

The Norwegian Government Pension Fund - Global

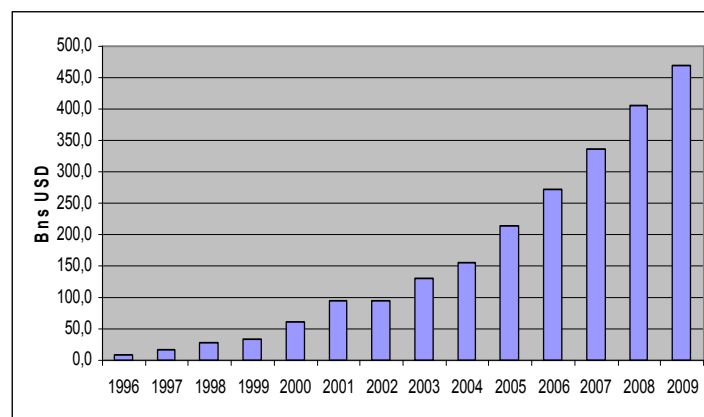
“How to Implement Norm-based Exclusion in Asset Management”

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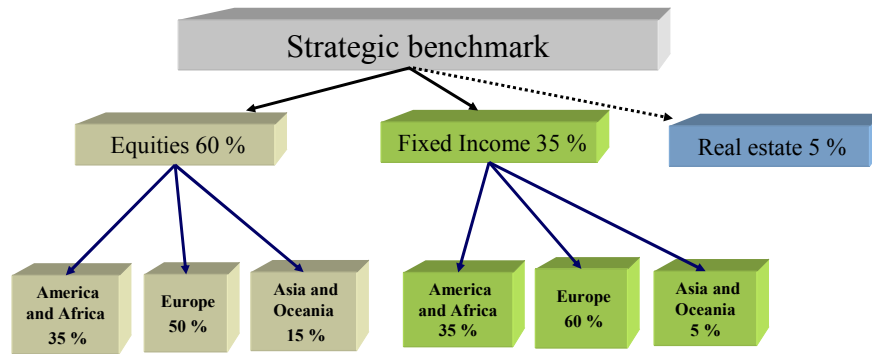
The Fund's market value 1996–2009

Billion USD, year end



Source: Ministry of Finance, NB07

Benchmark for the Pension Fund – Global



Two ethical obligations of the Fund

Future generations should derive benefit from the petroleum wealth



Achieve a sound return in the long term

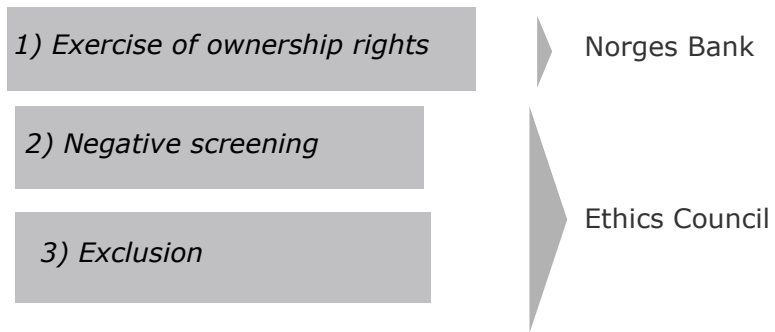
Respect basic rights of those affected



Not be invested where there is an unacceptably high risk that the Fund will be complicit in grossly unethical conditions

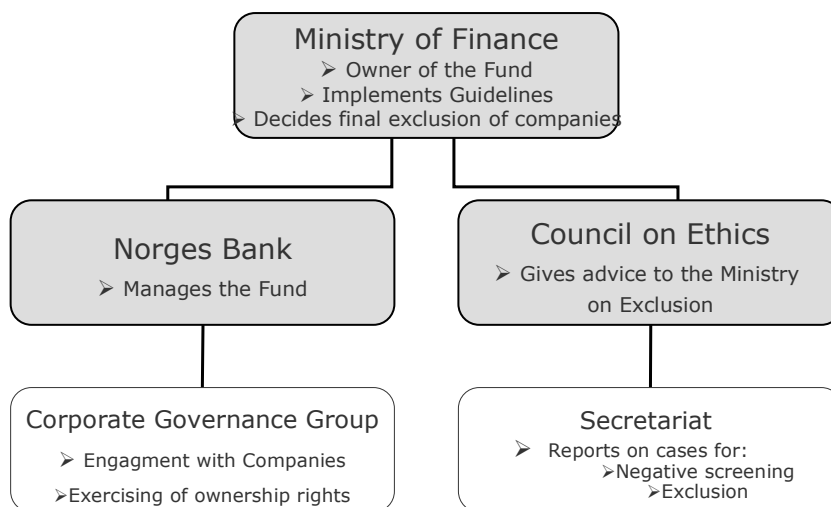
See: Guidelines Point 1

A three-track strategy



See: Guidelines Point 2

Responsibility



Council on Ethics: Mandate

- 1 - **Negative screening** of companies on the basis of production of **weapons that through normal use may violate fundamental humanitarian principles.**
- 2- **Exclusion** of companies from the investment universe because of acts or omissions that constitute an unacceptable risk of contributing to, *inter alia*:
 - Serious or systematic **human rights violations**,

See: Guidelines Point 4.4

Negative Screening (of weapons producers)

- **Weapons that through normal use may violate fundamental humanitarian law principles:**
 - **The principle of proportionality**
(Unnecessary suffering and superfluous injury)
 - **The principle of distinction**
(Distinction between military objectives and civilian objects)

NB: The exclusion criteria are linked to principles international humanitarian law, and not to specific treaties.

Excluded weapons' producers

Nuclear Weapons (11)

- BAE Systems Plc.
- Boeing Co
- EADS Co.
- EADS Finance BV
- Finmeccanica Sp.A
- GenCorp Inc.
- Honeywell International Inc
- Northrop Grumman Corp.
- United Technologies Corp.
- Safran SA
- Sereco Group Plc.

Cluster Weapons (8)

- Alliant Techsystems Inc.
- General Dynamics Corp.
- Hanwha Corp.
- L3 Communications Holdings Inc.
- Lockheed Martin Corp.
- Poongsan Corp.
- Raytheon Co.
- Thales SA.

Anti Personell Landmines (1)

- Singapore Technologies Engineering

Exclusion of Companies

Unacceptable risk of being complicit in:

- Serious or systematic **human rights violations**, such as; **murder, torture, deprivation of liberty, forced labour, the worst forms of child labour** and **other forms of child exploitation**
- Grave breeches of individual rights in situations of **war or conflict**
- Severe **environmental** degradation
- Gross **corruption**
- Other particularly serious violations of **fundamental ethical norms**

Requires an assessment of the company's future behaviour

Link between the company's conduct and the human rights violations:

- Must be concrete link between the relevant human rights violations and the conduct of the company
- Company must have contributed to the violations or had knowledge without trying to prevent them
- Violations must be ongoing, or there must be risk of future violations

The Procedure: From Initiation to Disinvestment

- Case comes to Council's attention
- Council decides to take up case
- In depth fact-finding, and investigations
- Writing a draft recommendation
- Sending draft recommendation to the company
- Final recommendation submitted to the Ministry
- Political treatment of the recommendation
- Decision by the Ministry of Finance
- Sale of the stock and bonds (The Central Bank)

* Publication

Publicly Excluded companies:

- **Wal-Mart Stores Inc. and Wal-Mart de Mexico**
(Complicity in serious or systematic violations of human rights standards, including labour rights standards)
- **Freeport McMoRan Copper & Gold Inc**
(Complicity in severe and irreversible environmental damage)
- **DRD Gold**
(Complicity in severe environmental damage)
- **Vedanta Resources Ltd and its subsidiaries**
(Complicity in severe environmental damage and human rights abuses)

Non-Excluded companies

- **Total** (Not considered an unacceptable risk of complicity to human rights violations in the future)



- Assessment of both retail and supply chain operations
- Found to be violating internationally recognised standards for labour and human rights:
 - Child labour
 - Working conditions bordering on forced labour
 - Serious violations of working hours regulations
 - Wages below local minimum wage
 - Health-hazardous working conditions
- Council's Considerations:
 - Looked at total sum of violations – both retail and supply chain
 - "Appears to be a systematic and planned practise on the part of the company to operate on, or below, the threshold of what are acceptable standards for the work environment-"
 - Violations are ongoing, as there exists an unacceptable risk that violations will occur again in the future.

Norm based Exclusion – Challenges

In one word.....**INFORMATION**

- How do we learn about violations?
- Establishing the link to the company which is invested in
- Is there a bias? Are some companies more frequently reported on than others?
- Is the information reliable/credible?
- Expansion into emerging markets – is information available?
- Companies' willingness to discuss problematic issues and going beyond CSR policies

Looking ahead for the Norwegian Fund.....

- Ethical guidelines in place for 3 years now
- Limited public criticism, but much attention
- Evaluation process initiated by Ministry of Finance – currently underway
- Should guidelines be changed in order to serve other purposes?
- Should mechanisms of exclusion be linked closer to exercise of ownership rights?

The Ethical Guidelines and all
recommendations in full text
(English) are publicly available at:

www.etikkradet.no

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