Johan H. Andresen, Chair of the Council on Ethics

The Chair's report

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

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

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

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

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

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

Johan H. Andresen
Chair