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.

Access to information varies sharply from country to country. The Council attempts to compensate for this by investigating conditions that are not normally picked up on through the monitoring of news media. Such investigations often pursue a long-term plan. Once the Council has selected an area for examination, it follows through over a period of several years. For example, the Council has worked with companies that dispose of ships to be broken up for scrap on the beaches of Bangladesh and Pakistan since 2017, while it has focused on deforestation and loss of biodiversity since 2010.

The Council obtains information from research environments as well as regional, national and international organisations, and often commissions third-party consultants to investigate indications of norm violations covered by its guidelines. In 2020, however, the Covid-19 pandemic made it challenging to perform field studies. The Council frequently engages in lengthy dialogues with company officials during the assessment process.



Table 1: Key figures for activities undertaken by the Council on Ethics in 2018–2020

| Year | 2018 | 2019 | 2020 |
|---|------|------|------|
| No. of limited companies in the GPFG at year-end (approx.) | 9150 | 9200 | 9150 |
| Total no. of companies excluded at the recommendation of the Council on Ethics at year-end | 70 | 65 | 71 |
| No. of companies placed under observation at the recommendation of the Council on Ethics | 8 | 7 | 6 |
| No. of companies on which the Council on Ethics has issued a recommendation during the year | 10 | 17 | 12 |
| No. of companies excluded during the year at the recommendation of the Council on Ethics | 11 | 3 | 10 |
| No. of companies placed under observation during the year | 2 | 0 | 0 |
| No. of observations concluded during the year | 0 | 1 | 1 |
| No. of exclusions revoked during the year | 2 | 7 | 2 |
| No. of companies the Council has been in contact with | 34 | 50 | 77 |
| No. of companies the Council has met with | 22 | 14 | 16 |
| No. of new cases the Council has assessed | 78 | 100 | 120 |
| Total no. of company assessments concluded during the year | 98 | 87 | 104 |
| Total no. of companies under assessment during the year | 189 | 180 | 206 |
| No. of Council meetings | 11 | 9 | 10 |
| Secretariat (no. of staff) | 8 | 8 | 8 |
| Budget (NOK million) | 18,5 | 18,7 | 18,7 |

The table summarises the scope of the Council's investigation of companies in 2020, compared with 2019 and 2018. Companies excluded by Norges Bank under the coal criterion, without the Council's recommendation, are not included in the table. Companies that have been delisted from a stock exchange are removed from the list of excluded companies as and when delisting occurs.

Overview of activities undertaken by the Council on Ethics in 2020

In 2020, the Council recommended that seven companies be excluded, three companies should have their exclusion revoked and two be placed under observation. Norges Bank announced that, based on the Council's recommendations in 2019 and 2020, ten companies had been excluded and two companies had had their exclusion revoked. Furthermore, one company which had been under observation was to come under the exercise of active ownership.

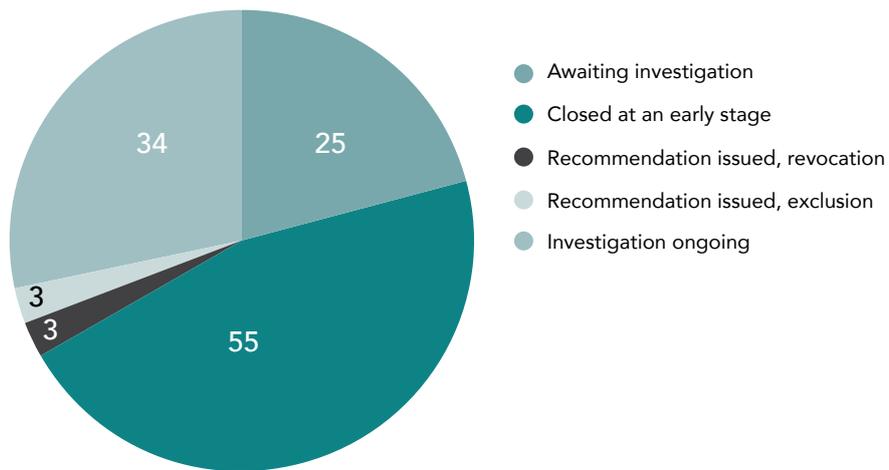
As at 31 December 2020, 71 companies were excluded from the GPFG, while six were under observation at the Council's recommendation. The Council is fol-

lowing up these companies to assess whether the grounds for exclusion or observation remain in place, and engages in an annual dialogue with the companies under observation. In addition, Norges Bank has at its own initiative excluded 73 companies and placed a further 17 under observation under the coal criterion. These companies are followed up by Norges Bank.

In addition to its ongoing efforts to assess companies in the GPFGs portfolio, the Council has devoted some of its resources to assisting in the preparation of the report NOU 2020:7 "Values and responsibility" published by the government-appointed commission that has been looking into the GPFG's ethical framework.



Fig. 1: What happened to the 120 cases that were opened in 2020?

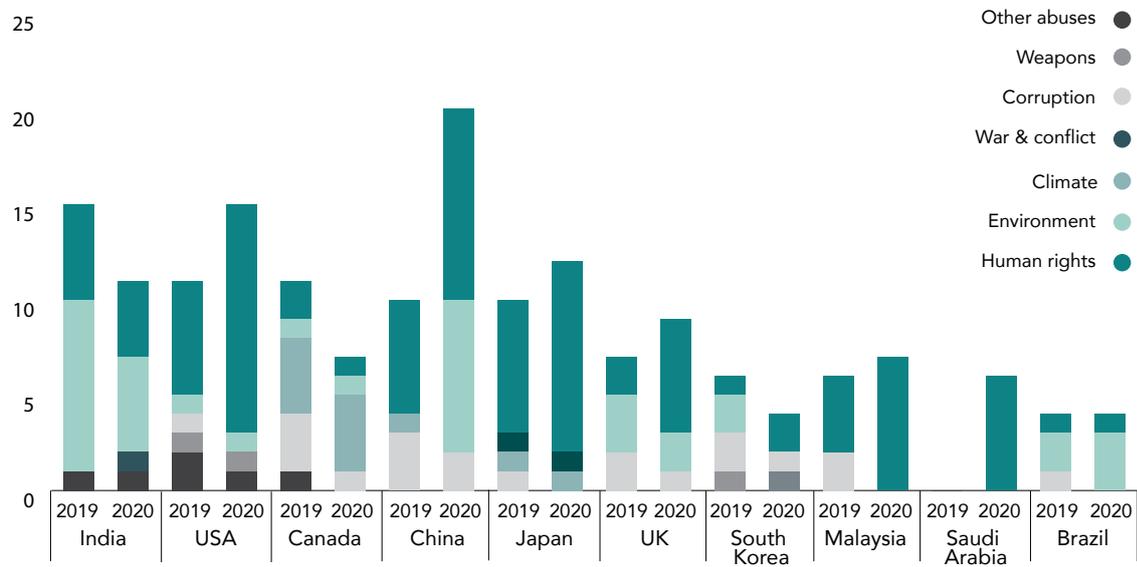


The figure shows the status of the 120 new cases the Council opened in 2020.

In 2020, the Council had 222 cases under assessment, 120 of which were opened during the year. A recommendation to exclude a company or to revoke an exclusion has already been issued in connection with six of the new cases. 55 of the new cases were closed at an early stage; 25 of these were assessed under the corruption criterion. 34 of the cases are still under investigation, while 25 have yet to be the object of a complete initial assessment. Improper handling of coronavirus outbreaks and the gaoling of new unmarried mothers in the Gulf states are two of the

issues to emerge from the new cases in 2020. Certain companies have cropped up repeatedly in the Council's assessments, though for different circumstances and under different criteria. In 2020, 12 of the 206 companies that were under assessment were being investigated in relation to two, and in one case three, separate matters.

Fig. 2: Cases under assessment in 2019 and 2020



The figure shows cases that have proceeded beyond an initial assessment in 2019 and 2020. The cases are broken down by criterion and where the companies are registered. The figure shows the ten countries with the highest number of companies under assessment.

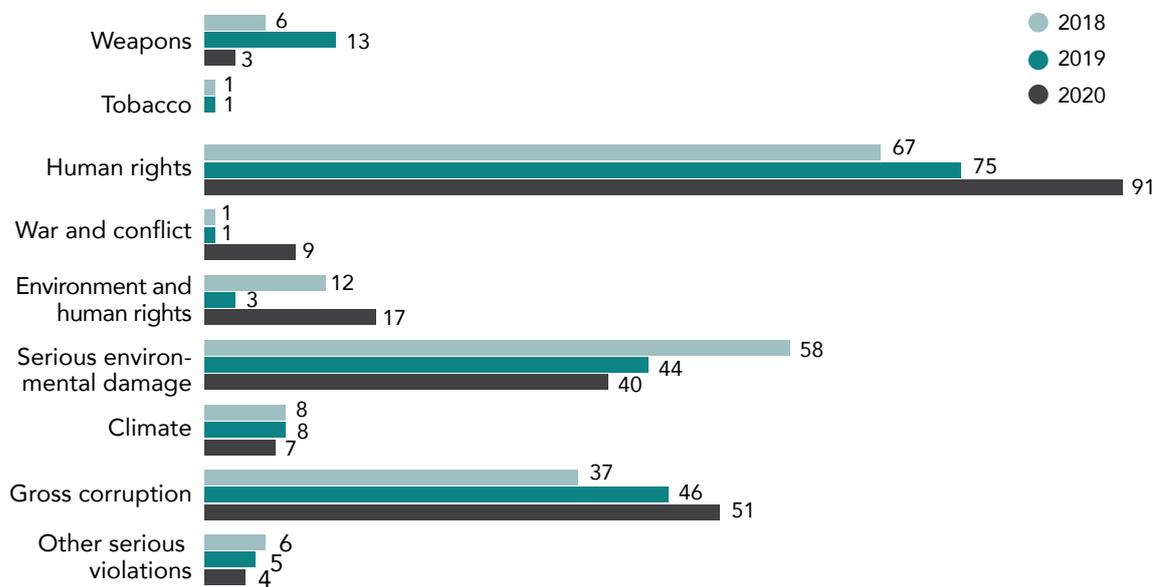
At the close of 2020, the GPFG had investments more than 9,000 companies in around 70 countries. The geographic distribution of the 206 companies on which the Council worked during the year reflects the geographic distribution of the GPFG's investments. Nevertheless, the geographic distribution of the Council's work varies somewhat from year to year. From 2019 to 2020, for example, there was a sharp increase in the number of cases from China. This is largely attributable to the fact that the Council has investigated human rights abuses in connection with the internment of Uighurs in Xinjiang province and the environmental harm caused by the production of preparations including material sourced from endangered animal species. With respect to other Asian companies, the dominant topic is the abuse of labour rights. Asian companies are often investigated as part of a review of areas with a high ethical risk and not due to specific news reports. This applies, for example, to investigations concerning pollution from

the production of antibiotics in India, which were concluded in 2020 without the Council recommending the exclusion of any companies. The extensive antibiotic emissions deriving from this production constitute an extremely serious and global environmental problem, since it is of significance for the development of antibiotic-resistant bacteria. Many companies probably contribute to this problem, but it is difficult to document the part which the individual enterprise plays.

For companies domiciled in the American continent, the Council's efforts are distributed slightly more evenly across the criteria, although there has also been an increase in cases assessed under the human rights criterion in the USA in 2020. For example, the Council has reviewed news reports concerning the way companies have handled outbreaks of Covid-19 in the workplace. A significant number of the cases involving Canadian companies relate to oil-sand production and are being assessed under the climate criterion.



Fig. 3: Cases on which the Council has worked, by criterion



The figure shows the number of cases on which the Council worked in 2020, distributed across the various criteria. The figure includes cases that have been thoroughly assessed and those that were closed after an initial investigation.

Work under the various criteria

The human rights criterion continues to account for the bulk of the cases assessed by the Council. Such cases are often prompted by investigations the Council has itself initiated on the basis of assumptions concerning the general risk of labour rights violations in a business sector or area. A large number of companies therefore undergo a preliminary investigation. The Council first identifies all enterprises engaging in a certain business activity and contacts relevant companies to obtain information that could confirm or refute the Council's assumptions. Based on their answers and information received from other sources, the Council then decides which companies should be investigated in more detail. For example, in 2020, the Council has continued to pursue cases of working conditions for migrant workers that border on forced labour. The Council also began identifying companies that use workers held in internment camps in Xinjiang province, China.

Other types of cases often spring from news bulletins or NGO reports. Such cases may, for example, be linked to the infringement of indigenous peoples'

rights or forced relocation, which accounted for a good many of the cases dealt with in 2020.

The Council has considered several cases under the war and conflict criterion involving companies' collaboration with military or security forces. Other forms of contribution to the infringement of the rights of the individual in war and conflict have been linked to business operations in the West Bank.

Under the environment criterion, the Council continues to work on mining and industrial pollution, damage to conservation areas and loss of biodiversity. Several of the cases assessed under the environment criterion also have a human rights aspect. In cases where a company may be under investigation with respect to several criteria, the Council will normally attach decisive weight to just one of them. Beaching cases form an exception to this rule, with the Council's recommendations resting on both an unacceptable risk of environmental damage and human rights abuses.

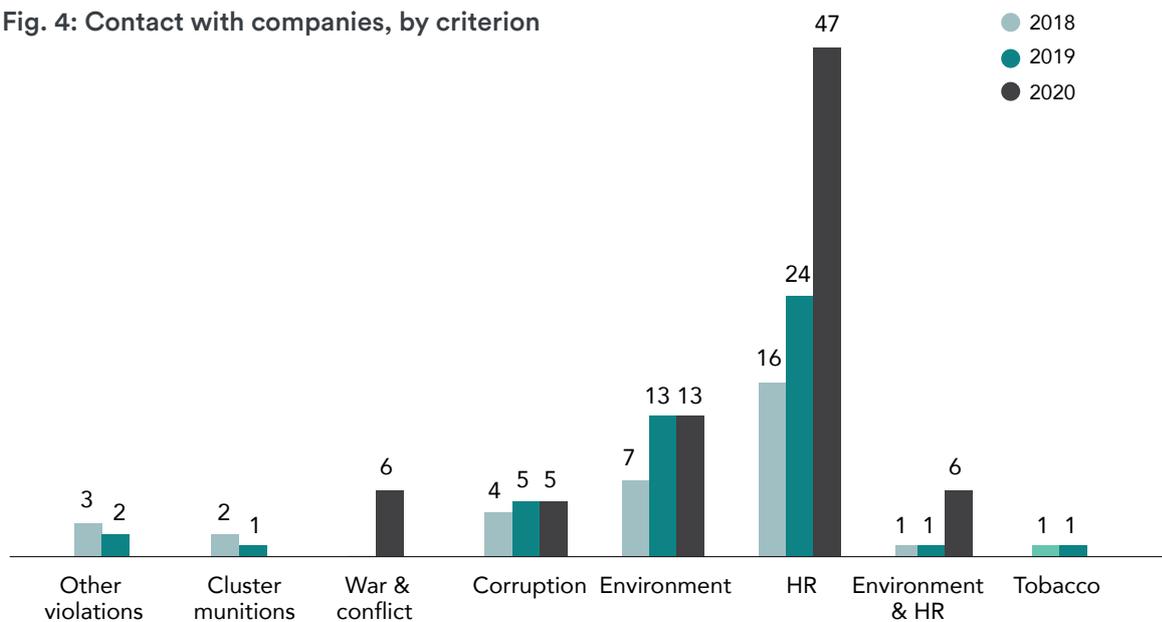
Since 2017, companies in the GPF's portfolio that are identified through the initial review of corruption

allegations have been systematically registered, sorted by business sector and ranked according to the level of risk. As a result of this approach, a growing number of companies have in recent years undergone a preliminary assessment. The majority of these are closed at an early stage. If there are many corruption cases in a particular business sector, it will also be possible to perform a more general review. In 2019, for example, this kind of review was performed on oil service companies. In 2020, a systematic review was begun of state-controlled oil companies in the GPFG that the Council had not yet assessed individually.

Contact with companies in 2020

In 2020, the Council has communicated with 77 companies and held meetings with 16 of them. The Council contacts companies which, after a preliminary investigation, it wishes to look into more closely. The Council first writes a letter to the company concerned, asking for information that could provide a better foundation for an assessment of its operations. All the companies assessed under the conduct-related criteria are also given the opportunity to comment on a draft recommendation before the Council makes its final recommendation to Norges Bank.

Fig. 4: Contact with companies, by criterion



This figure shows how many companies the Council has been in contact with in relation to the various criteria in 2018, 2019 and 2020. One company may be contacted in relation to several criteria.

In 2020, as well, the vast majority of companies were contacted in relation to assessments under the human rights criterion. The Council attaches importance to information provided by companies and deems it an independent risk factor if companies fail to provide specific, verifiable information about their operations. The majority of the companies contacted by the Council with a request for information do reply, though some do not. In 2020, for example, the Council contacted ten companies domiciled in the Middle East, only one of which responded to the Council's query. In some of these cases, the facts of the matter are easily available, while in other cases it

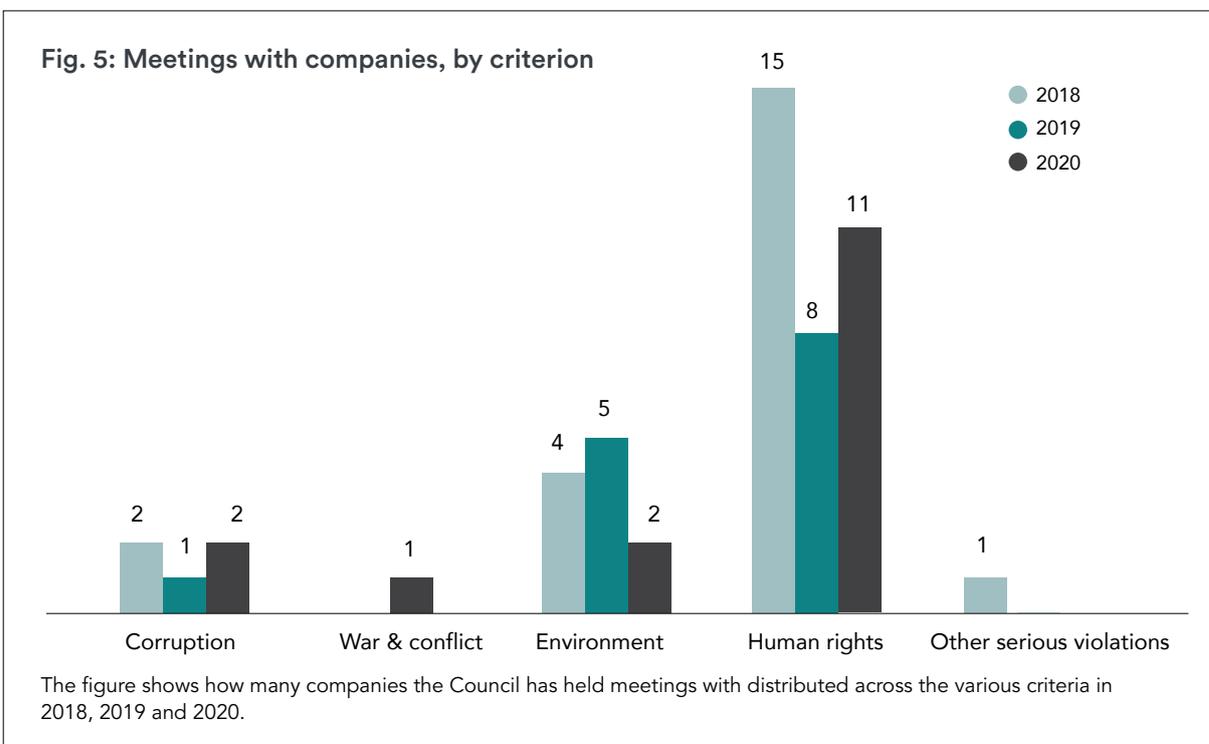
is not possible to obtain specific information or carry out investigations locally.

Normally, the Council meets with companies late in the assessment process, often on the basis of a draft recommendation to exclude. The Council has issued a recommendation to Norges Bank to exclude or place under observation three of the companies that the Council met with in 2020. Four company meetings in 2020 took place at an early stage in their assessment. In several instances, this has led to the cases being dropped.



There is also a need to meet with companies that have been placed under observation in order to obtain information for inclusion in the Council's observation reports. Three of the company meetings held in 2020 were with companies that are under observation. However, several such meetings were postponed due to the Covid-19 pandemic. From time to time, the Council also meets with companies that have been excluded from investment by the GPF, either

because the Council wishes to assess whether the grounds for exclusion remain in place or because companies ask for a meeting with the Council. In 2020, the Council met with one excluded company and one company whose exclusion had been recommended but whose shares the GPF had divested before Norges Bank's Executive Board had decided the matter.



Reassessment of excluded companies

Companies are not excluded for a specific period of time, and their exclusion may be revoked as soon as the grounds therefor no longer exist. Each year, the Council performs a superficial investigation of all excluded companies to check whether they still engage in the activity for which they were excluded or not. For some companies, a more in-depth investigation is carried out, at a company's request, for example, or if there are indications of a major change in its operations. If a company has implemented measures that have led to sufficient improvement in the conditions on which exclusion was based, the Council issues a recommendation to revoke its exclusion. Such improvements must be observable

in practice and not simply be stated in the company's plans and strategies. One common reason for a recommendation to revoke an exclusion is that the company has discontinued or disposed of that part of its business that constituted the grounds on which it was based.

In 2020, the Council recommended that the exclusion of three companies be revoked. Norges Bank revoked the exclusion of two companies at the Council's recommendation. Companies that have been delisted from a stock exchange are removed from the list of excluded companies without the recommendation having been revoked.