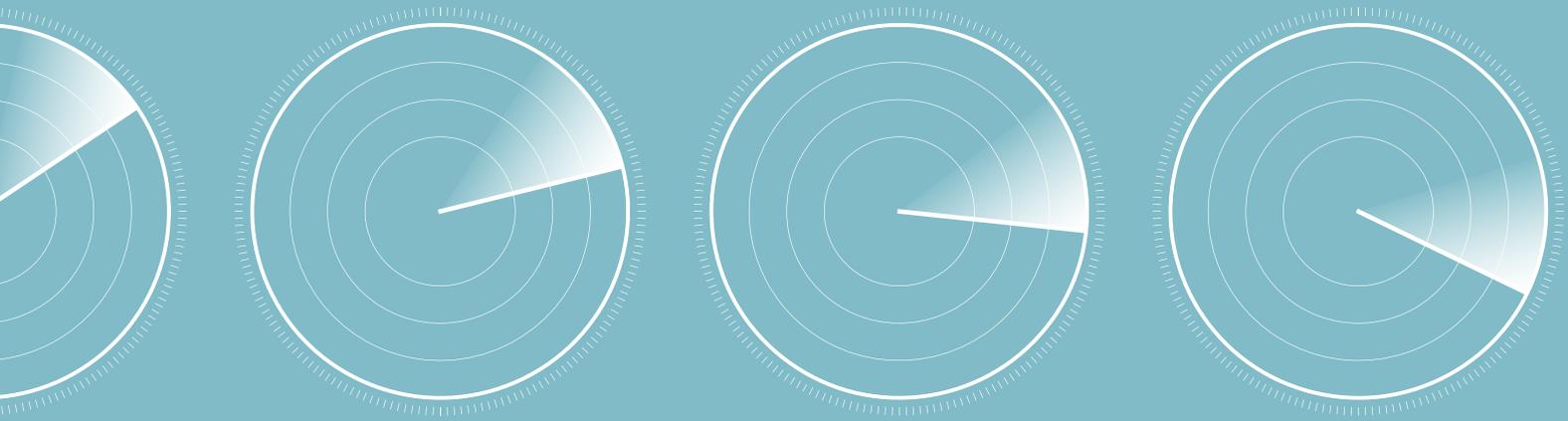


Council on Ethics

for the Norwegian Government Pension Fund Global



Annual Report 2015



**The Council on Ethics gives recommendations
to Norges Bank on observation and exclusion of
companies from the Norwegian Government
Pension Fund Global
etikkradet.no**

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Introduction



The Chair's report

This has been an eventful and hectic year for the Council and its entirely new members. We were appointed at the same time as new guidelines entered into force, guidelines that on the one hand confirm the Council's independent position and on the other hand clearly state that we, together with Norges Bank, form part of a continuous chain of tools.

This chain is to function in such a way that exclusion is the last resort once other tools have been considered. This is possible because, as from 1 January 2015, the Council makes recommendations regarding observation or exclusion of companies directly to Norges Bank. We have jointly developed routines for good contact between the Bank and the Council.

We are to help remove ethical risk from the fund. Some people may think this means recommending the exclusion of as many companies as possible. This is not true. Firstly, we only make recommendations relating to the most serious or systematic violations, so that hunting for a large number of exclusions would be wrong. Secondly, we are just as happy when companies that are in a dialogue with the Council or Norges Bank alter their conduct and thus themselves reduce the risk of a future violation of the criteria.

In 2015, the Council helped to prepare two new criteria – the climate and coal criteria. In accordance with the Council's proposed wording of the climate criterion, companies may, as from 2016, be excluded on the basis of unacceptable climate-gas emissions. We have now started to conduct studies of various industries in order to understand where the climate-gas emissions are greatest and to identify the companies with unacceptable emissions. Our ambition is to be able to conduct specific assessments of individual companies towards the end of the year. Regarding the coal criterion, Norges Bank will on an independent basis be able to exclude companies that base more than 30 per cent of their operations on thermal coal. Following this, the Council will assess any coal companies left in the fund.

In 2015, the Council continued to map violations of workers' rights in the textile industry. The preliminary findings indicate that companies sourcing from the textile producers we have investigated have a considerable self-interest in working with their suppliers, although we also have a role to play. During the year, the Council also systematically reviewed corruption allegations against companies in both the petroleum and defence industries. The findings were not uplifting.

The Council can recommend exclusion in the most serious cases, where there seems to be a high risk of recurrence. Norges Bank has a broader mandate and can act in instances where the fund's ethical and financial interests coincide. We are confident that both exclusions and active ownership will reduce the ethical risk, and thus hopefully also the fund's financial risk.



Johan H. Andresen
Chair



Members of the Council and the Secretariat

The Council on Ethics



Johan H. Andresen (Chair of the Council on Ethics)

Andresen holds an MBA from Rotterdam School of Management, and is the owner and chairman of Ferd. His previous positions include that of Product Manager for International Paper Co. in the US and 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.



Hans Christian Bugge (Vice Chair of the Council on Ethics)

Bugge holds a doctorate in law from the University of Oslo and is currently Professor Emeritus at the Department of Public and International Law at the University of Oslo, focusing on national and international environmental law issues. He has previously held various civil service positions at the Ministry of Environment and Ministry of Finance, and been Director of the Norwegian Pollution Control Authority, Secretary General of Save the Children Norway and State Secretary in the Ministry of Development Cooperation.



Cecilie Hellestveit

Hellestveit is a lawyer by background, specialising in international human rights, international law and company law. She holds a doctorate in humanitarian law and a Master's degree focusing on Middle Eastern studies and Arabic. She is currently a senior adviser at the International Law and Policy Institute in Oslo, and has previously collaborated with various research institutions, including PRIO, SMR, NUPI and IKOS. She has earlier held an appointment with the Immigration Appeals Board (UNE) and been a member of medical and health research ethics committees under South-Eastern Norway Regional Health Authority. She is vice chair of the Norwegian Refugee Council's board of directors, and is a regular columnist in the financial newspaper Dagens Næringsliv.



Arthur Sletteberg

Sletteberg holds a Master's degree in economics from NHH – Norwegian School of Economics. He is currently CEO of the Norwegian Microfinance Initiative, and a member of the boards of Entra Eiendom AS and Arctic Securities AS. Sletteberg was previously Executive Vice President at Ferd AS, Chief Investment Officer at Oslo Pensjonsforsikring AS, an investment director at Storebrand Asset Management, an assistant director at DNB Markets and an executive officer at Norges Bank.



Guro Slettemark

Slettemark holds a law degree from the University of Oslo, with specialist studies at Aix Marseille University. She is currently Secretary General of Transparency International Norway and a member of the Board of the University of Oslo. Her previous appointments include those of senior legal adviser at the Norwegian Data Protection Authority, member of the board at the Norwegian Institute for Children's Books and political adviser to former Minister of Justice Odd Einar Dørum.

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 (Economist)
- Magnus Bain (Cand. jur.)
- Lone Dybdal (MPhil)
- Erik Forberg (Cand. scient.)
- Pia Rudolfsson Goyer (Cand. jur.)
- Hilde Jervan (Cand. agric.)
- Irmela van der Bijl Mysen (Cand. jur.)
- Aslak Skancke (Graduate Engineer)



The work of the Council on Ethics

The Council on Ethics for the Government Pension Fund Global (GPF) is an independent council that makes recommendations to Norway's central bank, Norges Bank, to exclude companies from the fund or put them under observation. The Council assesses companies' activities on the basis of guidelines determined by the Ministry of Finance. These guidelines contain both product-based exclusion criteria, such as the production of tobacco or some types of weapons, and conduct-based exclusion criteria, such as gross corruption, human rights violations and environmental damage. The Council has five members and a secretariat with a staff of eight. The Council publishes all its recommendations on its website: etikkradet.no.

Overview of the Council's activities

The Council's task is to find and assess companies that should be excluded from the fund or put under observation, irrespective of the company's size, the fund's ownership stake or the country where the company is registered. Companies are identified by monitoring the portfolio and through systematic reviews of problem areas and reports received from third parties.

As for the product-based exclusion criteria, the Council is to have an overview of all the companies in the fund whose operations may meet any of these. A firm of consultants monitors whether companies have operations that contravene any of the product-based criteria and submits a quarterly report to the Council. The Council investigates any relevant companies in further detail.

In relation to the conduct-based criteria, the Council must select companies and topics on which to concentrate. While reviews of problem areas often follows a long-term plan, individual cases are usually raised as a result of news items. An external firm of consultants carries out daily searches of many news sources

and in several languages to find relevant news items about companies in the portfolio. The Council receives quarterly reports from this firm and investigates the companies where there seems to be the greatest risk of a future norm violation.

The activities in 2015

The Council obtains information from inter alia research environments, international, regional and national organisations, and often uses consultants to investigate suspected breaches of the guidelines. The companies in the portfolio are also themselves important sources of information. There is often an in-depth dialogue with the companies during the assessment process.

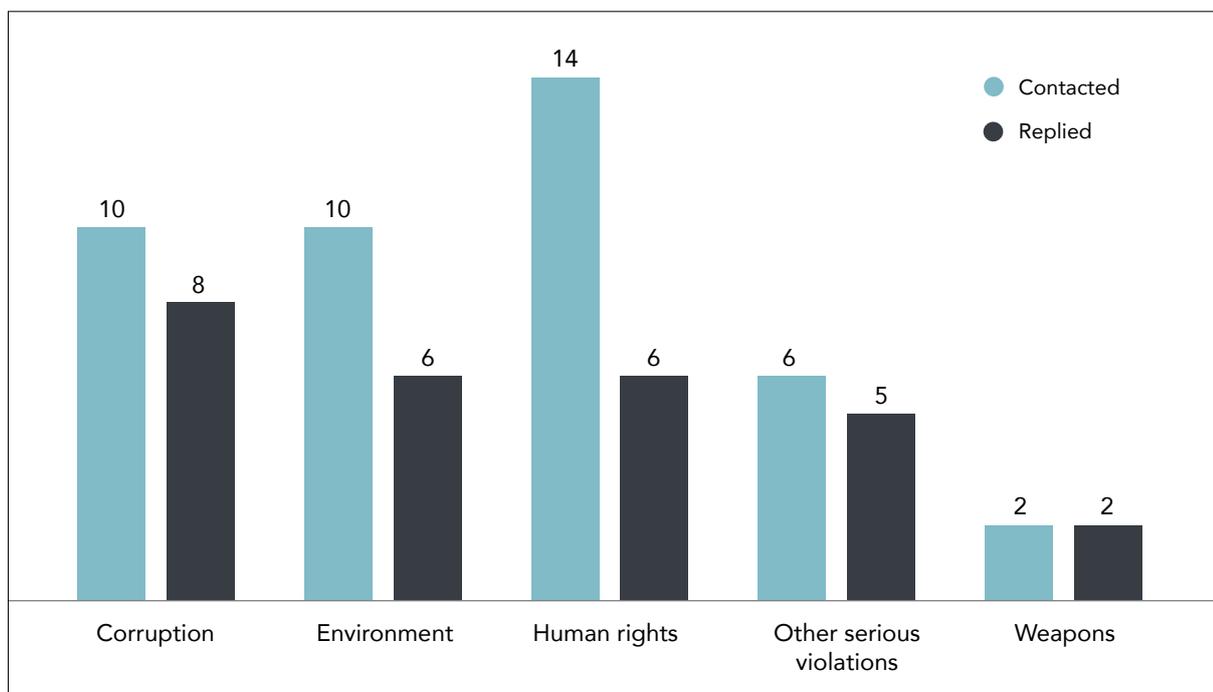
Table 1 summarises the Council on Ethics' investigations into companies in 2015 compared with the figures for 2013 and 2014.

Norges Bank received eight recommendations from the Council in 2015 and had at year-end made a decision on five of these. So far, it has accepted the Council's recommendations.

Table 1. Overview of the Council on Ethics' activities

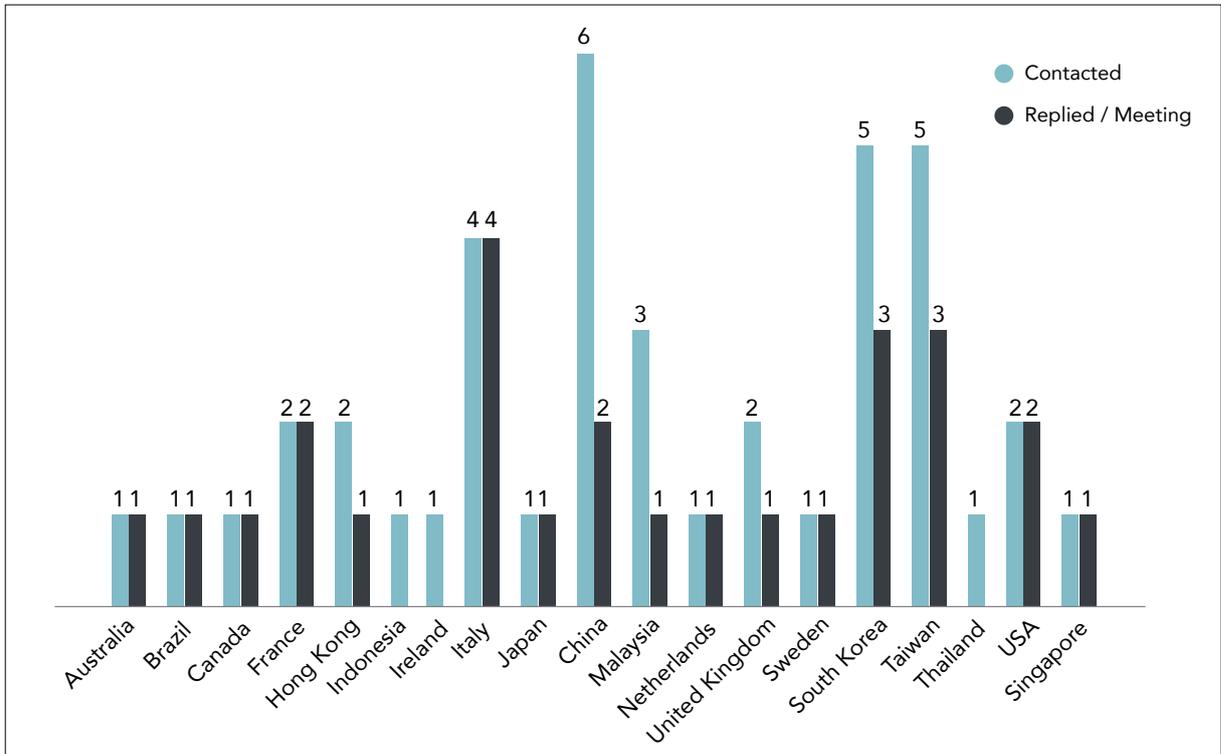
Year	2013	2014	2015
Limited companies in the GPFG at year-end (approx.)	8 500	9000	9050
Total number of excluded companies at year-end	60	60	64
Companies on the observation list at year-end	1	1	1
Recommendations submitted	11	12	8
Companies excluded during the year	9	3	4
Companies re-included during the year	5	3	0
Companies contacted by the Council	43	39	42
Companies with which the Council has had meetings	18	18	11
New cases	30	30	69
Total number of companies examined during the year (approx.)	180	150	184
Total number of company studies concluded during the year (approx.)	70	85	73
Council meetings	9	9	11
Secretariat members	9	8	8
Budget (NOK million)	12,5	13,5	14,8

Figure 1. Companies contacted in relation to each criterion



The figure shows the number of companies contacted by the Council in 2015, the exclusion criteria applied to the assessment of the companies and the number of companies that replied to the Council's questions. Most companies were contacted in connection with investigations into their working conditions.

Figure 2: Companies contacted by the Council, according to the country where the company is listed.



This figure shows where the companies contacted by the Council in 2015 are listed and which of these replied to the Council's questions. The companies contacted by the Council cover a wide geographical area. In 2015, most of the companies contacted were listed in Asia due to investigations into the working conditions in some Asian countries' textile industries.

In 2015, the Council was in contact with 42 companies and held meetings with 11 of them. The Council contacts companies that, following initial assessments, it wishes to study in greater detail. The Council starts off by writing a letter to the company asking questions and requesting documentation that can provide a basis for assessing the company's activities, such as a project's environmental impact assessment, emission data or information on the working conditions at a factory.

Replies from companies

Some companies respond well on how they seek to prevent environmental damage, corruption or human rights violations, while others seem to believe that investors have no grounds for asking for detailed information on, for example, working conditions or environmental management systems. Companies that are assessed are always given an opportunity to comment on a draft recommendation before the

Council advises Norges Bank to exclude them. The vast majority of companies take the opportunity to comment on the draft recommendation, but fewer reply to questions of a more general nature from the Council. The percentage that replies has been particularly low in relation to working conditions in the textile industry. Even if a company replies, it often does not provide enough information for the Council to ascertain there is no unacceptable risk of a breach of the GPF's guidelines.

The Council believes a company's refusal to share information is a risk factor. Companies must be expected to provide information both in their public reports and to investors about how they handle the risk of serious norm violations. It is important that this information is specific and can be verified. Companies often claim they have good systems in place but it can be difficult for third parties to understand whether the systems have been implemented in practice.

Meetings with companies

Most of the Council's meetings with companies in 2015 related to the issue of corruption. Companies' systems for detecting and preventing corruption are key to the Council's assessment of the risk of future corruption. Through meetings with companies, the Council tries to assess whether such systems are not just formally established but have also been implemented in practice. Over the past decade, international standards for best practice relating to company anti-corruption work have gradually been developed. More and more countries have also included corporate penalty provisions in their national legislation, according to which internal anti-corruption systems are crucial to the assessment of whether the company is to be held liable for acts of corruption committed by its representatives.

In relation to other exclusion criteria too, the Council finds it important to understand whether companies have good systems for discovering and preventing damage. Such systems contain goals, descriptions of responsibilities, risk-assessment rules, systems to allow learning from experience, notification procedures and other elements that are necessary for the company to have a continuous improvement process. The extent to which companies have such systems and comply with them provides valuable information on the future risk of violations.

More new companies assessed and more companies investigated

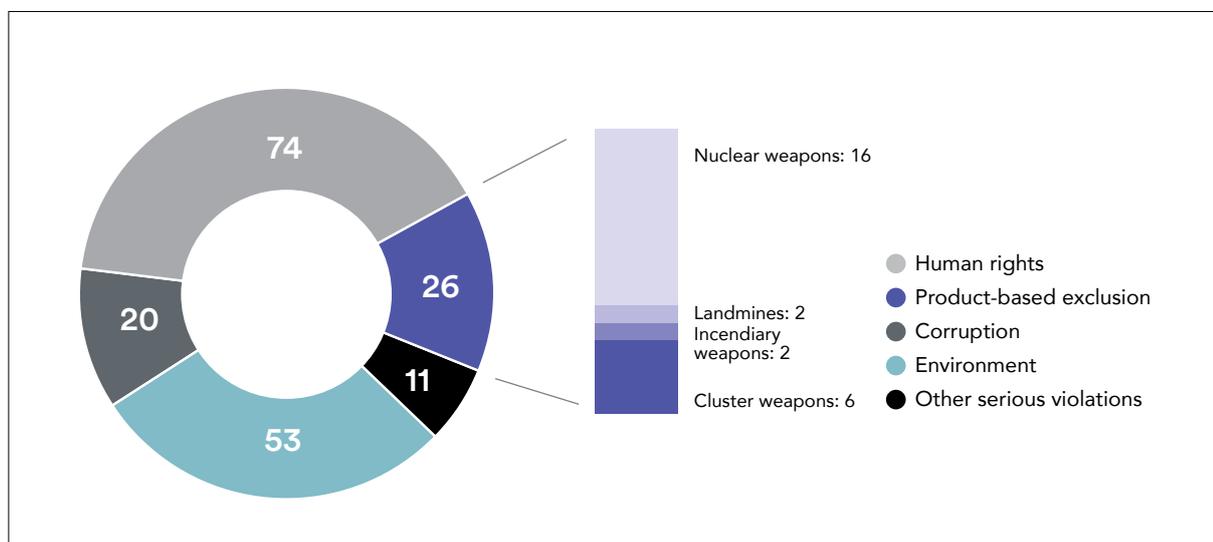
Table 1 shows that the Council considered 69 new companies in 2015 – more than twice as many as in the two previous years. This was due to the Council identifying all the portfolio companies that have either textile production operations in some Asian countries or construction operations in Qatar in 2015.

The Council investigated a total of 184 companies in 2015. The investigations into 73 of these have been concluded. Some investigations are very time-consuming. In other cases, the facts are more apparent, so that the Council must primarily consider whether there are grounds for exclusion.

Observation

A company may be put under observation when there is doubt as to whether the conditions for exclusion have been met or about future developments, or where observation is deemed appropriate for other reasons. The observation period is determined in each individual case. The Council may at any time during the observation period recommend excluding the company or removing the company from the observation list.

Figure 3. Companies under investigation, according to criteria.



The figure shows that the Council works in parallel on cases relating to all the exclusion criteria.

When the Council recommends putting a company under observation, it becomes publicly known that the Council is particularly monitoring the company. A formal observation decision indicates that it will not take much for the company to be excluded from the fund and may thus put extra pressure on the company. It also provides information to others about the Council's views on the company.

During the observation period, the Council provides the Fund's manager, Norges Bank, with an annual assessment of the company. The Council obtains information from open sources and in some cases also from studies by consultants. This information forms a starting point for the discussions at the Council's annual meeting with the company. A draft report to Norges Bank is also sent to the companies for their comments. The observation process is thus dependent on good cooperation between the companies being observed and the Council.

Currently, two companies are under observation, while the observation of one company was terminated in 2015.

Ongoing and new investigations

As from 2016, the observation and exclusion criteria have been extended to include a further two criteria relating to emissions of climate gases and the production or use of thermal coal. The Council has already started the work of identifying companies whose operations may conflict with the climate criterion and will expend further resources on this work in 2016.

Since 2010, the Council has systematically examined the Fund's investments in some types of operations that may cause serious environmental damage. In 2015, the Council worked extensively on assessing companies that establish plantations in tropical rain forests and companies that take part in illegal, unreported or unregulated fishing. These investigations will continue in 2016. The Council also still has some work to do on individual companies with operations in or close to particularly valuable protected areas. In addition, the Council will review companies within parts of the chemical industry.

Just as important as the systematic reviews of problem areas is the work on individual cases that come to the Council's attention through the monitoring of news items or information received from third parties. The Council conducted in-depth assessments of several companies with regard to environmental damage in 2015.

In 2013, the Council identified some industries and companies that were particularly vulnerable to forced labour and this has been the starting point for its systematic reviews in the human rights area. The work on the textile industry in some Asian countries and companies with building and construction activities in Qatar is based on this earlier identification. These investigations will continue in 2016. In addition, the Council will assess companies that manufacture electronic goods in Malaysia.

Previous exclusions mean that the Council more easily picks up on new, similar cases. If, for example, companies start to produce hybrid seeds in India, the Council will investigate whether they can be linked to child labour since child labour is very common in such companies. The Council also continuously monitors areas where law of belligerent occupation, may be applicable and companies that extract natural resources from disputed areas.

The Council's work on corruption cases is based on a risk based approach that involves reviewing countries and sectors that international rankings show are particularly prone to corruption. So far, the Council has concentrated on the building & construction, defence and telecommunications industries as well as the oil and gas sector. The Council has come quite far in its process of gathering information on several corruption cases, and plans to hold several meetings with companies in 2016.

This year's activity plan is published in Norwegian on the Council's website.



The exclusion of nuclear weapons producers

Ever since the GPFG ethical guidelines¹ were established more than 10 years ago, the production of key nuclear weapons components has been a basis for excluding companies from the fund. There has been a trend towards in part outsourcing to companies the operations in state-owned facilities for the production, upgrading, testing and maintenance of nuclear weapons. The Council's practice relating to the operationalisation of the nuclear weapons criterion over the past decade, including the limiting of the criterion's scope, is described below.

In brief about nuclear weapons

According to the Non-Proliferation Treaty, nuclear weapons are weapons of mass destruction that most countries are prohibited from possessing.² The USA, UK, France, Russia and China («the P5 countries») are for historical reasons exempt from this prohibition. It is also regarded as certain that India, Pakistan, Israel and North Korea have developed nuclear weapons. South Africa is the only country that has completely disbanded the nuclear weapons it had developed.³ Previously, other countries have also started nuclear weapons programmes that have not been completed.

The production of nuclear weapons requires a number of input factors. Manufacturing a sufficient volume of *fissile material* (highly enriched uranium or plutonium) is very resource-demanding. Minerals containing uranium are extracted in mining operations but must be processed in order to be used in nuclear weapons, either by producing the synthetic element plutonium in nuclear reactors based on uranium, or through enriching.⁴ Uranium used to produce nuclear power must also be enriched, but to a lower grade than when used for weapons purposes. Non-P5 countries that have nuclear weapons have therefore been able to develop these in parallel with civilian nuclear power programmes.

It is primarily in the USA and to some extent also in the UK, France and India that listed companies play any role in nuclear weapons production, given the criteria limitations practised by the Council. This is also reflected in the geographical locations of the companies that are excluded from the GPFG due to the nuclear weapons criterion.

The nuclear weapons criterion in the GPFG ethical guidelines

Nuclear weapons are different from the other types of weapons covered by the GPFG guidelines in that they are much more complex to make and form part of large weapons systems. It is necessary to limit the scope of the guidelines with regard to both *product* and *activity*.

Section 2a of the guidelines states:

"The Fund shall not be invested in companies which themselves or through entities they control, produce

weapons that violate fundamental humanitarian principles through their normal use."

The preparatory works (Government White Paper (NOU) 2003:22) and later the Revised National Budget 2004 provide a list of the types of weapons meant here, including nuclear weapons, and the Ministry of Finance has based later reports to the Norwegian parliament on this list. The preparatory works assumed there would be a very limited number of exclusions due to nuclear weapons:

"As far as the committee knows, there is currently no production of nuclear weapons in either state-owned defence companies or private companies. Key components of such weapons are apparently no longer manufactured by state-owned or private defence companies."⁵

Nonetheless, the preparatory works stated that the production of nuclear weapons and their key components was to be a basis for exclusion. The type of products and other input factors that this is to cover, must therefore be assessed in greater detail.

For the Council, the operationalisation of the nuclear weapons criterion provides three main challenges:

1. Practicable limits for the criterion
2. Consistency in the way it is practised – i.e. treat similar cases in the same way
3. Access to information

Limits for the criterion – what is included in the production of nuclear weapons and their key components?

Put simply, nuclear weapons can be said to consist of a *warhead* and a *delivery system* that brings the warhead to the target - for example a missile. The delivery system may be more or less integrated into a *transport system*, such as a vehicle, aircraft, ship or submarine.

Apart from the production of the warhead itself, several types of operations may be covered by the nuclear weapons criterion in the GPFG guidelines. Over the past decade and especially in the USA, there has been a trend towards in part outsourcing operations in state-owned facilities for producing, upgrad-

ing, testing and maintaining nuclear weapons to companies. Deliveries of various types of services to such facilities may be a basis for excluding a company from the GPFG.

The guidelines' preparatory works stipulate some limits for the nuclear weapons criterion but these are not detailed in all areas, and in addition no further instructions have been given since the preparatory works in 2003. The Council discussed criterion limits in its first recommendation to exclude nuclear weapons companies (2005).⁶ The limits that this recommendation proposed have largely been practised during the past 10 years. This practice is described below.

Several purposes/"dual use"

Operations or products whose only purpose is to form part of a nuclear weapon may basically provide a basis for exclusion. This is in accordance with the guidelines' preparatory works⁷ and rules out, for example, the exclusion of delivery systems with several purposes, such as missiles that can carry both conventional warheads and nuclear weapons.

The interpretation of "key components"

The preparatory works clearly state that it would be going too far to try to exclude all manufacturers of components: "*there is no point in affecting a screw manufacturer, for example*", but that "*the production of key components must be said to be covered by the definition*", without providing any specific examples of these.

Which of the components should in this context be regarded as *key*? This is not obvious, perhaps apart from the actual warhead and fissile material.

Nuclear weapons consist of thousands of components if one looks at each individual part. The Council has no overview of these, and detailed information on individual components is not normally available.

It must be assumed that all the components in a nuclear weapon fulfil a necessary function in some way or other, or they would not have been part of the weapon. Hence, it is difficult to base a definition of *key components* strictly on necessity. In addition, it must be assumed that very many of the components in reality are more or less adapted to their purpose

and are therefore not covered by *dual use*. However, excluding all manufacturers of adapted components would be going too far, as the preparatory work delimits the exclusion of all manufacturers of small components.

The Council has approached this issue by looking at *main components* and *subcomponents* of these, in practice limited to:

- Warheads and fissile material
- Delivery systems in the form of missiles whose only function is to deliver nuclear weapons, including propulsion systems for these

Under "*missiles*", the Council has recommended excluding companies that are responsible for the end production of the missiles and the production of the engines, but not all the subcontractors. In its assessments, the Council has not looked at the level below main components, such as the production of rocket-engine parts.

In addition, the Council has not recommended excluding companies that deliver other components that could well be regarded as key components of delivery systems, such as guidance, navigation and communication systems. This is based on practical grounds rather than reasons of principle; it is too demanding to assess such systems with regard to, for example, their level of adaptation to their purpose, and it is difficult to draw practicable system limits. The access to information on such systems is also very limited.

Limit on activities – what does "production" entail?

The actual concept of "*production*" must also be interpreted. Are the maintenance and upgrading of nuclear weapons to be equated with initial production? The preparatory works do not refer to this question, but the Council has based its decisions on this interpretation. The initial production of nuclear weapons, especially fissile material, is very resource-demanding and continuous new production does not take place anywhere.⁸ Nuclear weapons systems are kept operational over several decades through continuous upgrades, maintenance and non-destructive testing, and the Council has previously equated such operations with initial production. This forms the basis

for excluding several of the companies according to the nuclear weapons criterion.

Delivery system versus transport system

In its decisions, the Council has distinguished between delivery systems and transport systems: the production of *delivery systems* may be a basis for exclusion if the system has no other function than to deliver nuclear weapons. (In this context, "deliver" means to bring the nuclear weapon's warhead to its intended target.) The production of *transport systems* has not been regarded as a ground for exclusion.

The preparatory works' argument for transport systems not being covered by the criterion is as follows:

"In the committee's view, it will, for example, not be very judicious to say that F-16 aircraft should be affected by a prohibition against nuclear weapons because these are built to be able to carry nuclear weapons. Norway has chosen to buy such aircraft for completely different reasons."

Many types of transport systems will in any case not be covered by the criterion because of dual use, which is the real reason stated in the above example. However, a question can be raised regarding submarines, whose primary purpose is to carry nuclear missiles. This is a transport-system form that can hardly be said to be covered by *dual use*. This question is relevant as there are several GPFG companies involved in building and upgrading such vessels – for the USA, UK, France and India – and in delivering components. The preparatory work does not address with this issue. The practice in this area has been that transport systems in general are not covered by the criterion as

ships, vehicles, aircraft and submarines – irrespective of their purpose – are not covered by a reasonable understanding of the concept of "nuclear weapons and their key components", as stated in the preparatory works.

Access to information

The Dutch advisory company Sustainalytics provides analysis for the Council on the product-based exclusions. The Council receives quarterly reports on companies in the fund whose operations may meet the criteria, and if there is a basis for the continued exclusion of companies. Sustainalytics often reports on 20–30 companies that may be covered by the nuclear weapon criterion. Most of these have operations that the Council regards as outside the scope for this criterion. Many of them are linked to various delivery platforms, for example the aforementioned submarines.

Recommendations to exclude companies are only based on publicly available information. Normal sources of information are press releases in connection with new contracts and other information provided by the companies. There is generally limited available information and that which exists is usually not very specific. When contacted, companies do not normally wish to comment or provide any detailed account of operations relating to nuclear weapons.

In addition, it is not realistic for the Council to manage to obtain information on a company's possible participation in nuclear weapons programmes that contravene the Non-Proliferation Treaty.

Excluded companies

A total of 15 companies have been excluded under the nuclear weapons criterion. At present, 12 companies are excluded.

Company	Excluded since	Basis for the recommendation to exclude	Comments
Lockheed Martin Corp.	2013	The company was excluded from 2005-2013 due to its production of cluster munitions. When this exclusion was revoked, the basis for exclusion was changed to nuclear weapons. The reason for this is its links with state-owned UK company AWE (<i>Atomic Weapons Establishment</i>), which is responsible for developing, manufacturing and maintaining the UK's nuclear weapons warheads. AWE is owned by the UK Ministry of Defence, but the physical operations are run by AWE Management Ltd (AWE ML), a joint venture in which Lockheed Martin owns a third. The other partners in AWE ML are Serco Group Plc. and Jacobs Engineering Group Inc. ¹⁰	
Orbital ATK Inc. (Previously Alliant Techsystems Inc.)	2013	The company is responsible for upgrading the rocket engines on the intercontinental ballistic missile Minuteman III ICBM and manufactures the rocket engines for the Trident II (D5) nuclear missile, which is intended to be launched from submarines. ¹¹	1
BWX Technologies Inc. (Previously The Babcock & Wilcox Co.)	2013	The company owns and runs the USA's largest facility for manufacturing highly enriched uranium and is responsible for the operations of the Y-12 National Security Complex and Pantex facilities. The Y-12 facility produces fissile material for use in nuclear weapons and maintains and upgrades nuclear weapons' warheads. Pantex is a facility for storing, upgrading and maintaining the USA's nuclear weapons' warheads. An important part of the operations consists of extending the warheads' lifetime. ¹²	2
Jacobs Engineering Group Inc.	2013	Refer to the basis for excluding Lockheed Martin Corp. ¹³	
Serco Group Plc.	2007	Refer to the basis for excluding Lockheed Martin Corp. ¹⁴	
Aerojet Rocketdyne Holdings, Inc. (Previously GenCorp Inc.)	2007	The company manufactures engines for the Minuteman III and D5 Trident nuclear missiles. ¹⁵	
Safran SA	2005	The company supplies engines to the French M51 missiles whose only function is to carry nuclear weapons.	3
Airbus Group N.V. (Previously EADS)	2005	Through its subsidiary Honeywell Technology Solutions Inc., this company is responsible for repairing, developing, calibrating, operating and maintaining measuring instruments, and for registering data obtained by simulating nuclear weapons detonations.	3
Airbus Group Finance B.V.	2005	This is the Airbus Group's financing company.	
Honeywell International Inc.	2005	The company has through its subsidiary Honeywell Technology solutions Inc. the responsibility for repairing, developing, calibrating, operations and maintenance of instruments for recording of data in simulated nuclear detonations.	
Northrop Grumman Corp.	2005	This company is a contractor that maintains and upgrades the Minuteman III missiles. The basis for the exclusion originally also included operations linked to the MX missiles. These have now been discontinued, but the Minuteman III remains.	
Boeing Co.	2005	This is the main contractor that upgrades and maintains the Minuteman III ICBM. ¹⁶	4

Comments:

- 1) In addition to the original basis for exclusion, the company is part of a joint venture (JV) with Lockheed Martin. The JV is the operator of the Pantex and Y-12 facilities referred to under BWX Technologies Inc.
- 2) The operations which formed the original basis for exclusion seem to have been partially wound up. The company now takes part in a joint venture (National Security Technologies LLC) with, among others, Northrop Grumman and ACOM, with the objective of running the Nevada National Security Site (NNSS), where among other things warheads are assembled, dismantled and tested.
- 3) The exclusions of Safran and Airbus are linked: Safran supplies rocket engines to the M51 missiles manufactured by Airbus.
- 4) The contracts for this which formed the basis of the original recommendation to exclude the company (2005), have expired. However, Boeing has entered into new contracts, among other things for the maintenance and upgrading of the Trident II missile for the UK (June 2015).

Although changes have taken place in many of the companies since they were excluded, there is currently no basis for recommending the revocation of the exclusion of any of the companies excluded under the nuclear weapons criterion.

The Council will maintain its established limits of the nuclear weapons criterion. The monitoring of the portfolio and examining companies to find out if they meet the nuclear weapons criterion is continually ongoing and it may be relevant to recommend the exclusion of additional companies.

Notes

1. Guidelines for observation and exclusion of companies from the Government Pension Fund Global (GPF), <https://lovdata.no/dokument/INS/forskrift/2014-12-18-1793?q=retningslinjer+++pensjonsfond+++utland>.
2. The Non-Proliferation Treaty, NPT, formally the *Treaty on the Non-Proliferation of Nuclear Weapons*, 1968, <http://www.un.org/disarmament/WMD/Nuclear/NPT.shtml>.
3. NPT covers 190 countries. India, Pakistan and Israel have not joined the NPT. North Korea became a party to the NPT in 1985, but pulled out in 2003. South Africa joined the NPT after destroying its nuclear weapons in 1991. Iran joined the NPT in 1968, but has been accused of having operations that contravene the treaty.
4. In nature, uranium occurs in various isotopes, i.e. variants of the element with different numbers of neutrons in the atomic nucleus. The fissile isotope U_{235} comprises 0.7% of natural uranium. When enriched, the concentration of U_{235} is increased to 3-4% for use in nuclear power plants and to more than 90% for use in nuclear weapons.
5. Government White Paper ((NOU) 2003: 22, Management for the future – draft ethical guidelines for the Government Pension Fund Global (Forvaltning for fremtiden — Forslag til etiske retningslinjer for Statens petroleumsfond), annex 9, item 4.3 (p. 144), <https://www.regjeringen.no/no/no/dokumenter/nou-2003-22/id118914/> (Norwegian language only).
6. Recommendation dated 19 September 2005 regarding the exclusion of companies that manufacture key components of nuclear weapons: <http://etikkradet.no/en/tilradninger-og-dokumenter/recommendations/nuclear-weapons/recommendation-of-september-19-2005-on-the-exclusion-of-companies-that-are-involved-in-the-production-of-nuclear-weapons/>
7. This is an antithetic interpretation of Government White Paper (NOU) 2003:22, annex 9, item 4.6: “*The production of components that can meet other, legitimate objectives (multi-use goods) should in the committee’s opinion not form grounds for exclusion.*” (Translated here for information purposes.)
8. For example: a large part of the USA’s currently around 7,000 nuclear weapons were originally manufactured in the 1960s and have since been upgraded several times. Newer nuclear weapons that were developed in the 1980s have been destroyed in accordance with disarmament treaties. At the most, the USA had in excess of 35,000 nuclear weapons (warheads), while the Soviet Union had even more. Today, the USA and Russia have approximately the same number. The other P5 countries each have around 200. Non-P5 countries are assumed to have fewer than 100 each.
9. Government White Paper (NOU) 2003:22, annex 9, item 4.6.
10. Recommendation 2013: http://etikkradet.no/files/2014/12/Tilrad_LM_ENG_2013.pdf.
11. Recommendation 2013: http://etikkradet.no/files/2014/12/Tilrad_ATK_ENG_2013.pdf.
12. Recommendation 2013: http://etikkradet.no/files/2014/12/babcock_wilcox_jacobs_eng.pdf.
13. Recommendation 2013: http://etikkradet.no/files/2014/12/babcock_wilcox_jacobs_eng.pdf.
14. Recommendation 2007: <https://nettsteder.regjeringen.no/etikkradet/files/2014/12/SercoGroupEnglish.pdf>.
15. Recommendation 2007: <http://etikkradet.no/files/2014/12/GenCorp-English.pdf>.
16. Recommendation 2005: <http://etikkradet.no/en/tilradninger-og-dokumenter/recommendations/nuclear-weapons/recommendation-of-september-19-2005-on-the-exclusion-of-companies-that-are-involved-in-the-production-of-nuclear-weapons/>.



The weapon criterion and the development of autonomous weapons

Background

The basis for the Council's work is the GPF's ethical guidelines. There are two main types of criteria in the guidelines; *product-based criteria* and *conduct-based criteria*. The product-based criteria authorise the exclusion of companies based on their manufacture of some types of products, including specific types of weapons. The conduct-based criteria authorise the exclusion of companies based on their acts or omissions, irrespective of what they manufacture.

The weapon types that have formed the basis for exclusion according to the ethical guidelines have been unchanged since 2004. This article discusses whether the prevailing guidelines are adapted to the technological developments that have taken place over the past 10 years, with a particular focus on the development of autonomous weapons systems.

What are autonomous weapons?

In general, the topic of autonomous weapons concerns the increasing automation of weapons systems and the problems this can raise. The growing level of automation reduces human involvement in the decision to use force. In autonomous systems, the system itself will – without human intervention – be able to choose when, against whom and how it will use force. One of the characteristics of autonomous weapons is exactly that this decision is not subject to direct human control. *Autonomy is thus a characteristic of a weapons system, not a weapons system in itself.*

There is a gliding scale, from a low to a high level of automation and over to autonomy. When a certain automation limit is exceeded, the system is auto-

nomous. However, there is no agreed definition of what comprises an autonomous weapons system and there will be difficult limitation questions linked to such a definition.

Existing, known weapons systems can probably not be categorised as autonomous weapons, but there are weapons systems with a high level of automation that can probably be said to be almost autonomous. Weapon technology developments are in a number of areas heading in the direction of increased automation and, in some areas, towards autonomy.

Autonomous weapons must not be confused with so-called drones. Drones are remote-controlled aircraft, i.e. they are controlled by a pilot who is not sitting in the aircraft. However, a development towards autonomy can be envisaged for such aircraft too.

Humanitarian-law frameworks

For the Council, the issues relating to autonomous weapons are relevant since the GPF's ethical guidelines (section 2 a) state that the fund shall not be invested *in companies which produce weapons that violate fundamental humanitarian principles through their normal use.*¹

These fundamental principles to which the guidelines refer form the basis for the humanitarian-law warfare regulations that are incorporated, for example, in the Geneva Conventions. The principles mean, among other things, that during conflicts only lawful, military targets are to be attacked (the distinction principle), that the combatants are to balance foreseeable civilian losses against the expected military gain (the

proportionality principle) and that combatants must take the necessary precautions to comply with these principles, for example by not mixing their own military targets with civilians (requirement of precautions). Weapons whose properties mean they cannot be used in accordance with these rules will be prohibited. In addition, special prohibitions have been introduced against specific types of weapons.

These fundamental humanitarian principles are applicable both to traditional warfare and if the nature of the warfare changes, for example to a cyber war.² It is also not just the use of weapons that is regulated by international law; also when developing new weapon types, countries are obliged to assess whether their use may be illegal.³

Current guidelines for the exclusion of weapons manufacturers from the GPFG

The weapons criteria in the ethical guidelines have been unchanged since 2004. Although the guidelines are not in themselves specific about the types of weapons that are to form the basis for exclusion, the guidelines' preparatory works (the Graver Report, Government White Paper, NOU 2003:22)⁴ and subsequent reports to the Norwegian parliament have provided a list of the types of weapons that are covered. These are all weapon types that are generally prohibited or which Norway is (now) prohibited from possessing according to conventions it has ratified – see the table below.

The concept of «normal use» in the guidelines is essential. This refers to the weapons type's intended use; any weapon can in principle be used contrary to

fundamental humanitarian principles, but it is only for some types of weapons that one can say that more or less any use will be unacceptable.

Since 2004, weapons manufacturers have only been excluded on the basis of their production of nuclear weapons and cluster munitions. GPFG companies have not been found to manufacture other weapon types that form a basis for exclusion.

The preparatory works took into account that new weapon types could be added to the list: «It is not unthinkable that new weapons or ammunition types may prove to conflict with the humanitarian-law principles. [...] The committee further recommends that the possibility to add new weapons or ammunition types to such an exclusion list is held open.»¹¹

Issues relating to the development and use of autonomous weapons

The development and use of autonomous weapons raises several issues. It is true that several of these are not unique to autonomous weapons, but autonomous weapons may make them relevant in new ways.¹²

One of the starting points for the assessment may be that the actual concept of autonomous weapons – that decisions of life and death are left up to machines – is in principle and intrinsically a problem. A more limited assessment is whether it is possible to envisage a use of autonomous weapons that does not contravene the abovementioned humanitarian principles for warfare. Relevant questions in this regard may, for example, be:

Weapon type	Convention	No. of companies currently excluded	No. of companies excluded in the past
Chemical weapons	Chemical Weapons Convention ⁵	0	0
Biological weapons	Biological Weapons Convention ⁶	0	0
Anti-personnel mines	Landmine Convention ⁷	1	1
Non-detectable fragments Incendiary weapons, blinding laser weapons	CCW, protocols 1, 3 and 4 respectively ⁸	0	0
Nuclear weapons	Non-Proliferation Treaty ⁹	12	15
Cluster munitions	Convention on Cluster Munitions ¹⁰	5	9

- Will the system be able to differentiate between combatants and civilians?
- Will the system be able to detect that combatants are injured or have capitulated?
- Can the system weigh the interests of protecting civilians against military necessity?
- Who can be made responsible for any infringement of the law when using autonomous weapons?

It may obviously be difficult to leave assessments of the first three items up to machines, especially if autonomous weapons are used in areas where there are also civilians. However, it is possible to imagine areas of use for autonomous weapons where there are few or no civilians and such issues are less relevant, for example in aerial combat or naval surface and submarine combat, or weapons systems that do not attack humans, for example «missile shields». It is thus not given that any use of autonomous weapons in itself and in any circumstances will contravene fundamental humanitarian principles for warfare.

The last point – the issue of responsibility – raises several important questions. Can the development of autonomous weapons lead to persons to a lesser extent being held responsible for unlawful acts? One of the concerns about autonomy is that fundamental humanitarian principles will in practice be set aside due to the disintegration of the responsibilities presumed by the humanitarian-law regulations.

The work on prohibiting autonomous weapons

Questions linked to autonomous weapons have attracted greater attention in recent times. In 2014 and 2015, informal meetings of experts to discuss autonomous weapons were held under the CCW.¹³

There is little likelihood of an agreement under the CCW that prohibits autonomous weapons being negotiated in the foreseeable future. So far, no expert group has been appointed, this would be the first formal step in such a process. A new, informal meeting of experts under the CCW is to be held in April 2016.

An alternative process may be for an agreement to be reached outside the CCW framework, in the same way as the conventions on landmines and cluster

munitions came about, or alternatively that there will be a process leading to less binding *guiding principles*, which may over time gain the status of common law. However, whether or not the conditions for any of this are present in relation to autonomous weapons is uncertain and in any case it is difficult to envisage any rapid outcome.

Limitation questions

Complicated limitation questions will arise for both any convention on autonomous weapons and any autonomous weapons criterion for the exclusion of companies from the GPFG.

There are issues on several levels here:

In the first place, any convention (or *guiding principles*) must define what it is that is prohibited. Since autonomous weapons are not one weapon type but a function that can be linked to different types of weapons, the limitation must probably be on the *function*. This means a line must be drawn between acceptable automation and unacceptable autonomy for weapons systems. In addition, the question of *responsibilities* can be envisaged to be key.

Subsequently – if a criterion linked to autonomous weapons is to be introduced as a basis for exclusion from the GPFG and thus operationalised by the Council - it must be deduced from this what kind of *corporate activity* may form a basis for exclusion.

For the Council, there may also be complicated questions regarding how to assess «*dual use*», i.e. products with several purposes. The *dual use* issue may be complicated, among other things because much of the autonomous weapons' functionality will necessarily be in underlying systems (for example, target identification) and not in the sharp end of the weapon.

Autonomous weapons and the GPFG's ethical guidelines

Autonomous weapons are not covered by the existing weapons criteria in the GPFG's ethical guidelines for product-based exclusion.

If the initiative under the CCW does lead to a convention, it will be natural for autonomous weapons to be

added to the list of weapon types that provide grounds for the exclusion of companies under the Fund's ethical guidelines, in the same way as the other weapon types in the CCW protocols. If there should come about an agreement outside the CCW framework or some form of *guiding principles* that form a normative basis, autonomous weapons should be included on this list.

However, it is most likely that this will not come about in the foreseeable future. It can be asked whether autonomous weapons should nonetheless be on the list of weapons that provide a basis for excluding companies, even if this list is currently linked to conventions that Norway has ratified. This would lead to such a criterion raising definition and limitation questions that will be difficult for the Council to decide on without any basis in a convention or at least some agreed principles.

An alternative to considering autonomous weapons under the product-based exclusion criteria of the guidelines could be to consider them under the criteria for conduct-based exclusions.¹⁴ If autonomous weapons used against humans entail an infringement of individuals' rights in war and conflict situations, it

can be considered whether the production of autonomous weapons may be covered by section 3b of the guidelines, or alternatively section 3f, i.e. the guidelines' criteria for conduct-based exclusion. This is not completely without precedent, cf the Elbit case in 2009, where it was recommended to exclude a company under a conduct-based criterion in section 3f of the guidelines on the basis of *what* the company produced. The many questions about definitions and limits raised by autonomous weapons may, however, make such an approach quite complicated, but it is difficult to decide any further on this without basing the decision on circumstances linked to a specific company.

In going forward, the Council's most important measure regarding autonomous weapons will be to monitor the developments relating to the CCW or alternative processes outside the CCW framework. The Council will also keep abreast with technological developments in the area through our contacts with various interested parties. If GPFG companies develop autonomous weapons, the Council may consider dealing with individual cases under the conduct-based criteria, but no decision on this can be made until such a situation arises.

Notes

1. Guidelines for observation and exclusion from the Government Pension Fund Global: <https://lovdata.no/dokument/INS/for-skrift/2014-12-18-1793?q=retningslinjer+++pensjonsfond+++utland>.
2. The Tallinn Manual on the International Law Applicable to Cyber Warfare (2013), <http://www.peacepalacelibrary.nl/ebooks/files/356296245.pdf>.
3. «In the study, development, acquisition or adoption of a new weapon, means or method of warfare, a High Contracting Party is under an obligation to determine whether its employment would, in some or all circumstances, be prohibited by this Protocol or by any other rule of international law applicable to the High Contracting Party.», Geneva Convention (1949), Additional Protocol I, Article 36.
4. Forvaltning for Fremtiden (Management for the Future), Government White Paper (NOU) 2003:22, <https://www.regjeringen.no/no/dokumenter/nou-2003-22/id118914/>.
5. The Chemical Weapons Convention, <http://www.opcw.org/chemical-weapons-convention/>
6. The Biological Weapons Convention, <http://www.un.org/disarmament/WMD/Bio/>.
7. The Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines and on Their Destruction., <http://www.icbl.org/en-gb/home.aspx>.
8. The Convention on Certain Conventional Weapons (CCW), [http://www.unog.ch/80256EE600585943/\(httpPages\)/4F0DEF093B4860B-4C1257180004B1B30?OpenDocument](http://www.unog.ch/80256EE600585943/(httpPages)/4F0DEF093B4860B-4C1257180004B1B30?OpenDocument).
9. The Treaty on the Non-Proliferation of Nuclear Weapons (NPT), <http://www.un.org/disarmament/WMD/Nuclear/NPT.shtml>.
10. The Convention on Cluster Munitions (CCM), <http://www.clusterconvention.org/>.
11. Government White Paper (NOU) 2003:22, annex 9, item 4.4 (page 146).
12. For example, the discussion on humanitarian law versus law enforcement when combating terrorism.
13. See footnote 8.
14. *Companies may be put under observation or be excluded if there is an unacceptable risk that the company contributes to or is responsible for: [...] b) serious violations of the rights of individuals in situations of war or conflict [...] f) other particularly serious violations of fundamental ethical norms*, <http://etikkradet.no/en/guidelines/>.



The investigations into working conditions in the textile industry

According to the Guidelines for Observation and Exclusion from the Government Pension Fund Global (GPF), the Council on Ethics may recommend the exclusion of a company when there is an unacceptable risk that the company contributes to or is responsible for serious or systematic human rights violations. In relation to this criterion, the Council has in 2015 particularly focused on workers' rights in the textile industry.

The fund is invested in a large number of textile companies, from spinning mills to large brands, in many countries. Most of the fund's textile companies do not manufacture textiles themselves, but buy them from many different factories in numerous countries. The Council's work has nevertheless targeted companies that manufacture their own textiles. Although companies have a responsibility for human rights violations in their supply chain, a buyer's contribution to human rights violations may be a complex issue. However, there is no doubt that a company is responsible for such violations when they take place in its own operations.

At this time, the Council has prioritised companies that own factories in countries where generally very poor working conditions have been reported in textile factories. The Council has written to the companies asking for information on working hours, trade unions, contracts and working conditions in the factories, as well as what measures the companies are taking to prevent violations of workers' rights. With the help of consultants, the working conditions at some of the companies' factories in Cambodia and Vietnam are now being investigated. Workers have been interviewed and some factories have been visited. The investigations show that violations of workers' rights also take place in the fund's companies and to a large extent confirm that revealed by other corresponding investigations. The most serious violations that have been disclosed are some cases of hazardous work being carried out by young employees and cases of child labour. Discrimination, mandatory overtime, unlawful short-term contracts, illegal pay deductions and measures implemented by the factory management to prevent workers from joining trade unions are more common. Based on these findings, the Council is now in dialogue with several companies.

The ILO Conventions and other human rights conventions are the basis for the Council's assessment of violations of workers' rights. While violations of some conventions, such as forced labour or the worst forms of child labour, may on their own be enough for a company to be excluded from the fund, the Council will in the case of less serious violations place emphasis on the cumulative effects – on whether the violations in total lead to unacceptable working conditions.

Compared to other companies contacted by the Council, fewer textile manufacturers have replied to the Council's questions. They also publish little information on their websites and annual reports and do not seem to have systems for protecting workers' rights in their operations. In accordance with that stated in White Paper no. 20 (2008-2009), the Council finds that *"a lack of information on a company's conduct and, not least, the company's lack of willingness to disclose information may in itself contribute to the risk of complicity in unethical conduct being regarded as unacceptably high."*

The Council will continue its work relating to textile manufacturers in 2016 and will expand its research to include companies with operations in India and Bangladesh. The work so far shows that few of the fund's companies manufacture their own textiles in these countries. Once the work on these companies has finished, the Council will decide whether production in other countries is to be included in its investigations and whether it should take a closer look at companies which buy textiles from these countries.



Assessment of corruption risk

According to the Guidelines for Observation and Exclusion from the Government Pension Fund Global (GPF), the Council on Ethics may recommend the exclusion of a company if there is an unacceptable risk that the company contributes to or is responsible for gross corruption. Since 2013, the Council has not only assessed companies shown by news monitoring to have comprehensive corruption accusations levelled at them, but has also specifically reviewed companies in countries and sectors where international rankings show that the risk of corruption is assumed to be particularly high. The studies that the Council has conducted so far relate to companies with operations in the building and construction industry, oil and gas sector and defence industry. A telecommunications industry study has also just started.

The Council thoroughly investigates accusations of gross corruption against a company, including by contacting experts and public bodies and using consultants with specialist expertise in the relevant professional area. In its specific assessment of whether a company has been involved in "gross corruption", the Council places emphasis on factors such as the size of the amounts and whether there are repeated accusations against the company that may indicate a systematic use of corruption.

Following this, the Council assesses whether there is a risk that the gross corruption will continue, something which is crucial to whether the Council recommends excluding the company from the fund. Key to this assessment are the anti-corruption processes and controls implemented in the company. These measures are summarised in the company's anti-corruption programme, which is often an important part of the corporate compliance management systems. The objective of a company's anti-corruption programme is to prevent, discover and react to violations of internal and external laws and rules. The way in which the anti-corruption programme has been implemented may therefore say something about the risk of unlawful acts continuing to take place in the future.

The Council bases its assessment of a company's anti-corruption programme on established international norms and standards for best practice. The *Foreign Corruption Prevention Act (FCPA)* and associated sanction procedures gradually developed as corruption cases were settled between companies and the US authorities, as well as the *UK Bribery Act*, have helped to develop international anti-corruption standards for businesses. Brazil also passed a corresponding anti-corruption law in 2013, according to which companies are for the first time assigned civil-law and administrative liability for corruption-related acts. This is known as the *Clean Company Act*. In 2012, the US Department of Justice (DoJ) and Securities and Exchange Commission (SEC) published *A Resource Guide to the U.S. Foreign Corrupt Practices Act*¹ - a guide on how companies should act to avoid criminal liability pursuant to the FCPA. Useful guidelines for how companies are to prepare and implement anti-corruption programmes are also to be found in the UN's anti-corruption portal TRACK (*Tools and Resources for Anti-Corruption Knowledge*) and Global

Compact: A guide for anti-corruption risk-assessment, the OECD's *Good Practice Guidance on Internal Controls, Ethics and Compliance*, and Transparency International's *Business Principles for Countering Bribery*.

Many companies have now established internal anti-corruption processes and controls for their operations. The Council places emphasis on the degree to which these are incorporated into operational compliance procedures, how they are managed internally and communicated externally, the degree to which they are effectively implemented and the way in which the company has organised its anti-corruption work.

The Council reviews the publicly available information on corporate compliance management systems and anti-corruption processes and controls for the companies assessed. In addition, the Council meets with the companies in order to assess how these systems, processes and controls are implemented. Companies involved in corruption cases must be able to convince the Council that they have a plan for their anti-corruption work, that resources have been made available for this work and that the plan is being carried out. It is only if the company proves it probable that its corporate compliance management systems and anti-corruption processes and controls are properly organised and implemented effectively that the Council can conclude that the risk of future corruption has been reduced so that the company should not be excluded from the fund.

Specific cases

The Council investigated many companies in relation to the corruption criterion in 2015. These are companies listed on stock exchanges on all continents and the relevant acts of corruption were alleged to have taken place in very many different countries. The cases assessed by the Council in 2015 confirm several points stated in the OECD's 2014 Foreign Bribery Report, which presented the results of a review of all the transnational, judicially determined corruption cases in OECD countries during the period from when the OECD's Anti-Bribery Convention entered into force in 1999 and until 2014: that corruption is not a typical developing country problem but takes place in all countries, that senior executives are often directly

involved in the acts of corruption and that corruption to a great extent takes place in connection with public-sector contracts.²

ZTE Corporation

The Council has known for many years that ZTE Corporation (ZTE) is being investigated for corruption in numerous countries. It has been difficult to obtain sufficient information on the various investigations because these have taken place in several countries where such information is not disclosed to the public. In 2015, however, the number of corruption accusations and investigations had reached a level which indicated that, in the Council's view, there was a clear risk of gross corruption in the company. ZTE had by then been accused of corruption in a total of 18 countries and been investigated for corruption in 10 of these. Only one of the investigations had resulted in a conviction, although this was without the company's representatives being present during the criminal proceedings in court (in absentia proceedings). The Council also placed emphasis on the fact that the company's employees had left the country as soon as an investigation started, something that made it impossible to fully investigate the accusations.

The Council based its assessment of the future risk on the fact that ZTE ought to have sound systems in place to prevent corruption in light of the many serious corruption accusations against it and the corruption risk in sectors and countries where it operates. The Council did not find that ZTE had proven it probable that it had such systems or that the systems which existed were organised and implemented in a sufficiently effective manner. In its communication with the Council, ZTE provided little information on its anti-corruption work and did not give good answers to questions about what it did to prevent corruption. The Council therefore recommended the exclusion of ZTE.

ZTE operates in a sector where large public-sector contracts are common and has allegedly repeatedly paid large bribes so that public-sector employees will favour it in competitive tenders. This has supposedly taken place in countries such as Zambia, the Philippines, Papua New Guinea, Liberia, Myanmar and Nigeria. This type of corruption often has major social consequences in that countries with a huge need for

development have their treasuries drained. One of several specific examples in this case is a school project that ZTE was to help establish on Papua New Guinea in 2010. As far as the Council knows, this project has so far not been realised but has cost the country's inhabitants USD 35 million.

Petroleo Brasileiro SA (Petrobras)

For several years, the Council has known about corruption accusations involving Petrobras. However, it was not until 2014, when the scope of the accusations became generally known, that the Council decided to contact the company and investigate the accusations with the aim of recommending exclusion. The Council's view is that the information which became publicly known in 2014 and 2015 indicates that the company is responsible for gross corruption. This applies to both active and passive corruption.

The Council based its assessment of the future risk on the assumption that the company should have sound systems in place to prevent corruption in light of the serious corruption accusations that became known in 2014 and 2015 and the risk of corruption in countries and sectors where the company operates. The Council did not find that Petrobras proved it probable that its anti-corruption procedures are organised and implemented in a sufficiently effective fashion. The company's response to the corruption accusations was also of significant importance to the Council. Petrobras underlined both publicly and to the Council that it is a victim of some individual employees' acts. In light of the extensive acts of corruption involving senior Petrobras employees, this appears to be a repudiation of liability by the company. However, the Council found that companies which have recently established internal preventive systems must be given some time to implement them properly. In addition, the Council placed emphasis on the fact that the great attention given to the case both nationally and internationally will probably force the company to take further steps in the right direction. The Council therefore recommended putting the company under observation instead of exclusion from the fund. The Council will reassess this case in 2016.

This is the first corruption case where the Council has given weight to passive corruption, i.e. the demanding

or receiving of bribes. The passive corruption cases previously considered by the Council have involved individual employees who have enriched themselves. In order for passive corruption alone to form a basis for exclusion, the Council takes the view that the corruption must be extensive and/or systematic and that it must be possible to blame the company for this. In the Petrobras case, the Council believes that

what is blameworthy is that the internal anti-corruption systems failed and that it was probably defects in the internal controls that allowed the extensive corruption to take place over so many years. The Council finds that passive corruption on this scale is, like active corruption, a barrier to social and economic development.

Noter

1. This guide is available at <http://www.justice.gov/criminal/fraud/fcpa/guide.pdf>.
2. The report is available at <http://www.oecd.org/corruption/oecd-foreign-bribery-report-9789264226616-en.htm>.



Severe environmental damage

Severe environmental damage has been one of the Council's criteria since the start. Section 3 of the guidelines states: *"Companies may be put under observation or be excluded if there is an unacceptable risk that the company contributes to or is responsible for severe environmental damage"*.

In 2015, the Council continued the work started in previous years on selected topics. These are companies' operations relating to *illegal logging and other particularly damaging forms of logging, particularly valuable conservation areas and illegal fishing and other fishing activities causing particular damage to the environment*. After it became clear that the Norwegian parliament wanted to introduce a new criterion in order to exclude coal companies and companies with unacceptably high climate-gas emissions, the Council has spent some time and resources considering how the work on this criterion should be carried out. This is referred to separately in this annual report.

The Council recommended excluding four companies in 2015 due to an unacceptable risk of severe environmental damage in connection with the companies' conversion of tropical forest into palm oil plantations in Indonesia. Among other things, the Council placed emphasis on the fact that the licensed regions appear to be in areas with particularly rich and unique biodiversity, and that the measures stated by the companies would not be sufficient to reduce the risk of severe environmental damage linked to the ongoing and future conversion of forests into palm oil plantations. All these companies are conglomerates whose plantation operations only comprise a small part of their overall operations. The Council did not place emphasis on this. The starting point for the Council's risk assessment is the nature of the norm breach and the company's efforts to prevent the breach. In the Council's view, the severity and relevance of breaches are not reduced by the fact that the entity associated with the breach constitutes a small part of the group's activities. Nor is the company's degree of contribution to the breach reduced by responsible conduct in other areas.

The Council recommended placing under observation one of the companies that converts forests into palm oil plantations. The observation applies to the company's plantation operations in Indonesia. In a previous recommendation to the Ministry of Finance, the Council had recommended that this company should also be excluded from the GPF. In June 2015, the company declared that it would immediately stop all logging and forest conversions and would not carry out such activities in the future. Among other things due to the uncertainty about the actual consequences of the change in the company's strategy, the Council

decided that the company should be placed under observation. In order to assess the progress and impacts of the company's new practice, the Council recommended an observation period of four years.

So far, the Council has made 10 recommendations to exclude companies due to the risk of severe environmental damage linked to *illegal logging and other particularly damaging logging*. Companies are still being investigated and the work of assessing the environmental damage linked to logging and forest conversions will therefore continue in 2016.

The Council has also considered whether GPF companies have operations that may harm *particularly valuable conservation areas*. The threats against protected areas are particularly linked to the extraction of resources and building of infrastructure. In this work, the Council has particularly focused on nature that is protected as one of UNESCO's World Heritage Sites. So far, two recommendations have been made. Several companies are still under investigation.

The Council has continued its work on *illegal fishing and other fishing activities causing particular damage to the environment*. In this context, fishing activities comprise the entire value chain from when the fish is caught, transported to be bought/sold and then processed. The Council has particularly looked at the extent to which companies are involved in illegal, unreported or unregulated (IUU) fishing and the extent to which they catch globally threatened species. This includes companies that fish themselves and those that buy seafood from subcontractors. The Council has held dialogues with several companies where there appears to be a risk of IUU fishing in the company's own operations or supply chain. Often, companies do not have measures or systems in place to prevent them from being involved in IUU fishing. Several companies do not want to provide information to the Council, and in such cases the basis for assessing the company will often be limited. The Council finds that the risk of a company, through its fishing activities, contributing to severe environmental damage may be reinforced by lack of transparency in its operations and the fact that the company does not provide information. So far, the Council has recommended excluding one fishing company. A more detailed account of the Council's work on fishing companies was given in the 2014 annual report.



The climate criteria

In 2014, a group of experts appointed by the Ministry of Finance submitted a report that, among other things, proposed establishing a new climate criterion in the guidelines for observation and exclusion. In February 2015, the Council submitted its views on this report to the Ministry of Finance. In several comments on subsequent consultation documents, the Council has stated its views to the Ministry on the wording and implementation of the climate and coal criteria.

On 1 January 2016, the guidelines for observation and exclusion were amended to include climate gas emissions. According to section 3 of the new guidelines, companies may be excluded from the fund or put under observation if they contribute to or are responsible for "... acts or omissions that, at an aggregate corporate level, lead to unacceptable climate-gas emissions". Norges Bank makes decisions relating to this criterion following the advice of the Council.

On 1 February 2016, a new product criterion relating to coal was included in the guidelines. Section 2 states that "*Mining companies or power producers that themselves, or consolidated with entities they control, receive 30% or more of their income from thermal coal, or that base 30% or more of their operations on thermal coal, may be put under observation or*

excluded from the fund". The responsibility for identifying the coal companies in question in the fund has been split between Norges Bank and the Council.

The Council has started the work of identifying the companies that "...at an aggregate corporate level, lead to unacceptable climate-gas emissions". The Council has obtained an overview of this topic, prepared a strategy for its work, acquired relevant software tools and established contact with relevant consultants. It has also consulted various professional environments in Norway that have made useful contributions to this work.

The Ministry of Finance would like the use of the climate criterion to be developed over time and wants the Council to interpret and develop the criterion. White Paper no. 21 (2014 – 2015) also assumes it will be expedient to place more emphasis on the emission intensity than the absolute emissions. The Norwegian parliament agreed to this proposal. The Council is to follow this up and will in the first phase of its work place particular emphasis on mapping the emission intensity in some industries that have considerable emissions.



Information activities in 2015

The Council places emphasis on providing information on its activities. Firstly, it is important that both political authorities and others can assess whether the Council carries out its mandate in the way intended. Secondly, by actively participating at conferences in Norway and abroad, the Council makes contact with experts that can help it to prepare its investigations. Thirdly, companies in this way obtain information on the Fund's guidelines and the Council's work.

In 2015, the Council gave several lectures in both Norway and abroad. Among other things, the Council presented its work on corruption at the annual anti-corruption conference arranged by the law firm Selmer, PwC, Transparency International Norge and the Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime (Økokrim), as well as at the annual *Legal Ethics & Compliance International* conference organised by IBC. The Council also gave a talk at the European

Investment Bank's *Business Ethics and Compliance Conference and at RI Americas 2015*, the annual conference in the USA arranged by Responsible Investor.

The Council arranged a panel debate on workers' rights in the textile industry at the UN Forum for Business & Human Rights 2015 in Geneva. The panel consisted of representatives of the Bangladesh Center for Workers' Solidarity, Fair Wear Foundation, Garment Manufacturers Association in Cambodia, Hennes & Mauritz and Workers Rights Consortium. The debate, which was introduced by the Council chair, shed light on the causes of employee rights violations and what is necessary to bring about change. The causes are complex and require the authorities, customers, factories, industry organisations and employee organisations to work together to improve conditions.



Johan H. Andresen at the European Investment Bank

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Excluded companies by 1 February 2016

Cluster Munitions

- General Dynamics Corp.
- Hanwha Corp.
- Poongsan Corp.
- Raytheon Co.
- Textron Inc.

Nuclear Weapons

- Aerojet Rocketdyne Holdings Inc.
- Airbus Group Finance B.V.
- Airbus Group N.V.
- Boeing Co.
- BWX Technologies Inc.
- Honeywell International Corp.
- Jacobs Engineering Group Inc.
- Lockheed Martin Corp.
- Northrop Grumman Corp.
- Orbital ATK
- Safran SA
- Serco Group Plc.

Anti-Personell Landmines

- Singapore Technologies Engineering Ltd.

Tobacco

- Alliance One International Inc.
- Altria Group Inc.
- British American Tobacco Bhd.
- British American Tobacco Plc.
- Grupo Carso SAB de CV
- Gudang Garam Tbk pt
- Huabao International Holdings Ltd.
- Imperial Tobacco Group Plc.
- ITC Ltd.
- Japan Tobacco Inc.
- KT&G Corp.
- Lorillard Inc.
- Philip Morris Int. Inc.
- Philip Morris Cr. AS
- Reynolds American Inc.
- Schweitzer-Mauduit International Inc.
- Shanghai Industrial Holdings Ltd.
- Souza Cruz SA
- Swedish Match AB
- Universal Corp. VA
- Vector Group Ltd.

Human Rights Violations

- Wal-Mart Stores Inc.
- Wal-Mart de Mexico SA de CV
- Zuari Agro Chemicals Ltd.

Violations of the Rights of Individuals in Situations of War or Conflict

- Africa Israel Investments Ltd.
- Danya Cebus Ltd.
- Shikun & Binui Ltd.

Environmental Damage

- Barrick Gold Corp.
- Daewoo International Corp.
- Freeport McMoRan Copper & Gold Inc.
- Genting Bhd.
- IJM Corp. Bhd.
- Lingui Development Bhd. Ltd.
- MMC Norilsk Nickel
- POSCO
- Rio Tinto Plc.
- Rio Tinto Ltd.
- Samling Global Ltd.
- Sesa Sterlite
- Ta Ann Holdings Bhd.
- Vedanta Resources Plc.
- Volcan Compañía Minera SAA
- WTK Holdings Bhd.
- Zijin Mining Group Co. Ltd.

Corruption

- ZTE Corp.

Other Particularly Serious Violations of Fundamental Ethical Norms

- Elbit Systems Ltd.
- Potash Corp. of Saskatchewan

Companies under observation by 1 February 2016

Environmental Damage

- PT Astra Tbk.

Corruption

- Petroleo Brasileiro SA



Recommendations on exclusion and observation

Recommendations on exclusion and observation

Overview of the recommendations published since the last annual report

Company	Recommendation	Recommendation published	Norges Bank's decision	Criterion
Daewoo International Corp.	Exclusion	17 August 2015	Exclusion	Environmental damage
Posco	Exclusion	17 August 2015	Exclusion	Environmental damage
Genting Bhd	Exclusion	17 August 2015	Exclusion	Environmental damage
IJM Corp. Bhd	Exclusion	17 August 2015	Exclusion	Environmental damage
PT Astra International Tbk	Observation	13 October 2015	Observation	Environmental damage
Alstom	Observation terminated	22 December 2015	Observation terminated	Corruption
ZTE Corp.	Exclusion	7 January 2016	Exclusion	Corruption
Petroleo Brasileiro SA	Observation	28 January 2016	Observation	Corruption

Since the last annual report, seven recommendations have been published, encompassing a total of eight companies.

Four of the recommendations apply to companies that the Council recommended excluding in 2014 but which the Ministry of Finance had not assessed before the new guidelines entered into force at the year-end. The Ministry of Finance then sent the cases, all of which related to the establishment of palm-oil plantations in tropical rain forests, back to the Council for re-assessment. The Council upheld its assessments in three of the cases, namely IJM, Genting and Daewoo, with its parent company Posco. In the fourth case, the Council recommended putting the company - Astra International - under observation instead because it had in the meantime declared it had stopped all logging and land conversion during its work on a new sustainability strategy, and that it would avoid deforestation in future.

Three recommendations apply to the risk of corruption. ZTE has been the subject of corruption investigations in a number of countries and operates in many nations where the risk of corruption is high. The telecommunications industry, in which large public-sector contracts are common, also exposes the company to a considerable risk. In the Council's view, this places special demands on the company to implement sound systems and anti-corruption measures. The fact that the company is also facing a considerable number of corruption accusations makes these demands even stronger. In this case, the Council decided that the company had not proven it had adequate systems in place to discover, prevent and react to corruption.

Several senior executives in Petroleo Brasileiro (Petrobras) and its most important suppliers have apparently organised a system of paying large bribes to top level politicians, political parties and civil servants over a period of 10 years. Several of the company's senior

executives also received large kickbacks. Based on the available information on the criminal cases in Brazil, the Council believes that Petrobras has a responsibility for the gross corruption that has taken place in connection with its activities. Over the past few years, the company has taken steps to establish an anti-corruption system that reflects international norms and best practice. However, the Council is in doubt about whether these measures will be sufficiently effective and therefore recommended putting Petrobras under observation.

Alstom, which has been under observation for corruption since 2011, was taken off the observation list. The Council believed there was no longer an unacceptable risk of corruption in the company due to both the anti-corruption measures implemented by the company and a settlement agreement with the US authorities. In addition, large parts of the company have been sold.

Below are summaries of recommendations that have been decided upon by the Norges Bank by 1 February 2016. The recommendations in full text are available at the Council's website at etikkradet.no.



ALSTOM SA
Submitted on 27 October 2015

The Council on Ethics for the Norwegian Government Pension Fund Global (GPF) recommends removing Alstom S.A. (Alstom) from the Fund's observation list, where it was placed in 2011. The Council believes that the risk of future corruption in Alstom has been reduced, and that the current risk now is probably not greater than in other comparable companies. This is based on an assessment of the company's internal anti-corruption systems and the fact that the company's systems will be the subject of ongoing reporting by the company and its external lawyers to the US Department of Justice as a result of a settlement agreement in the US. Furthermore, the recommendation is based on the fact that two-thirds of the company's operations will probably be taken over by General Electric by the end of 2015.

To NBIM

23 June 2015

Regarding the Council on Ethics' recommendation to exclude Genting Berhad from the Government Pension Fund Global

We refer to the Council on Ethics' letter to NBIM of 8 June 2015.

On 27 March 2014, the Council on Ethics made a recommendation to the Ministry of Finance concerning the exclusion of the company Genting Berhad (Genting) and its subsidiary Genting Plantations Berhad (Genting Plantations) from the investment universe of the Government Pension Fund Global (GPFG). The Council considered that there was an unacceptable risk of Genting being responsible for severe environmental damage in connection with Genting Plantations' conversion of tropical forest into oil palm plantations in Indonesia and Malaysia.

In 2015, the Council has assessed whether such changes have occurred in the companies' operations and conduct that the grounds for the exclusion recommendation no longer apply. The Council wrote a new letter in February 2015 to request information on its plantation operation. The company has not replied to this enquiry.

Genting Plantations has been a member of the Roundtable for Sustainable Palm Oil (RSPO) since 2006, although its membership was suspended in April 2014 after environmental groups¹ filed a complaint against the company for breach of the RSPO guideline criterion on the development of new plantations and new plantings.² The groups were of the opinion that the company had, among other things, established more than 220 km² of plantations without publishing information in this regard on the RSPO website for consultation purposes, as RSPO members are obliged to do. The company was re-admitted to the RSPO in September 2014 after publishing the necessary documents, including summaries of its HCV reports. The company was also ordered to share maps, HCV assessments and other information relating to its concessions with the environmental groups. In its 2014 annual report, Genting confirmed that it had consulted various NGOs "on concerns that were raised in the follow-up to our NPP [New Planting Procedure] submissions, agreeing to work together on various initiatives towards achieving the desired outcomes."³

The Council on Ethics has conducted new investigations into the company's plantation operations in 2015 to examine whether the company continues to convert forest into plantations. The investigation is based on public information, including the summary of the company's HCV assessments (which was not available previously), forest data from Global Forest Watch (GFW)⁴ and data from Forest Monitoring for Action (FORMA).⁵

The new data indicate that Genting has converted around 390 km² of forest into plantations in the period 2008 to February 2015. Accordingly, the Council may have underestimated the scale of forest conversion in its 2014 recommendation. It appears that recent forest clearance and new plantings have been concentrated in four particular concession areas.⁶ Since 2013, around 47 km² of forest have been cleared in these areas. The converted forest generally comprised secondary forest⁷ in good condition which is likely to have featured rich biodiversity and had important ecological functions.

In the period 2007–2013, Genting conducted High Conservation Value (HCV) assessments in the concessions, to identify areas of particular importance for conserving biodiversity. The HCV summaries indicate that all of the concessions areas examined by the Council contain important conservation values linked to species and ecosystems. For example, it appears that two of the concessions

may still contain habitats for orangutans.⁸ To maintain these conservation values and areas important to the local population, Genting has set aside conservation areas totalling between 11 and 16 per cent of the area covered by each concession. The conservation areas primarily constitute buffer zones along waterways and areas of steep terrain. One of the concessions also contains a larger set-aside area of what appears to be protected forest.⁹ Further, the Council's findings show that extensive logging appears to have occurred in seven of the concessions shortly after the HCV assessments were completed. In two concessions, HCV assessments were conducted after large areas had been cleared.

Since only the summaries of the HCV reports are available, it is difficult to assess the methods used and the factual basis for the assessments. The key question is whether the HCV assessments have helped to remedy severe environmental impacts connected to forest conversion. Genting's concessions lie in areas which in their natural state are known for their unusually rich and unique biodiversity. The HCV assessments have identified important biodiversity conservation values in all of the concessions. The areas set aside by the company for conservation are limited in size. The Council considers it striking that the conservation values in these large concessions apparently exist almost exclusively in buffer zones along waterways and in steep terrain. These are areas which the company is required to set aside in any event under national requirements. In the Council's opinion, this indicates that the HCV assessments have not provided an adequate basis for preventing severe environmental damage in connection with plantation development.

The company has provided more information over the past year, in line with its RSPO membership obligations. Nevertheless, in the Council's view the proposed measures by the company will be insufficient to reduce the risk of severe environmental damage associated with current and future conversion of forest into oil palm plantations. The Council has concluded that no major changes have occurred in the company's operations and conduct that indicate a change in the basis for the Council's earlier recommendation. The Council therefore maintains its recommendation to exclude Genting Berhad from the GPFG.

Yours sincerely

Johan H. Andresen
Chair of the Council on Ethics

1. Borneo Rhino Alliance (BORA), see <http://www.borneorhinoalliance.org/> and <http://www.rspo.org/members/complaints/status-of-complaints/view/36>.
2. Principle 7: Responsible development of new plantings and New Plantings Procedures (NPP), see <http://www.rspo.org/certification/new-planting-procedures>.
3. Genting Plantations Annual Report 2014.
4. <http://www.globalforestwatch.org/>.
5. Forest Monitoring for Action (FORMA) regularly uses satellite data to generate updated online maps and flag logging operations in tropical forests; see <http://www.cgdev.org/initiative/forest-monitoring-action-forma>.
6. PT Citra Sawit Cemerlang, PT Kapuas Maju Jaya, PT Sawit Mitra Abadi, PT Surya Agro Palm.
7. Forest which has been logged previously but has regenerated.
8. Genting committed itself to assessing this in the agreement with the environmental groups, <http://www.rspo.org/members/complaints/status-of-complaints/view/36>. Orangutans are a threatened species included in the International Union for the Conservation of Nature's (IUCN) list of threatened species, Ancrenaz, M., Marshall, A., Goossens, B., van Schaik, C., Sugardjito, J., Gumal, M. & Wich, S. 2008. *Pongo pygmaeus*. The IUCN Red List of Threatened Species. Version 2015.1., www.iucnredlist.org.
9. RSPO notification of proposed new planting for PT Surya Agro Palma, <http://www.rspo.org/file/RSPO%20NPP%20Notification%20-%20PT%20Surya%20Agro%20Palma.pdf>.

To NBIM

23 June 2015

Regarding the Council on Ethics' recommendation to exclude IJM Corporation Berhad from the Government Pension Fund Global

We refer to the Council on Ethics' letter to NBIM of 8 June 2015.

On 19 May 2014, the Council on Ethics made a recommendation to the Ministry of Finance concerning the exclusion of IJM Corporation Berhad (IJM) and its subsidiary IJM Plantations Berhad (IJM Plantations) from the Government Pension Fund Global (GPF). The Council was of the opinion that there was an unacceptable risk of IJM, through its subsidiary IJM Plantations, being responsible for severe environmental damage in connection with the company's conversion of tropical forest into oil palm plantations.

In 2015, the Council has assessed whether such changes have occurred in the company's operations and conduct that the grounds for the exclusion recommendation no longer apply. The assessment has been based on publicly available information.

The four concessions referred to in the recommendation are still owned by IJM Plantations. The company does not appear to have acquired new plantation properties in Indonesia since the recommendation was made in 2014.¹

The company provides little information on its concessions. In its 2014 annual report, the company has written that it is "prudent in managing its land use and mitigates the potential impacts in high conservation areas. The conservation areas in the logged over forests gazetted for plantation include riparian reserves, wetland landscapes, marginal soil areas, hilly terrains and water bodies". The company has also stated the following: "High conservation sites within concession areas have also been identified for conservation purposes in the Group's operations in Indonesia."

In its latest status report to the Roundtable for Sustainable Palm Oil (RSPO), IJM has stated that it has not engaged in further planting, that it has not set aside areas for conservation and that it still plans to initiate RSPO certification of its plantations in 2018.²

The company appears to have begun identifying High Conservation Value areas in its concessions in Indonesia in the past year. However, it is unclear which concessions are included, how the surveys are being conducted and what conservation values have been identified. It is therefore difficult to assess the effect of the measure on the company's development of plantations. In the Council's view, no major changes appear to have occurred in the company's operations that indicate a change in the basis for the Council's earlier recommendation. The Council therefore maintains its recommendation to exclude IJM Corporation Berhad from the GPF.

Yours sincerely

Johan H. Andresen
Chair of the Council on Ethics

1. http://www.ijm.com/web/ijmplt/ir_structure_mijmplant.aspx.

2. ACOP 2013/2014 Progress Report, <http://www.rspo.org/members/11/IJM-Plantations-Berhad>.



PETROLEO BRASILEIRO SA
Submitted on 21 December 2015

The Council on Ethics recommends putting Petroleo Brasileiro SA (Petrobras) under observation due to the risk of gross corruption. Senior executives of the company and its most important suppliers have apparently for a decade organised a system of paying large bribes to top politicians, political parties and civil servants. Several of the company's senior executives also received large kickbacks. Three former employees have already been convicted of such offences. The case is still being investigated in Brazil. The US authorities have also started to investigate allegations of corruption. The Council does not believe that the company has sufficiently proved that it is effectively implementing its internal anti-corruption procedures. The fact that the Council nonetheless advises putting Petrobras under observation and not excluding it is because the company's anti-corruption procedures are recently established. In addition, the extensive investigation in Brazil, the negative attention that the company has received both in Brazil and internationally and Brazil's new anti-corruption legislation all reduce the risk of corruption reoccurring.

In brief about Petrobras

Petrobras is the largest listed company in Latin America and engages in activities relating to the production and refining of oil and gas. Petrobras was founded in 1953 as a state-owned oil company that had a monopoly on all oil activity in Brazil. In 1997, new legislation allowed competition in all parts of Brazil's oil and gas industry.

What the Council has considered

The Council has considered whether there is an unacceptable risk of Petrobras being responsible for gross corruption according to the section 3 subsection 3 letter d) of the Guidelines for Observation and Exclusion of Companies from the Government Pension Fund Global.

The Council has assessed whether there is an unacceptable risk of Petrobras having committed acts of gross corruption and of Petrobras being involved in corresponding acts in the future.

The Council's investigations and assessment

The Council has commissioned two studies by consultants of the allegations of corruption made by the press in this case. The Council was in contact with Petrobras several times in 2014 and 2015. The company has provided information on the case and also commented on a draft recommendation.

Petrobras is linked to Brazil's most extensive corruption case ever. Senior executives of the company and its most important suppliers are accused of organising a system of paying large bribes to top politicians, political parties and civil servants over a period of 10 years. The senior executives also received kickbacks. Based on the extensive investigation in Brazil, which has so far resulted in a number of charges, indictments and legal rulings that convict former senior executives of paying and receiving bribes as part of the operations, it appears that Petrobras may be responsible for acts that must be considered as gross corruption. Based on the available information, it also appears that the

corruption has existed in the company for many years. The company's largest suppliers had for a long time participated in a cartel whose members were awarded specific contracts pursuant to an agreement. These contracts were over-invoiced and around 3 per cent of the contract sum was paid as bribes to civil servants and as kickbacks to Petrobras employees. The suppliers paid the bribes either directly to the recipient or via agents. Through these activities, both internal and external tender rules, among other things, were deliberately circumvented. The total amount paid as bribes probably equals several billion US dollars.

The Petrobras investigation is ongoing. According to Brazil's prosecuting authority, 35 indictments have been preferred against 173 individuals in the case.

In its communication with the Council and in press releases, Petrobras has alleged it is a victim of criminal offences committed by individuals, and refers to the fact that it has the legal position of an aggrieved party in the corruption case in Brazil. Among other things, funds that former employees have received as kickbacks have been returned to the company. However, witness statements in several of the court cases that have been held allege that corruption was an integral part of Petrobras' tender processes. It also appears that the senior management's taking of bribes was a key part of the corruption that took place in Petrobras for many years.

Based on that which is now known about the case in Brazil, the Council believes that in any case former internal systems must have failed and that defects in the internal controls probably allowed the extensive corruption to take place for so many years. The Council finds that the company had not defined and organised its anti-corruption procedures properly until 2013. If such procedures existed, it is clear that they did not effectively reveal and prevent extensive corruption, thus allowing corruption to flourish freely. The extent of this indicates that the rest of the management should have known what was going on.

Petrobras operates in many countries where there is a high risk of corruption. Both the oil and gas industry and building and construction industry, which also affect a large part of the company's operations, expose the company to considerable risk. In the Council's opinion, this places a special requirement on the company to have in place robust systems and to implement anti-corruption measures. The number of corruption allegations against current and former company employees strengthens this requirement further. It is the company that bears the burden of proving that it works in a targeted and efficient fashion to prevent corruption.

The Council has placed emphasis on the fact that a relatively new anti-corruption programme was launched in 2013. Several key parts were not introduced until 2014. The company provides information on the main elements of this system, which on the whole is the same information as that available on the company's website. The system apparently contains the elements that such systems are expected to have. However, it seems clear that the implementation of this system is in a start-up phase and there is little publicly available information on how the system is implemented in practice throughout the organisation. The Council has the impression that the anti-corruption programme has been introduced first in Brazil but has only to a limited extent been implemented outside the country. In its assessment, the Council places emphasis on how the company communicates the importance of anti-corruption work both internally and externally. The company has made radical changes to its board and group management after extensive corruption in the company was revealed in 2014. This may in itself signal a new direction. At the same time, the company underlines both in public and to the Council that it is a victim of some individual employees' actions. In light of the extremely comprehensive acts of corruption involving leading Petrobras employees, this gives the impression that the company is denying any liability.

The Council assumes that the high level of attention that the case has received both in Brazil and internationally will probably force the company to take additional steps in the right direction. Reference is made to the fact that Brazilian authorities passed new legislation in 2013 and 2015 which stipulates clearer requirements as to the ways in which companies handle and prevent corruption.

The Petrobras case is also a clear signal to the Brazilian people and the rest of the world that there is both an ability and willingness to investigate, prosecute and convict people of acts of corruption in Brazil. In this case, it appears that everyone involved can be subject to prosecution; senior executives, top politicians as well as civil servants. Based on the above, the Council believes that Petrobras has a responsibility for the gross corruption that has taken place in connection with its activities. During the past few years, the company has taken steps to establish an anti-corruption system that reflects international norms and best practice. However, the Council doubts whether these measures will be sufficiently effective and therefore recommends putting Petrobras under observation.

The investigations have not been concluded. The Council will carefully monitor developments in the case over the coming year and reassess the matter in 2016. Should further cases of gross corruption be revealed in Petrobras' operations and the company cannot satisfy that the anti-corruption programme is being complied with and effectively improved, the condition for exclusion may be met.



POSCO AND DAEWOO INTERNATIONAL CORPORATION Submitted on 27 March 2015

The Council on Ethics for the Government Pension Fund Global (GPF) recommends the exclusion of POSCO and its subsidiary Daewoo International Corporation (Daewoo) from the GPF. The Council has concluded that there is an unacceptable risk that Daewoo, and thus also its parent company POSCO, may be responsible for severe environmental damage in connection with the conversion of tropical forest into oil palm plantations in Indonesia. The scale of conversion and the fact that the concession area lies in a region of unusually rich and unique biodiversity entails an obvious risk that conversion will cause severe environmental damage. The lack of data reinforces this risk further. The Council has also emphasised that illegal methods appear to have been used in the clearance of the concession area, and that the company appears to be doing little to reduce the environmental damage.

About the companies

POSCO and Daewoo are South Korean industrial companies. POSCO is a global steelmaker with an ownership interest of 60.3 per cent in Daewoo. Daewoo engages in steel and raw materials trading, oil and gas production, mine development, forestry and food production, among other things. Daewoo owns 85 per cent of the Indonesian plantation company PT Bio Inti Agrindo (PT BIA). At the end of 2014, the GPF owned shares in POSCO valued at 198.1 million USD, corresponding to an ownership interest of 0.91 per cent, and shares in Daewoo valued at about 9 million USD, corresponding to a stake of 0.28 per cent.

What the Council on Ethics has assessed

The Council has assessed whether there is an unacceptable risk of POSCO and its subsidiary Daewoo contributing to or being responsible for severe environmental damage as per section 3, first paragraph, sub-paragraph 3, of the Guidelines for Observation and Exclusion from the Government Pension Fund Global (the Ethical Guidelines).

Through its subsidiary PT BIA, Daewoo is currently converting tropical forest into oil palm plantations in the province of West Papua, Indonesia.

The preparatory works to the Ethical Guidelines for the Fund state that corporate structure shall not determine the ethical assessment regarding whether a company is contributing to or responsible for unethical conduct. Based on this starting point and the outcomes in previous recommendations, the Council follows the guiding principle that if a parent company is the controlling owner of a subsidiary, the parent company must also be excluded if the subsidiary breaches the guidelines. As the controlling owner, the parent company has deciding influence on the activities of the subsidiary. POSCO is Daewoo's controlling owner, and indirectly also the controlling owner of PT BIA. Accordingly, this recommendation covers both Daewoo and POSCO. The GPF has no shares in PT BIA.

The nature of the breach and the company's efforts to prevent the breach is the point of departure for the Council's risk assessment. Daewoo is a conglomerate, and the plantation activities comprise only a small part of its overall operation. The Council has not given weight to this fact. Only the most severe breaches of standards are considered with respect to exclusion. In the Council's view, the severity and relevance of breaches are not reduced by the fact that the entity associated with the breach constitutes a small part of the group's activities. Nor is the company's degree of contribution to the breach reduced by responsible conduct in other areas.

In its assessment of environmental damage associated with the logging and conversion of tropical forests, the Council emphasises the scale of conversion, to what extent the company's concession areas overlap with areas containing important ecological values, and what consequences the conversion of forest will have for threatened species and their habitats.

Conversion involves the felling of trees and the removal of other vegetation before an area is used to set up plantations for the production of palm oil or lumber. Plantations are monocultures with little ecological value compared to natural forests.

The Council on Ethics' findings and assessment

The assessment is based on the Council's own research. In the present case, the Council has been in touch with Daewoo several times over the course of 2014. Both POSCO and Daewoo were given an opportunity to comment on a draft recommendation in September 2014. Daewoo has also replied on behalf of POSCO.

Daewoo's concession area in Papua covers 32,500 hectares. The Council's findings suggest that the conversion of forest into plantations began towards the end of 2012, and is ongoing. Plantation development is expected to be finalized in 2018.

The island of New Guinea has the world's third-largest tract of contiguous rainforest, after the Amazon and the Democratic Republic of the Congo. It is home to an estimated five per cent of the world's animal and plant species, and two-thirds of its species are only found on New Guinea. Although Papua is a biodiversity hotspot, its flora and fauna remain poorly documented, including in the vast tracts of forest where Daewoo's concession area is situated. This raises the question of whether the conversion of rainforest in this part of Papua, and on such a large scale, is at all possible without running a high risk of irreversible damage to biodiversity and ecosystems in these unique areas.

The concession area is largely covered by dense, continuous forest which the company describes as rainforest. The concession area lies within the Southern New Guinea Lowland Forests Eco-region, which is considered to be one of the Earth's most biologically valuable areas. It is a region of particularly rich and unique biodiversity, and is home to numerous threatened and protected flora and fauna species. Many species are only found in this region, which is considered critically endangered by logging, the conversion of forests into plantations and other activities.

The Council has requested information from Daewoo about the environmental and biodiversity impacts associated with the clearing of forests. The information Daewoo has submitted to the Council provides few answers.

According to the environmental impact assessment for the concession which Daewoo has sent to the Council, most of the concession area is covered by shrubs, bushes and secondary forest. This is inconsistent with the Council's findings. Maps from the Indonesian Ministry of Forests show that almost half of the concession area – 15,800 hectares – appears covered by primary forest which has not been logged previously. The Council assumes that the company's activities will entail the conversion of primary rainforest and forest in good condition into plantations.

The company's environmental impact assessment contains little information on the condition of the forest, ecosystems or species diversity in the concession area. The actual number of threatened, protected or endemic species appears to have been underestimated. Flora, fauna and ecosystems have not been surveyed, and the company has not carried out assessments to identify high conservation values in the concession area. The company's actions have focused on safeguarding protected species, and comprise the establishment of three limited buffer zones along waterways. It is unclear to the Council which species these actions are designed to protect, and how narrow strips of forest in a large plantation landscape will help to preserve ecological values in the concession area. Moreover, the company is obliged to preserve these areas under Indonesian national requirements in any event.

In the Council's view, Daewoo is doing little to preserve biodiversity and important ecological values. The company has emphasised that areas were excluded from the concession area on environmental grounds before Daewoo was granted permission to develop plantations. This, however, is insufficient to protect important conservation values in the concession area. Although Daewoo has also written that it plans to conduct a high conservation value (HCV) assessment, it has not specified any timetable for the assessment, the methods to be used, or the consequences of the assessment for ongoing or future conversion. The conversion of forest does not appear to have been suspended pending the HCV assessment. In the Council's view, this measure is therefore inadequate to prevent severe environmental damage. Neither Daewoo nor PT BIA are members of the Roundtable on Sustainable Palm Oil (RSPO).

The Council has also given weight to the fact that satellite images show an abnormally large number of fire hot spots in Daewoo's concession area, which suggests that land is being cleared by burning. This practice is illegal in Indonesia, and regarded internationally as unacceptable due to the air pollution it entails. The company has denied that it uses such methods, and has claimed that the fires are caused by the negligence of workers or local people. This cannot be ruled out. Nevertheless, the Council finds it unlikely that so many fires would occur in the concession area without any connection to the land clearing. In the Council's view, the sheer number of fires and the fact that the burning has been ongoing for several years should have prompted the company to investigate the cause of the fires, and to consider whether its measures are adequate to prevent fires from occurring.

There is no information about the condition of the forests, biodiversity or ecosystems in the 32,500 hectares of forest slated for conversion into plantations. Accordingly, no information is available on the extent and nature of the biodiversity loss that conversion will cause in these ecologically important areas. The Council finds that the scope of conversion, which includes large tracts of pristine forest, and the fact that the concession area lies in a region of exceptionally rich, unique biodiversity present an obvious risk that conversion will cause irreversible environmental damage. The lack of data reinforces the risk. Further factors emphasised by the Council are that illegal land clearing methods appear to have been employed in the concession area and that the company does not appear to have taken significant steps to rectify the environmental damage. Overall, the Council finds that there is an unacceptable risk of severe environmental damage through the company's conversion of tropical forest into oil palm plantations. The Council on Ethics therefore recommends the exclusion of POSCO and Daewoo from the GPF.



PT ASTRA INTERNATIONAL TBK
Submitted on 23 June 2015

The Council on Ethics for the Government Pension Fund Global (GPF) recommends that PT Astra International Tbk be placed under observation due to the risk that the company may be responsible for severe environmental damage. The observation relates to the company's plantation operation in Indonesia. On 11 June 2015, Astra announced that it would immediately be ceasing all logging and land conversion while developing a new sustainability strategy. The company has also stated that it will avoid deforestation in future. In view of the company's previous policy and uncertainty as to the material impact of the change in the company's strategy, the Council has concluded that the company should be placed under observation. The Council recommends an observation period of four years to allow the progress and impact of the company's new policy to be assessed.



ZTE CORP.
Submitted on 24 June 2015

The Council on Ethics recommends the exclusion of ZTE Corp. (ZTE) from the Government Pension Fund Global (GPF) due to an unacceptable risk of gross corruption. In its assessment, the Council has emphasised the company's involvement in corruption allegations in 18 countries, as well as the fact that it is currently or has previously been under investigation in a total of 10 of these. Weight has also been given to the fact that the company has been convicted of corruption in one instance, that a corporate penalty was imposed and that the company has been temporarily barred from public competitive tenders. The Council has concluded that the company has failed to demonstrate sufficiently that internal anti-corruption procedures are being effectively implemented in its business. In conjunction with previous corruption cases and the fact that the company operates in a sector and in many countries associated with a high risk of corruption, this finding indicates that there is an unacceptable risk that the company may again become involved in gross corruption.

About the company

ZTE is one of the world's five largest producers of telecommunications equipment and network solutions. The company was listed on the Shenzhen Stock Exchange in 1997 and in Hong Kong in 2004. As of 2014, the company had more than 75,000 employees spread across 100 subsidiaries, and operations in 160 countries. At the end of 2014, the GPFG owned shares in ZTE valued at approximately NOK 85 million, corresponding to an ownership interest of 0.15 percent.

What the Council has considered

The Council on Ethics has assessed whether there is an unacceptable risk of ZTE being responsible for gross corruption contrary to section 3, d) of the Guidelines for Observation and Exclusion of Companies from the Government Pension Fund Global.

The Council has examined ZTE's response to current corruption allegations, including whether the company's anti-corruption measures sufficiently reduce the risk of the company becoming involved in similar practices in future.

The Council's findings

ZTE and its representatives have been linked to corruption allegations in 18 countries, and the Council on Ethics is aware that formal investigations into corruption in ZTE have been launched in 10 different countries. The incidents in question cover a period of 17 years, from the year after ZTE was listed until 2014.

The Council has commissioned three studies by consultants into the corruption allegations against ZTE referred to in the media. The Council has also contacted, among others, public investigatory and prosecutorial bodies to obtain public information on the particular instances of corruption. The Council has also been in dialogue with ZTE in 2014 and 2015. ZTE has been sent a draft of the recommendation, but has not commented on it.

All corruption allegations against ZTE of which the Council is aware relate to the payment of bribes to public officials to secure the award of contracts. In 2012, ZTE's representative in Algeria was sentenced to 10 years' imprisonment for corruption in connection with a contract won by ZTE in the country. A corporate penalty was imposed on the company, and it was barred from participating in public tenders for two years. In Zambia, the national anti-corruption commission decided in 2014 that corruption had occurred in connection with a contract between ZTE and government ministers. In Kenya, a contract was cancelled by a public body in 2012 due to overpricing, a decision which was upheld by an appellate court in 2014.

Not all of the corruption cases involving ZTE have been concluded. In the spring of 2015, a criminal trial began in Singapore against persons who in police interviews have admitted passing large commission payments to the prime minister and other public officials on Papua New Guinea on behalf of ZTE. The Council on Ethics is also aware that a corruption investigation has recently been opened in Malaysia.

Serious corruption allegations have also been made against the company in the Philippines, Myanmar, Nigeria and Liberia. As far as the Council is aware, ZTE has not responded to any of the allegations made against it. The available information indicates that ZTE, either directly or through its representatives, has paid bribes to public officials with the aim of securing public contracts. The large numbers of allegations in many different countries indicate that the company makes systematic use of corruption in its business. Further, the size of the amounts suggests that ZTE's management knew, or should have known, about the payments. In all of the cases which remain under investigation, the suspected bribes amount to several million US dollars and in some cases many tens of millions of US dollars.

ZTE operates in many countries in which the risk of corruption is high. The telecommunications industry, in which large public contracts are commonplace, also exposes the company to significant risk. In the Council's view, this places a particular requirement on the company to adopt robust systems and measures to prevent corruption. The significant number of corruption allegations against the company strengthens this requirement further.

ZTE has an internal compliance programme. The compliance programme covers not only anti-corruption, but also many other topics related to laws and regulations relevant to the company.

According to the company's ethical guidelines, which are enshrined in its Code of Conduct, no-one may pay or accept bribes in China or abroad. This applies throughout the ZTE group, and to both private and public contracts. The company has procedures for reporting and approving gifts, as well as due diligence procedures for the use of third parties. The company also has training and whistle-blowing systems in place, such as an internal hotline and an email address to which all staff can report breaches. A compliance team also carries out regular inspections to uncover violations of the Code of Conduct.

Despite of this, based on information available, the Council cannot see that ZTE's anti-corruption systems include the elements that can reasonably be expected. The systems appear deficient especially because it is unclear what risk identification and assessment the company has carried out when establishing and improving them. It is also unclear what risk assessments the company performs with regard to partners, sales consultants and third parties, among others. Such risk identification is an essential prerequisite for the introduction of robust, targeted measures. It lays the foundation for, and facilitates continual adjustment and improvement of, the entire company's anti-corruption systems.

It is also unclear what consequences employees face if they breach laws and internal guidelines. Moreover, it is unclear how the company ensures the independence of its compliance staff, and how anti-corruption procedures are monitored and improved.

As recently as 2013, the company has stated that new measures were implemented to prevent corruption. However, it is unclear which measures are new and how effective they will be in reducing the future risk of corruption. The Council notes that the investigation into the company concerning corruption in Malaysia was launched after this date, and that the contract in Kenya which may have involved corruption was concluded the same year as the new measures apparently were implemented.

The Council has also concluded that the extensive anti-corruption measures implemented in China recently have the potential to play an important role in preventing corruption in Chinese companies. The Council's conclusion that ZTE should nonetheless be excluded from the GPFG rests on the Council's decision to give greater weight to the known instances of corruption and the company's response to these. The Council has also placed particular emphasis on the company's efforts to prevent corruption, given the corruption risk in the telecommunications industry and in many of the countries in which the company operates.

Based on the available information, the Council on Ethics considers that there is an unacceptable risk that ZTE has been involved in gross corruption and that the company may again become involved in similar practices in future. The Council therefore recommends the exclusion of ZTE from the GPFG.



Guidelines for observation and exclusion from the Government Pension Fund Global

By 1 February 2016

This translation is for information 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.

Guidelines

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 and 1 February 2016.

Section 1. Scope

(1) These guidelines apply to the work of the Council on Ethics for the Government Pension Fund Global (the Council) 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, as well as instruments in the Fund's real-estate portfolio issued by companies listed on a regulated market.

(3) The Council 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 Fund, 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 derive

30 per cent or more of their income from thermal coal or base 30 per cent or more of their operations on thermal coal.

(3) In assessments pursuant to subsection (2) above, in addition to the company's current share of income or activity from thermal coal, importance shall also be attached to forward-looking assessments, including any plans the company may have that will change the share of its business based on thermal coal and the share of its business based on renewable energy sources.

(4) Recommendations and decisions on exclusion of companies based on subsections (2) and (3) above shall not include a company's green bonds where such 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 consists of five members appointed by the Ministry of Finance 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 sent 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 possesses the required expertise to perform its functions as defined in these guidelines.

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(3) Members of the Council shall be appointed for a period of four years. Upon the initial appointment, the Ministry of Finance may adopt transitional provisions.

(4) The Ministry of Finance sets the remuneration of the members of the Council and the Council's budget.

(5) The Council has its own secretariat, which administratively is under the Ministry of Finance. The Council shall ensure that the secretariat has appropriate procedures and routines in place.

(6) The Council shall prepare an annual operating plan, which shall be submitted to the Ministry of Finance. The operating plan shall describe the priorities set by the Council for its work; cf. section 5.

(7) The Council shall submit an annual report on its activities to the Ministry of Finance. This report shall be submitted no later than three months after the end of each calendar year.

(8) The Council shall evaluate its work regularly.

Section 5. The work of the Council on Ethics on recommendations concerning observation and exclusion

(1) The Council 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 may investigate matters on its own initiative or at the request of the Bank. The Council 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 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 at an early stage of the process. In this context, the Council shall clarify to the company what circumstances may form the basis for observation or exclusion. If the Council decides to recommend

observation or exclusion, its draft recommendation shall be presented to the company for its comments; cf. section 7.

(5) The Council shall regularly assess whether the basis for observation or exclusion still exists. In light of new information, the Council may recommend that the Bank revoke an observation or exclusion decision.

(6) The Council 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 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. 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 shall 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 affected, currently or in the past, 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

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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 each 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 possible use of measures in the context of promoting responsible management, the Bank and the Council shall meet regularly to exchange information and coordinate their work.

(2) Communication with companies shall be coordinated and with the aim to be perceived as consistent. The Bank shall exercise the Fund's ownership rights. The Bank shall seek to integrate the Council's communication with companies into its general company follow-up. The Bank shall have access to the Council's communication with companies, and may participate in meetings between the Council and companies.

(3) The Council 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 ask the Council to make its assessments of individual companies available.

(4) The Bank and the Council shall put in place 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.

Section 8. Publication

(1) The Bank shall publish its decisions pursuant to these guidelines. Such publication shall occur in accordance with the management mandate for the Fund, section 6-2(4). When the Bank publishes its decisions, the Council shall publish its recommendations.

(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 of Finance, the Bank and the Council 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. 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 of the decision.

(2) The Ministry of Finance and the Council 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 for further consideration.

Section 10. Power of amendment

The Ministry of Finance may supplement or amend these guidelines.

Section 11. Entry into force

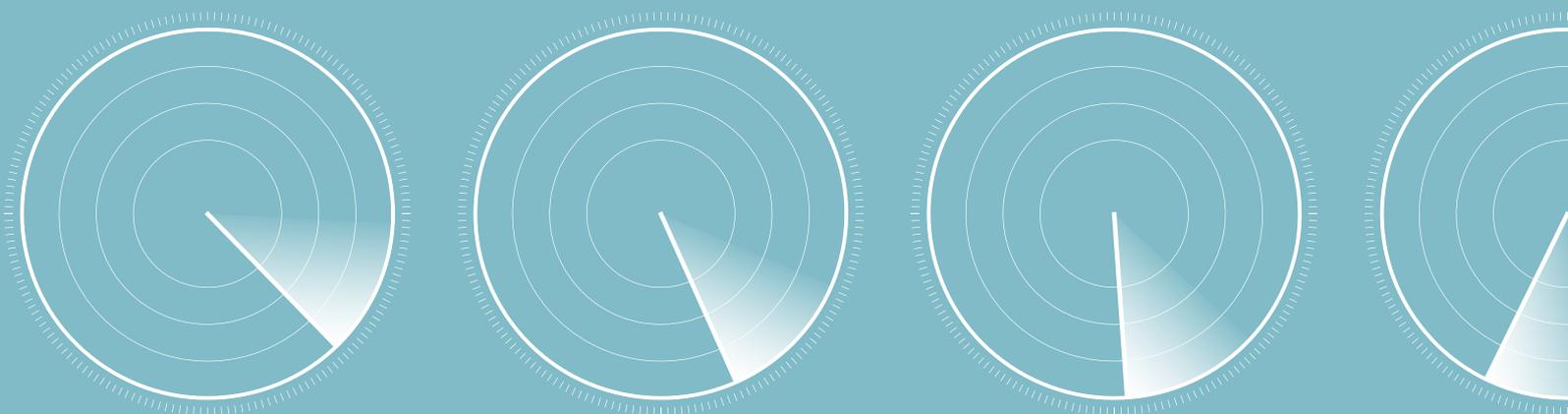
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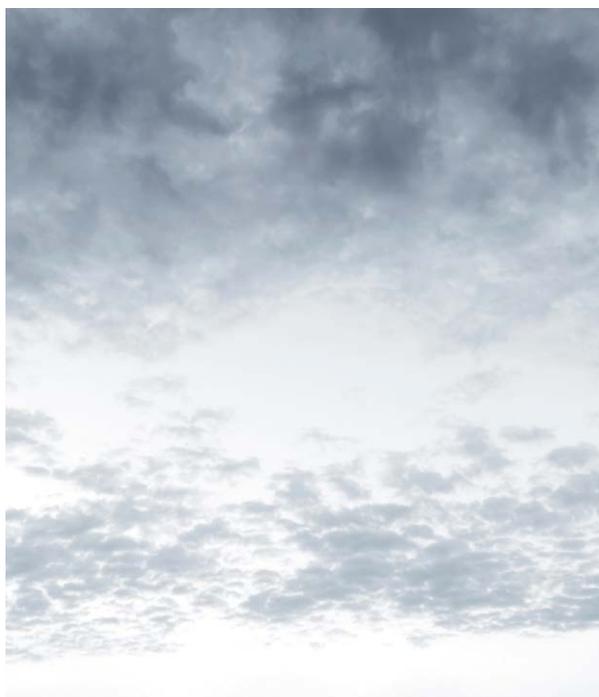
Section 12. Transitional provisions

(1) Recommendations from the Council which the Ministry of Finance has received, but not finally processed, by 1 January 2015 shall:

- a) where the matter concerns a company in the Fund's portfolio, be sent back to the Council for consideration of further handling in accordance with these guidelines
- b) where the matter concerns a company not included in the Fund's portfolio, be taken note of by the Ministry. Such recommendations shall be made public.

(2) The Bank may make decisions on the exclusion of securities that are not in the investment portfolio on 1 February 2016 and that fall under section 2(2)-(4). In such cases, decisions and the grounds for such decisions shall be made public in accordance with section 8.





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