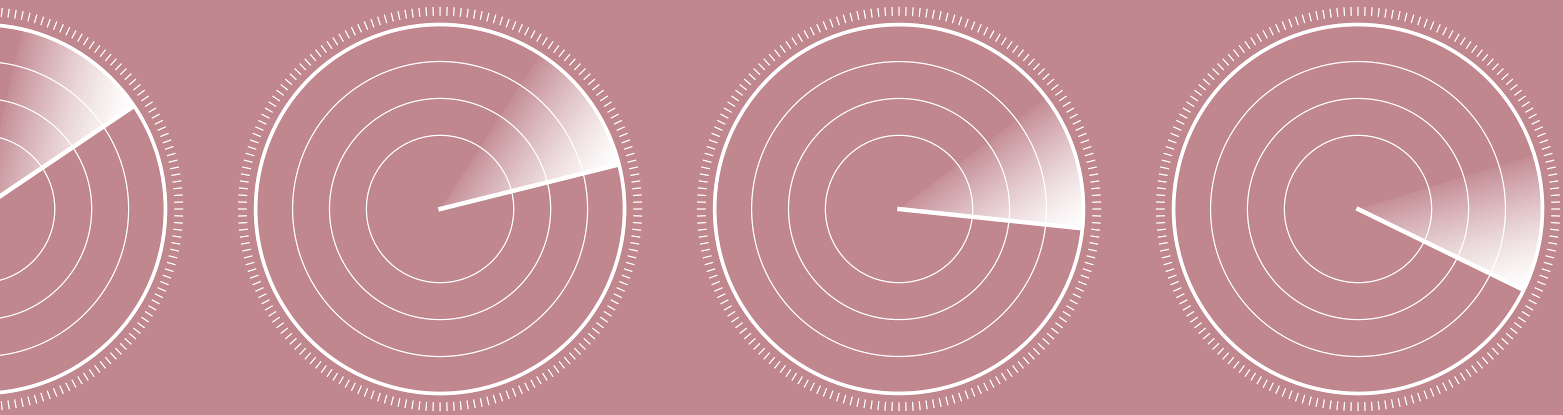
Council on Ethics

for the Norwegian Government Pension Fund Global

Annual report 2019



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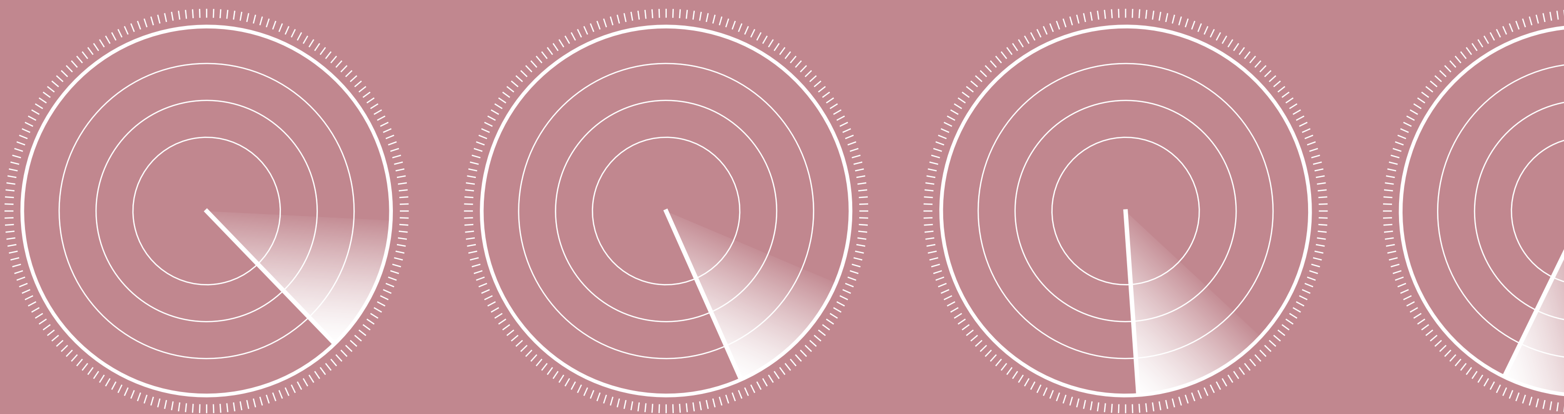

The Council on Ethics gives recommendations to Norges Bank on observation and exclusion of companies from the Norwegian Government Pension Fund Global

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The Chair’s report

In 2019, the Council on Ethics’ endeavours resulted in several groundbreaking recommendations both with regard to the exclusion of companies from the GPFG and the revocation of previous exclusions. The primary task of the Council is to identify companies in the GPFG’s investment portfolio that cause or contribute to serious violations of fundamental ethical norms, with a view to recommending their exclusion from the fund. However, experience shows that the Council’s efforts in some cases have a positive impact on companies and lead to tangible improvements on the ground.

As a result of the Council on Ethics’ multi-year examination of the textiles sector, a company was placed under observation in 2018, due to systematic sexual harassment of female workers. In 2019, the Council’s findings were used as a basis for a multi-stakeholder agreement between the company, its customers, a trade union and a women’s rights organisation to establish a comprehensive system to identify and reduce the risk of sexual harassment and gender-based violence. The case illustrates how the Council’s endeavours to uncover practices that fall within the scope of its ethical guidelines can also lead to improvements which in turn can prevent the company from being excluded from the GPFG.

A key focus for the Council is forced labour. Estimates suggest that between 26 and 45 million people globally are victims of forced labour. Migrant workers in the Gulf States are vulnerable to such abuse. In many cases, it is not the companies in the GPFG that recruit workers to their operations in the Gulf. Rather, they rely on recruitment agencies that charge workers recruitment fees, and mislead them about wages and other working conditions. The Council’s investigations over several years have uncovered that employees at one company in the fund’s portfolio had paid the equivalent of several months’ wages in return for a job. However, they were not paid the amount they had been promised, nor were they able to obtain work elsewhere without their original employer’s consent. As a result, these workers found themselves in a situation bordering on forced labour. The Council hopes that our efforts in this case can contribute to increase awareness with companies, investors and customers about the systems that should be in place to ensure that they are not contributing to modern slavery. In this way, the Council may make a positive contribution to persuading other companies in the GPFGs portfolio to change their practices in this area, thereby improving conditions for their workers.

George Orwell's novel "1984" is a science fiction story about a dystopic future. Sadly, the book's underlying theme is of growing relevance in our own time, and is gradually becoming more science than fiction. Technological progress is advancing at high pace, and the impact can be felt across the board, ranging from the mass surveillance of civilian populations to autonomous weaponry. The Council on Ethics is doing its best to keep abreast of novel applications and behaviour that could fall within the scope of the GPFG's guidelines for observation and exclusion.

During the year, we have expanded our already good cooperation with Norges Bank. The mutual exchange of information about companies and what is being done in their regard has meant that we can fulfil our mandate even more effectively. We believe that our collaboration with Norges Bank still has unexploited potential.

Both the Council on Ethics and its secretariat are well represented on the committee the government has appointed to reassess the Guidelines for Observation and Exclusion from the GPFG. We are pleased that challenging questions concerning a lack of transparency in certain countries, as well as the risk of human rights abuses in connection with new technologies, is part of the committee's mandate. Both of these topics were raised in a letter that the Council sent to the Norwegian Ministry of Finance in 2018. However, it is one thing to raise such difficult questions, it is quite another – and more challenging – thing to find appropriate answers.

The actual framework and the ethically motivated guidelines for observation and exclusion from the GPFG are the result of political decisions. However, the operationalisation of the framework through the exercise of discretionary judgement on the part of both Norges Bank and the Council on Ethics is not a political device. Guidelines are given at an overarching level, while the assessment in individual cases is left up to Norges Bank and the Council on Ethics. There is no shortage of responsible and ethical investment funds in the world, but there are few who operate in the way the Council on Ethics does. As a result, there is no ready-made recipe for how the more challenging aspects of the Council's work can be easily addressed. When making its assessments, the Council relies heavily on the normative framework developed internationally through, for example, the UN's Guiding Principles on Business and Human Rights, the UN-supported Principles for Responsible Investment and the OECD's Guidelines for Multinational Enterprises. Nevertheless, it is the ethical guidelines adopted by the GPFG's owners – the people of Norway – that the Council is tasked with upholding and that underpin the Council's work.

Johan H. Andresen
Chair of the Council on Ethics

Members of the Council and the Secretariat

The Council on Ethics

Johan H. Andresen (Chair)

Andresen holds an MBA from Rotterdam School of Management, Erasmus University. He owns and chairs the board of Ferd, where he was CEO for 14 years. He has previously been employed as Product Manager at International Paper Co in the USA and served as a 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. Andresen represents the Council on the government-appointed committee tasked with reviewing the ethical guidelines.

Hans Christian Bugge (Vice Chair)

Bugge has a doctorate in law from the University of Paris II 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. He is the author of several books and has held a number of public appointments relating to the environment and sustainable development.

Cecilie Hellestveit

Hellestveit is a lawyer, with a doctorate in humanitarian law from the University in Oslo, specialising in international human rights, international law and corporate law. She also holds a MPhil in Middle Eastern Studies and Arabic. 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. She is currently affiliated to the Norwegian Academy of International Law. Hellestveit has previously served on the Norwegian Refugee Council and 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 also been a foreign affairs commentator in the weekly magazine Morgenbladet and the financial newspaper Dagens Næringsliv. She is a member of the government-appointed committee tasked with reviewing the ethical guidelines.

Trude Myklebust

Myklebust is a lawyer, with an MSc from the University of Oxford. She is currently a research fellow 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 the BI Norwegian Business School. She is the CEO of Rugland Investering AS, Stavanger Investering Eiendom 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 (MEcon)
- Lone Fedders Dybdal (MPhil.)
- Kjell Kristian Dørum (Cand. polit.)
- Erik Forberg (Cand. scient.)
- Hilde Jervan (Cand. agric.)
- Aslak Skancke (Siv. ing.)
- Ingrid Thorsnes (LLM)

The work of the Council on Ethics

The Council on Ethics for the Government Pension Fund Global (GPFG) is an independent body that makes recommendations to Norges Bank with regard to either excluding companies from the GPFG or placing them under observation. The Council's assessments are based on ethical guidelines determined by the Norwegian Ministry of Finance. The guidelines contain both productbased exclusion criteria, such as the production of tobacco, coal or certain types of weapons, and conductbased exclusion criteria, such as 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 ethical risk to the GPFG. All the Council's recommendations are published on its website as soon as Norges Bank has announced its decision.

The Council on Ethics continuously monitors whether companies in which the GPFG is invested could be operating in ways that fall within the scope of 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 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 conduct-based 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 GPFG's portfolio. The Council receives reports from the consultants every two months. In addition to this, the Council subscribes to several other news letters which also provide information on a regular basis about alleged ethical violations by companies in the fund. 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.

More systematic 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 the plight of migrant workers in the Gulf States since 2015, while it has focused on deforestation and loss of biodiversity since 2010.

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 norm violations covered by its guidelines. Furthermore, the companies in the GPFG'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 2017–2019

Year	2017	2018	2019
No. of limited companies in the GPFG at year-end (approx.)	9100	9150	9200
Total no. of companies excluded at the recommendation of the Council on Ethics at year-end	64	70	65[1]
No. of companies placed under observation at the recommendation of the Council on Ethics	6	8	7
No. of companies on which the Council on Ethics has issued a recommendation during the year	12	10	17
No. of companies excluded during the year at the recommendation of the Council on Ethics	1	11	3
No. of companies placed under observation during the year	4	2	0
No. of observations concluded during the year	0	0	1
No. of exclusions revoked during the year	1	2	7
No. of companies the Council has been in contact with	62	34	50
No. of companies the Council has met with	12	22	14
No. of new cases the Council has assessed[2]		78	100
Total no. of company assessments concluded during the year		98	87
Total no. of companies under assessment during the year	149	189	180
No. of Council meetings	10	11	9
Secretariat (no. of staff)	8	8	8
Budget (NOK million)	18,1	18,5	18,7

The table summarises the scope of the Council's investigations in 2019, compared with 2017 and 2018. Companies excluded by Norges Bank under the coal criterion, without the Council's recommendation, are not included in the table.

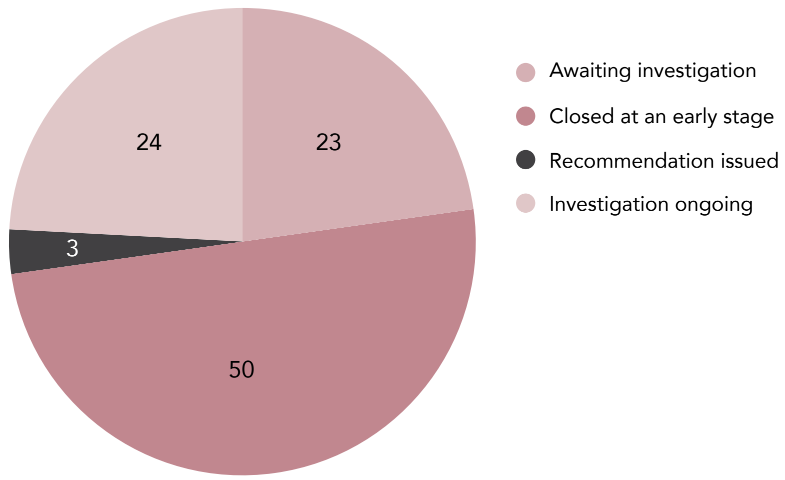
1 Vedanta Resources Plc has been delisted from the stock exchange and is therefore no longer included in this overview.
2 Figures from 2017 are not comparable at the case level.

Overview of activities undertaken by the Council on Ethics in 2019

In 2019, the Council on Ethics recommended the exclusion of six companies, to revoke the exclusion of six companies, and the termination of observation on one company. In addition, four updated recommendations to exclude were issued under the climate criterion. These replaced the original recommendations from 2017. Norges Bank announced that, on the basis of recommendations issued by the Council in 2018 and 2019, three companies had been excluded, the exclusion of seven companies had been revoked and that the observation of one company had been terminated.

As at 31 December 2019, 65 companies were excluded from the GPFG, while seven were under observation on the basis of recommendations by the Council on Ethics. At its own initiative, Norges Bank has excluded a further 69 companies under the coal criterion and placed an additional 14 companies under observation.

Fig. 1: What happened to the 100 cases that were opened in 2019?

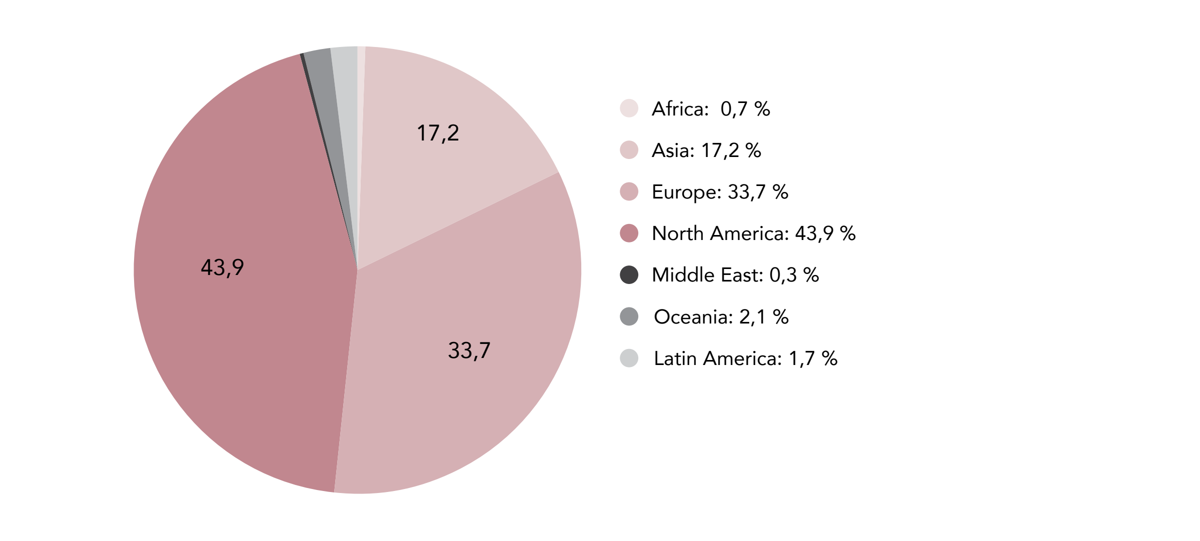


The graph shows the status of the 100 new cases that the Council on Ethics opened in 2019.

Of the around 200 cases the Council worked on in 2019, around half were opened during the year. 50 of these new cases were closed at an early stage, while three resulted in a recommendation being issued that same year. 24 of the new cases are still under investigation, while 23 have not yet been subject to a full preliminary assessment. Pollution from antibiotic production and improper surveillance are two of the issues raised by the new cases.

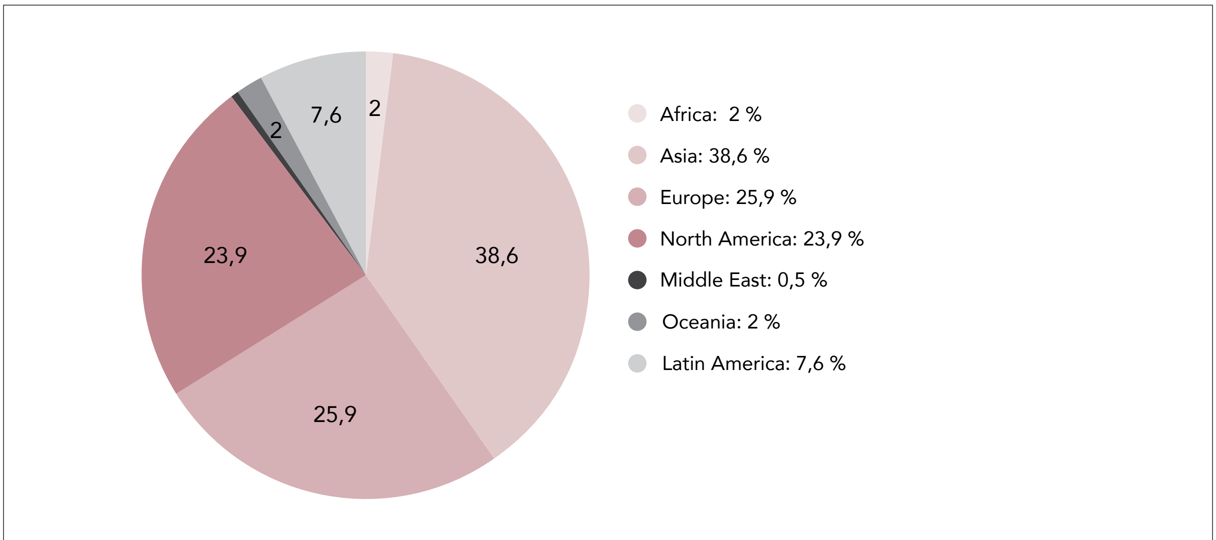
Some companies come up time and again in the Council's investigations, though for different reasons and under different criteria. This often applies to major companies from countries whose civil society actively monitors businesses' operations. Access to information varies significantly from country to country. The Council offsets this to some degree by commissioning its own investigations into matters that are not normally picked up on by news media monitoring.

Fig. 2: Percentage distribution, by region, of the value of the fund's investments at the close of 2019



The chart shows the percentage distribution, by region, of the value of the GPFG's investments. Both equities and fixed income are included here.

Fig. 3: Percentage distribution, by region, of the companies on which the Council worked in 2019

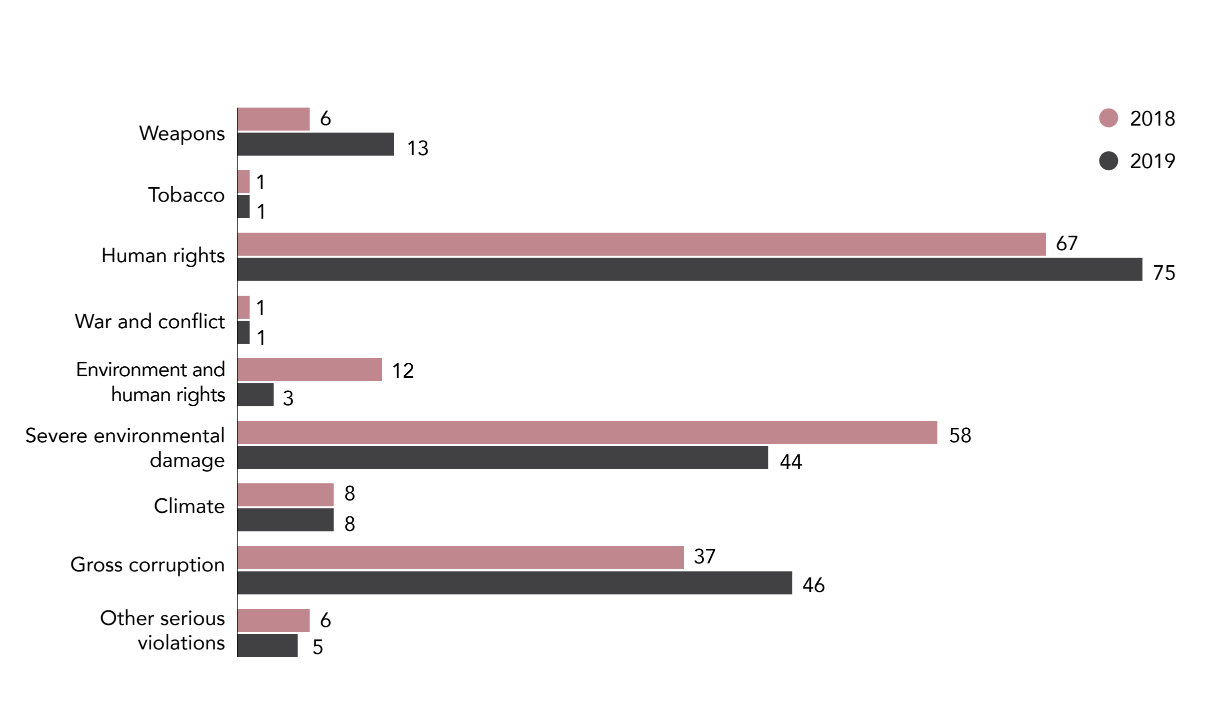


The chart shows the percentage distribution, by region, of the total number of companies on which the Council had under investigation 2019. At the close of 2019, the GPFG had investments in around 9,200 companies in more than 75 countries.

At the close of 2019, the GPFG had investments in around 9,200 companies in more than 75 countries. The geographic distribution of the 180 companies on which the Council worked in 2019 reflects the geographic distribution of the companies in the GPFG. However, a different picture emerges if a comparison is made with the value of the fund's investments. Almost 40 per cent of the companies which the Council has under investigation are, for example, listed on Asian stock exchanges, while only 17 per cent of the fund's value is invested in this region.

Many of the Asian companies that the Council is working on are being investigated as part of a review of high-risk areas and not as a result of media reports. This applies, for example, to investigations into working conditions at textile producers in which the GPFG has invested. Since such information is rarely picked up on through news monitoring, the Council has engaged consultants to help it investigate working conditions at factories in countries where the risk of labour rights violations in general is presumed to be particularly high.

Fig. 4: Cases the Council has worked on, by criterion



The chart shows the number of cases on which the Council worked, distributed across the various criteria.

The Council's work under the various criteria

The human rights criterion remains the criterion under which the Council investigates the largest number of cases. In 2019, the Council continued investigating labour right violations in the textiles industry and working conditions that border on forced labour. Such cases accounted for more than half of the investigations carried out under this criterion in 2019. They are generally prompted by investigations the Council initiates on its own account, based on assumptions regarding the general risk of labour rights violations in a business sector or geographic area. As a result, a large number of companies are subject to a preliminary analysis, while only those companies responsible for serious or systematic abuses are investigated more depth.

Other types of cases often originate in news reports. Such cases may, for example, relate to violations of indigenous peoples' rights and forced relocation, as has been the situation in a good many cases in 2019. A new topic in 2019 was the abuse of human rights relating to the use of surveillance technology. The Council has also considered cases in which companies collaborate with the military or security services. Companies' sales of weapons to states engaged in war or conflict continued to be an issue in 2019.

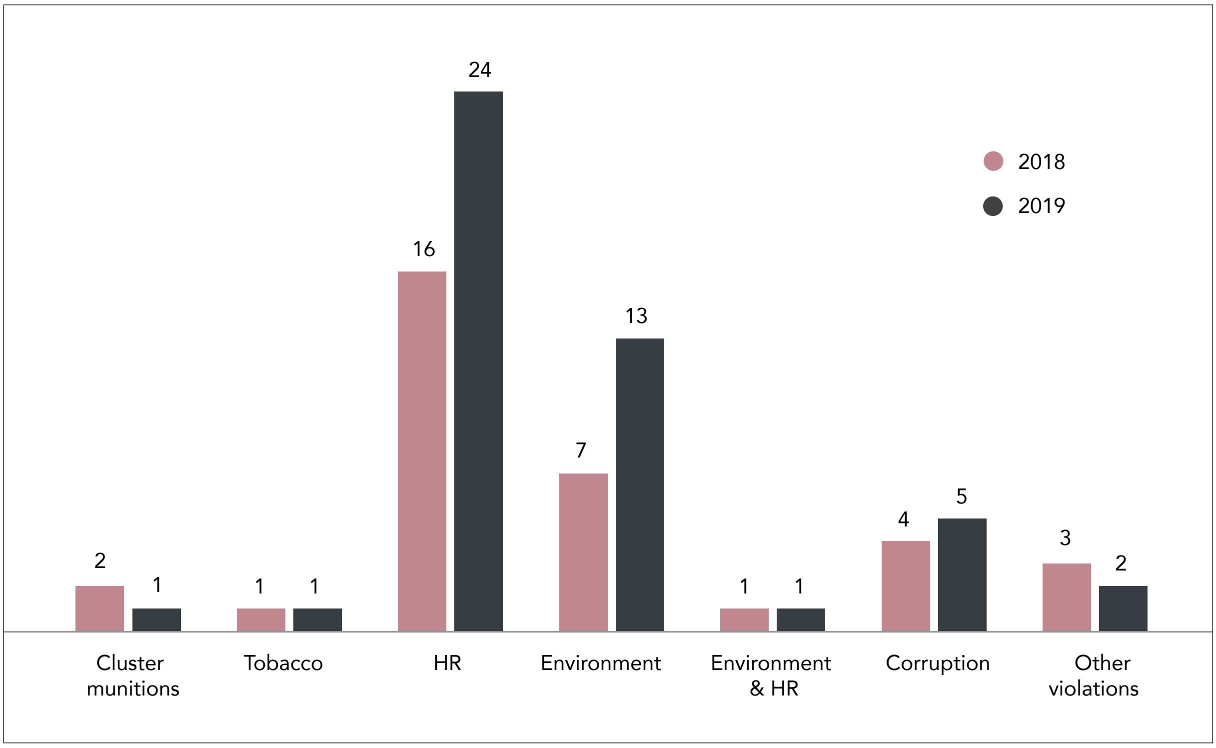
Under the environmental criterion, the Council has continued its efforts with respect to mining and industrial pollution, deforestation and damage to environment protection areas. Several of the cases investigated under the environmental criterion also have a human rights aspect.

Under the corruption criterion, corruption allegations against companies in the fund are systematised by means of portfolio monitoring. If there are many corruption cases in a specific sector, the Council will often consider them collectively and will investigate in greater depth those sector companies against which the most serious allegations have been levelled. In 2019, such a review was carried out on oil service companies. Many of the investigations were closed at an early stage, while a handful remain ongoing.

Contact with companies in 2019

In 2019, The Council on Ethics was in contact with 50 companies and held meetings with 14 of these. The Council contacts companies which, after preliminary inquiries, it wishes to investigate further. The Council first writes a letter to the company concerned, asking for information that could give it a better basis on which to assess the company's operations. Furthermore, every company which is investigated under the conduct-based criteria is given the opportunity to comment on a draft recommendation before the Council presents its final recommendation to Norges Bank.

Fig. 5: Contact with companies, by criteria

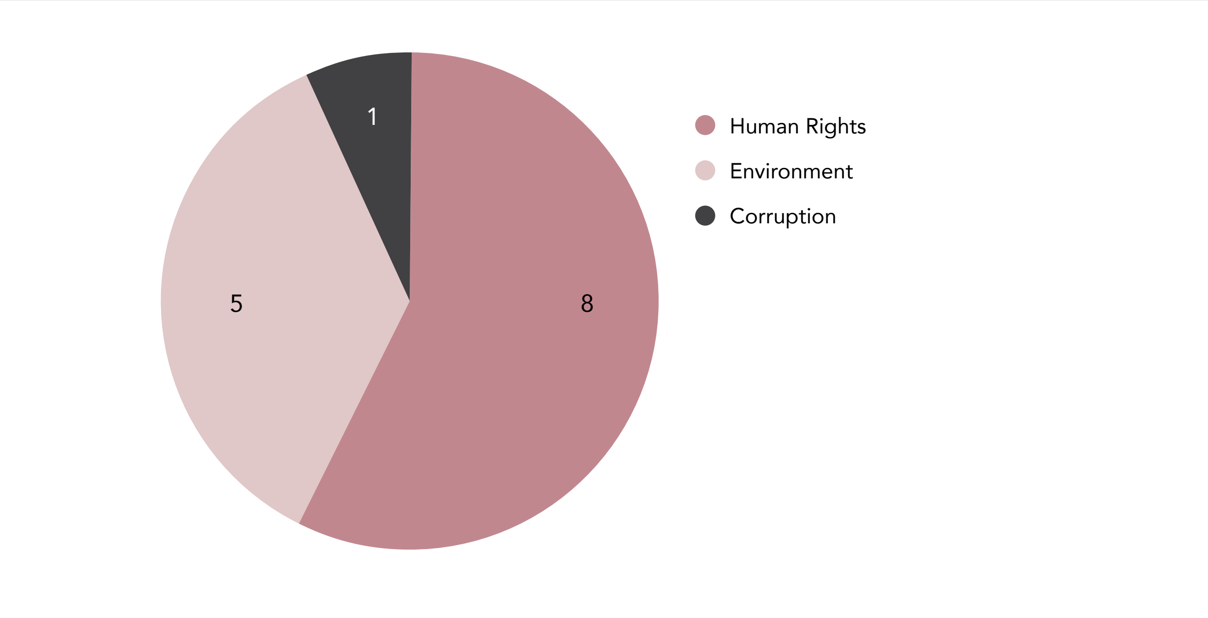


This chart shows how many companies the Council has been in contact with in relation to the various criteria in 2018 and 2019.

The Council attaches importance to information provided by companies and considers a company's failure to provide tangible and verifiable information about its operations to be a separate risk factor. The Council normally meets companies late in the investigatory process, often on the basis of a draft recommendation to exclude it.

In 2019, as in previous years, the majority of the companies that the Council had meetings with were being investigated under the human rights criterion. It is also under this criterion that the majority of new recommendations to exclude have been issued. The Council may also meet with the companies it has under observation in order to obtain information for its periodic observation reports. Five of the meetings that the Council held in 2019 were with companies under observation. Occasionally, the Council also meets with excluded companies, either because the Council wishes to assess whether the grounds for exclusion remain in place, or because the company asks to meet with the Council. In 2019, the Council met with three excluded companies.

Fig. 6: No of companies the Council has met with in relation to each criterion



The chart shows how many companies the Council has held meetings with under the various criteria in 2019.

Reassessment of excluded companies

A company is not excluded for a predetermined period of time. The exclusion of a company can be revoked as soon as the grounds for exclusion no longer apply. Each year, the Council makes a superficial assessment of all excluded companies to check whether they still engage in the activities that led to their exclusion, or whether their operations have materially 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 tangible 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 this new situation. In this way, Norges Bank has the opportunity to assess whether the company should remain excluded.

In 2019, Norges Bank revoked the exclusion of seven companies at the Council's recommendation. Since 2005, the Council has recommended the reinstatement of 39 companies. The majority of these have ceased producing the product for which they were excluded. Others have, for example, divested the business to which the grounds for exclusion related. Companies that have been delisted from a stock exchange are removed from the list of excluded companies without the recommendation being revoked.

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."

In 2019, the Council continued to focus on labour rights in the textiles industry in Southeast Asia and conditions bordering on forced labour for migrant workers in the Gulf States and Malaysia. The Council has also worked on cases where infrastructure projects have come into conflict with the rights of indigenous peoples, as well as issues relating to surveillance technology. In addition, the Council has drawn up a new plan for its work in the human rights field.

Working conditions in the textiles industry: The Council has been systematically investigating companies producing yarn, fabrics and garments in certain countries where the risk of labour rights violations is particularly high since as far back as 2015. The Council's efforts have been focused on companies in the GPFGs portfolio that produce textiles themselves. These companies employ thousands of people in many countries, and are directly responsible for the working conditions at their factories. Working conditions at the factories are examined by external consultants on the basis of interviews with employees in places where they feel secure and, when the companies' give permission, on factory inspections.

So far, around 30 factories have been investigated in Cambodia, Vietnam, Bangladesh, Myanmar, Lesotho, Ethiopia, India and Haiti. Working conditions at many of these factories have proved to be extremely poor, and often violate national law, despite them being regularly inspected by their customers. The majority of the companies that have been sent a draft Council recommendation to exclude them from the GPFG have, after contact with the Council, started implementing measures to improve working conditions. The Council attaches importance to companies not only remedying the norm violations that have been uncovered, but also making changes in their organisations and management systems that can contribute to permanent improvements both at the factory that has been examined and at their other production facilities.

Two textiles companies have been excluded to date, while three companies have been placed under observation. In 2019, the exclusion of a further two companies was recommended. The Council remains engaged in a dialogue with several textiles companies, and will continue to investigate working conditions in this industry in 2020.

Infrastructure projects in indigenous areas: In recent years, portfolio monitoring efforts have picked up several media reports relating to infrastructure projects in indigenous areas, particularly in South America. The cases that the Council has considered in 2019 affect indigenous peoples' rights to land and natural resources, cultural rights and the right to self-determination.

Surveillance technology: In 2019, the Council became aware of cases where surveillance technology was linked to human rights violations. The Council has started assessing three companies, and has commissioned external consultants to investigate technology companies' contribution to human rights violations more generally. The Council will decide how this issue will be further followed up in 2020.

Conditions bordering on forced labour: Since 2016, the Council has investigated nine companies in the construction and service sectors in the Gulf States to determine whether they contribute to migrant workers being placed in a coercive situation. In 2019, the Council issued its first recommendation to exclude a company on the basis of this issue. G4S was excluded because the company's employees in Qatar and the UAE, the bulk of whom are migrant workers, were placed in a situation bordering on forced labour. The Council attached particular importance to the use of recruitment fees, misleading employment contract terms and salaries, as well as restrictions on the workers' freedom of movement. In sum, these norm violations constitute a situation where the workers are, in practice, unable to leave their jobs if they should want to. In its recommendation, the Council based its assessment on ILO standards for workers' rights, particularly the ILO's indicators for forced labour and the ILO's principles for fair recruitment. These rest, inter alia, on ILO Forced Labour Convention (No. 29) from 1930. The Council also attaches importance to the fact that migrant workers are in a particularly vulnerable situation while they are staying in a foreign country far from home.

The Council has reason to believe that other companies also make use of recruitment fees, provide misleading information about employment contract terms and salaries, and impose restrictions on workers' freedom of movement. As a result, the Council will, in 2020, undertake new studies of working conditions in several Gulf States. The Council will also focus on other countries and business sectors that employ many migrant workers, and where similar working conditions have been reported in recent years, for example in Malaysia.

A new Human Rights strategy 2020–2023

In 2018, the Council decided that it should draw up a strategy to guide its endeavours under the human rights criterion over the coming three years. The purpose of this effort was to identify issues, regions or countries, business sectors and companies where there was a particular risk that listed companies are responsible for, or contribute to, human rights abuses. During 2019, work on the strategy was extended to include the Council's interpretation of the human rights criterion and its methods in the field.

During its strategy development process, the Council has held meetings with UN organisations, as well as trade unions and human rights organisations. The Council also organised a seminar in London in the summer of 2019, where experts were invited to present and discuss the risk of human rights violations associated with migrant workers, forced relocation and land rights, and new technology. In addition, a meeting was held with NGOs in Norway, where human rights issues were discussed. The Council also commissioned external consultants to perform two studies. The Danish Institute for Human Rights (DIHR) was commissioned to evaluate the Council's application of the human rights criterion, while Shift reviewed the Council's work with supply chains.

The objective of the DIHR study was to evaluate the Council's work under the human rights criterion since 2005 and offer advice on its future application. DIHR delivered its report in June 2019. Its main conclusion was that the Council should lean more heavily on the UN Guiding Principles for Business and Human Rights in its application of the human rights criterion.

The objective of the commission given to the consultancy Shift was to assess how the Council can deal with supply chain cases in the human rights field. Shift delivered its report in September 2019. In line with the DIHR report, Shift recommended that the Council adjust its practice to fall more in line with the UN Guiding Principles for Business and Human Rights. Shift also recommended a number of factors/assessment points that the Council can use in its assessment of companies' contribution to norm violations in supply chain cases.

On the basis of the reports from DIHR and Shift, the Council will take greater account of the UN Guiding Principles in its work going forward. At the same time, the Council is bound by the current wording of the GPFG's guidelines for observation and exclusion. The issue of harmonisation with international frameworks such as the UN Guiding Principles and the OECD Guidelines for Multilateral Enterprises will probably be addressed by the committee currently evaluating the Guidelines for Observation and Exclusion from the GPFG, which is due to publish its report in the summer of 2020.

As part of the strategy development process, considerable efforts were made to identify countries/regions and business sectors where the risk of human rights violations is particularly high. On the basis of this assessment, the Council decided to give priority to several issues in the coming years. The Council will continue working on labour rights, including conditions bordering on forced labour, extremely poor working conditions and hazardous work, both in business sectors the Council has previously studied and other labour-intensive industries. The Council will also take a closer look at sectors where there is a risk of child labour, and will assess certain supply chains. Other issues that the Council will work on include indigenous peoples' rights and forced relocation. Indigenous peoples possess some special rights relating to land, and can be particularly vulnerable to abuse, for example in connection with construction projects. Other groups with traditional lifestyles may also suffer severe disadvantage in connection with forced relocation. Finally, the Council will address the matter of surveillance technology. The Council will also continue, on an ongoing basis, to assess new cases that are picked up via portfolio monitoring in other areas.

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

For many years, the Council's endeavours under the environment criterion have focused on issues which were selected following an assessment, performed in 2011, of serious environmental problems that may be linked to listed companies. Sectoral studies have been performed with respect to many of these issues. This includes companies whose operations threaten areas of particularly high conservation value, whose deforestation and development of plantations damage important ecosystems, or whose improper disposal of mine and foundry waste causes serious pollution.

The Council's efforts in 2019 have focused in part on companies whose operations can harm areas designated by UNESCO as a World Natural Heritage Site, and on mining companies that cause severe damage to their surroundings. The Council has also investigated companies that contribute to the destruction of tropical forests, highly polluting pharmaceuticals production and highly polluting shipbreaking. The Council issued recommendations on four companies under the environmental criterion in 2019.

The environmental damage underpinning many of these cases relates to the loss of biodiversity. This was also one of the key points in the report published by the UN's Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) in 2019. Further details of the issues examined by the Council in relation to this topic can be found on page 20.

Every year, a large number of ships are broken up on beaches in Asia. This process, known as "beaching", is carried out under extremely hazardous working conditions and causes serious pollution. Since 2017, the Council has examined companies that dispose of obsolete ships for the purpose of beaching in Bangladesh and Pakistan. In 2019, the Council followed up one company that is under observation for its involvement in this practice. In connection with its beaching recommendations, the Council has assessed companies against both the environmental and human rights criteria. In 2019, the Council started investigating conditions in India's extensive shipbreaking sector. These efforts will continue in 2020.

In many of the environment-related cases that we assess, the activity that causes the environmental damage can also have positive impacts. The Council's mandate is, however, not to assess projects' social benefits, but whether they lead to serious environmental harm. Such cases will also often have a human rights aspect, because local communities lose their livelihoods or because the construction takes place in territories belonging to indigenous peoples. In its recommendations, the Council attaches particular importance to one of the exclusion criteria in its guidelines, even though several criteria could have been assessed. In 2019, the Council assessed several hydropower projects and recommended the exclusion of two companies; one company under the environment criterion and the other under the human rights criterion.

In 2019, the Council started studying pollution caused by pharmaceutical companies with operations in India. More specifically, the investigations relate to the factories' discharge of antibiotics into watercourses around the Hyderabad. Conditions are difficult to assess because there are many companies producing antibiotics in the area. The individual company's contribution to the problem is therefore uncertain.

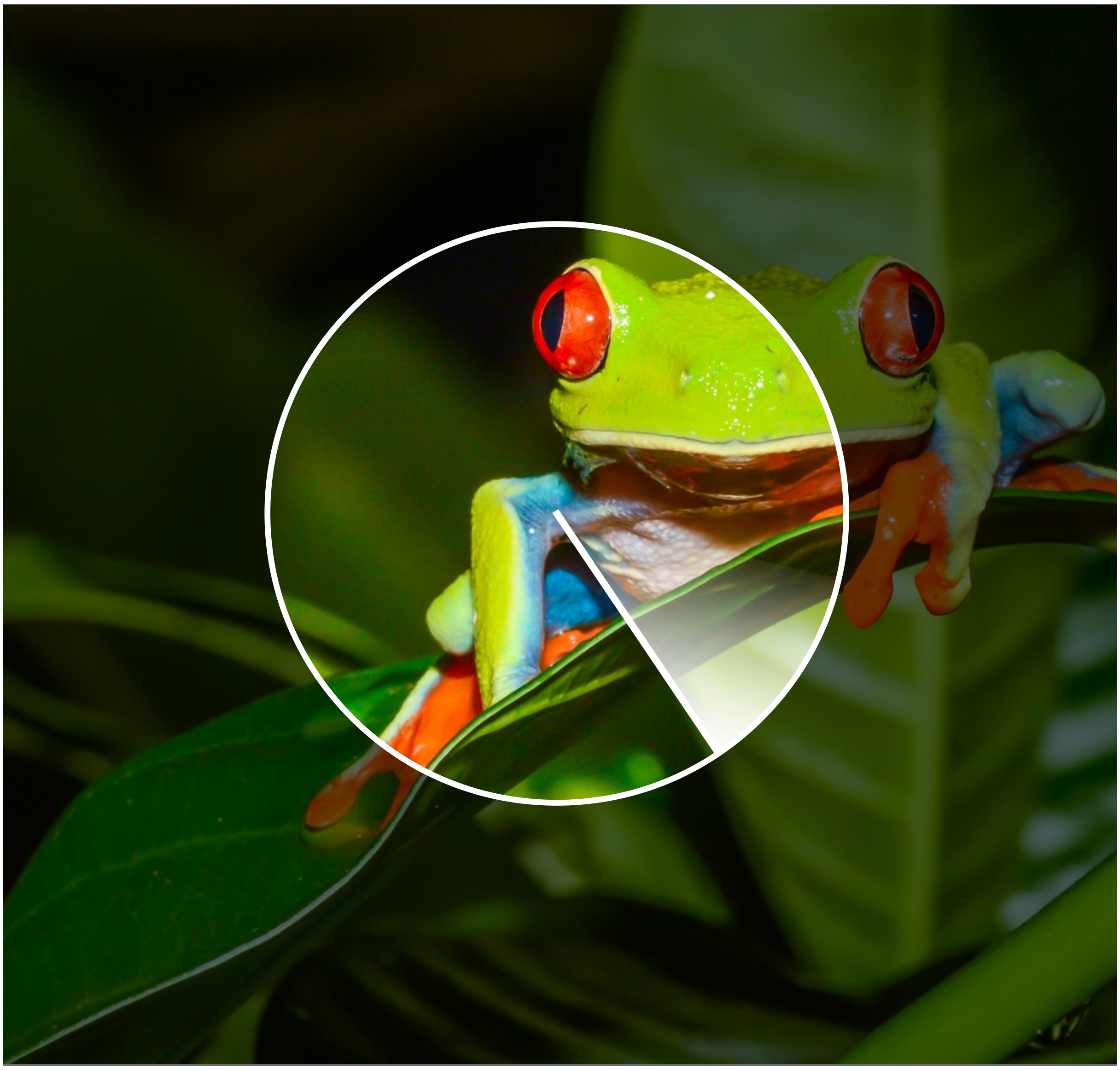
In its plan for 2019, the Council had included forest clearance for the production of meat and soya beans in Latin America. Since Norges Bank is following up the companies concerned, the Council decided to await the outcome of this dialogue. The Council's work on deforestation in 2019 has therefore primarily consisted of following up a company that is under observation. The Council has had a good dialogue with the company, where the issue is whether the measures the company is implementing are sufficient to safeguard biodiversity and important ecological values. The Council has also raised the extremely difficult conditions under which indigenous people are living in the company's concession areas. The Council will follow up this issue as it continues to observe the company going forward.

The climate criterion

No recommendations to exclude companies or place them under observation have as yet been published under the climate criterion, which was introduced in 2016. In 2018, it became clear that the criterion needed further clarification before the Council on Ethics and Norges Bank could come to a shared understanding. This was partly due to the fact that there are no internationally accepted norms for what constitutes unacceptable greenhouse gas emissions. In its report on the GPFG's management in 2019, the Norwegian Ministry of Finance issued guidance on which factors should be accorded weight under the climate criterion. In 2019, based on this clarification, the Council updated four of the five recommendations it had already issued.

Absolute emission levels and emission intensity have been the most important elements in the Council's recommendations in the climate area, as well as forward-looking assessments. In our climate-related recommendations, we now also include information on and an assessment of the regulatory framework for greenhouse gas emissions that the company is subject to.

The climate criterion does not distinguish between business sectors, processes or types of greenhouse gases. The Council will focus primarily on individual high-volume emissions or sectors and processes that, by their very nature, result in a high volume of emissions. This applies, for example, to cement production and international shipping.



Loss of biodiversity

Biodiversity encompasses the diversity of species, variations within species (genetic variation), different types of natural environments and habitats, and the interplay between them. Diversity is necessary to maintain the Earth's natural ecosystems and their ability to sustain vital processes and ecosystem services which we humans also depend on.

For more than a decade, the Council has worked on cases where loss of biodiversity formed the basis for the exclusion of companies from the GPFG. Forest and plantation companies have been excluded if large areas of forest in good condition, have been destroyed. The Council's starting point is that commercial logging and the conversion of forest land to plantations (deforestation) constitute one of the most serious threats to the preservation of ecosystems and biodiversity, particularly in the tropics.

Companies with operations that may harm World Natural Heritage Sites have also been excluded from the GPFG. Sites are listed under the World Heritage Convention because of the unique and universal value of their natural landscapes, geology, ecosystems and/or biodiversity. Universal value means that their value is defined in a global perspective, not in a national or regional perspective.

In its recommendations, the grounds for exclusion have mainly been the potential loss of endangered species or important ecosystems, in other words attributes of high conservation value. Recommendations have only to a small extent addressed other consequences, such as the impairment of ecosystem services, and indirect consequences (cascade effects, such as the loss of one species accelerating the loss of another). This is because the risk of such consequences is not well documented.

The Council finds no advantage in drawing up general criteria for what constitutes an attribute of high conservation value. This has been assessed on a case-by-case basis, partly in light of international agreements and norms. However, it is possible to provide examples of the "fundamental norms" that underpin what is deemed to constitute an attribute of high conservation value in the recommendations.

- The presence of species that are included on the International Union for the Conservation of Nature Red List of Threatened Species[3]
- Areas that fall within the scope of the WWF's Global 200 Ecoregions[4]
- Areas identified as Biodiversity Hotspots[5]
- Areas identified as Important Bird and Biodiversity Areas[6]
- Areas identified as Ramsar Wetlands[7]
- Areas defined as UNESCO World Natural Heritage Sites under the World Heritage Convention.[8]

With the exception of operations that harm World Natural Heritage Sites, recommendations have often rested on a combination of the factors mentioned above. Overall, great emphasis has been placed on species and ecosystems that are rare and vulnerable, and that contain high conservation values.

In May 2019, the UN's Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) published its Global Assessment Report on Biodiversity and Ecosystem Services. The report provides a scientifically based assessment of how human activity is affecting biodiversity and ecosystem services.[9] The IPBES considers the loss of biodiversity to be as great a threat to the world as climate change, at the same time as biodiversity is one of the most important tools we have to slow the pace of climate change. The report estimates that one million out of eight million species are endangered, many are at risk of becoming extinct altogether in the coming decades. The International Union for the Conservation of Nature (IUCN) states that 27 per cent of all the species it has assessed are endangered.

3 https://www.iucnredlist.org/
4 https://www.worldwildlife.org/publications/global-200
5 https://www.cepf.net/our-work/biodiversity-hotspots/hotspots-defined
6 https://www.birdlife.org/worldwide/programme-additional-info/important-bird-and-biodiversity-areas-ibas
7 https://www.ramsar.org/
8 https://whc.unesco.org/en/convention/
9 Global assessment report on biodiversity and ecosystem services of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services, 29 May 2019, https://www.ipbes.net/system/tdf/ipbes_7_10_add.1_en_1.pdf?file=1&type=node&id=35329

Change in land use is the most important cause of biodiversity loss on land. This includes the conversion of land for agricultural use, the growth of urban areas, and a huge increase in infrastructure-building. Overfishing, pollution and the development of coastal areas are the most important causes of the decline in marine biodiversity.

The loss of species, habitats and ecosystems is, therefore, largely due to human activity. Nature is being eroded locally and regionally, but the consequences can be more far-reaching. When ecosystems are destroyed, nature will eventually stop being able to provide ecosystem services to a growing human population. Such services include clean drinking water, fertile soil and clean air. The IPBES also highlights the "cascade effect", which means that ecosystems will collapse and disappear when a large enough number of species have been lost and large enough areas of the natural environment have been destroyed.

There is not normally enough information to determine how many species are necessary for or which species are critical to the maintenance of a functioning ecosystem. However, there is broad agreement that biodiversity is important to prevent ecosystems from tipping over into a dysfunctional state, even though it is not possible to determine where precisely the tipping point lies.

The Council will continue to work with companies whose operations pose a major risk to biodiversity. In this context, the Council will also consider whether interventions that affect areas of high conservation value other than those designated World Natural Heritage Sites should also constitute grounds for exclusion. The IUCN has established a set of categories for protected areas that is recognised by the UN and many nation states (including Norway), and provides a global standard for their classification. This system has defined a hierarchy of protected areas based on ecological principles and the purpose of their management. These categories naturally underpin the Council's assessments.

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."

Recommendations to exclude or place companies under observation under the corruption criterion are based on a two-stage process. 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 that a company should be excluded or placed under observation.

The most important sources of information for the Council's corruption-related assessments are news and investigative reports by journalists, announcements by public prosecutors, or court verdicts and out-of-court settlements. Exceptionally, reports by civil society organisations may also contain information that is sufficiently concrete to be used in the Council's assessments. Access to this type of information varies considerably between the countries in which companies in the fund are registered or have their international operations. A fundamental challenge is that the risk of corruption is normally higher in those countries in which access to information from the media, judicial bodies, civil society organisations and the companies themselves is more limited and unreliable, for example in authoritarian states.

Companies that are accused of several instances of gross corruption are recorded, sorted and ranked with respect to the level of risk. This matrix is constantly updated and expanded. Within certain sectors, allegations against such a large number of companies have been noted that it is also possible to perform a more collective review of them. In 2019, the Council performed such a review of oil service companies.

The starting point for the review in 2019 was that some of the companies in the fund had collaborated with an agent who had been under investigation for corruption for a long time. More specifically, corruption allegations or suspicions attached to many of the contracts for which the agent acted as an intermediary. Not only is oil service in general a sector where the corruption risk is high, but almost all the countries in which the agent has operated are "high-risk countries" with respect to corruption.

On this basis, the Council has taken a closer look at the extent to which the companies concerned may be linked to the various corruption allegations, and whether they have also been involved in other corruption cases. In general, the use of agents and other third parties as intermediaries when major public contracts are being entered into implies a high risk of corruption in many countries. As part of its inquiries, therefore, the Council has looked at whether some of the companies use agents in ways that could pose a particular risk in other situations as well.

While the Council has already concluded its investigations into the majority of these companies, it will pursue its inquiries through a dialogue with some of them in 2020.

In 2019, The Council also devoted time and resources to the assessment of companies that have been placed under observation due to the risk of gross corruption. The companies under observation share information to varying degrees, but the overall impression is that they generally share more information than they used to. In addition to the primary purpose, which is to clarify the extent to which future corruption risk is being reduced, the Council finds that dialogue with the companies concerned also provides a useful opportunity to learn and gain a greater understanding of the kinds of systems and processes a company should have in place to prevent, detect and deal with corruption. The Council also has the impression that the dialogue it has with these companies – both those that are officially under observation and those still under investigation – can have a positive effect on their anticorruption efforts, and that some of them find the dialogue useful as well.

In addition to its work on individual companies in the fund, the Council also strives to take part in and contribute to fora and processes devoted to anticorruption. This includes contributing to the further development of international norms and standards in the anticorruption field, and applying these in the Council's day-to-day activities. An example of this can be seen in the development of measures to deal with large-scale corruption (often called "grand corruption") on the basis of a specific resolution that was adopted at the Seventh Session of the Conference of the States Parties (COSP7) to the United Nations Convention against Corruption (UNCAC) in November 2017. In the final document issued by a Global Expert Group that met in Oslo in June 2019 to follow up the resolution, the mechanisms for exclusion that have been established through the Council's work are now reflected in one of the recommended measures for combatting this type of corruption.[10]

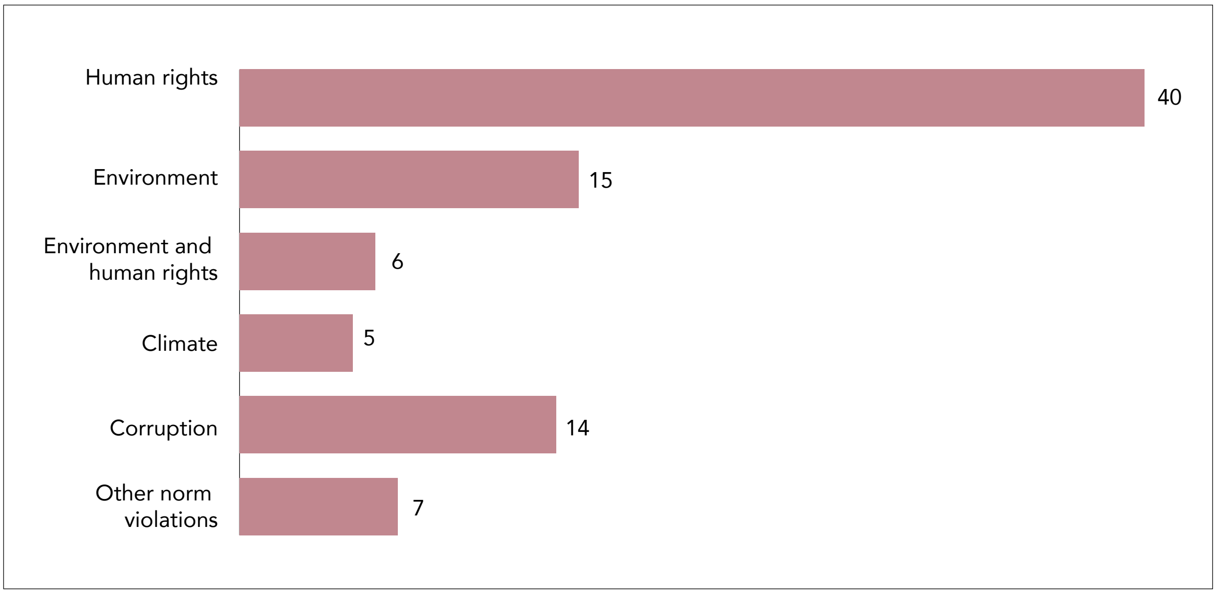
10 Global Expert Group Meeting on Corruption involving Vast Quantities of Assets, Oslo, Norway, 12-14 June 2019: https://www.unodc.org/unodc/en/corruption/meetings/oslo-egm-2019.html

Impact of the Council on Ethics' work on companies conduct

The Council on Ethics' task is to recommend the exclusion or observation of companies in accordance with the guidelines determined by the Norwegian Ministry of Finance. Even though the intention of exclusion is to avoid the GPFG being invested in companies that cause or contribute to norm violations, experience shows that the Council's work can also have a positive influence on companies and lead to tangible improvements on the ground.

The Council's influence is probably based on a combination of the thoroughness of its investigations, the fact that its recommendations are published, the attention this creates due to the GPFG's size, and the Council's communications with the companies concerned during the assessment process. The Council contacts companies early in the assessment process to obtain information that can provide a basis for evaluating their practices. Then follows a period of thorough investigation, where possible norm violations are looked into as far as possible. If the Council's investigations show that serious norm violations are ongoing or that there is a risk of future norm violations, the company is sent a draft recommendation to exclude it and asked for its comments. The real dialogue with the company often starts at this point, since this is often when the company indicates its intention to make changes. If the company has a concrete plan to reduce the risk of new violations, the Council will await developments or recommend observation. In the five-year period 2015–2019, the Council has engaged in this kind of dialogue with around 85 companies under the conduct-based criteria, as shown below in fig.7.

Fig. 7: Dialogue with companies, by criterion, in the period 2015–2019



The chart shows the number of companies with which the Council has engaged in a substantial dialogue in the period 2015–2019 under the various conduct-based criteria.

The Council estimates that around 30 per cent of these companies may have implemented improvements as a result of their dialogue with the Council. This estimate is uncertain partly because other factors could have influenced the company concerned. The estimate includes companies whose investigation by the Council was concluded without any recommendation being issued, and companies that have been excluded or placed under observation at the recommendation of the Council.

What do the changes consist of?

The Council does not as a rule prescribe desired actions or solutions to problems, but makes companies aware that norm violations may lead to their exclusion from the GPFG. Since the norm violations are different, the solutions will also be different.

For example, several textiles companies have pledged to improve working conditions at their factories. Changes include the establishment of whistleblowing channels, lawful overtime arrangements and the abolition of sanctions or other forms of employee harassment. Some companies have also reviewed their timesheets and compensated employees for previously unpaid overtime. The Council has told companies that to avoid a recommendation of exclusion from the GPFG such changes must be permanent and that they must also implement the improvements at other factories they own. This means that management must take overall responsibility for and address working conditions throughout the company, for example through changes in corporate governance, to ensure that the changes will last. In the most serious cases, the Council commissions new investigations of companies that remain in the GPFG to verify that the measures are actually being implemented.

Many of the companies with which the Council has engaged in dialogue are small in terms of market capitalisation, with the value of the GPFG's shareholding being correspondingly small. At the same time, they may be major players in their sectors, with extremely large numbers of employees. The changes implemented by these companies can therefore have contributed to the improvement of many people's living conditions.

As regards companies involved in corruption investigations, the Council considers the measures that the company has implemented to prevent, uncover and react to corruption – in other words, the company's anticorruption programme. Here, too, the dialogue is focused on the need for sound corporate governance and effective implementation of the company's guidelines. Several companies have made significant improvements in the period in which the Council has been communicating with them. This includes the establishment of a dedicated in-house anticorruption unit. The main impression is that companies are increasingly sharing information about their anticorruption efforts as a result of their dialogue with the Council. Since it is impossible to observe directly that a company has ceased engaging in corruption, concrete documentation of the company's preventive activities is essential to enable the Council to make a qualified assessment of whether the risk of corruption has lessened or not.

The Council has been working for many years on deforestation, and has recommended the exclusion of a number of logging and plantation companies. In some cases, dialogue with the companies has contributed to them halting the development of plantations in sensitive areas. At the same time, environmental organisations have been exerting pressure on these companies, which makes it difficult to distinguish the Council's influence from that of other actors.

Changes can also occur because companies sell or discontinue that portion of their operation which gives grounds for exclusion. For example, the Council has assessed several companies that have stopped buying phosphates from Western Sahara.

Many companies that receive a draft recommendation to exclude them appear to investigate the matters described by the Council. Although they do not fully share their findings with the Council, it is evident that companies often discover conditions similar to those described. They frequently come back to the Council with an explanation of which guidelines or management systems they have introduced to deal with the problems. The Council attaches importance to such guidelines primarily if companies can document changes in the conditions that prompted its concern. In some cases, it seems as though companies establish guidelines and management systems that cover up unfortunate practices, without these being followed up with tangible actions.

What factors contribute to change?

In the Council's experience, many factors play a role in companies' change processes. The most important is that corporate management is willing and able to change.

For many companies, the potential publication of the grounds for their exclusion from the GPFG constitutes a significant reputational risk that could have financial consequences. If serious norm violations have been uncovered, companies will be best served by doing something about them to prevent the loss of customers, business partners or investors. Furthermore, in cases where the Council points out that a company does not have a compliance system in line with applicable corruption-prevention guidelines, the risk this implies for the company can be an important incentive for change.

The Council strengthens its persuasiveness through in-depth knowledge about the company's operations and practices. This makes the dialogue specific and provides a basis to ask questions and examine whether company policies relating to environment management, human rights or corruption prevention are effective.

When the Council raises such issues, we also provide support and legitimacy to those who are working with such matters within the company. This can help to boost efforts in these areas and make them more directly targeted. Some companies address the Council's draft recommendations to exclude them or place them under observation at board level. This ensures the issues are paid greater attention, and probably also increases top management's engagement.

The very size of the GPFG also means that decisions to exclude companies prompt a great deal of attention. This in itself can help to exert an influence. Recently, a company was excluded due to the working conditions experienced by its migrant workers in the Gulf States. The company immediately stated publicly that it would address the issues raised by the Council.

Although the Council does not wish to be obliged to exclude companies, it nevertheless registers that exclusions draw attention to issues that it believes are important. One single exclusion can have an effect far beyond the company concerned because other firms adjust their practices in light of the signals given or, at the very least, take more notice when the Council or other investors raise the same issues with them. Several excluded companies have also asked the Council what would be required to have their exclusion revoked.

The effect of exclusion is nevertheless uncertain and varies both with respect to the company and the issue concerned. Some years ago, the Council observed that a major international oil company withdrew from Western Sahara after being approached by the Council. If this had any connection with the Council's approach, remains uncertain. At the same time, the Council was asked by another company considering the start-up of a similar venture if this would lead to its exclusion. Although the Council confirmed that exclusion was a likely outcome, the company went into the area and was subsequently excluded from the GPFG as a result.

Other effects

The Council's recommendations are used by certain other investors in their own dialogues with companies or as the basis for selling their shareholdings. Internationally recognised NGOs working in the same fields as the Council also refer to the Council's recommendations. We have also experienced that investigations funded by the Council have created a basis for engagement by other actors. One example is a study of several textiles factories in Lesotho, which uncovered widespread sexual harassment of female employees.

Why do some companies fail to change?

The Council has not observed any material consequent change in the practices of around half the 85 companies with which the Council has engaged in dialogue. A recommendation to exclude was issued with respect to 25 of these. The others were already engaged in change processes that were driven either by the company itself or other actors by the time the Council contacted them.

There are many reasons why companies show a lack of willingness to change. Some companies have little understanding of the issues being raised and are not interested in sharing information or engaging in dialogue. For others, the problem lies in their fundamental business idea. For example, if a company has a contract to dam a watercourse in a World Natural Heritage Site, the only thing it can do to avoid being responsible for or contributing to environmental damage is to withdraw from the project. In other cases, such as the construction of a new mine tailings dam, improvements may require major investments. In such cases, the company's commercial interests conflict with ethical considerations, and if the GPFG is to avoid being associated with such conditions, exclusion is the only alternative.

List of excluded companies as at 31 December 2019

Severe environmental damage

- Barrick Gold Corp
- Bharat Heavy Electricals Ltd
- Duke Energy Corp (inkludert heleide datterselskaper nevnt nedenfor)
  - Duke Energy Carolinas LLC
  - Duke Energy Progress LLC
  - Progress Energy Inc
- Freeport-McMoRan Inc
- Genting Bhd
- Halcyon Agri Corp Ltd
- IJM Corp Bhd
- MMC Norilsk Nickel PJSC
- POSCO
- Posco International Corp
- 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

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
- San Leon Energy Plc

Gross corruption

- JBS SA
- ZTE Corp

Serious or systematic human rights violations

- Atal SA/Poland
- G4S Plc
- Luthai Textile Co Ltd
- Texwinca Holdings Ltd
- Zuari Agro Chemicals Ltd

Production of nuclear weapons

- AECOM
- Aerojet Rocketdyne Holdings Inc
- Airbus Finance BV
- Airbus SE
- BAE Systems Plc
- The Boeing Co
- 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

- Hanwha Corp
- Poongsan Corp
- Textron Inc

Production of tobacco

- Altria Group Inc
- British American Tobacco Malaysia Bhd
- British American Tobacco Plc
- 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
- The Okinawa Electric Power Co Inc
- 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
- The Tata Power Co Ltd
- Tenaga Nasional Bhd
- TransAlta Corp
- Tri-State Generation and Transmission Association Inc
- WEC Energy Group Inc
- Washington H Soul Pattinson & Co Ltd
- 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

Gross corruption

- Leonardo SpA
- PetroChina Co Ltd

Serious or systematic human rights violations

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

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
- The Southern Co
- 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 observation and exclusion

Table 2: List of recommendations published in 2019

Company	Criterion	Recommendation	Decision	Issued	Published
Texwinca Holdings Ltd	Human rights	Exclusion	Exclusion	05.06.2018	17.01.2019
Halcyon Agri Corp Ltd	Severe environmental damage	Exclusion	Exclusion	24.10.2018	18.03.2019
General Dynamics Corp	Cluster munitions	Revoke exclusion	Revoke exclusion	19.12.2018	18.06.2019
Wal-Mart de Mexico SAB de CV	Human rights	Revoke exclusion	Revoke exclusion	08.05.2019	18.06.2019
Walmart Inc	Human rights	Revoke exclusion	Revoke exclusion	08.05.2019	18.06.2019
Rio Tinto Ltd	Severe environmental damage	Revoke exclusion	Revoke exclusion	07.01.2019	18.06.2019
Rio Tinto PLC	Severe environmental damage	Revoke exclusion	Revoke exclusion	07.01.2019	18.06.2019
Grupo Carso SAB de CV	Tobacco	Revoke exclusion	Revoke exclusion	08.05.2019	18.06.2019
Nutrien Ltd	Other serious violations of ethical norms	Revoke exclusion	Revoke exclusion	07.01.2019	18.06.2019
G4S Plc	Human rights	Exclusion	Exclusion	08.04.2019	13.11.2019
Petroleo Brasileiro SA	Gross corruption	Discontinue observation	Discontinue observation	05.11.2019	02.12.2019

In 2019, recommendations to exclude three companies were published. The exclusion of Texwinca Holdings Ltd was described in the Council's 2018 annual report.

The exclusion of Halcyon Agri Corp Ltd was recommended due to an unacceptable risk that the company is responsible for severe environmental damage through the conversion of tropical forest to rubber plantations in Cameroon. The Council has also attached importance to the risk that the plantation could damage universal values in the Dja Faunal Reserve, which is listed as a UNESCO World Natural Heritage Site.

The exclusion of the British security company G4S was recommended due to an unacceptable risk that the company is contributing to systematic human rights violations. The Council has assessed G4S's operations in Qatar and the United Arab Emirates, where many of the company's employees are migrant workers. To obtain a job with the company, workers must pay a recruitment fee, for which many have taken out loans in their home countries. Having arrived in the Gulf, the workers must spend a large portion of their salaries on loan repayments, and they have little real possibility of leaving their place of work.

In 2019, recommendations to revoke the exclusion of seven companies were published. Since Grupo Carso SAB de CV is no longer involved in the production of tobacco, there are no longer any grounds for its continued exclusion. Nutrien Ltd has stopped buying phosphates from Western Sahara, thus eliminating the grounds for its exclusion. General Dynamics no longer produces cluster munitions, thus eliminating the grounds for its exclusion.

In 2008, the Council recommended the exclusion of the mining company Rio Tinto (Rio Tinto Ltd and Rio Tinto PLC) for its participation in a joint venture operating the Grasberg mine in the province of Papua, Indonesia. The mine, which is one of the largest of its type in the world, disposes of its tailings (mine waste) in the local watercourse, and this constituted the grounds for its exclusion. In 2018, Rio Tinto sold its shareholding in the mine and is no longer associated with the activities there. The company's exclusion from the GPFG has therefore been revoked, while the company that continues to operate the mine remains excluded.

In 2019, the Council reassessed the exclusion of Walmart Inc and Wal-Mart de Mexico SAB de CV, and concluded that the grounds therefor no longer exist. In its recommendation to revoke exclusion, the Council attached importance to the fact that the company had reinforced the arrangements it has in place to prevent norm violations in its supply chain, and that the systems seem better designed to uncover serious infringements. Nevertheless, some of the matters that contributed to the company's exclusion remain unremedied, for example the company's active thwarting of employees' efforts to unionise. The Council still considers Walmart's practice in this area to be censurable. In its 2005 recommendation to exclude Walmart, the Council emphasised that there were several factors whose sum total constituted grounds for exclusion. The Council concluded in 2019 that there was no longer an unacceptable risk that Walmart was contributing to human rights violations in a way that constituted grounds for exclusion.

In 2019, observation of Petroleo Brasileiro SA (Petrobras) was concluded. The company has been under observation since January 2016 due to the risk of gross corruption.

Summaries of recommendations published in 2019

TEXWINCA HOLDINGS LTD
Submitted 5 June 2018

A summary of the recommendation to exclude Texwinca Holdings Ltd was published in the Council's 2018 annual report.

HALCYON AGRI CORP LTD
Submitted 24 October 2018

The Council on Ethics recommends that Halcyon Agri Corp Ltd (Halcyon) be excluded from investment by the GPFG due to an unacceptable risk that the company is responsible for serious environmental damage.

Halcyon produces specialised products made of natural rubber and owns rubber plantations and processing plants in Cameroon, the Ivory Coast and Malaysia. The company is listed on the stock exchange in Singapore. At the close of 2017, the GPFG owned the equivalent of 0.1 per cent of Halcyon's shares, worth NOK 5.5 million.

The Council's assessment relates to the company's rubber plantations in Cameroon, where it is in the process of converting tropical forest into plantations. The company holds three concessions in Cameroon, covering a total of 589 km^2 . The North Concession is almost complete, while most of the Centre and South concessions, which cover 543 km^2, are still untouched. These two concessions comprise dense rainforest and freshwater swamp forest and have a 33 km shared boundary with the Dja Faunal Reserve, a UNESCO World Heritage Site. The Council's investigations indicate that more than 48 km^2 of forest, of which 16 km^2 is forest with a particularly high conservation value (HCV), has been cleared since 30 December 2015, primarily in the Centre Concession. Although Halcyon's own assessment identified an HCV area of around 256 km^2, the company has set aside only around half that amount for conservation, primarily in the South Concession. The rest is scheduled for conversion into plantations.

Halcyon's concessions lie in a region of uniquely rich biodiversity. The company's own reports show that the forest covering its concession land is home to more than 20 species on the International Union for the Conservation of Nature (IUCN) Red List of Threatened Species, including lowland gorillas, chimpanzees and forest elephants. Two of the species are critically endangered, which means there is an extremely high risk of them becoming extinct. This is not something that has been addressed in either the environmental impact or HCV assessments, and none of these reports contains any reference to the IUCN. In the Council's opinion, it seems as though important conservation issues in the concession areas have been inadequately assessed, which means that no one knows what other important species and habitats will be lost as a result of plantation development. However, the Council finds there are sufficient grounds to conclude that the company's operations will cause irreversible environmental damage, since the removal of all vegetation in the area will lead to the destruction of habitats and important biodiversity – as also described in the environmental impact assessments.

The measures that the company has implemented will almost certainly be insufficient to reduce the environmental damage caused by plantation farming. The Council attaches importance to the fact that the company has already converted areas of high conservation value and that it intends to set aside only half of the identified HCV area. There is also a risk that the areas which the company has actually set aside for the protection of endangered species are too small and fragmented to maintain viable populations of such species.

The Council on Ethics also attaches importance to the fact that UNESCO has pointed to the risk that plantation farming could damage the Dja Faunal Reserve's unique standing as a world heritage site, particularly due to the substantial influx of workers. Halcyon has not substantiated that the measures it has implemented will be sufficient to remedy this.

The Council concludes that the scale of deforestation in an area of exceptionally rich and unique biodiversity and many endangered species, as well as the risk that the operation will harm a world heritage site, qualify as serious environmental damage. It therefore recommends that Halcyon be excluded from the GPFG.

GENERAL DYNAMICS CORP
Submitted 19 December 2018

The Council on Ethics recommends that the exclusion of General Dynamics Corp from investment by the GPFG be revoked. The company has been excluded since 2005 due to its production of cluster munitions. This activity has now ceased, thereby eliminating the grounds for the company's exclusion.

WALMART INC OG WAL-MART DE MEXICO SAB DE CV
Submitted 8 May 2019

In 2006, the companies Wal-Mart Stores Inc and Wal-Mart de Mexico SA were excluded from investment by the GPFG at the recommendation of the Council on Ethics. These companies have subsequently changed their names to, respectively, Walmart Inc and Wal-Mart de Mexico SAB de CV. They are referred to collectively as "Walmart".

The Council on Ethics has reviewed the GPFG's exclusion of Walmart and concluded that the grounds therefor no longer exist. The Council therefore recommends that Walmart's exclusion be revoked.

RIO TINTO PLC OG RIO TINTO LTD
Submitted 7 January 2019

The Council on Ethics recommends that the exclusion of Rio Tinto PLC and Rio Tinto Ltd from the GPFG be revoked. The companies have been excluded since 2008 on the grounds of serious environmental damage caused by operations at the Grasberg mine in Indonesia. In September 2018, Rio Tinto signed a contract to sell all its interests in the mine. There are therefore no longer any grounds for the companies' continued exclusion.

GRUPO CARSO SAB DE CV
Submitted 8 May 2019

Grupo Carso SAB de CV was excluded from investment by the GPFG in 2011 on the grounds of tobacco production. Since the company is no longer involved in this kind of production, the Council on Ethics recommends that its exclusion be revoked.

NUTRIEN LTD
Submitted 7 January 2019

In 2011, Potash Corporation of Saskatchewan was excluded from investment by the GPFG. The Council on Ethics had recommended its exclusion due to the company's purchase of phosphate minerals from Western Sahara. In January 2018, the companies Potash Corp and Agrium Inc. merged to form Nutrien Ltd. Potash Corp's exclusion from the GPFG was carried over to cover Nutrien. Nutrien has now discontinued its imports of phosphates from Western Sahara, thereby eliminating the grounds for its exclusion.

G4S PLC
Submitted 8 April 2019

The Council on Ethics recommends that G4S PLC be excluded from investment by the GPFG due to an unacceptable risk that the company is contributing to systematic human rights violations. G4S is a British company that provides security services in over 90 countries.

The Council has assessed the company's treatment of migrant workers in Qatar and the United Arab Emirates (the Emirates). In these countries, the company makes extensive use of migrant workers from India, Pakistan and Nepal, among others.

In the Gulf States, migrant workers are subject to regulations that link the employee's work permit to a specific employer. These regulations, along with the use of recruitment fees and misleading information about working conditions, have been condemned internationally as making migrant workers vulnerable to exploitation. Although the regulations have changed in the period the Council has been working on the case, workers in Qatar must still obtain their employer's consent to take a job with another company. G4S therefore operates within a regulatory framework that limits workers' freedom of action.

When assessing the migrant workers' situation, the Council attaches particular importance to the use of recruitment fees, misleading information about wages and working conditions and restrictions on workers' freedom of movement. These practices contravene the ILO's conventions on labour rights.

The Council on Ethics' investigations show that workers borrow money in their home countries to pay recruitment fees. Because of this debt, they have little opportunity to leave their jobs. The fact that many are misinformed about wages and working conditions (they may, for example, receive far lower wages than were agreed in their home countries) further limits workers' freedom of action. When the Council first investigated the company, workers in both the Emirates and Qatar also had their passports confiscated. This company practice was changed in Qatar between 2016 and 2018. The Council's investigations also revealed long working days, a lack of overtime payment and examples of workers being harassed.

In recent years, there has been a growing focus on the situation facing migrant workers in the Gulf, with particular emphasis on the risk relating to the use of recruitment fees. G4S has itself identified Qatar and the Emirates as countries where the risk of human rights abuses is high, and has implemented measures to improve the situation. For example, the company is in the process of setting a cap on recruitment fees in the Emirates. Nevertheless, the company has given no indications that it will stop the charging of recruitment fees. Nor has the company pointed to any measures to prevent misleading information being given about wages and working conditions. Furthermore, it does not allow its workers in Qatar to change employer.

The Council's assessment rests on the international understanding of recruitment fees as a particular risk factor for the exploitation of migrant workers. In conjunction with the widespread misinformation regarding wages and working conditions and restrictions on workers' freedom of movement, the Council finds that there is an unacceptable risk that the company is contributing to systematic human rights violations.

PETROLEO BRASILEIRO SA
Submitted 5 November 2019

The Council on Ethics for the GPFG recommends that Petroleo Brasileiro SA (Petrobras) be removed from the list of companies it has under observation. Petrobras has been under observation since 2016. The Council on Ethics recommended that Petrobras be placed under observation in 2015 after revelations that senior executives at the company and its most important suppliers had for a decade operated a system in which the payment of bribes was a prerequisite for winning contracts with Petrobras. Investigations into some of these cases remains ongoing.

Despite the risk inherent in the fact that the Brazilian government, as the controlling shareholder, appoints a majority of Petrobras's board members, the Council considers that the risk of corruption in the company has decreased. This assessment rests partly on the legal settlement entered into with the US Department of Justice which confirms that Petrobras has implemented wide-ranging improvement measures since the investigations commenced in 2014, and that it has undertaken to report on the further implementation of its compliance programme and internal control measures each year until 2021. The Council would also like to point out that Brazil's federal prosecution service and supreme court have officially defined Petrobras as a victim in the Lava Jato investigation, and that the company is therefore assisting the prosecuting authorities in many ongoing criminal proceedings.

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: List of companies on which observation reports have been issued

Company	Criterion	Issued
Astra International Tbk PT	Severe environmental damage	21.06.2019
Hansae Co Ltd	Human rights	11.02.2019
Hansae Yes24 Holdings Co Ltd	Human rights	11.02.2019
Leonardo SpA	Gross corruption	17.12.2019
Nien Hsing Textile Co Ltd	Human rights	17.12.2019
Pan Ocean Co Ltd	Human rights and severe environmental damage	17.12.2019

The Council is responsible for following up companies that have been placed under observation at its own recommendation. 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, at its own initiative, placed under observation under the coal criterion.

During the observation period, the Council normally 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 2019, the Council issued observation reports on six companies and held meetings with four of these.

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

Astra International Tbk PT has been under observation since 15 January 2014 due to an unacceptable risk that the company, through its subsidiary's conversion of tropical forest to oil palm plantations, is responsible for serious environmental damage. The company does not seem to have opened up new areas of peat bog or forest in its concession areas. The Council still takes the view that the company should provide more specific information about how it is protecting important conservation values in the individual concession area. In 2019, the Council also raised the plight of the

Rimba people, who live in the company's concession area in Sumatra, and the necessity of resolving the conflict with indigenous peoples through consultation. The Council will continue to observe Astra, and will, in 2020, decide whether to recommend its exclusion or removal from the observation list.

Hansae Yes24 Holdings Co Ltd and its subsidiary Hansae Co Ltd has been placed under observation since June 2017 due to an unacceptable risk that they were responsible for systematic labour rights violations at their garment factories. The Council's assessment was based primarily on studies of working conditions at Hansae's factories in Vietnam, which found widespread labour rights violations. Since May 2017, Hansae has implemented a number of measures to improve working conditions. It is nevertheless too soon to assess the extent to which these changes are sufficient, particularly with regard to Hansae's operations in other countries. The Council will therefore continue its observation of Hansae.

Leonardo SpA has been placed under observation since May 2017 due to the risk of gross corruption. The company had been involved in a series of serious corruption cases that were alleged to have taken place in four countries between 2009 and 2014. The Council has issued annual observation reports on the company since that time. While the Council has the impression that the company has taken important steps to strengthen its anticorruption efforts in recent years, many of the improvements are of recent date. For this reason, the Council took the view in 2019 that it was too soon to remove the company from the observation list.

Nien Hsing Textile Co Ltd has been under observation since July 2018, due to an unacceptable risk that the company is responsible for systematic labour rights violations at its own factories. The Council's recommendation was based on studies of working conditions at the company's factories in Lesotho. Since May 2018, Nien Hsing has implemented a number of measures to improve working conditions at these factories. Among other things, the company has entered into agreements with three international brand companies, trade unions and women's organisations to create an independent investigatory body to handle complaints of gender-based violence and harassment. The Council considers that it is too soon to conclude whether the changes Nien Hsing has made are sufficient and will therefore continue its observation of the company.

Pan Ocean Co Ltd has been under observation since January 2018 because it has disposed of obsolete ships by sending them for break up on the beaches of Bangladesh. This practice, known as "beaching", is carried out under extremely poor working conditions and causes significant environmental pollution. The company disposed of one ship for beaching in 2017, after the Council had recommended that it be placed under observation but before Norges Bank had published its decision. Since Pan Ocean had not been aware that further disposal of ships for the purpose of beaching would lead to exclusion, and the company also reiterated its intention not to dispose of any more ships in this fashion, the Council took the view that there were grounds to continue its observation.

Guidelines for observation and exclusion from the Government Pension Fund Global

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. This unofficial English version is last updated 2 September 2019.

Adopted 18 December 2014 by the Ministry of Finance pursuant to the Royal Decree of 19 November 2004 and section 2, second paragraph, and section 7 of Act no. 123 of 21 December 2005 relating to the Government Pension Fund. Amended 21 December 2015, 1 February 2016, 31 January 2017 and 1 September 2019.

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

a) derive 30 per cent or more of their income from thermal coal,

b) base 30 per cent or more of their operations on thermal coal,

c) extract more than 20 million tonnes of thermal coal per year, or

d) have a coal power capacity of more than 10 000 MW from thermal coal.

(3) In assessments pursuant to subsection (2) importance shall also be given to forward-looking assessments, including any plans the company may have that will change the level of extraction of coal or coal power capacity relating to thermal coal, reduce the income ratio or business share based on thermal coal and/or increase the income ratio or business share relating to 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 two months prior to the expiry of the appointment period.

(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, 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.

(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.

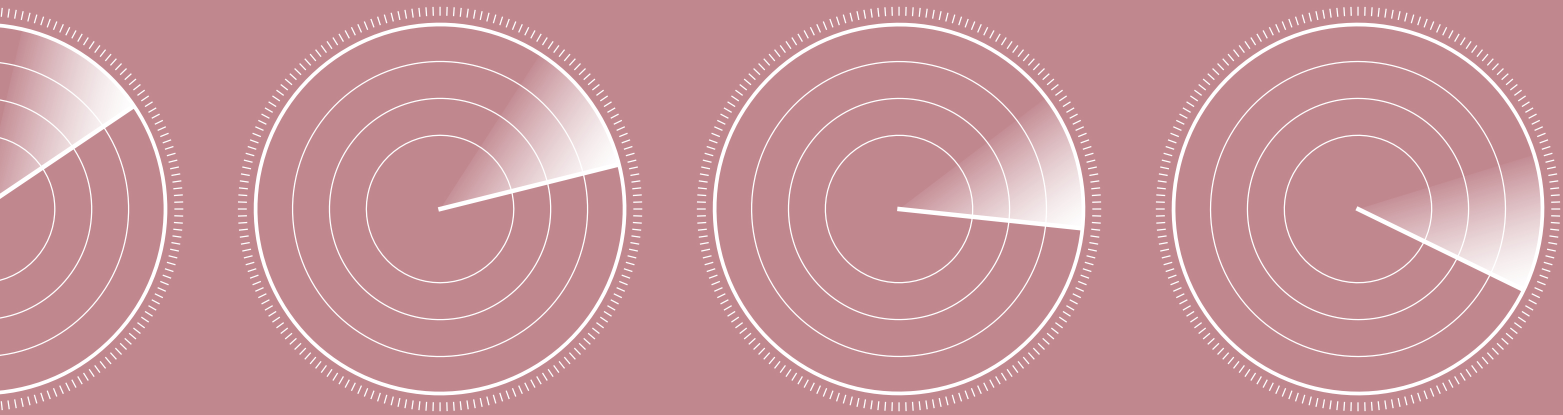
(2) The Ministry and the Council on Ethics shall meet at least once a year. The following matters shall be discussed at the meetings:

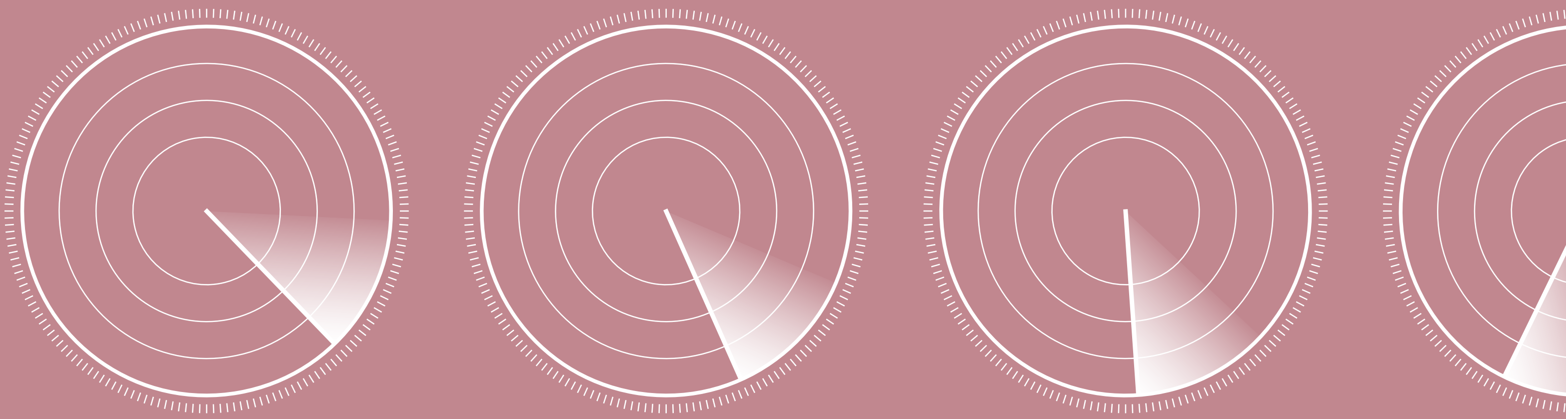
a) activities in the preceding year

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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Council on Ethics for the Government Pension Fund Global
Postboks 8008 Dep, N-0030 Oslo Norway

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