



The work of the Council on Ethics

The Council on Ethics for the Norwegian Government Pension Fund Global (GPFG) is an independent body that makes recommendations to Norges Bank to either exclude companies from the GPFG or place them under observation. The Council's assessments are based on ethical guidelines determined by the Norwegian Ministry of Finance. The guidelines contain both productbased exclusion criteria, targeting the production of tobacco, cannabis, coal or certain types of weapons, and conductbased exclusion criteria, such as corruption, the sale of weapons to certain states, human rights abuses, environmental damage and unacceptably high greenhouse gas emissions. The threshold for exclusion is intentionally high, and companies may be excluded only if they represent an unacceptable future ethical risk to the GPFG. The Council's recommendations are published on its website as soon as Norges Bank has announced its decision.

New guidelines for the observation and exclusion of companies from the Norwegian Government Pension Fund Global

As a consequence of the Ethics Commission's 2020 report *Values and Responsibilities*, new guidelines for observation and exclusion from investment by the GPFG were adopted in September 2021. A new paragraph has been inserted, which states that the purpose of the guidelines is "to avoid that the Government Pension Fund Global (GPFG) is invested in companies that cause or contribute to serious violations of fundamental ethical norms, as set out in these guidelines' sections 3 and 4." This objective has also previously underpinned the Council's endeavours. The new paragraph is nevertheless useful because it clarifies the Council's role in the responsible management of the GPFG.

Two new exclusion criteria have been introduced – one product-based and one conduct-based – while the area of application of others has been extended. These changes are described later in this annual report.

The new guidelines also prescribe a close cooperation between the Council and Norges Bank in several areas. The Council has begun discussing the changes in the guidelines with Norges Bank. This dialogue, which covers both administrative routines and the introduction of new criteria, will continue in 2022. Given that major changes may be made in

the portfolio's composition as a result of changes in the reference index, particular attention will also be paid to this topic in the organisations' collaboration going forward.

Portfolio monitoring and information gathering

Companies are identified by means of portfolio monitoring, inquiries from external actors and systematic reviews of areas with a high ethical risk.

The Council constantly monitors the media and other information sources to discover whether companies in which the GPFG is invested fall within the guidelines for observation and exclusion. In 2021, the Council put both its portfolio monitoring contracts out to tender, and has signed agreements with two different firms. One of these produces a quarterly report on companies in the GPFG's portfolio that may contravene the product-based criteria or sell weapons or military equipment to certain states. The other performs daily searches of news sources in multiple languages for items relating to serious norm violations that could be linked to companies in the GPFG portfolio. The Council receives reports from the consultant every two months. In addition, the Council monitors information from other sources and investigates relevant companies on an ongoing basis.

The Council is also approached by organisations and individuals who call on it to consider specific cases.



These contacts may be made directly to the Council or forwarded from Norges Bank. While all relevant product-based cases are investigated, the Council must prioritise which cases to examine in more detail under the conduct-based criteria. In this context, the Council gives weight to the violation's scope and seriousness, its consequences, the company's responsibility for or contribution to the matter concerned, what the company is doing to prevent or mitigate the harm caused, and the risk of similar incidents occurring in the future.

Access to information varies significantly from country to country. The Council may, to a certain extent, be able to offset this by undertaking its own investigations. Such investigations often follow a long-term plan. For example, the Council has worked with companies that dispose of ships to be broken up for scrap on the beaches of

Bangladesh and Pakistan since 2017, while it has focused on deforestation and loss of biodiversity since 2010.

The Council obtains information from research environments as well as national and international organisations, and often commissions third-party consultants to investigate indications of norm violations covered by its guidelines. The Council frequently engages in dialogues with company officials during the assessment process. In the past two years, due to the Covid-19 pandemic, conducting field studies and physical meetings with company representatives has been a challenge. Some of this activity has been replaced by digital investigations and meetings. Field studies and physical meetings will be resumed as soon as the situation permits.

Table 1: The Council on Ethics' activities 2019–2021

Year	2019	2020	2021
No. of limited companies in the GPFG at year-end (approx.)	9200	9150	9340
No. of companies excluded at the recommendation of the Council on Ethics at year-end	65	71	80
No. of companies placed under observation at the recommendation of the Council on Ethics	7	6	9
No. of companies on which the Council on Ethics has issued a recommendation during the year	17	12	21
No. of companies excluded during the year at the recommendation of the Council on Ethics	3	10	12
No. of companies placed under observation during the year	0	0	3
No. of observations concluded during the year	0	1	0
No. of exclusions revoked during the year	7	2	3
No. of companies the Council has been in contact with	50	77	66
No. of companies the Council has met with	14	16	12
No. of new cases the Council has begun assessing during the year	100	120	91
No. of cases concluded during the year	87	104	86
Total no. of companies under assessment during the year	180	206	195
No. of Council meetings	9	10	14
Secretariat (no. of staff)	8	8	8
Budget (NOK million)	18,7	18,7	18

The table summarises the scope of the Council's investigations in 2021, compared with 2020 and 2019. Companies excluded by Norges Bank under the coal criterion, without the Council's recommendation, are not included in the table. Companies that have been delisted from a stock exchange are removed from the list of excluded companies as and when delisting occurs.



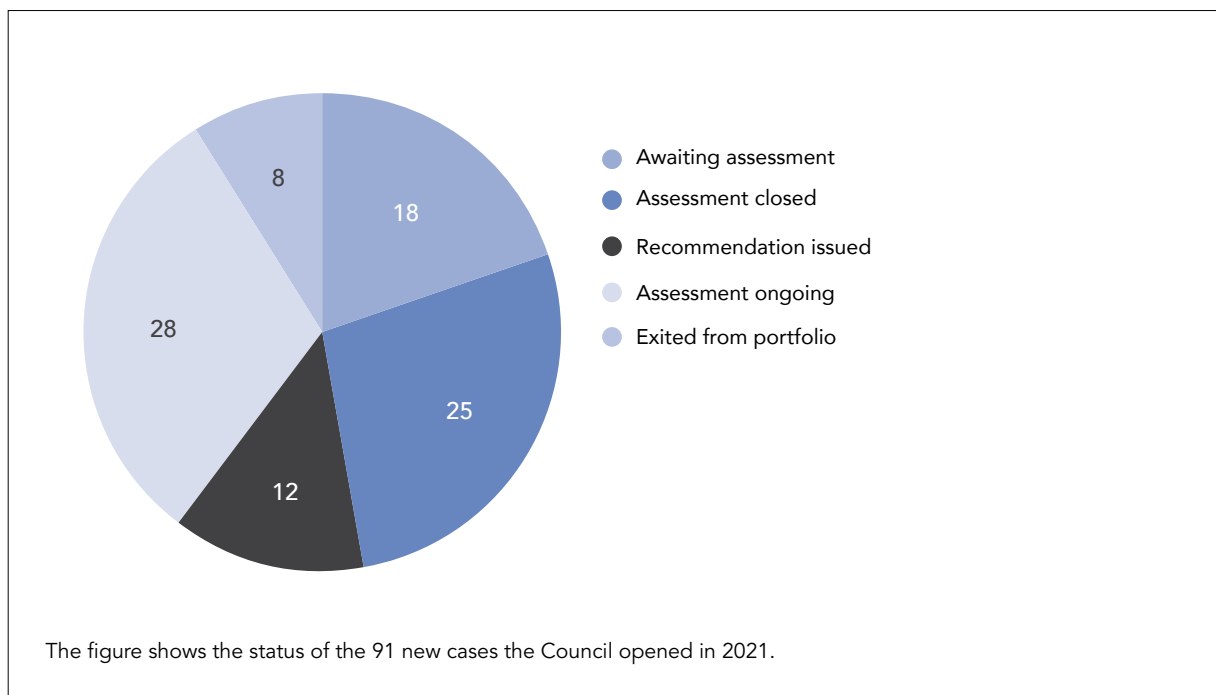
Overview of activities undertaken by the Council on Ethics in 2021

In 2021, the Council recommended that 10 companies be excluded and three companies should have their exclusion revoked. The Council further recommended that five companies be placed under observation, while the observation of three companies should be revoked. Not all of the Council's recommendations have yet been published. Many months may pass between the Council issuing its recommendation and Norges Bank taking a decision on the matter. On the basis of recommendations issued by the Council in 2020 and 2021, Norges Bank announced the exclusion of 12 companies during the year. A further three companies were placed under observation, while the exclusion of three companies was revoked. Norges Bank decided to exercise its influence as a shareholder on one company that the Council had recommended be placed under observation.

As at 31 December 2021, 80 companies were excluded from the GPFG, while nine were under observation on the basis of the Council's recommendations. In addition, Norges Bank has, on its own initiative, excluded 72 companies and placed 13 companies under observation with reference to the coal criterion.

The Council has worked on a total of 198 cases at various stages in the assessment process in 2021. Of this number, 91 cases were opened during the year, while 60 were opened in 2020. The assessment of 86 cases was concluded. This includes companies about which a recommendation was given to Norges Bank, companies where there were no grounds to exclude or observe, and companies in which the GPFG is no longer invested. In 2021, 25 companies which the Council was assessing left the fund before any recommendation was issued.

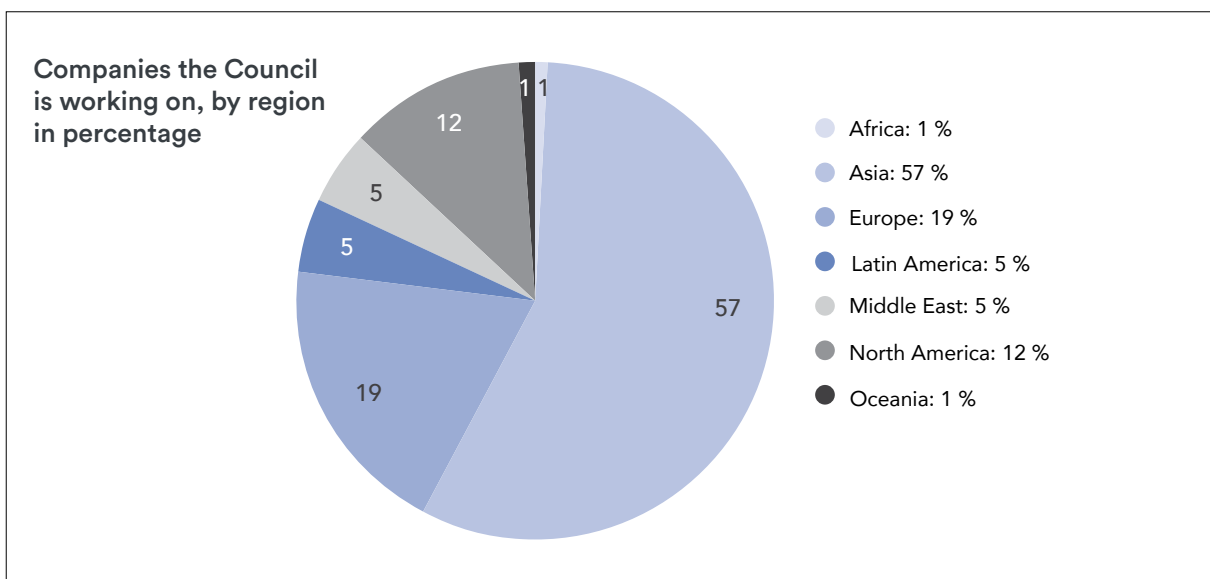
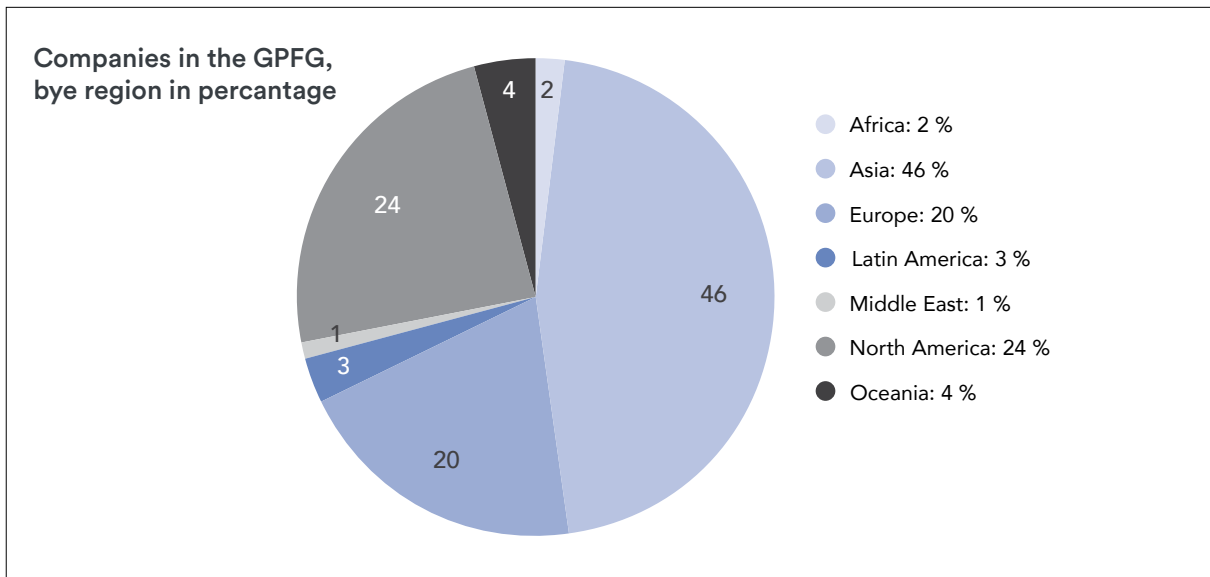
Figur 1: What happened to the 91 cases that were opened in 2021?



Recommendations to exclude or place under observe, or to revoke an exclusion or terminate a period of observation were issued in 12 of the 91 new cases, while no further action was taken in 25 cases. The assessment of eight of the new cases was terminated because the company had exited the portfolio. 28 of the cases are still being assessed, while 18 cases have not yet undergone a full preliminary assessment.

The risk of gross corruption was the topic for 12 of the new cases opened for assessment in 2021, while the risk of forced labour in China's Xinjiang Uyghur Autonomous Region (Xinjiang) was the topic in 19 cases. Other issues that emerge repeatedly include financial collaboration with the armed forces in Myanmar, loss of biodiversity and beaching.

Fig. 2 shows the regional breakdown of the GPF's investments compared to the companies that the Council has assessed.

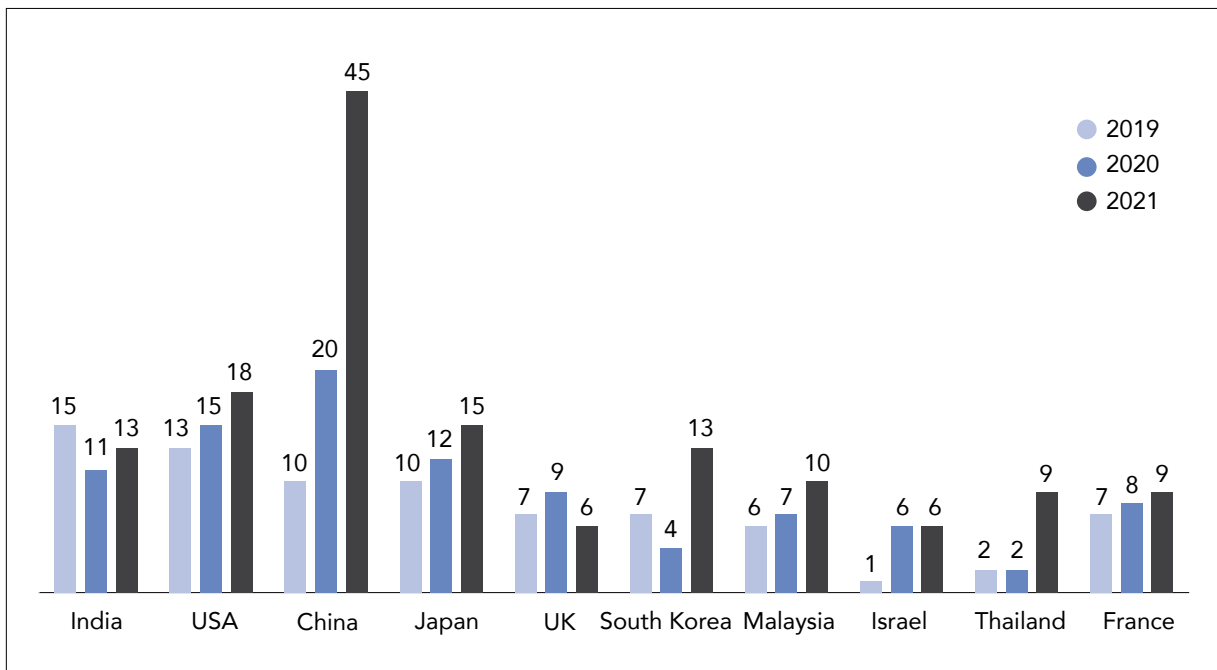




At the close of 2021, the GPFG had investments in approx. 9,340 companies in more than 70 countries. The geographic breakdown of the companies assessed by the Council varies from year to year. Certain regions are, however, overrepresented in 2021, such as Asia and the Middle East. Compared with 2020, for example, there has been a sharp increase in the number of cases relating to China. This is due, in part, to the fact that the Council has carried out investigations into human rights abuses in connection with the internment of Uighurs in China's Xinjiang region and has

assessed companies that produce traditional Chinese medicines containing body parts from endangered animal species. Some of the Council's other ongoing thematic investigations also encompass numerous Asian companies. This applies particularly to the rubber glove industry in Malaysia, beaching in some Asian countries and companies with links to the military regime in Myanmar. Although the Asian companies are often investigated as part of a review of areas with a high ethical risk, some are also identified through the general portfolio monitoring process.

Fig. 3: The 10 countries with the most companies under investigation in 2021



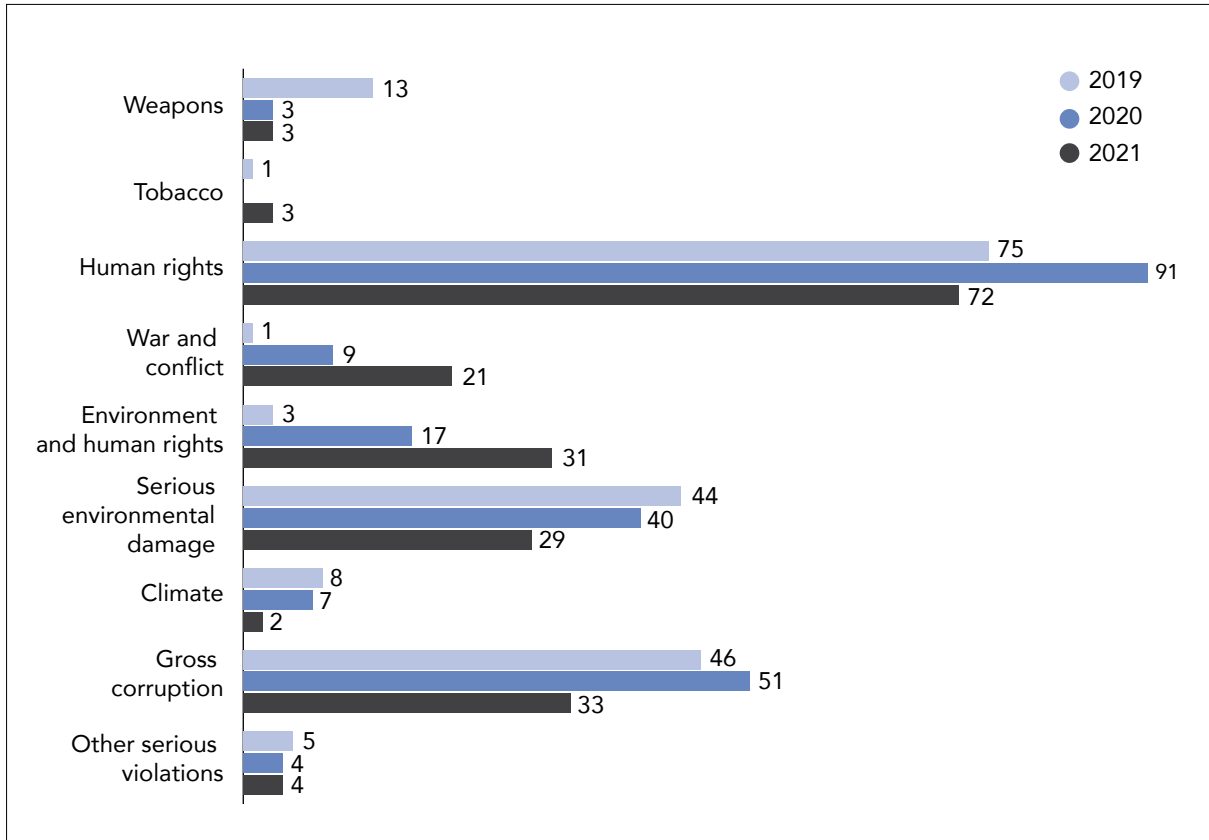
The figure shows the 10 countries with the most companies under investigation in 2021, with a specification of the number of cases per year in 2019, 2020 and 2021. In 2020, Canada, Saudi Arabia and Brazil were included in the corresponding graph.

In 2021, the Council has worked on companies from 12 European countries. Most of these cases related to the risk of gross corruption and human rights abuses.

The Council's work on companies domiciled in North and South America is spread somewhat more evenly over the criteria, though here, too, corruption and human rights cases dominate. In the past couple

of years, there has been an increase in USA-based companies being assessed under the human rights criterion. Examples include cases of human rights abuses made possible by surveillance technology, and forced relocation in connection with mining operations. Assessments of USA-based companies account for a smaller proportion of the cases than their overall number in the portfolio would indicate.

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



The figure shows the 198 cases on which the Council worked, distributed across the various criteria, compared with the years before. The figure includes cases that have recently emerged, those that have been thoroughly assessed and those that were closed after an initial investigation.

Work under the various criteria

The human rights criterion continues to account for the bulk of the cases assessed by the Council. Such cases are often prompted by investigations the Council has itself initiated on the basis of assumptions concerning the general risk of labour rights violations in a business sector or area. A large number of companies therefore undergo a preliminary investigation. The Council first identifies all enterprises engaging in a certain business activity and contacts relevant companies to obtain information that could confirm or refute the Council's assumptions. Based on their answers and information received from other sources, the Council then decides which companies should be investigated in more detail. Cases assessed under the human rights criterion may also spring from news bulletins or NGO reports. Such cases may, for

example, be linked to the infringement of indigenous peoples' rights or forced relocation, which accounted for some of the cases dealt with in 2021.

In 2021, the Council continued to work with companies that use labour linked to internment camps in China's Xinjian region and companies that make use of migrant workers. Information on these cases has come from both the Council's own inquiries, news reports and NGO reports.

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



Under the environment criterion, the Council continues to work on mining and industrial pollution, damage to conservation areas and loss of biodiversity. Several of the cases assessed under the environment criterion also have a human rights aspect. In cases where a company may be under investigation with respect to several criteria, the Council will normally attach decisive weight to just one of them. Beaching cases form an exception to this rule, with the Council’s recommendations resting on both an unacceptable risk of environmental damage and human rights abuses. Of the 31 companies that have been under investigation with respect to both the environmental and human rights criteria in 2021, 22 related to beaching.

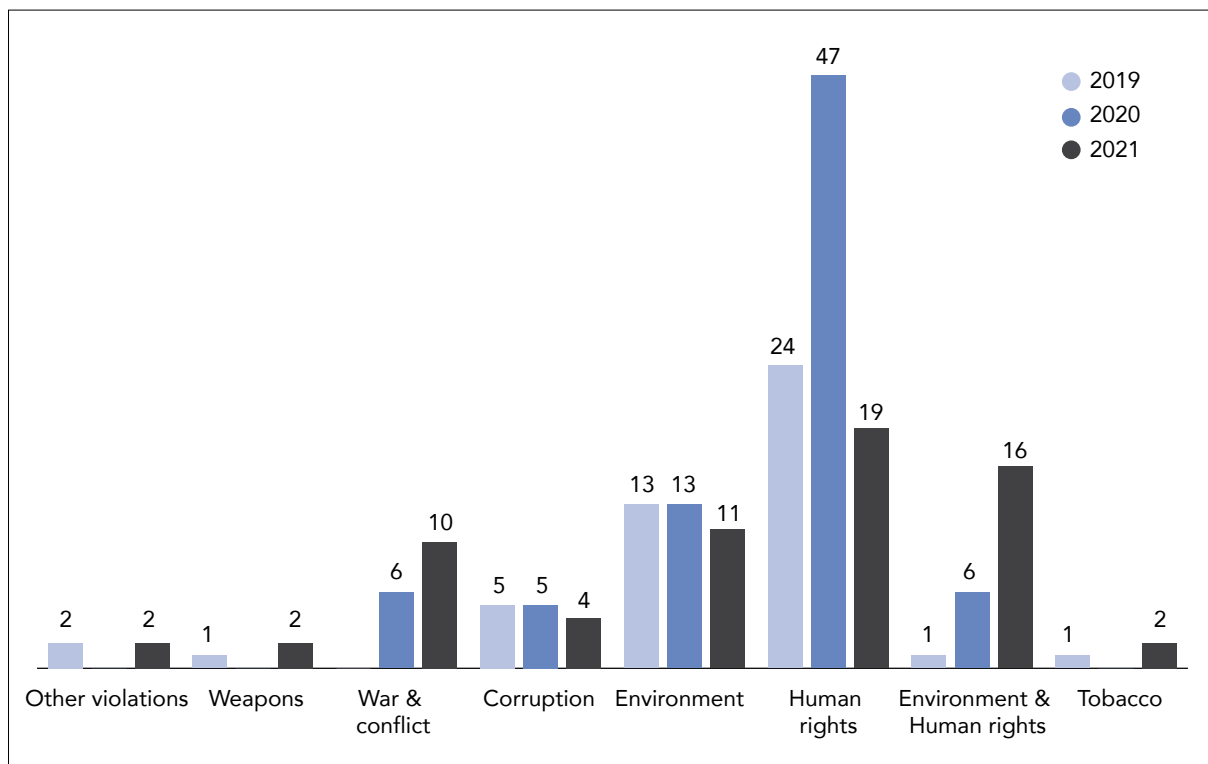
In 2021, much of the effort relating to the corruption criterion was devoted to the investigation of two companies, which resulted in recommendations to place them under observation. Of the 12 new cases

under the corruption criterion assessed in 2021, 10 were concluded at an early stage. Several of the cases are part of a sectoral study of state-controlled oil and gas companies.

Contact with companies in 2021

In 2021, the Council was in contact with 66 companies and had meetings with 12 of them. The Council contacts companies which, after a preliminary investigation, it wishes to look into more closely. The Council first writes a letter to the company concerned, asking for information that could provide a better foundation for an assessment of its operations. All the companies assessed under the conduct-related criteria are also given the opportunity to comment on a draft recommendation before the Council makes its final recommendation to Norges Bank.

Fig. 5: Contact with companies, by criterion



This figure shows how many companies the Council has been in contact with in relation to the various criteria in 2019, 2020 and 2021.

In 2021, the grounds for the Council's contacts with companies were more evenly distributed across the criteria than in recent years. The human rights criterion had previously accounted for the bulk of the cases assessed. This change may be due to the conclusion of the Council's textiles industry project, under which the Council contacted all the companies with factories in certain countries. The sectoral studies currently underway involve fewer companies.

The Council attaches importance to the information it receives from the companies concerned. In line with the Ethics Commission's report, a lack of response from a company could indicate a heightened ethical risk.

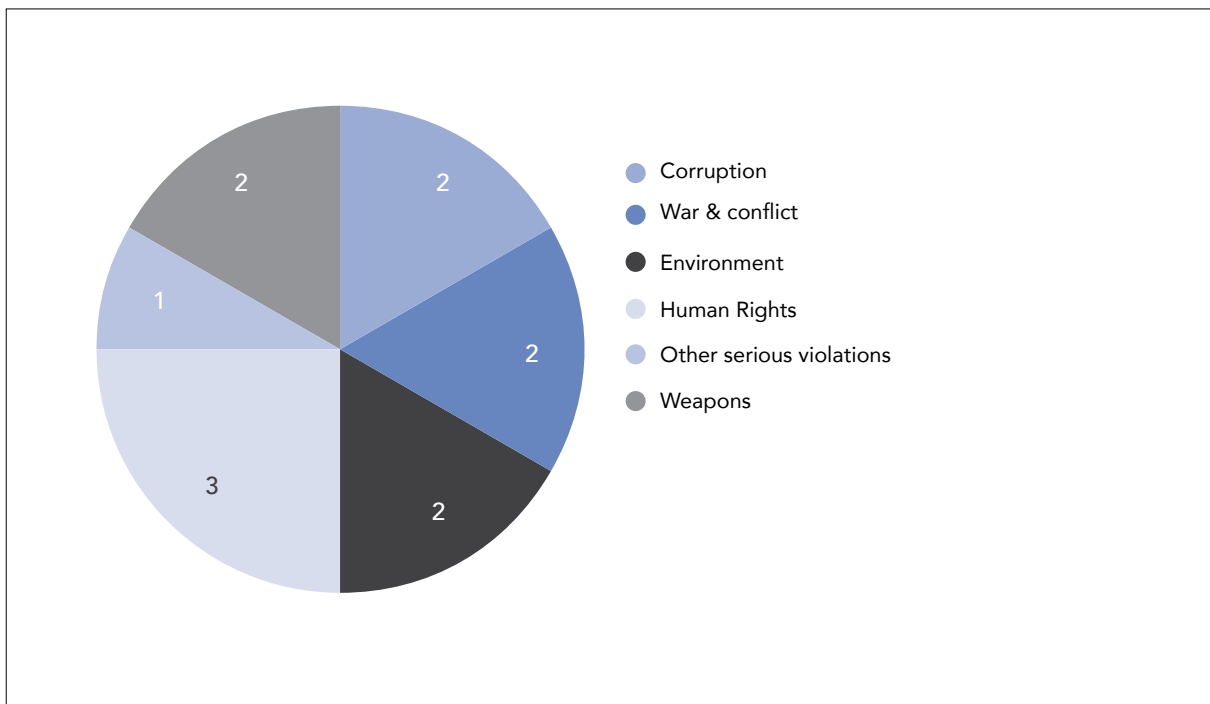
Most of the companies that the Council contacts for information reply to its queries, though there are exceptions. Of the 66 companies the Council contacted in 2021, 16 did not reply. In 2021, the Council issued recommendations to exclude six companies

that failed to respond to its queries. Five of these were Israeli, while one was Chinese.

Generally, the Council meets with companies late in the assessment process, often on the basis of a draft recommendation to exclude. The Council recommended that Norges Bank place three of the companies it met with in 2021 under observation. One company meeting in 2021 led to the Council terminating the assessment process, while three of the companies it met with are still under investigation.

The fact that companies are under observation creates a need for meetings in order to obtain information for the Council's observation reports. From time to time, the Council also meets with excluded companies, either because the Council wishes to assess whether the grounds for exclusion continue to exist or because the companies themselves request a meeting with the Council.

Fig. 6: Meetings with companies, by criterion





Reassessment of excluded companies

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

In 2021, the Council recommended that the exclusion of three companies be revoked. During the year, Norges Bank revoked the exclusion of two of these companies and a further company based on a recommendation from 2020. Companies that have been delisted from a stock exchange, are removed from the list of excluded companies without the Council's recommendation being rescinded.