



The work of the Council on Ethics

The Council on Ethics for the Government Pension Fund Global (GPF) is an independent body that makes recommendations to Norges Bank with regard to either excluding companies from the GPF or placing them under observation. The Council has five members and a secretariat with a staff of eight. The Council assesses a company's operations on the basis of ethical guidelines determined by the Norwegian Ministry of Finance. The guidelines contain both product-based exclusion criteria, such as the production of tobacco, coal or certain types of weapons, and conduct-based exclusion criteria, such as gross 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 risk to the fund's ethical standards. All the Council's recommendations are published on its website as soon as Norges Bank has announced its decision.

The Council continuously monitors whether companies in which the fund is invested could be operating in ways that infringe the fund's guidelines for observation and exclusion from the GPF. 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 guidelines' conduct 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 GPF's portfolio. The Council receives reports from the consultants and monitors a number of databases containing information on issues such as corruption or human rights violations. The Council is also approached, either directly or indirectly through Norges Bank, from

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.

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 textiles producers in some Southeast Asian countries since 2015, while it has focused on deforestation of tropical forests since 2009.

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 infringements of its guidelines. Furthermore, the companies in the GPF'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 2016–2018

Year	2016	2017	2018
No. of limited companies in the GPFG at year-end (approx.)	9000	9100	9150
Total no. of companies excluded at the recommendation of the Council on Ethics at year-end	66	64 ¹	70 ²
No. of companies placed under observation at the recommendation of the Council on Ethics at year-end	2	6	8
No. of recommendations made	15	12	10
No. of companies excluded during the year	5	1	11
No. of companies placed under observation during the year	1	4	2
No. of revoked exclusions during the year	1	1	2
No. of companies the Council has contacted	86	62	34
No. of companies the Council has met with	22	12	22
No. of new companies the Council has assessed			46 ³
Total no. of companies under assessment during the year	162	149	202
Total no. of company assessments concluded during the year	53	75	120
No. of Council meetings	12	10	11
Secretariat (no. of staff)	8	8	8
Budget (NOK million)	15,9	18,1	18,5

The table summarises the scope of the Council's investigations in 2018, compared with 2016 and 2017. Companies excluded by Norges Bank under the coal criterion, without the Council's recommendation, are not included in the table.

¹ Two companies were delisted from stock exchanges in 2017 and deleted from the list of excluded companies.

² Three companies were delisted from stock exchanges in 2018 or acquired by other excluded companies and deleted from the list of excluded companies.

³ A change in the count from "new cases" to "new companies" means that the figures for 2016 and 2017 are not comparable with 2018.

Overview of activities undertaken by the Council on Ethics in 2018

In 2018, the Council on Ethics issued five recommendations of exclusion and two recommendations on observation of companies. The Council also recommended to revoke the exclusion of three companies. On the basis of the Council's recommendations from 2016, 2017 and 2018, Norges Bank announced that 11 companies had been excluded, two had been placed under observation, while two exclusions had been revoked. In one case, Norges Bank elected the exercise of ownership rights, where the Council had recommended observation. The Council has no mandate to recommend active ownership.

Following the close of the year, Norges Bank announced its decision to exclude one additional company. As at 1 March 2019, 71 companies have been excluded from the GPFG, while eight are under observation on the basis of the Council's recommendations. A further 69 companies have been excluded and 14 placed under observation at Norges Bank's own initiative under the coal criterion.

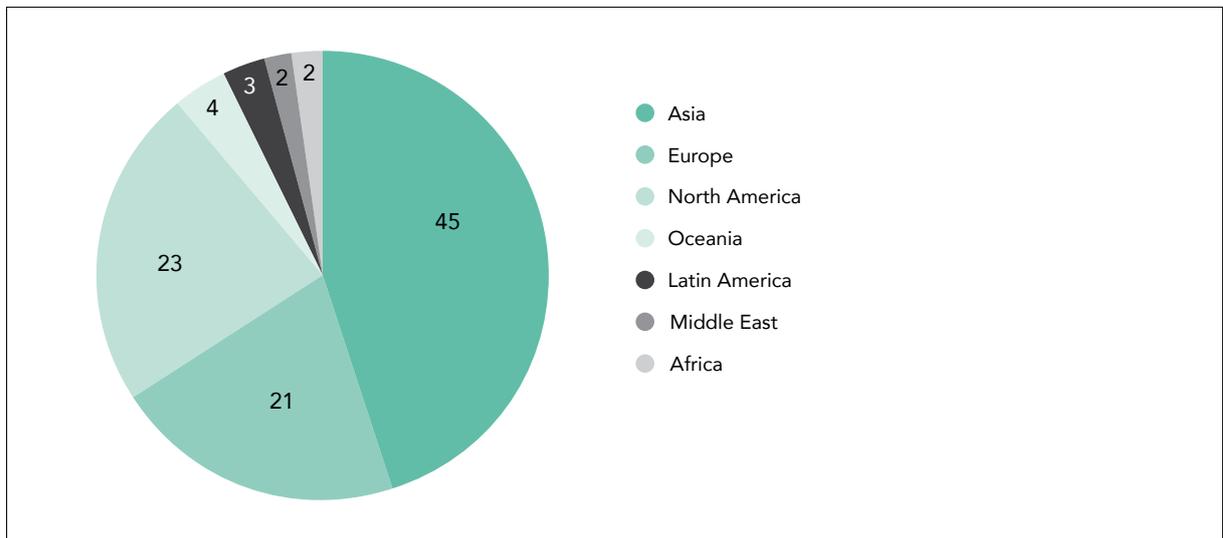
Of the approx. 200 companies that the Council considered in 2018, around 50 were new in that year. The Council concluded around 120 company assessments during the year. The number of companies under assessment rose from 2017 to 2018, partly because the Council has investigated certain new areas, where a large number of companies have been identified through portfolio monitoring activities.

Following an initial review of this kind, the Council selects a limited number of cases for further investigation. Only serious cases, involving an unacceptable risk that the unethical practices will continue, may lead to exclusion from the fund.

At the close of 2018, the GPFG had investments in around 9,000 companies in 70 countries. The geographic spread of the 200 or so companies on which the Council has worked over the course of the year reflects the geographic spread of the companies in

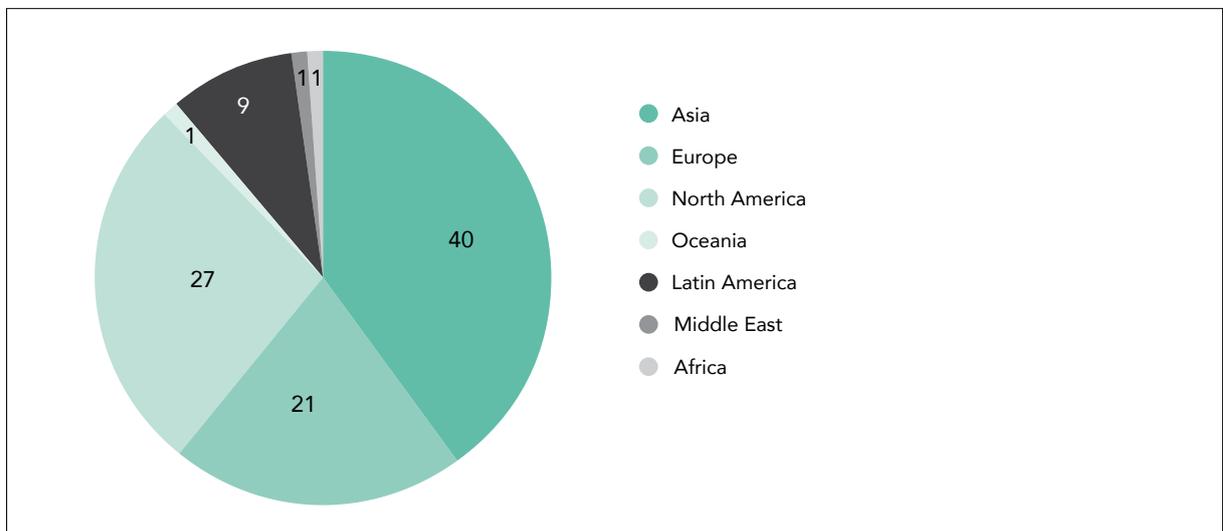
the fund. Certain geographic areas are, however, overrepresented – particularly with regard to certain criteria. For example, the production of nuclear weapons is carried out by listed companies only in a few countries. Access to information also varies from country to country, and this can be significant for whether cases are picked up by the Council’s portfolio monitoring activities. Many of the Asian companies the Council is looking into, are being investigated as part of a general assessment of areas with a high ethical risk, not as the result of media coverage.

Fig.1 Companies in the GPFG, by region in percentage



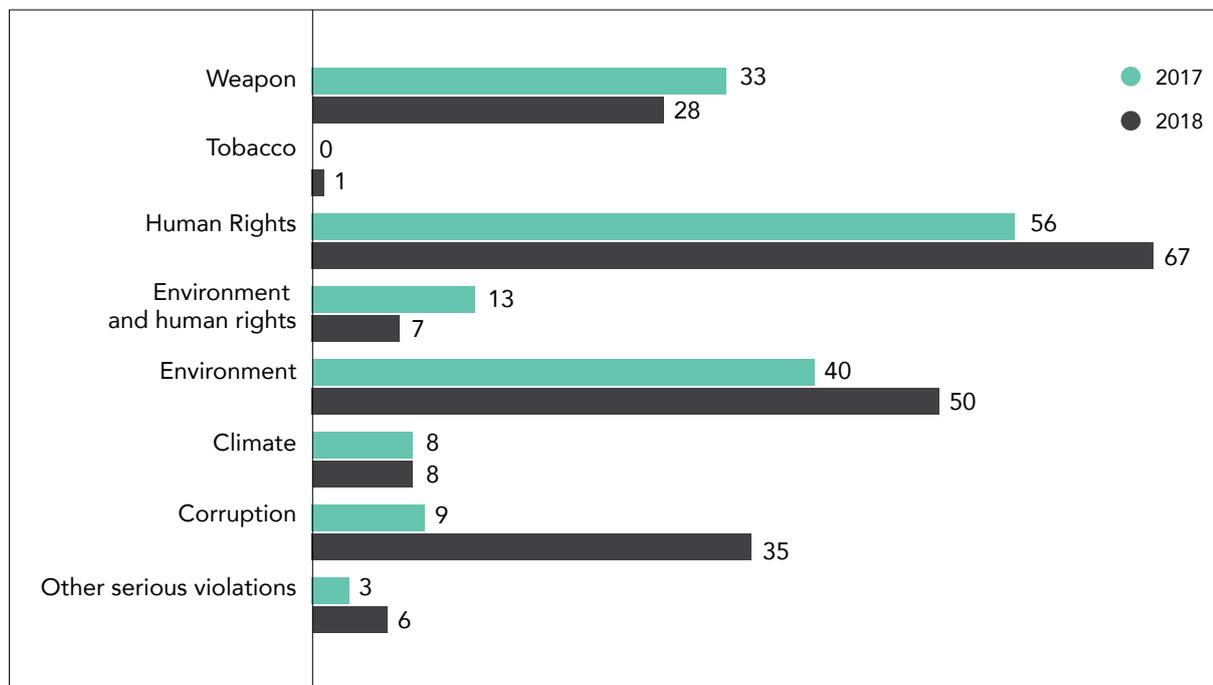
The figure shows the share of companies in GPFG by region where they are listed.

Fig.2 Companies the Council is working on, by region in percentage



The figure shows the share of companies the Council has investigated by region where they are listed.

Fig. 3 Companies under assessment, by criterion



The figure shows which exclusion criteria the companies examined by the Council on Ethics in 2017 and 2018 have been assessed against.

The Council's work under the various criteria

In 2018, human rights violations was once again the conduct-based criterion against which a majority of companies was assessed.

In 2018, the Council assessed cases relating to children's rights, the rights of indigenous peoples, freedom of expression and labour rights, among others. The criterion encompasses a variety of rights, with a wide range of issues coming up for assessment. The Council has looked at cases where people have been forcibly relocated to make way for economic activity, where migrants or minorities have been assaulted, where opponents of a project have been prosecuted without cause, and cases where workers, including children, have been exploited through unacceptable working conditions or misleading recruitment processes.

Violation of labour rights is fairly widespread, but is often not picked up through news monitoring efforts. The Council therefore commissions investigations into selected companies in countries and sectors where the risk of norm violations is high. A large number of companies must often be examined to identify those

which should be excluded from the fund. The number of companies in the GPF from countries where human rights violations is widespread has increased. This represents a challenge for the Council, both because there is a larger number of cases to consider and because it is not possible to investigate human rights violations in the same way in every country. The Council explained this in greater detail in a letter to the Ministry of Finance in November 2018. This letter is included on page 47 of this annual report.

During the year, many allegations of corruption against companies are picked up on through the Council's portfolio monitoring efforts. If there are many corruption cases in a specific sector, the Council will often consider them collectively. It will then investigate those companies within a sector against which the most serious allegations have been made. In 2018, such a review was made of pharmaceutical companies. As far as possible, the Council strives to ensure its efforts form a chain of responses alongside Norges Bank's exercise of ownerships rights. When it became clear that Norges Bank also wished to follow up a pharmaceutical company that the Council had identified for closer examination, the Council elected to await the results of this process.

Even though the Council has issued several recommendations under the climate criterion in both 2017 and 2018, no company has so far been excluded from the GPFG on these grounds. Work on the climate criterion and the reason why no companies have so far been excluded are described in the chapter on the environmental and climate criteria on page 20. Under the environment criterion, the Council has worked on cases relating to deforestation and conservation areas, as well as mining and industrial pollution. In 2018, the Council concluded its systematic mapping of companies engaged in fishing activities that are particularly damaging to the environment, but will consider other such cases if they are identified through portfolio monitoring activities.

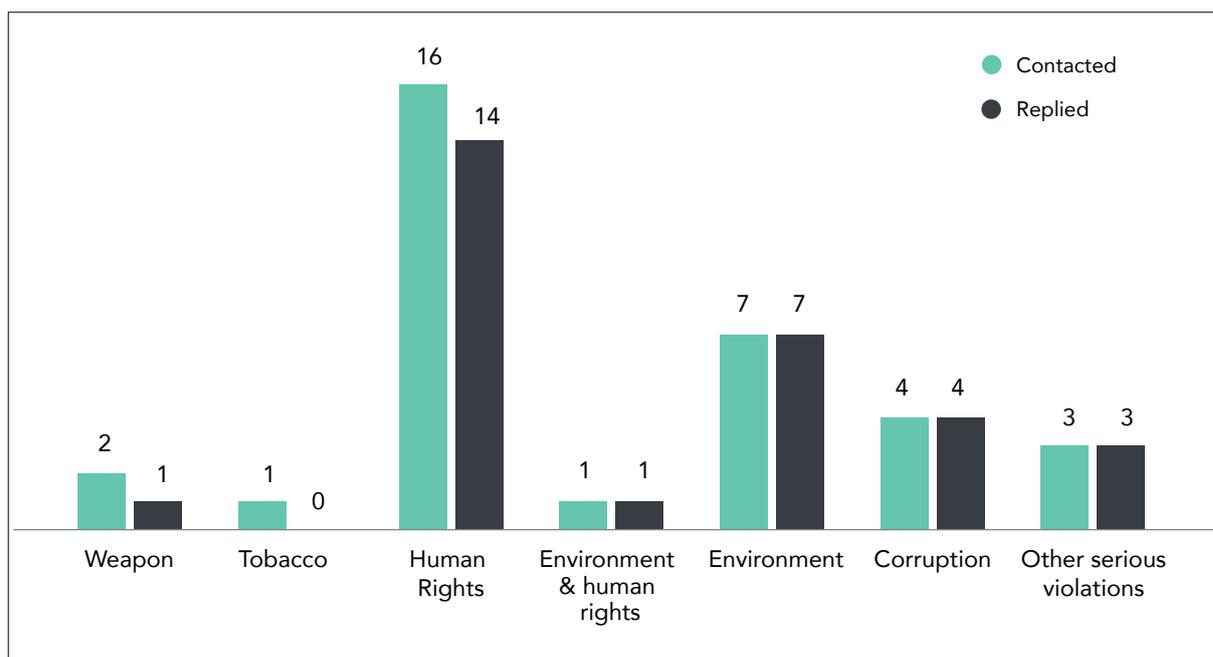
Norges Bank can exclude companies under the coal criterion without a recommendation from the Council. Norges Bank and the Council have agreed a division of labour, whereby the Bank identifies companies that fall within the scope of the coal criterion. The Bank will follow up such companies going forward. The Council will assess those companies to which it may be alerted.

In 2018, the Council has looked at certain companies which sell weapons to states engaged in the war in Yemen. Although the weapons themselves are not covered by the weapons criterion, the question is whether they, by selling weapons to these countries, contribute to the violation of international humanitarian law or human rights in armed conflict. The Council's assessment of this is presented on page 27.

Contact with companies in 2018

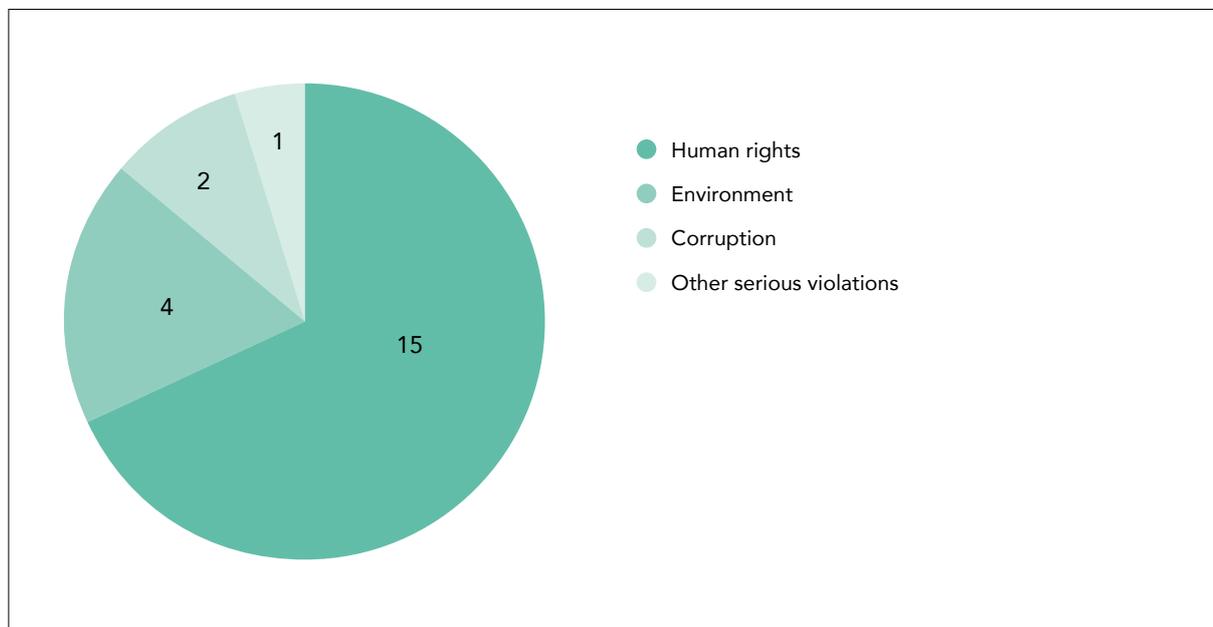
In 2018, the Council contacted 34 companies and held meetings with 22 of them. The Council contacts companies which, after an initial assessment, it wishes to investigate more closely. First, the Council writes a letter to the company concerned, asking for information which can provide a better basis for assessing its operations. All the companies which are assessed in relation to conduct-based criteria are also given the opportunity to comment on a draft recommendation before the Council forwards its decision to Norges Bank.

Fig. 4. Companies contacted under each criterion



The figure shows how many companies the Council on Ethics has been in contact with in 2018, which criteria these companies are being assessed against, and how many of the companies have replied to the Council's questions.

Fig. 5. No. of companies the Council has held meetings with, by criterion



The figure shows a breakdown of the meetings with companies in 2018 by criterion.

The Council attaches importance to the information provided by companies and deems it a risk factor if companies do not provide specific and verifiable information about their businesses.

In 2018, the Council held meetings with textiles companies in Vietnam, Taiwan and Korea, and seed companies in India, among others. The fact that several companies are under observation also increases the need to meet with companies to obtain information for the Council's observation reports.

Ongoing and new assessments

One of the first cases the Council on Ethics considered, as far back as 2005, concerned child labour in the production of hybrid seed varieties in India. This is an issue that the Council has monitored continuously ever since. Only one company has been excluded as a result of this effort, but several companies have been followed up by Norges Bank as a result of the Council's recommendation to observe or exclude companies. An encouraging result of recent studies is that the percentage of child labour has fallen at several companies. The Council

is convinced that such results can be achieved through a persistent effort in priority areas. Although the Council will always assess individual cases that are identified through its portfolio monitoring efforts, the Council wishes to concentrate on areas where the risk of human rights violations is particularly high. In 2019, the Council will draw up a plan for its work with respect to the human rights criterion over the next 3–5 years. The plan will be based on an evaluation of its previous work and an evaluation of high-risk areas. Until such a plan is finalised, investigations into the labour rights situation will continue in the same areas as in 2018.

Under the environment criterion, the Council is now pursuing a three-year plan that was drawn up in 2017. Work with the deforestation of tropical forests, which has been ongoing since 2009, was expanded in 2018 from Asia and Africa to Latin America. In 2018, the Council also began identifying companies located in an area that has been highly polluted by the pharmaceuticals industry. In addition, the Council will continue working with companies that threaten conservation areas, and will map serious pollution from mining and oil production activities.

The Council continues to assess companies' greenhouse gas emissions, and will focus especially on cement production, steelworks and shipping in 2019. Nevertheless, the Council will not issue any further recommendations until the interpretation of the climate criterion has been clarified.

Previous exclusions make it easier for the Council to identify similar new cases. The Council continues to monitor areas where the regulations governing rights in occupied territories may apply, and companies that engage in the extraction of natural resources in disputed areas.

Under the corruption criterion, the Council is currently working with companies in the oil & gas, defence and transport sectors. The Council will otherwise in 2019 follow up the three companies that have been placed under observation. The Council focuses primarily on whether the companies' anti-corruption efforts are sufficient to reduce the risk of future corruption, and whether information has emerged regarding serious new cases of corruption linked to the companies. If so, the Council assesses how the company concerned responds to these cases, and also attaches importance to the extent to which companies demonstrate a willingness to share information.

Reassessment of excluded companies

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

The exclusion of two companies engaged in oil exploration off the coast of Western Sahara was revoked in 2018, since the companies' exploration activities had been discontinued.