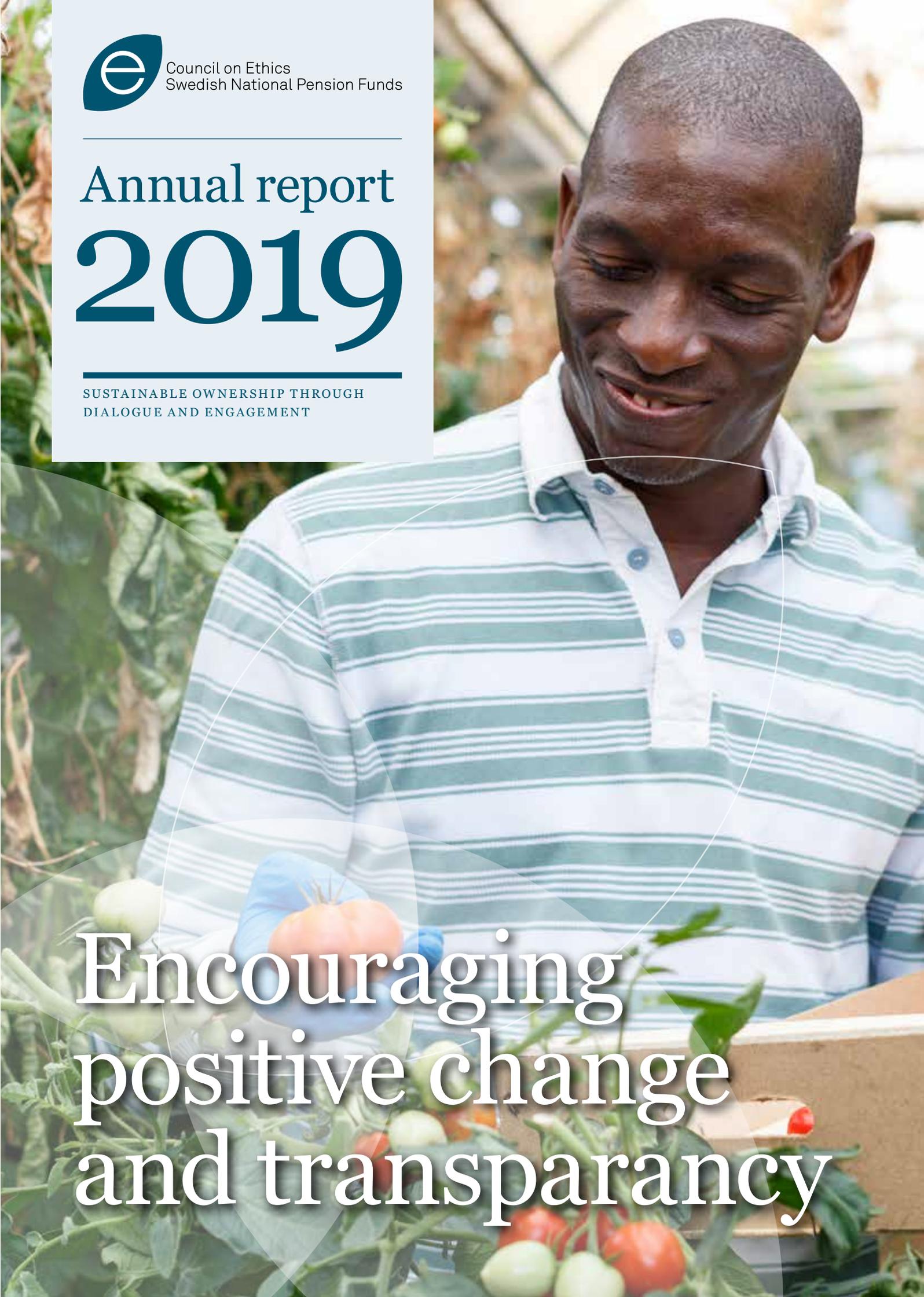




Council on Ethics  
Swedish National Pension Funds

# Annual report 2019

SUSTAINABLE OWNERSHIP THROUGH  
DIALOGUE AND ENGAGEMENT



Encouraging  
positive change  
and transparency

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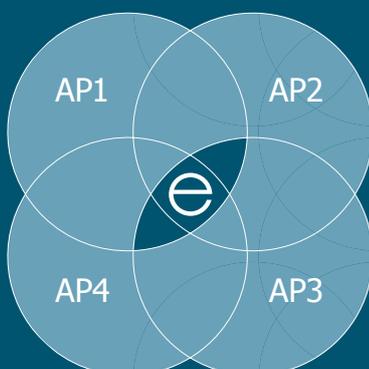
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Challenging times for the largest healthcare company in the world



From Italian working conditions to systemic challenges in food supply chains



## Encouraging positive change and transparency

It is the Swedish National Pension Funds' (AP Funds AP1, AP2, AP3, AP4) view that, over time, well-managed companies that integrate sustainability considerations provide higher returns at lower risk. The Council on Ethics is an ownership collaboration between the AP Funds aimed at increasing the leverage to influence companies to pursue sustainable value creation and transparency.

Through dialogues and engagement with companies the Council is able to make a positive difference and thereby contributing to the AP Funds' long-term returns. The Council is a collaboration with regard to the companies in the AP Funds' portfolios of listed equities, primarily the non-Swedish holdings.

## Collaboration - a key for success

The collaboration with other international investors with a similar sustainability agenda, further increases the scope to exert an influence in dialogues with companies for positive change and transparency.

## Long-term approach and responsibility are part of the mandate

The AP Funds' mandate from the Swedish parliament (Riksdagen) is to create high returns at low risk for current and future pensioners, which at the same time will contribute to the income pension system's stability.



*We aspire to make a difference. We seek to exert influence on companies all over the world in regard to sustainability issues, human rights, ethics, the environment, issues of great importance to people and society. Issues which can destroy or create value for companies.*

*We use dialogue to get companies to adopt proactive measures and to deal with incidents. This is how we can mitigate and prevent problems and accidents in a range of companies and industries.*

*And this is how we perceive we can contribute to sustainable development and importantly, sustainable pensions for current and future pensioners.*

# “The Council on Ethics can make an impact”

The new AP Funds Act came into force in 2019: a law with higher ambitions within the sustainability domain, the consequence of which is positive for the Council on Ethics. During the year, we carried out several large projects and engaged in active dialogue with 483 companies. With our knowledge, experience and well-proven work process, we are convinced that we can contribute to development within companies as well as different industries.

2019 was an eventful year for the Council. The AP Funds Act was amended on January 1, 2019, giving the four AP Funds greater flexibility and opportunities to make good investments. The Funds shall manage the capital in an exemplary way through responsible investments and responsible ownership. We believe that the work process we have followed and developed for 12 years is still effective, but that improvements should continue to be made on an ongoing basis.

## Assignments from the AP Funds guide the work

The Council has two principal assignments from the AP Funds. The first is to influence the companies in which the Funds have invested in order to ensure that any international conventions signed by Sweden are not violated. One possible way to do this is through active dialogue with companies that have not fulfilled our requirements. Such dialogue often leads to improvements. If the companies do not change enough, or if development is too slow, the Council can recommend the AP Funds to exclude these companies from their investment portfolios. Another way we can influence companies is through proactive projects in collaboration with companies and their trade associations, trade unions, the local population and other stakeholders.

The Council's second assignment is to help strengthen confidence in the AP Funds as exemplary asset managers and responsible owners. We do this by having a well thought out organization, and by reporting in a transparent way on our work and the way we carry it out. This annual report – which is the 13th in the series – and our meetings with various stakeholders demonstrate that we are happy to communicate about our business.

## Development requires collaboration and a holistic approach

In January 2019, the accident in Brumadinho, Brazil occurred when the mining company Vale's tailings dam collapsed with terrible consequences. We were bitterly disappointed since we had had an ongoing dialogue with the company following a similar accident two years previously. Vale had promised to improve the level of safety, which they had obviously failed to do.

Shortly thereafter, the Church of England's pension fund and the Council initiated a major joint project to ensure that mining companies take responsibility for their tailings dams. The aim of the project is to map and increase transparency with regard to safety at all waste dams throughout the world. The industry has previously failed to carry through similar projects, but with substantial backing from other mining company owners and other stakeholders it was possible to develop



a public database. Of course, a great deal of work remains to be done before this is complete. At the Council, we have learnt from this dam project that it is possible to make major improvements by taking a holistic approach and exercising influence over the entire industry in collaboration with others. *Read more on page 11.*

## Anti-Money Laundry seminar

Global capital markets have major benefits for the AP Funds as pension funds, primarily because they enable the effective spreading of risk in asset management. One problem that has been evident for a long time but has become increasingly apparent in recent times is that criminals are also benefiting from global capital markets. It is far too easy to carry out criminal transactions and launder money through the banking system undetected. This facilitates criminal activity – not least the financing of terrorism. Several experts have pointed out that collaboration between various financial institutions and law enforcement agencies must improve to create an opportunity to reduce crime. Legislation will also need to be improved.

In the interest of increased cooperation, the Council and the AP Funds organised a seminar in which the CEOs of four major banks, the Swedish Financial Supervisory Authority, the Swedish Economic Crime Authority and others participated. As independent and external parties outside the banking system, the Council and the AP Funds can exercise their influence to boost cooperation. We will pursue our ongoing joint efforts with banks and government to curb financial crime.

## Proactive review of operations and processes

The Council runs its organisation with relatively few resources. Part of our business involves thinking continuously about how we can improve the results. We want to exercise as much influence as much as possible with the resources we have. We have had an external party evaluate the Council's activities and processes. Although the evaluation has been largely positive, there are some areas of improvement. The Government of Sweden's annual evaluation of the AP Funds' activities will focus in particular on sustainability issues for 2019. I look forward to the outcome of that review.

It is with a sense of pride and high expectations that I am now pleased to hand over the presidency to Christina Olivecrona at Andra AP-fonden (AP2). Now she can manage and further develop the important work we have done along with us at the Council and the AP Funds.

# Engaging the problem – the way forward

The Council on Ethics initially, in 2007, started its company engagements with individual companies, then with experience based on those expanded to sector wide pro-active engagements and we are now engaging the problem.



Why engaging the problem? Four years ago, investors and companies were warned of a fundamental problem with the way waste from mining was being stored in tailing dams. Despite the deaths of 19 people in Mariana in Brazil, and huge environmental damage, the issue was not properly addressed. Tragically an even larger disaster would occur just over three years later on the 25th January 2019 in the same region of Brazil resulting in the deaths of 270 people at Brumadinho. The response this time has been very different.

Investors, banks and insurers with over \$14 trillion in assets under management are now engaging together, convened by the Council and the Church of England Pensions Board to take decisive action on tailings safety across the mining sector. Tailing dams are some of the largest human-made structures on earth and supposed to last in perpetuity but some are not and more will collapse.

## Demand for a new independent global standard

Major interventions since the Brumadinho disaster by investors have included the demand for a new independent global standard of tailings management that is based upon the consequences of failure. This has resulted in an independent Global Tailings Review jointly convened by industry and investors through the International Council on Mining and Metals, United Nations Environment Programme and Principles for Responsible Investment.

## Disclosures for the first time

Once the review was established investors then wrote to over 700 companies and requested detailed disclosures for the first time on each individual tailings facility they had responsibility. As a result of these disclosures we have launched a new public global database of the 1,800 tailings dams that have been identified to date. The database is available for all and for free. This is very much a first step and our aim is to grow the database to become the global reference point.

## Working together alongside industry and governments

Importantly, we know that some interventions require working together, with urgency, alongside industry and governments – focusing at the real underlying problem at hand, and not only the responsibility of the individual company. There are examples of individual companies that operate to the highest current standards and a number of these CEOs have been partners with investors in driving the kind of change that needs to happen following Brumadinho.

If we are to be honest these two disasters are the inevitable consequence of a mining system that has been pushed to maximise returns and reduce costs, with the treatment of waste seen in many respects as an externality. Whilst it is easy to point the finger, we should all be aware that we are also part of this problem as society demands the minerals and metals for modern life including the low carbon transition, and we need this sector to flourish.

It is too soon to say if the interventions that investors are driving will be sufficient, but what is clear is that the response this time is genuinely trying to deal with the root of the problem. It will undoubtedly be difficult but this will eventually result in a safer mining sector that can provide the minerals and metals we need without the tragic consequences.

Engaging the problem opens up a different path forward for responsible investors such as the AP Funds. It is challenging and there are many things to learn along the road, but there is undoubtedly a role here to play for the Council and the funds. Watch this space.

# “The Council plays an important leadership role within the broader investor community”

David Kovick, Senior Advisor at Shift, explains the opportunities to enhance the role of the Council on Ethics in relation to responsibilities under the UNGPs. “The Council has the potential to play a really important role in catalyzing new investors to engage more proactively on human rights issues and helping to shape investor practices to maintain alignment with the expectations of the UNGP’s.”

## How do you perceive the Council’s general approach in regards to the UNGP?

Since its inception, the Council has embodied an approach to managing environmental, social and human rights risks based on engagement and dialogue, where disengagement or exclusions are seen as a last resort, when engagement efforts have not been successful at improving outcomes for people and environment. This approach was pioneering at the time of the Council’s creation, but it foreshadowed the approach embraced by the United Nations Guiding Principles on Business and Human Rights (UNGPs). This is indeed exactly the expectation of the UNGPs – that business entities, including investors, should use and build leverage when they are linked to risks through business relationships, such as companies in which they are invested, or the value chains of those companies.

## And more specifically its approach to Managing Human Rights Issues?

At one level, the Council is mandated to engage with individual companies in the AP Funds’ portfolios to address specific instances where companies are connected, through their own business practices and activities, or through their value chain relationships, to potential violations of international conventions that the Swedish government has ratified. The scope of impacts the Council is looking at is therefore very much aligned with the suite of human rights that the UNGPs recognize as a fundamental baseline.

I think equally important, the Council is also engaging on thematic issues in a more proactive way, by looking at the underlying trends that these individual engagements and incidents reveal. This allows the Council to engage a larger number of companies in a sector on a focused set of issues more proactively, before impacts necessarily occur, and helping to raise industry standards and practices as a whole.

And lastly, the Council plays an important leadership role within the broader investor community, helping to shape investor approaches, and through that, building its own leverage by ensuring that, where needed, more investor voices are conveying the same messages to companies in their portfolios.

## What is in your view the most important role that the Council should play?

Catalyzing investor engagement. The Council has a rich body of case experience addressing specific impacts with individual companies, and seeking to leverage those experiences to raise

industry practices and standards. And for a while, the Council was one of only a few voices pressing these issues with companies.

As more investors have started to recognize the importance of these issues, and the space of ESG investing has taken off more broadly, the Council has the potential to play a really important role in catalyzing new investors to engage more proactively on these issues and helping to shape investor practices to maintain alignment with the expectations of the UNGPs. This has the potential to dramatically transform the landscape for business and human rights, by ensuring a clear business case across sectors and geographies. With just a few caveats, nearly every business has investors, and if each of those investors are both willing and equipped to push for meaningful action on business and human rights, that could be game-changing.

## What is your view of the role of the Council in the context of Human Rights Due Diligence and the UNGPs?

All business entities, including the individual AP Funds, are expected under the UNGPs to undertake human rights due diligence (HRDD) – a process of identifying and prioritizing human rights risks they might be connected to, taking action on the most severe and likely risks, tracking effectiveness, and communicating performance.

While this is an expectation of each of the AP Funds, we also know it is at present really hard for investors – given the state of current tools – to assess and prioritize risks across vast and diverse portfolios. So the Council can play a really constructive role in helping individual Funds to identify and prioritize risks proactively, based on what the Council is seeing when actual impacts occur. And then the Council becomes a powerful tool for leverage, by helping the Funds to speak with one voice when they are connected to impacts through their portfolios.

The Council has the experience to engage constructively with companies, to know what actions by companies might be most meaningful in preventing and addressing risks, and to understand some of the barriers and opportunities for driving change within companies. And, where necessary, the Council can be a platform for increasing the leverage of individual Funds in their engagement with companies, by catalyzing other investors.

## What are the expectations for appropriate action in general?

In the great majority of cases, investors like the AP Funds are going to be ‘linked’ to impacts under the language of the UNGPs, when portfolio companies are connected to impacts in some way. This means the investor has not caused or contributed directly

“If we are going to get to better outcomes for people, companies may need help in recognizing the business case for human rights, sustainability and responsible business conduct, understanding expectations around responsibility and action to address risks and impacts, and identifying and implementing good industry practice when it comes to managing specific risks and impacts.”



to the harm, but there is still a connection to the business activity that is causing the harm.

In situations of linkage, the expectation is that a business would use its leverage to seek to influence responsible parties to change their practices or behaviors in order to prevent, mitigate or remedy the harm. Where a business does not have sufficient leverage, it should seek to build additional leverage. And where leverage cannot be effectively built or used to address the harm, the business should consider disengagement as an option.

#### Great, now we are into our favorite topics – prioritization and leverage. What steps do we take?

Prioritization is key. Investors will be connected to a massive number of actual or potential human rights impacts, too many to manage effectively all at once. Businesses are therefore permitted to prioritize which impacts they address first, using the criteria of severity of harm to stakeholders and likelihood of the impact occurring. Implementing the UNGP’s expectations of effective HRDD looks different across sectors, and applying these expectations in the context of a global investment portfolio raises particular challenges.

Credible investor approaches to HRDD are an evolving standard, recognizing current practical limitations of what is possible today, but with the expectation that investors continue to work to develop more effective approaches that push the boundaries of existing limitations. But that’s just to figure out which issues to prioritize or focus on.

#### In your view are there specific implications for the Council?

While leverage is not finite, neither is it infinite. Meaning, when dealing with a specific company or case, more leverage can always be built. But the Council can only engage on so many issues. At a practical level, there are only so many hours in the day. But equally, the Council’s voice would quickly become diluted if it engaged on every single issue. There is unfortunately no shortage of human rights impacts the Council could address. So the Council needs to be really thoughtful in its prioritization, and where it chooses to expend or build its leverage. But if the Council can catalyze greater engagement across the investor community, then the Council does not need to be everywhere, if it knows that other investors are equally committed and capable of driving meaningful and effective engagement.

# Sustainable ownership through active company dialogues

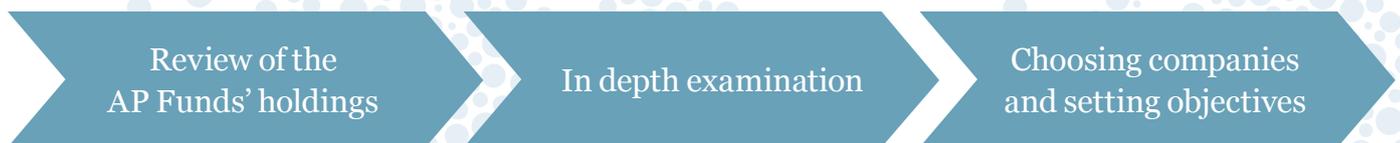
The Council on Ethics' aim is to influence companies to address environmental and social issues through active dialogue, often together with other investors. Improved sustainability in companies' business will give better returns in the long-term. The Council's experience to date shows that dialogue is an effective tool that produces results.

Part of the AP Funds assets are invested globally in diversified equity portfolios comprising of up to 3 500 companies. To focus dialogues, both reactive and proactive, on the companies where they will have the greatest benefit, the Council applies a systematic working process. This process also helps ensure an even spread across various sectors, geographies and sustainability issues.

The issues that the Council addresses are often complex, and their solutions are rarely obvious. This means that, to succeed in persuading companies to act in a more responsible way, many factors often must come into place, like specific industry knowledge, contacts, time and commitment.

The Council encourages the companies to adopt appropriate guidelines, processes and systems for implantation and mo-

The Council on Ethics' working process manages a steady flow of dialogues, which evolves in different directions over time.



The Council's working process includes approximately 3 500 companies. Among the sources are media, investors, interest groups, stakeholders, trade organisations, public authorities, judiciary, UN bodies and many other sources to monitor corporate incidents. Some incidents are inevitably overlooked. The Council incorporates all information that it receives about such incidents into its systematic working process.

**PROACTIVE DIALOGUE**

Within each of its four focus areas – climate, environment, human rights and business ethics - the Council reviews and analyses companies, industries, problem areas and investor initiatives.

**REACTIVE DIALOGUE**

Between 100 and 300 company incidents each year are examined more closely for possible implication in violation of international conventions. The Council, other investors and various service providers are all involved in the examination.

**PROACTIVE DIALOGUE**

The choice of proactive focus areas as well as dialogues does not represent a statement that one is more important than another but is simply a deliberate strategy to earmark the resources of the Council in ways that are most likely to yield the greatest benefits.

**REACTIVE DIALOGUE**

The Council carries on direct dialogues with 40–60 selected companies whose violations of international conventions are palpable and well documented. The Council also collaborate with various investors and service providers to dialogue with companies in response to alleged violations.

monitoring as well as transparent reporting. This will enable the companies to do business as responsibly as possible regardless of where in the world they are operating.

The number of areas in which responsible investors could engage is considerable, and constantly growing. These involve not only industrywide problems but also serious offences at individual companies. Engagement in all areas and all companies is neither possible nor effective, priorities must be set. The Council has systematic working processes for proactive dialogues as well as reactive dialogues.

### The Council on Ethics champions transparency

The Council asks for transparency in its dialogues with companies and is well aware of the merits with transparency. Therefore, the Council aims to be as transparent as possible and show how its work has progressed during the year.

At the same time, it is of the utmost importance to safeguard the trust the Council has attained in a dialogue with a company. Work to achieve improvement often takes time, but if the Council can create a positive climate for the dialogue with the company, there is a better chance of bringing about the needed change. A dialogue with a company is conducted in confidence and as a result it is not always possible to report publicly on it.

However, the Council champions transparency and whenever possible aims to make aspects of its proactive work public.

## How a dialogue proceeds

### PROACTIVE DIALOGUE

In-depth corporate analyses and possible comparisons with minimum requirements and best practice for the industry in question.

### REACTIVE DIALOGUE

Collaboration with other investors, submission of proposals and voting at general meetings, and other forms of pressure.

## Objective achieved

### PROACTIVE DIALOGUE

The dialogue is concluded.

### REACTIVE DIALOGUE

The dialogue is concluded.

## Objective not achieved

### REACTIVE DIALOGUE

The dialogue continues if constructive.

### TIME-LIMITED DIALOGUE

A dialogue, where a violation of a convention is verified, should last a maximum of four years unless the dialogue is constructive or achieves its objectives. If not, the Council recommends the AP Funds to exclude the company. Each AP Fund makes its own exclusion decision.

### EXCLUDED COMPANY

Companies that the Council has recommended the AP Funds to exclude. The Council investigates annually whether the situation has changed, and the company has begun to comply with international conventions. For more information [www.etikradet.se](http://www.etikradet.se).

# Reactive dialogues

The point of departure and conviction of the AP Funds and the Council on Ethics is that – dialogue – is the best way of influencing and effecting positive change and transparency in companies. This course of action will give both better investments and financial return in the long term.

Reactive dialogues are conducted with companies if a serious incident has occurred. The following pages present a number of the Council's ongoing reactive dialogues.





# Increased focus on the responsibility of the global tech companies

On 15 March 2019, people looked in horror as, for 17 minutes, a terrorist attack against two mosques in Christchurch, New Zealand, was live streamed on social media. 51 people were killed and 50 injured and the live stream was viewed some 4,000 times before being removed. This terrorist attack made clear once again the harms that can be caused by terrorist and violent extremist content online, a threat that continues to evolve.

## Background facts

Company: Facebook, Alphabet, Twitter

Region: Global

Topic: Human rights

UN Sustainable Development

Goals:



After the attack, AP Funds and the Council on Ethics joined New Zealand and global investors on a collaboration to engage with the world's three leading social media companies: Facebook, Alphabet (YouTube) and Twitter. The objective of the engagement is for these social media companies to strengthen controls to prevent the live streaming and distribution of objectionable content. The collaboration supports the Christchurch Call, a joint initiative by the governments of New Zealand and France. The engagement also seeks to hold the companies accountable to the commitments made via The Call.

The Council believes there is a great need for the whole technology sector to better understand human rights impacts, and will continue to urge Facebook and Alphabet (YouTube) to address these impacts, starting already from the production phase, to enhance transparency as well as manage risks related to data privacy, freedom of expression, and artificial intelligence ("AI"). We are pleased to see that Facebook has been recruiting human rights specialists, a good starting point in order to build responsible business culture. This is a challenging topic for the companies, but a vital one for societies all over the world.



# The Council on Ethics recommends exclusion of Vale

On 25 January 2019 a tailings dam at the Vale Córrego do Feijão iron ore mine in Brumadinho, Minas Gerais, Brazil, suffered a catastrophic failure. The collapse occurred just after noon and the mud hit the mine’s cantina, where hundreds of the mine’s employees were having lunch. 272 people died as a result of the collapse of whom 256 are officially confirmed dead and 14 others are missing as their bodies have not been found.

## Background facts

Company: Vale  
 Region: Brazil  
 Topic: Human rights, Environment  
 Dialogue: In February 2019 the Council recommended the AP Funds to exclude Vale.  
 UN Sustainable Development Goals:



The Brazilian mining company Vale has within a short timeframe been involved in two major accidents where tailings dams in Minas Gerais in Brazil has collapsed, with multiple fatalities and extensive environmental devastation. The Council on Ethics, together with other investors, has conducted an extensive dialogue with Vale after the first accident at Mariana in late 2015. The focus has primarily been on ensuring that the company took responsibility for that accident but also that the company carried out a review regarding the safety of its other tailings dams in their operations.

Vale has continuously reported a number of measures taken regarding the management of mining waste and increased safety at their tailings dams, including revised emergency plans and third-party reviews of the dams. However, after the latest accident at Corrego do Feijao in January 2019, the Council’s perception is that Vale has not acted sufficiently on the promised measures after the first accident at Mariana. It would appear that the company did not act

sufficiently quickly on reported deficiencies regarding the safety of the tailings dam in Corrego do Feijao. The consequences of the company’s actions have had devastating and tragic consequences, both for the local population, company employees and the environment around Corrego do Feijao.

The Council of the AP Funds therefore recommended in January 2019 AP1, AP2, AP3 and AP4 to exclude Vale S.A because the Council lost confidence in Vale and the company can be linked to violation of;

- The Universal Declaration of Human Rights, article 3; “Everyone has the right to life, liberty and security of person.”
- ILO convention (No. 155) Occupational Safety and Health Convention, article 4:2: “by minimizing, so far as is reasonably practicable, the causes of hazards inherent in the working environment.”
- International Covenant on Civil and Political Rights: “every human being has the inherent right to life”

# The Mining & Tailings Safety Initiative

Since the Brumadinho dam collapse in 2019, the Council on Ethics has engaged in several global initiatives together with key stakeholders to put pressure on the mining industry. The activities include investor calls as well as co-development of a new global tailings facilities standard and data portal.

Four Investor Roundtables have been held in London, which culminated with the Mining & Tailings Safety Summit at the end of October, all meetings involving global mining companies, government regulators of mining, UN experts and global mining experts – both professional and academic as well as representatives from the investment, banking and insurance sectors.

## New global tailings facilities management standard

In response to the call, the mining industry represented by the International Council on Mining and Metals (ICMM), UN Environment (UNEP) and UN Principles for Responsible Investment (represented by John Howchin of the Council and Adam Matthews of the Church of England Pensions Board) co-convened a process - The Global Tailings Review (GTR) to develop a new global standard for tailings facilities management. The co-convenors agreed terms of reference and appointed Professor Bruno Oberle (former Swiss Environment Minister) as the independent Chair of the GTR. Professor Oberle has chosen a panel of experts and a wider advisory group and is now consulting widely on the draft Standard. The new standard is planned to be put in place during 2020.

## Global Data Portal to support investor analyses

The Investor Initiative has contacted 726 listed mining as well as oil and gas companies and asked for facility-by-facility disclosures of all tailings dams within their operations. Like the Standard, the disclosure cuts across jurisdictions and geographies, and provides investors (and other stakeholders) with better “decision material” information. The Initiative is also involved in establishing an independent Global Data Portal that will collate the responses in a way that is accessible, and will allow further analysis (e.g. by academics, investors, regulators etc.).

The data portal has been developed with the support of UNEP, the Council and the Church of England Pensions Board. Professor Elaine Baker of the University of Sydney and GRID-Arendal (independent Norwegian research institute) have led the academic analysis. The first version of the portal was released on the 24th of January 2020 to commemorate the Brumadinho accident.



# Strengthening anti-corruption compliance in South Korea

## Background facts

Company: Samsung Electronics

Region: South Korea

Topic: Business ethics

UN Sustainable Development

Goals:



In February 2017, an executive member of Samsung Electronics was arrested in connection with a corruption scheme involving the impeached president of South Korea. Allegedly, the executive gave, or promised to give, around KRW 40 billion (USD 30 million) in donations for foundations operated by a friend of the president.

The focus of the Council on Ethics' dialogue with Samsung Electronics has been to encourage improvements in the company's corporate governance and anti-corruption compliance. During the course of the engagement, the company has improved the board structure by increasing the number of independent directors from five to six, by separating the role of the CEO and Chairman of the Board and by establishing a new procedure to review external donations. A council conducts preliminary reviews of major external donations. Some external donations also require the approval of the Board.

Moreover, the company has strengthened its compliance processes and has appointed a Compliance Office that reports to the Board. All employees and executive management

receive online and offline compliance training including anti-corruption and the company discloses statistics on corruption-related reports from its whistle blower system.

### Dialogue on anti-corruption work continues

Since the investigation of the executive member is still ongoing, the Council's ongoing dialogue is focusing on the company's performance related to anti-corruption compliance to prevent recurrence. The company should carry out an external assurance of its compliance management system and develop a stand-alone anti-corruption and anti-bribery policy. The Council will encourage the company to improve transparency in its public disclosure on these topics.





# Bridge collapse raises questions on infrastructure maintenance

## Background facts

Company: Atlantia  
 Region: Italy  
 Topic: Human rights, Environment  
 UN Sustainable Development Goals:



On 14 August 2018, the Morandi bridge located in Genoa, Italy, collapsed killing at least 43 people and injuring 16 others. Several investigations into the cause of the collapse were launched but the cause is not yet established.

The Morandi bridge was operated by Autostrade per l'Italia (API), a subsidiary of Atlantia and we began engagement with the Atlantia shortly after the accident. The dialogue is constructive, as the company is open and responsive. Atlantia has shared information on measures to prevent similar failures in the future and remedial strategies for the affected people.

The investigation by the general prosecutor of Genoa into what caused the bridge to collapse is still ongoing and expected to be finished in early 2020. Before having the final results of this investigation, it is challenging to say to what extent Atlantia can be held accountable for the collapse.

Atlantia made its own investigations of the incident, which did not identify any alarming issues; before the collapse, there had been continuous maintenance work carried out on the

Morandi bridge, and there had been no signs of urgent alarm on the infrastructure according to the company. The company's position is that it has fulfilled all its maintenance obligations. Shortly after the collapse, Atlantia set up a EUR 500 million fund for the victims' families and for the relocation of hundreds of people living close to the bridge.

After the collapse, the company made a thorough maintenance check on 130 of its most important infrastructure projects in Italy and no risks were identified. During 2019, monitoring of projects was expanded even further.

This indicates that Atlantia has improved its preparedness to ensure project monitoring and maintenance systems and emergency procedures are in place. The next step is to await the final results of the investigation into the cause of the bridge collapse.



# The Amazon is once again in focus

The Amazon is once again in focus with an increase in illegal wildfires during the autumn of 2019. The Council on Ethics has strengthened its focus on soy production and cattle farming with the aim to ensure that companies like JBS, Bunge and Archer Daniel Midlands are sourcing their products from legally deforested parts of the Amazon.

## Background facts

Company: JBS  
Region: South America  
Topic: Deforestation, Corruption, Health & Safety

Company: Bunge  
Region: South America  
Topic: Deforestation

Company: Archer Daniels Midland  
Region: South America  
Topic: Deforestation

UN Sustainable Development Goals:



Deforestation in the Brazilian Amazon declined in the mid-2000s due to government interventions and efforts by civil society, resulting in the agreement known as the Amazon Soy Moratorium (ASM) in 2006 and the Brazilian Forest Code (FC), which was revised in 2012. The Council is currently focusing on two connected sectors, soy production and cattle farming, with the aim to secure that products from illegally deforested parts of the Amazon do not end up in the supply chains of meat companies like JBS or agricultural companies like Bunge or ArcherDaniel Midlands. This is however only part of the challenge for the Amazon going forward, with illegal mining, sugarcane and palm oil plantations and more driving deforestation. Without strong legislative backing to safeguard the Amazon, efforts by other stakeholders will struggle to have an impact.

### Achieving responsible cattle ranching around the Amazon a challenge for JBS

Some cattle are born, raised and reared on the same farm, these are called direct suppliers or full cycle farms. But some cattle pass through numerous ranches or indirect suppliers – before slaughter, with some specialising on fattening, others in rearing. It is the indirect suppliers which is proving to be a serious challenge for JBS and other meat companies.

In engagement with the Council, JBS explained that it has tightened controls and has actively cut out suppliers that operate in areas embargoed by IBAMA, the Brazilian Ministry of the Environment’s administrative arm. JBS also referred to its zero-deforestation policy as well as a private-sector supplier monitoring system that uses satellite images, geo-referenced data on cattle supplier farms and information publicly available from government agencies to block suppliers that do not comply with its policy. The JBS Amazon monitoring system assesses more than 50,000 farms every day and the company has blocked more than 8,000 supplying farms due to non-compliance.

JBS are working with different systems to monitor and control its indirect supply chains. Animal Transit Forms are currently not public by law, but the company would like them to be in order to trace the cattle. Other options looked at are systems to reward cattle raisers that supply a transparent and trustworthy history of the cattle.

During 2020, the Council will continue to work with JBS in order to establish whether there are any reasonable ways to secure that indirect supplies are monitored and controlled in an efficient manner. The Council is already in a time-limited engagement with JBS due to



corruption and labour rights violations, particularly in health and safety (H&S). The company has developed good procedures in regards to anti-corruption and whistleblowing and to some extent to H&S. The Council will continue also this part of the dialogue in 2020 and will then evaluate its implementation.

#### Soytraders are under pressure

During 2019, the Council also continued its engagement with Bunge, a major agricultural commodity trader. Bunge continues to support the Amazon Soy Moratorium. According to Bunge, 177 soybean growers remain disqualified because of non-compliance with the Moratorium.

The company has committed to eliminating deforestation in its supply chain between 2020 and 2025. Bunge has been implementing a three-phase approach to improve the traceability of its soy supply in South America. Phase 1 targeted the highest-priority regions, where agricultural expansion has been most prevalent in recent years. Phases 2 and 3 expanded data collection across a larger portion of the Cerrado region. The company has also strengthened its non-compliance mechanisms which led Bunge to suspend nine farms that did not stay in line with the company's policy. The Council expects Bunge to fully implement the time-bound zero deforestation policy

and encourages more open public disclosure on the progress of the policy implementation.

The Council has also initiated engagement with Archer Daniels Midland (ADM). ADM has signed the Soy Moratorium, making a commitment not to purchase soy grown in newly deforested areas in the Amazonas defined by INPE (the Brazilian National Space Research Institute). The INPE data of newly deforested areas is publically available. Every year, a third-party auditor confirms that the company is in compliance. The Council will continue the dialogues in 2020.

## *Safeguarding the Amazon through the Amazon Soy Moratorium*

Brazil is one of the world's major producers of soy. In 2006, a vital agreement known as the Amazon Soy Moratorium (ASM) was established to ensure that soy production in the Amazon region only occurs on existing agricultural land. The Soy Moratorium brought together businesses, associations, NGOs, and the Brazilian government with the commitment to voluntarily refrain from farming soybeans in deforested areas of the Amazon biome.

Since then, soy production in the Amazon has increased, showing that forest protection and agricultural expansion can be compatible. Prior to the ASM,

between 2001 and 2006, soy production in the Brazilian Amazon expanded by 1 million hectares, contributing to record deforestation rates. Since its implementation, deforestation from soy in the Amazon decreased from 30% to less than 1.5%, while at the same time, production of soy in the Amazon increased by 400% compared to 2006 (through using existing agricultural land).

The Brazilian Forest Code (FC), which was revised in 2012 is an example of regulation that aims to balance forest protection with economic development. However, according to recent Brazilian Government data published in Novem-

ber 2019, since 2012, deforestation in the Amazon increased by 114%, from 460 thousand hectares to almost 1 million hectares.

Given global demand for soy the forecasted (4% annual growth), the Amazon Soy Moratorium is clearly necessary to complement the FC by supporting soy expansion only on existing agricultural land. While soy produced in the Amazon is only around 10% of Brazil's total soy production, the ASM provides reputational benefits for the whole Brazilian soy sector.



# Challenging times for the largest and most diversified healthcare company in the world

Johnson & Johnson faces numerous lawsuits in relation to the safety and quality of its products. During 2019 the focus has been on opioids, and the accountability of the company for the many victims of opioid addiction and the overdoses that have killed thousands of people.

## Background facts

Company: Johnson & Johnson  
Region: USA

Topic: Human rights, Environment

UN Sustainable Development

Goals:



Over the last few years, the Council on Ethics has noted a number of concerns regarding Johnson & Johnson (J&J) and product safety and initiated a dialogue in 2018. Initially, focus was issues related to hip replacements, vaginal mesh implants and antipsychotic drugs but over time it has expanded to also include issues relating to opioids and to talc products. J&J is adamant that no asbestos has been found in its talc products. This is backed up by thousands of tests.

In regard to the opioid crisis there have been several court rulings against the company and substantial punitive damages awarded. Although on appeal the majority of the rulings have subsequently been overturned or the awarded dam-

ages have been significantly reduced. J&J has settled in some instances for example with the numerous victims of poor quality hip-replacements both in India and the US.

## Preventive measures to ensure increased product safety

The continuing engagement by the Council will focus on the measures that J&J has in place to prevent recurrence of potential product-induced side-effects.

# Successful dialogue ends engagement with 21 century Fox

## Background facts

Company: 21st Century Fox  
Region: USA  
Topic: Working conditions  
UN Sustainable Development Goals:



Since the allegations of sexual harassment in 2016, 21st Century Fox has made several efforts to address the issues which led the Council on Ethics to conclude of the dialogue in 2019.

21st Century Fox has strengthened its policies and implemented relevant training programs for both white-collar workers and top management in order to ensure compliance. It has at the same time improved reporting systems and uses external hotline providers to manage incoming complaints, which are addressed at board level. The efforts have led to improvements in the corporate culture and a drop-in harassment and discrimination claims, with no severe allegations reported. Based on the positive development, the Council has ended its engagement on the issue.



# Improving health and safety for workers in poultry processing facilities

## Background facts

Company: JBS, Pilgrim's Pride  
Region: USA, Brazil  
Topic: Labour rights including repeated health and safety violations  
UN Sustainable Development Goals:



Health and safety incidents have occurred at several of Pilgrim's Pride Corporation's poultry processing facilities in the US, for years. Considering that the company has been taking measures, the Council on Ethics collaborative engagement is intended to assure that remaining workplace health and safety shortcomings are resolved.

As a response to the findings of the US Occupational Safety and Health Administration (OSHA) in the past, Pilgrim's has been taking a number of measures. Between 2011 and 2017, it was cited by the OSHA over many violations of health and safety standards, including ongoing

cases of serious violations across the United States. The Council takes part in a collaborative engagement to further improve the situation. Since 2015, labour conditions have been discussed with Pilgrim's, its majority shareholder JBS USA and ultimate parent JBS.

The engagement aims to resolve the identified health and safety shortcomings at poultry processing facilities of Pilgrim's. The company has already improved its health and safety management, covering oversight, employee training, performance monitoring and reporting, targets and audits. The Council is also engaging JBS to adopt company-wide policies and systems aligned with ILO standards, including proactively mitigating work hazards and improving working conditions, as well as ensuring timely medical referrals for workplace injuries.



# Ban of illegal ivory on leading Japanese online platform

In 2019, Yahoo Japan banned the sale of ivory on its websites. The decision was made after multiple reports confirmed that ivory bought on its online auction site was smuggled goods, in contravention of international rules banning cross-border trade.



## Background facts

Company: Yahoo Japan  
Region: Japan  
Topic: Environment  
UN Sustainable Development Goals:



Yahoo Japan has been the biggest platform for ivory sales in Japan. The fact that the company has shared more information lately on how it deals with controversial items sold on its websites is sign of a positive development. Yahoo Japan has implemented strict guidelines for which items that can be sold, and prohibited goods are immediately taken down from the website. For users who frequently list prohibited items, the company may consider deac-

tivating their user IDs. All items sold on its websites are monitored, and the company has a patrolling team of 300 – 500 people working around the clock to ensure compliance. It also utilises artificial intelligence (AI) based on past user behaviours to detect potentially prohibited items on its platforms.

The Council is pleased with this development and is finalizing its engagement on this topic.

# Dialogue on anti-corruption frameworks concluded

After satisfactory disclosures by Eni and Shell, covering information on anti-corruption frameworks, Code of Conduct as well as due diligence and risk assessment processes, the engagement with the companies on these matters was concluded in 2019.

## Background facts

Company: Eni, Shell  
Region: Nigeria  
Topic: Corruption  
UN Sustainable Development Goals:



The corruption allegations related, among other things, to money being paid in 2011 to the Nigerian government for an offshore oil block, OPL 245, located in Nigerian waters. The transaction subsequently became a source of huge controversy as USD 1.1 billion of the sale proceeds were transferred to a company called Malibu Oil and Gas, owned by a former oil minister, and convicted money launderer.

It has been alleged that senior management at Eni and Shell were aware that the sale proceeds would be misappropriated. Eni and Shell have been embroiled in criminal and civil litigation in several countries in relation to the oil block for several years. Both companies and their senior managers claim their innocence.

## Engagement objectives met

As the legal proceedings render the companies unwilling to talk about the finer details of the OPL 245 deal, the Council on Ethics engagement has been focused on encouraging Eni and Shell to ensure that their code of conducts, due diligence and risk management processes in the areas of acquisitions and divestments are robust and universally applied.

The Council is pleased to see that Shell and Eni have provided a significant volume of information about its anti-corruption frameworks and Code of Conduct, including a clear prohibition on bribery and facilitation payments. Furthermore, risk assessment processes are in place relating to countries, joint venture partners and specific contracts.

For instance in regard to Shell significant transactions, including licences, are considered at board level. The company discloses a process of Ethics and Compliance due diligence, rooted in a consolidated ethics manual. It also states that it communicates its anti-corruption policies and procedures to directors, employees and business partners.

Bearing in mind these developments, the Council considers the companies to have met the engagement objectives and has concluded this engagement for now.



# Strong concerns of safety and anti-corruption procedures at CRG

## Background facts

Company: China Railway Group

Region: China

Topic: Health & Safety, Corruption

UN Sustainable Development

Goals:



The Council on Ethics has engaged with China Railway Group (CRG) since several years following the reports of recurring fatal accidents at CRG's subsidiaries. There have also been allegations of corruption in public tenders in China. Since meeting with the company in November 2017, the Council has made a number of attempts to re-establish the dialogue with CRG however without success.

CRG was the main constructor of the Lanxin railway in China when two accidents took place in 2011 and 2012, resulting in 20 fatalities. The company, through its subsidiaries, was linked to breaches of health and safety standards which led to the accidents. In 2014, apart from safety breaches, there were media reports indicating that CRG provided bribes to ministerial officials to secure contracts in the years 2005-2011. CRG denied any involvement in corruption. In 2017, two new workplace accidents occurred. In May, in the Shangdong province, a crane collapsed at a construction site operated by a CRG subsidiary causing six fatalities. In June 2017, the Sigiri Bridge in Kenya, constructed by CRG's subsidiary COVEC, collapsed before it was completed and injured 27 people.

Over the course of engagement, The Council learnt that CRG continues to improve its health & safety and anti-corruption systems, including establishing an independent audit department to monitor each business for compliance and enhancing its health & safety and anti-corruption training. The Council is aware of the fact that CRG has established the concept of

safety development and set a goal of zero accident rate.

### Increased pressure on public disclosure

Despite some improvements introduced there are still strong concerns when it comes to the extent of the information CRG publicly discloses on its health & safety and anti-corruption procedures. It is not clear what these procedures comprise and how they are implemented, monitored and evaluated. In light of the fact that in recent years CRG has been linked to corruption and safety issues through its subsidiaries and business partners, the limited reference to such topics in the company's reporting significantly reduces investors' ability to assess progress on work safety and preparedness to mitigate corruption risks.

In 2019 the Council continued to pursue dialogue with CRG and sent a letter underlining its concerns over corruption and safety matters and highlighting the importance of well-functioning anti-corruption system and the proper implementation of health and safety standards. CRG is a time limited dialogue and the Council will evaluate the outcome of the dialogue in 2020.



# Proactive dialogues

The Council on Ethics' proactive dialogues support the work of companies with regard to sustainability issues in order to prevent serious incidents from occurring.

The dialogues are about persuading companies to focus more closely on various environmental and social issues, improve internal processes and the transparency of their work. Thereby improving the sustainable value creation of the companies and ensuring better investments as well as financial returns long-term.

Several of the problems that the Council discuss with the companies arise from weak regulation, often in combination with sector-wide shortcomings. The overall playing field on which the companies operate is not controlled by investors but by governments and other political institutions and regulatory authorities. Simple, black-and-white solutions rarely present themselves for many of the problems the companies are confronted with.

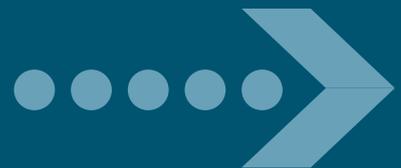
During 2019 the Council's strategy work resulted in the decision to focus on four focus areas for its proactive dialogues:

- Climate – the Paris climate agreement
- Environment – biodiversity and water

- Human rights – child and forced labour and health and safety
- Business ethics – anti-corruption and responsible businesses

The Council's prioritization and choice of focus areas for its proactive company and sector dialogues takes in considerations regarding financial risks and opportunities, as well as public trust in the AP Funds and the Council. Contributing to this work is also the result and analysis of the AP funds and the Council's materiality dialogues regarding sustainability with stakeholders. A workshop with representatives from several of the Council's and AP Funds' stakeholders was held in the autumn of 2017.

The following pages present a number of the Council's proactive dialogues.



# Focusing on the climate transition

The Council on Ethics has intensified its engagement with Shell as part of the AP Funds’ overall involvement in the Climate Action 100+ project - a five-year initiative run by investors to systematically engage companies that have extensive greenhouse gas emissions.

## Background facts

Company: Shell  
Region: Global  
Topic: Climate  
UN Sustainable Development Goals:



The AP Funds together with the world’s largest investors urge companies to improve corporate governance on the climate issue, reduce greenhouse gas emissions and strengthen climate-related financial data in the report’s accounts. Companies that the AP Funds engage in dialogues with are, among others, Volvo, Petrobras, National Grid, Engie, Daimler and Volkswagen.

During the year, the Council, together with a small group of investors, continued to engage with Shell as part of the AP Funds’

overall involvement in the Climate Action 100+ project. As an oil company, Shell has set a long-term goal of reducing the company’s carbon footprint for the products that the company sells. The goal is that net emissions over the entire life cycle from the energy sold will decrease by around 20 per cent by 2035 and almost halve by 2050. The Council is now engaged in how this should be done in practice across different sectors where Shell sells its products.



# From Italian working conditions to systemic challenges in food supply chains

## Background facts

Region: Italy and global  
Topic: Labour rights in food supply chains

UN Sustainable Development

Goals:



In early September, the Council on Ethics joined an investor and company trip to rural Italy. The objective was to get a first-hand understanding of the working conditions at Italian tomato farms. However, as a key benefit the trip also provided a real example of how price pressure in food supply chains tightens the margins making it hard to provide agricultural workers with decent wages and living conditions.

During the week the investor initiative group visited farms, producer cooperatives, a refining factory, had meetings with tomato companies, NGOs, the labour ministry, among others. We were presented with a number of challenges which add up to a precarious situation for agricultural workers in Italy, not only within tomato production but across the agricultural sector. Overall, it was clear that the vast majority of workers are migrant workers either with a work permit obtained specifically to work in agriculture, or migrants without permits having to accept work without legal contracts and conditions.

For the latter group, if a worker has been declined a permit once, but still stay in Italy, there is no way they can then get a permit even if they are offered a job with a legal contract. They are left in limbo, often accepting poor working conditions without a legal contract, or having to return to their home country. For those with a contract, we understood that it was not uncommon to get paid for only a part of the hours worked. Workers, with or without contracts and permits often live in ghetto-like accommodation and there have been widespread reports of the mafia controlling workers' transport and overcharging as a rule. Several fatal incidents have happened over the years when transporting workers in overcrowded and unsafe vehicles.

The investor initiative is actively engaging companies to join initiatives such as the Ethical Trading Initiative's Italian working group to collaboratively tackle such issues, seen as a key approach when faced with an issue no one actor can solve.

### Tackling root causes to poor labour conditions

While some challenges are unique to the local context in Italy, it was also clear from the trip that one of the root causes hindering efforts to improve working conditions is price pressure.

Margins have been considerably tightened in recent years for agricultural producers. This is not only true in Italy, but generally applies across the sector. Meeting with a variety of players along the supply chain during the trip, it became clear that the cost of production, taking into account fair working conditions, need to be a shared responsibility and cannot be absorbed only by producers and agricultural workers. Price mechanisms and procurement processes therefore needs to be a part of the conversation and actions towards better working conditions in food supply chains.

### The Council will foster an open dialogue

The engagement project is a global collaboration between investors initiated in 2018. In 2019 dialogue has continued with twenty companies, with the focus on a productive dialogue and benchmarking each company. Particular focus is placed on some high-risk commodities, namely coffee, rice, sugar, tea and tomatoes. The dialogue addresses issues, such as, company policy on human rights, due diligence, proactive mitigation and collaboration with industry stakeholders. Results is updated biannually, tracking company progress throughout the course of the engagement.

Within the investor initiative we will seek to connect companies and relevant stakeholder that want to change the situation. We will do our best to foster an open and constructive dialogue, clearly communicating investor support to tackle root causes to poor labour conditions in food supply chains.







FOCUS AREA: HUMAN RIGHTS – CHILD AND FORCED LABOUR AND HEALTH AND SAFETY

# Addressing child labour in cocoa at scale

The Council on Ethics has previously reported on our engagement with the cocoa industry to tackle the issue of two million children working at cocoa farms in West Africa. Even though there are good practices in the industry to do so, such efforts have been too limited. It is time to take interventions to scale.

## Background facts

Region: Western Africa

Topic: Human rights

UN Sustainable Development

Goals:



We know about 15 per cent of the cocoa supply chain in West Africa has been covered by so called Child Labour Monitoring and Remediation Systems (CLMRS), i.e. community based systems to identify cases of child labour and together with the farmer find alternative means of labour and facilitate access to school for the child. The Council will continue to advocate for further roll-out of such systems.

However, CLMRS are costly and are likely not the most sustainable solution to tackle child labour. We will therefore further engage the cocoa industry to proactively take broader measures, such as improving access to education and supporting farmers in alternative means of income besides cocoa. There is already work done in both areas, but initiatives need to be rapidly expanded. There is movement towards increased collaboration and scaled up public-private partnerships. The Council supports these and will engage companies to fully participate.

The Council also recognise that technological innovation can be used to make interventions more effective and bring them to scale. A good example of this is the evolution of digital identification systems, which have successfully been used in other parts of the world to more effectively distribute social services and not the least provide children with birth certificates, required for them to start school. We are sharing such

examples with the cocoa industry and encourage the application of them in the West African context.

## Positive signs but work remains

Living income is a key issue for cocoa-growing farmers. It is not difficult to understand that farmers who earn enough from their farms to provide for themselves and their families would not resort to using child labour. Ivorian and Ghanaian governments recently raised minimum prices for cocoa, introduced with the purpose of paying cocoa farmers more. This is a positive sign and an important development that together with, among other things, income diversification and good agricultural practices, will support farmers towards reaching a living income. Importantly, this is an intervention which will have implications for millions of farmers if successfully implemented.

The industry pledge to reduce child labor in Ivory Coast and Ghana by 70%, as per the Harkin-Engel Protocol from 2001 has a deadline at 2020. The review in 2020 will undoubtedly be clear that the industry has failed on this pledge.

The Council will intensify its efforts to engage on convening relevant partners and try to get more scale on the practical tools to address this issue in 2020.

# Transparency is important in tackling corruption

Business ethics - anti-corruption and responsible businesses - is one of the Council on Ethics four focus areas. The reason is simple - corruption undermines good governance, ethical businesses and society at large - but solving the problem is all the more complex. Work to tackle corruption is and will continue to be a sustainability issue for the Council to pursue.

## Background facts

Region: Global

Topic: Business ethics

UN Sustainable Development

Goals:



The Council dialogues with a large number of companies and in principle, all proactive dialogues include the issue of anti-corruption. Different forms of corruption are a common risk for most companies. Corruption distorts competition and can deplete a company's assets. It is important that companies work actively to reduce the risk of corruption in their business.

Corruption is widespread in many countries and industries and it is very harmful for societies. It undermines people's trust in political and economic systems, institutions and public officials, civil servants and political leaders.

Anti-corruption work is a challenge both for companies and the communities in which they operate, because corruption by its very nature often happens in the hidden and is difficult to detect and prevent.

The Council's involvement in the work against corruption aims at getting companies to

strengthen their work against corruption. Some methods that can be used to reduce and prevent corruption are increased transparency, whistleblower mechanisms and improved compliance work in the companies.

## The Council focused on money laundering during 2019

On the theme of financial crime and money laundering, the Council gathered the four major banks in Sweden; SEB, Swedbank, Handelsbanken and Nordea, all relevant institutions and Transparency International Sweden to a fully booked seminar. The discussions were intense and everyone agreed that cooperation will be one of the most important elements in achieving success on this complicated matter. The Council intends to continue its engagement on the issue during 2020.



## Assessing companies' anti-corruption work

One point of departure that one can use when assessing companies' anti-corruption work is to look for indicators such as:

- Code of Conduct for all employees and board members
- Code of Conduct for suppliers
- Code of Conduct for agents
- Statement on zero tolerance to corruption
- Employees' ability to report confidentially
- Prohibition of retaliation during reporting
- Requirements for rules for gifts, hospitality, travel
- Training programs in place
- Support for senior executives
- Regular review of the work against corruption
- Reporting of political contributions
- Ban on facilitation payments

## THE COUNCIL ON ETHICS

# 2019 in short

The Council on Ethics engaged in more than 483 dialogues, both reactive and proactive, with companies all around the world. The dialogues addressed human rights, climate, corruption, the environment and other sustainability issues with companies in various international industries.

The dialogue often addressed more than one area of sustainable development. Many of the dialogues result in positive change and improvements by the targeted companies.

The Council's strategy is to focus its proactive work into four focus areas:

- Climate – the Paris climate agreement
- Environment – biodiversity and water
- Human rights – child and forced labour and health and safety
- Business ethics – anti-corruption and responsible businesses

The Council and its engagement consultant Sustainabilitytics worked together, with the human rights organi-

zation Shift in a 'learning exchange project' aiming to further develop their working processes for assessing human rights risks according to the UN Guiding Principles on Business and Human Rights (UNGPs).

Acting on recommendations of the Council, the AP Funds divested three companies - CannTrust Holdings Inc , Cronos Group Inc and HEXCO Corp. These companies had been implicated in violations of the UN conventions on narcotics, manufacturing and/or marketing products with cannabis for non-medical use. The Council had determined that continuing the dialogue with the companies would not be meaningful. In February 2020, the Council on Ethics recommended the AP funds to exclude Vale S.A because of lost confidence following the previous tailings dams accidents that caused a large number of deaths and extensive environmental damage.



# The UN Sustainable Development Goals (SDGs) part of the framework

The Council on Ethics and the AP Funds use the SDGs as part of their framework for both sustainability work as well as asset management.

The 17 SDGs, adopted by 193 member states at the United Nations in 2015, provide a globally shared framework to address the world's most urgent sustainability challenges.

Achieving the SDGs, which are divided into 169 sub-targets, requires commitment not only from governments and companies, but also from investors. The SDGs address global challenges including those to climate, inequality, environmental degradation, poverty and peace and justice.

The SDGs have achieved a broad reach and acceptance among companies and investors alike. For example, the SDGs are used as a framework for sustainability in dialogues with companies and in the development of financial products.

The SDGs show that sustainability is fundamental to the development of society as they help to stimulate investments that

can contribute to solutions to major global problems. At the same time, the SDGs help set the conditions for long-term sustainable development.

There is a strong business case for investing in opportunities aligned with the SDGs, and the benefits of meaningful sustainability disclosures are well established. The 169 sub-targets need to be reworked in order to be used by companies and investors. The work on compiling metrics and indicators and to devise methods for reviewing and measuring the effects of different projects, dialogues or investments is ongoing. The companies operate in various sectors and are therefore faced with a range of challenges.

## THE GLOBAL GOALS For Sustainable Development



# The Council on Ethics' dialogues during 2019

The Council took part in dialogues with more than 483 listed companies. A company dialogue focuses on how companies deal with difficult issues in their operations, including corruption, human rights, labour rights, health & safety, pollution and biodiversity. In this way the Council can contribute to the prevention of problems, violations and accidents in various companies and industries.

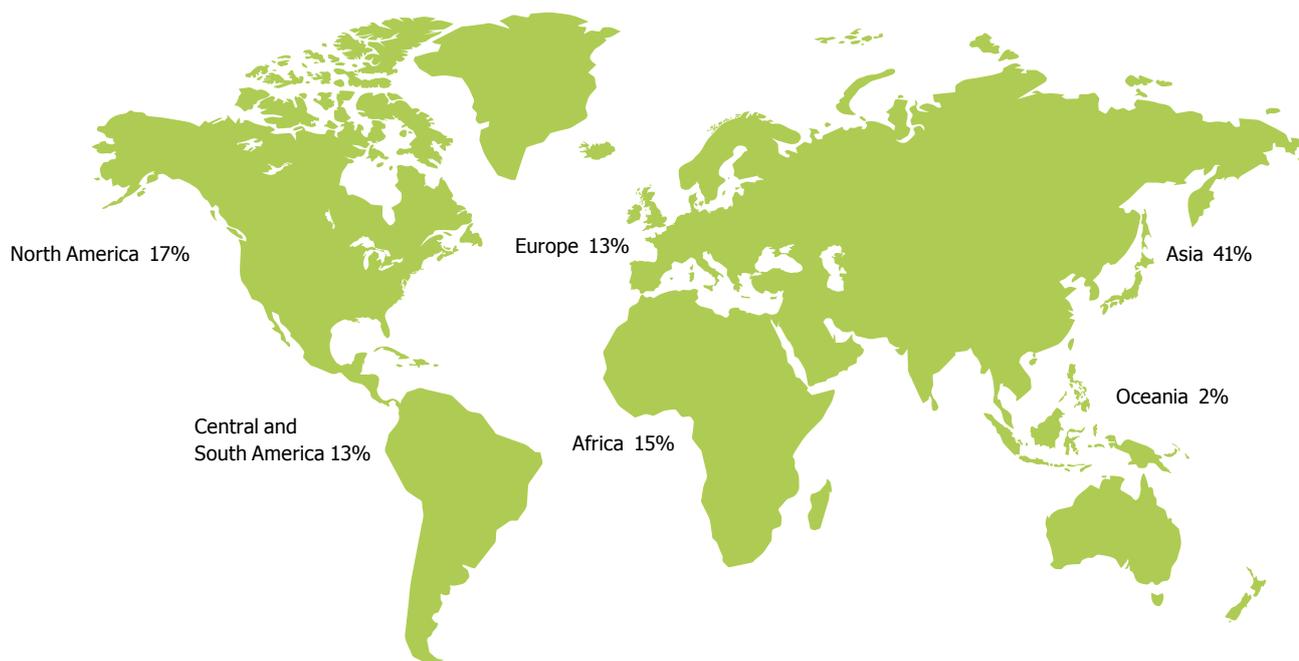
During 2019 the Council was engaging with 38 companies in proactive dialogues regarding different topics supporting the Council's four sustainability focus areas.

The Council recorded more than 585 incidents in its systematic process for reactive dialogues. More than 218 reactive dialogues concerning incidents were resolved during the year. The

Council carried on direct dialogues with more than 50 selected companies concerning reported incidents, where the violations are palpable and well documented. At the end of 2019 the Council was engaged in 3 time-limited company dialogues (JBS, Pilgrim's and China Railway Company). On the Council's list of recommended exclusions there were 17 companies at year-end 2019.

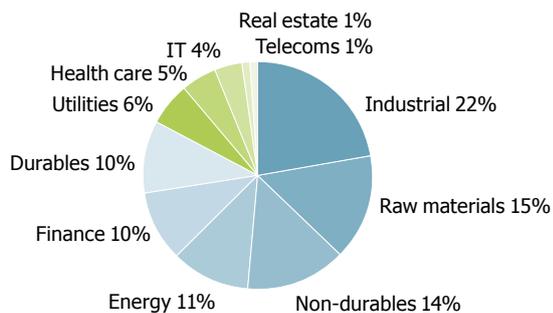
## Region where incident occurred

(585 recorded incidents)



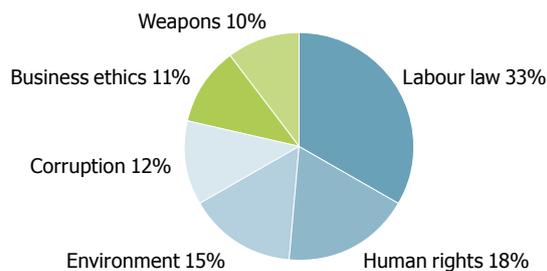
## Sector for incident

(585 recorded incidents)



## Type of incident

(585 recorded incidents)



# Dialogues in progress

The Council on Ethics works in tandem with Sustainalytics (previously GES) conducting dialogues with large numbers of companies around the world. Below are examples of the dialogues in progress as well as the areas of concern in question.

Company (selection)	Associated with	Country of incident
Aphria	Cannabis	Canada
Apple	Responsible sourcing of cobalt	Democratic Republic of the Congo
Aurora Cannabis	Cannabis	Kanada
Barry Callebout	Child labour	Ghana
Bayer	Neonicotinoids and pollinators	Global
Bayer	Concealing data on product-related toxicity	Global
BHP Group	Environmental and human rights violations caused by dam collapse	Brazil
Bunge	Deforestation	Argentina, Brazil, Bolivia, Paraguay
Canopy Growth	Cannabis	Canada
China Railway Group (CRG)	Labour rights, fatal workplace accidents, Corruption	China
China Communications Construction Company (CCCC)	Labour rights, fatal workplace accidents	China
Daimler	Climate	Global
Daimler	Responsible sourcing of cobalt	Democratic Republic of the Congo
Dell	Responsible sourcing of cobalt	Democratic Republic of the Congo
Enbridge	Violations of indigenous peoples' rights	USA
Engie	Climate	Global
Eni	Corrupt practices	Nigeria
Facebook	Privacy breach	Global
Fast Retailing	Human Rights in the supply-chain	Vietnam
Google	Data management	Global
HP	Responsible sourcing of cobalt	Democratic Republic of the Congo
JBS	Labour rights including repeated health and safety violations	Brazil
Johnson & Johnson	Product safety	USA
Lindt	Child Labour	West Africa
Microsoft	Responsible sourcing of cobalt	Democratic Republic of the Congo
Mondelez International	Child labour in the cocoa industry	West Africa
Nestle	Child labour	West Africa
National Grid	Climate	Global
Norilsk Nickel	Environmental and health impacts from metal extraction	Russia
Pilgrim's Pride	Labour rights including repeated health and safety violations	USA
Phillips 66	Violations of indigenous peoples' rights	USA
Posco	Child labour in the cocoa industry and cotton supply chain	Uzbekistan
Posco Daewoo	Child labour in the cocoa industry and cotton supply chain	Uzbekistan
Royal Dutch Shell (Shell)	Corrupt practices	Nigeria
Volkswagen	Climate	Global
Sumitomo	Labour rights violations	Honduras
21st Century Fox	Sexual harassment	USA
Vale	Environmental and human rights violations caused by dam collapse	Brazil
Volkswagen	Responsible sourcing of cobalt	Democratic Republic of the Congo
Volvo	Climate	Global
Yahoo! Japan	Trade of endangered species	Japan

# International collaboration is key

The Council on Ethics is an ownership collaboration focused on pursuing positive sustainability change through dialogue and engagement with listed, non-Swedish companies. The Council often collaborates with other international investors with a similar agenda of pursuing sustainable development, thus together increasing the opportunities to encourage companies to effect positive change.

The Council and the AP Funds support and are members of various organisations which work with issues they consider to be important. Below are some examples of such organisations.

## PRI

The Principles for Responsible Investment is a global initiative for institutional investors that started in 2006. The aim of the PRI is to support investors to take into consideration Environmental, Social and Governance (ESG) factors into their investment and ownership decisions. *To find out more, visit [www.unpri.org](http://www.unpri.org)*

## EITI

Extractive Industries Transparency Initiative provides a standard for open and accountable management of extractive resources like oil, gas and minerals.

There is a need for transparent disclosure of information along the extractive industry value chain from the point of extraction, to how revenues make their way through the government, and how they benefit the public. Transparent reporting and governance is especially important in countries rich in natural resources, but where governments are weak.

Clearer reporting from companies on what they pay and from federal governments on income derived from oil, gas and mining industries increases openness in society and contributes to better conditions for financial governance. *To find out more, visit [www.eiti.org](http://www.eiti.org)*

## IIGCC

Institutional Investors Group on Climate Change is a forum for European investors to collaborate on climate change. The objective is to ensure investors' voices are heard on climate issues and to engage with business, policymakers and other investors in order to encourage public policies, investment practices, and

corporate behavior that address long-term risks and opportunities associated with climate change.

There is currently a great deal of uncertainty surrounding future regulation and frameworks to reduce greenhouse gas emissions and to stimulate alternative energy sources. This makes it difficult for companies to make long-term investment decisions and for investors to calculate risks and returns.

IIGCC is an effective platform for advancing investors' concerns on climate change. It is also a good way for the Council and the AP Funds to obtain the latest information on various climate-related investments. *To find out more, visit [www.iigcc.org](http://www.iigcc.org)*

## Sustainable Value Creation

Sustainable Value Creation is a Swedish collaborative project between 17 of Sweden's largest institutional investors and Nasdaq OMX Stockholm to highlight the importance of Swedish listed companies working in a structured way with and reporting on sustainability issues.

## Montreal Pledge

Under this pledge the AP Funds together with many other investors undertake to measure and report its portfolio's carbon footprint annually.

## ICGN

International Corporate Governance Network is an investor-led organization which promotes effective standards of corporate governance and investor stewardship to advance efficient markets and sustainable economies world-wide.

It seeks to influence policy-makers, connect peers at global events to enhance dialogue between companies and investors around long-term value creation and to enhance professionalism of governance and stewardship practices. *To find out more, visit [www.icgn.org](http://www.icgn.org).*



An UN-backed initiative for responsible investments.



An initiative for open reporting in the extractive industries, primarily oil companies.



An investor's group that collaborates on climate issues for European investors.



A collaborative project between 17 of Sweden's largest institutional investors and Nasdaq OMX Stockholm.



An initiative to encourage investors to measure and publish their carbon footprint annually.



A global cooperation to raise standards in active ownership globally. The ICGN works e.g. to give shareholders greater rights to vote at general meetings.

# Members of the Council on Ethics

The AP Funds are represented on the Council by one or two members from each Fund. The Chairmanship, which alternates between the AP Funds, was held in 2019 by Ossian Ek Dahl at Första AP-fonden (AP1). In 2020, Christina Olivecrona at Andra AP-fonden will be the Chairman. The Secretary General, of the Council on Ethics, is John Howchin.

Första AP-fonden (AP1)  
[www.ap1.se](http://www.ap1.se)  
Ossian Ek Dahl, Chair 2019  
Magdalena Håkansson

Tredje AP-fonden (AP3)  
[www.ap3.se](http://www.ap3.se)  
Peter Lundkvist  
Lil Larås Lindgren

Council on Ethics  
[www.councilonethics.org](http://www.councilonethics.org)  
John Howchin, Secretary General

Andra AP-fonden (AP2)  
[www.ap2.se](http://www.ap2.se)  
Christina Olivecrona

Fjärde AP-fonden (AP4)  
[www.ap4.se](http://www.ap4.se)  
Pia Axelsson  
Arne Lööv



The Principles for Responsible Investment (PRI) is one example of a global initiative supported by the Council on Ethics. The aim of the PRI is to support investors to take into consideration Environmental, Social and Governance (ESG) factors into their investment and ownership decisions.

# History of the Council on Ethics

In 2007 the AP Funds' launched the Council on Ethics – an ownership collaboration focused on pursuing positive sustainability change through dialogue and engagement with listed, non-Swedish companies.

Since its formation the Council has conducted dialogue with several thousands of listed non-Swedish companies. Many of these dialogues has been constructive and led to tangible improvements. In some cases, the Council recommended the AP Funds to exclude the companies in question as the objectives of the dialogue had not been achieved. A number of these companies became investible once again after having adopted measures in line with the Council's demands.

The ownership collaboration in the Council has enabled the AP Funds greater opportunities to influence companies, led to greater resource and time efficiency, enabling, among other things, more reactive company dialogues and proactive initiatives to be carried out. The Council also collaborates with other international investors with a similar agenda of pursuing sustainable development, increasing the opportunities to encourage companies to effect positive change.

**2007** The Council on Ethics is founded, and its first report is published. Dialogue is conducted with 14 companies, with one company struck off the dialogue list as early as the first year because the objectives of the dialogue has been achieved. The Council travels to China to learn more about companies' approach to social responsibility and send a clear message: that there are foreign investors willing to take their responsibility as owners.

**2008** The objectives of three dialogues are achieved. For example, the French company, Sodexo, adopts and implements a human rights policy following pressure from the Council related to inhumane conditions at refugee accommodation centres in England. The UN adopts the Convention on Cluster Munitions, and the Council recommends exclusion of nine companies, all of which are based in nations which have failed to ratify the convention and where there is little scope for the Council to exert influence.

**2010** Together with a group of Canadian investors, the Council prompts Goldcorp, the mining company, to carry out an independent evaluation of the extent to which human rights are taken into account at the Marlin Mine in Guatemala. This leads to the company adopting a large number of measures in order to improve the situation – a process which has a ripple effect, as a number of other mining companies turn to Goldcorp to learn from its experiences. John Howchin is appointed Secretary General.



**2011** The Council expands its operations and completes its first proactive project, focused on the mining industry. The general aim is to increase the proactive measures taken by companies and encourage them to strive towards the best working methods in each area of the industry. When the project is reviewed in 2014, the Council notes general improvement in all of the areas of sustainability discussed with the companies.



**2012** The cocoa industry, tobacco industry and anti-corruption measures are the themes of several proactive projects the Council runs or is involved in. Highlighting both the strengths and weaknesses of the companies' sustainability strategies has proven to be an effective way to ensure that they adopt measures.

**2013** The Council arranges a seminar about financing the transition to a low fossil-fuel society. Politicians, trade associations and investors are invited to listen to Michael Liebreich, from Bloomberg New Energy Finance. The telecommunications sector is in the spotlight as one of the Council's proactive initiatives. The Council elects to adopt a four-year time limitation for reactive dialogues, as from 2014. The change is made in the light of certain dialogues continuing for many years without a time restriction, diverting resources from other important initiatives.

**2015** The Council hosts a Nordic seminar based on the UN Guiding Principles on Business and Human Rights (UNGP). The aim is to inspire Nordic companies to conduct implementation and reporting according to the UNGP and encourage the 50 or so Nordic companies and asset managers in attendance to share their experiences with each other.



**2017** The Council celebrated its ten-year anniversary. In connection with this, two highly attended seminars were held on responsible and sustainable investments. The first seminar was about climate change with Al Gore and Johan Rockström, the second about responsible investments, human rights and the environment.

**2018** The Council recommends exclusion of three cannabis companies, which the Council finds to violate the UN conventions on narcotics, since they manufacture and/or market products with cannabis for non-medical use. The Council decides, as a result of strategy work including stakeholders' dialogues, to work with four focus sustainability areas: Environment, Climate, Human rights and Business ethics. The Council and its engagement consultant work together with the human rights organization Shift in a 'learning exchange' project aiming to further develop the processes for taking into account human rights.

**2019** The accident in Brumadinho, Brazil occurred when the mining company Vale's tailings dam collapsed with terrible consequences. The Council had had an ongoing dialogue with the company following a similar accident two years previously. The Council recommended the AP Funds to exclude Vale. Shortly thereafter, the Church of England's pension fund and the Council on Ethics initiated a major joint project to ensure that mining companies take responsibility for their tailings dams.

# Part of the income pension system

The Council on Ethics was founded in 2007 on the initiative of the Swedish National Pension Funds' (AP Funds AP1, AP2, AP3, AP4). The role of the Council is to use dialogue aimed at encouraging non-Swedish listed companies to make improvements in sustainability. The mandate of the four AP Funds is to manage the state income pension system's buffer capital. Since their formation in 2001, the AP Funds have contributed positively to the pension system and managed the buffer capital with good value growth.

The AP funds contribute to a stronger Swedish public pension system by managing the system's buffer capital - from here, money is taken to cover deficits in pension payments. Deficiencies can arise if there is, for example, demographic generational differences or weak socio-economic development. The pension system is planned to handle such occurrences - that's why the systems buffer capital exists. Through long-term asset management, the AP funds should ensure a value growth that is at least as high as the average salary increase in Sweden. This will contribute to a stable pension system and secure pension payments over time - for this and the future generations.

## Mandate from the Swedish parliament

The AP Funds' mandate from the Swedish Parliament (Riksdagen) is to create high returns at low risk for current and future pensioners, which at the same time will contribute to the income pension system's stability.

On 1 January 2019, the rules in the National Pension Insurance Funds (AP Funds) Act changed. For example, a new goal has been introduced that the AP Funds must contribute to sustainable development by managing their assets in an exemplary way. This requires responsible investment and responsible ownership. This goal has to be achieved without the AP Funds compromising the objective of attaining a high return in the long run.

The pension system's buffer capital has over time been well managed by the AP funds. The capital has had good value growth and today accounts for more than 15 per cent of the pension system's assets.

Four AP funds with the same assignment, to manage part of the buffer capital, spreads among other things the risks in the pension system and spurs the AP funds to positive competition and development. The latter has contributed to the AP funds' asset management and ownership being viewed to be at the forefront internationally. The AP funds' management is evaluated annually, by external auditors and an special appointed auditor

by the Government. A comprehensive evaluation report is published and presented to the Swedish parliament (Riksdagen) every spring.

## The Council on Ethics of the AP Funds

The Council strives to influence companies around the world to pursue corporate social responsibility to ethical, environmental and sustainability issues that are of major importance for people and communities, and for the companies' own value creation.

Through dialogues and projects, the Council becomes engaged both preventively and in connection with incidents. The fact that the companies' activities are conducted sustainably benefits both the companies' long-term earning capacity and the long-term financial return. Sustainable companies contribute over time to good investments, which benefit the pension system and pensioners.

## Pensioners

The income retirement scheme is a Notional defined benefit system where the year's paid-in pension contributions from the employed are used to pay out pensions to the same year's pensioners. Those who work and pay taxes make an automatic provision of 18.5 per cent in pension contribution. 16 per cent goes to the income pension system and 2.5 per cent to the premium pension.

## The pension system

Today's pension system has worked as intended since the start in 2001. Deficits occur in times of large retirement benefits (as has been the case since 2009) and forecasts show deficits until 2040. Low unemployment, high nativity, labor migration and Sweden's socio-economic development are some important factors for the well-being of pensions to develop well over time. Read more about the system Pension Authority's website [www.pensionsmyndigheten.se](http://www.pensionsmyndigheten.se).





Council on Ethics  
Swedish National Pension Funds

# *An ownership collaboration for sustainability through dialogue and engagement*

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For more information, visit:

[www.etikradet.se](http://www.etikradet.se)

[www.ap1.se](http://www.ap1.se), [www.ap2.se](http://www.ap2.se),

[www.ap3.se](http://www.ap3.se), [www.ap4.se](http://www.ap4.se)

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