

Encouraging positive
change and transparency



Council on Ethics
Swedish National Pension Funds

Annual report 2020

SUSTAINABLE OWNERSHIP THROUGH
DIALOGUE AND ENGAGEMENT

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Interview with PRI's CEO Fiona Reynolds



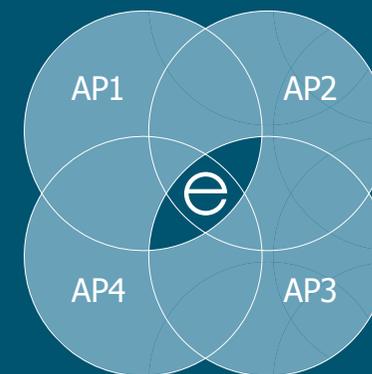
The Council on Ethics has received a lot of praise for its work with the mining industry, but a lot of difficult issues remain.



The climate transition is finally picking up proper speed globally but there remains a lot of hard work to do.



During 2020 there was a lot of focus on tech companies and their impact on global society.



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 on Ethics is able to make a positive difference and thereby contributing to the AP Funds' long-term returns. The Council on Ethics 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 such as policy, processes and transparent reporting. This is how we can mitigate and prevent problems and accidents in a range of companies and industries.

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

A historic year

All years are special, but 2020 is a historic year. The pandemic has changed a lot, given us new perspectives and ways of working. The Council on Ethics, like everyone else, has had to change and rethink. It is very encouraging that sustainability issues are stronger than ever and the focus is “build back better”.

Christina Olivecrona, Chair of the Council on Ethics in 2020, and who also is Senior Sustainability Analyst at the Second Swedish National Pension Fund (AP2) and John Howchin, Secretary General of the AP Funds Council on Ethics, highlight and reflect on some important events.

2020 goes down in history. How have the consequences from Covid-19 affected the Council on Ethics work?

Christina Olivecrona: Covid-19 has put a focus on the fragility of society and how we interact with nature and our dependence on nature. This in turn has put even more pressure behind the sustainability trend, which was already strong and many of the areas in which the Council on Ethics is involved have been in focus from responsible investors.

If you were to choose one key word to characterise 2021, a year that we now long for, what would it be?

John Howchin: Collaboration. This planet needs cooperation if we are to meet the challenges we face. The AP Funds and the Council (which is a collaboration) will continue to press for it, as it is a success factor. Just look at all the collaboration that the vaccine around Covid-19 has created? If we can get things done at speed here, we can do so in many more areas. A lot of people need to see some hope now.

The Council on Ethics reached a milestone in 2020, tell more?

John: Our focus on engagement has over the years led us from individual companies to the entire sector and now to engaging a problem. It is a big step forward, not only for the Council on Ethics - but for the movement on responsible investments. The AP Funds and the Council on Ethics continue to lead and break new ground, and we are proud of that. We are very proud of the recognition from PRI for the *Mining and Tailing Safety project* to secure the world's tailing dams, which the Council on Ethics leads together with the Church of England Pension Fund. Now it is important to learn from what we have done and move forward; we need more collaborations like this.

The Council on Ethics and the AP Funds held a joint stakeholder dialogue during the autumn. What did you learn?

Christina: It is important for us to periodically reach out to the different stakeholders and gain knowledge about how they perceive our work. In the stakeholder dialogue, it emerged that the following areas were considered equally important for all stakeholders: climate impact, human rights, business ethics, anti-corruption and long-term returns. It is gratifying that these areas are in agreement with the Council on Ethics' focus areas. We received a receipt that we work with the right things. It also emerged that we could become even better at developing our communication.



Of all the issues the Council on Ethics works with, name one that is on the rise?

John: Traceability and in particular the use of blockchains. Blockchains are, in the eyes of many, perhaps a hype. But it really looks like there are exciting opportunities with these systems. The Council on Ethics continues to dig further in order to learn more. What characterizes a good block chain and are there block chains that are not so suitable? It is already a technology that is used by companies to achieve traceability in their supply chains and it is important that they deliver.

Transition is the word on everyone's lips when it comes to climate, what does it really mean?

Christina: We have a global economy that is still largely based on fossil fuels. The transition, that has started, is about transforming the global economy to be based on renewable energy. The Council on Ethics focuses on the sectors that have large emissions (e.g. heavy transport, steel, aircraft and cement) and are collaborating through the Climate Action 100+ project to develop transition plans for these sectors. The plans are based on technological alternatives, available today, that are scalable and where there are synergies between differ-

ent sectors. The transition has started and there is strong pressure on these sectors to change.

Tech companies are in focus?

John: And rightly so. For several years, the Council on Ethics has highlighted the lack of commitment from several companies in this sector. Now we raise the whole issue of the Tech companies' responsibility for human rights and fortunately there are now people to talk to about these issues at the companies. Difficult questions, no simple answers - but a process that over time will lead to a level playing field around Tech and their responsibilities with regard to human rights will become clearer. This is business as usual for the Council on Ethics.

2021, what do we have in front of us?

Christina and John: After Covid-19, and with climate change now happening around us, biodiversity is coming up on the agenda. And that is good, but it is a very complex issue. At the Council on Ethics, we are pleased with how the UN Guidelines for Business and Human Rights now begin to be put into practice. It provides concrete guidance for companies to work with. Maybe could get the UN Guidelines for Business and Biodiversity based on the same structure?

2020 in brief

January

Following the Vale tailing dam accident in January 2019 in Brumadinho, Brazil, the Council on Ethics initiated a major global project together with the Church of England Pensions Board to facilitate significant improvements of the safety of mining companies' tailing dams.

On the anniversary of the accident, on 24 January 2020, the Church of England Pensions Board and the Council on Ethics organised a conference in London, where, among other things, the new database / website on tailing dams was presented. This global database is an important part of the work to avoid future tailing dam accidents.

March

Shutdown due to Covid-19 has affected the Council on Ethics' work in various ways. All meetings, both internal and external, went digital. A planned trip to Brazil to see on site

the consequences of the accident in Brumadinho had to be postponed to the future.

May

The Council on Ethics publishes its annual report. The Council presents last year's work to representatives of various interest organizations in an on-line meeting.

June

The Council on Ethics' website is updated.

July

The first *Global Industry Standard on Tailings Management*, that the Council on Ethics (as a representative of PRI) has been involved in developing together with ICMM (International Council on Metals and Mining) and UNEP (UN Environment Program), is launched. An independent institute is planned to be set up in the spring of 2021 to oversee the implement-

ation on the standard, but also mining dams in general.

September

The Swedish National Audit Office met with the Council on Ethics as part of their review of the AP Funds' sustainability work. The aim of the review is to investigate if the AP Funds in their asset management take sufficient account of sustainability given the overall objective of a long-term high return. The National Audit Office's report will be published in the spring of 2021.

October

The Council on Ethics received the *Stewardship Project of the Year Award* together with the Church of England Pensions Board for the mining and tailing dam safety initiative which aims to make the world's mining dams safe. The award is presented by the UN-supported



organisation PRI - Principles for Responsible Investment.

The Secretary General of the Council on Ethics presents the mining and tailing dam safety project at a number of different conferences e.g.: Svemin's Environment Conference, Financial Times Commodities Global Summit 2020 and at the International Mining and Resources Conference in Melbourne.

November

The AP Funds and the Council on Ethics jointly conducted a stakeholder dialogue with their different stakeholder groups. In these dialogues, it emerged that the following topics were considered equally important for all stakeholders: climate impact, human rights, business ethics, anti-corruption and long-term returns. These are well aligned with the Council on Ethics' focus areas.

December

The Council on Ethics, in collaboration with the Danish Institute for Human Rights (DIHR), has developed the document *The Investor Expectations on Tech Giants and Human Rights*. This document will serve as a platform for dialogue with the tech companies for the Council and other investors. More than ten international investors have backed the document.



Responsible ownership

The Council on Ethics' assignment from the AP Funds is to collaborate on dialogues with non-Swedish listed companies regarding sustainability. The work is based on the AP Funds' common values.

The Council on Ethics of the AP Funds (The Council on Ethics) was formed in 2007 on the initiative of the First, Second, Third and Fourth AP Funds (AP Funds). The role of the Council is to contribute, through dialogue, to the development of sustainability work in non-Swedish listed companies.

The Council on Ethics has thus been appointed by the AP Funds to monitor the AP Funds' listed foreign equity investments. The Funds have other investments for example in Swedish equities, bonds, real estate, venture capital funds that are not covered by the Council on Ethics' processes.

Screening and dialogues

The Council on Ethics is responsible for screening the AP funds' listed equity portfo-

lios regarding violations of international conventions ratified by the Swedish Parliament and for conducting dialogues with identified companies. It is also part of the Council on Ethics' mission to work preventively to prevent violations and serious misconduct. The Council on Ethics can also recommend exclusions to the AP Funds if a company is in serious breach with a convention and the dialogue is not successful.

The Council on Ethics also has the task of informing about the work that is done through various channels to strengthen the understanding and trust in the AP Funds as responsible asset owners. External information about the Council on Ethics' activities is provided mainly through the annual report and website www.etikradet.se. In the autumn of 2020,

the Council on Ethics also started a LinkedIn page.

Face-to-face communication with the Council of Ethics' many stakeholders is important. Representatives of the Council, primarily the Secretary General of the Council on Ethics and Chairperson, participate in seminars and dialogues with individual stakeholders, including the media and civil society organisations. In the autumn of 2020, the Council on Ethics started with

The Council on Ethics supports transparency

The Council on Ethics asks for transparency in its dialogues with companies and is well aware of the merits with transparency. Therefore, the Council on Ethics 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 on Ethics has attained in a dialogue with a company. Work to achieve improvement often takes

time, but if the Council on Ethics 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 on Ethics supports transparency and whenever possible aims to make aspects of its work public.

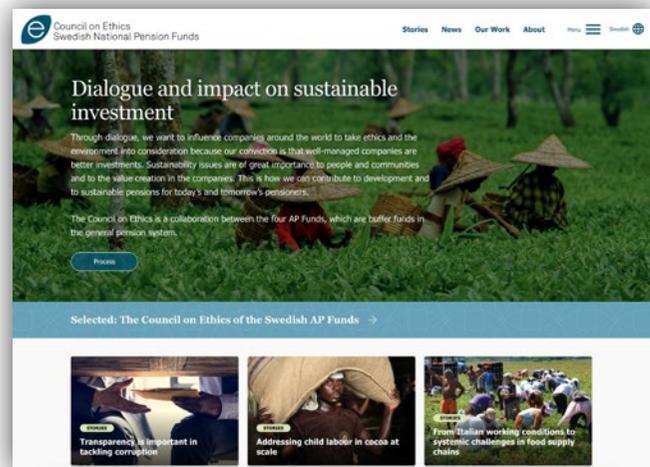
quarterly on-line information meetings for the staff of the AP Funds and the boards in order to improve communication.

Organisation

The Council on Ethics works on behalf of the AP Funds. The respective fund's CEO appoints one or two employees as members. The Secretary General works full time for the Council on Ethics, while the members have the commitment to the Council on Ethics as part of their duties. John Howchin has been Secretary General since 2010 and the following persons were members in 2020: Ossian Ekdahl (AP1), Magdalena Håkansson (AP1), Christina Olivecrona (AP2), Peter Lundkvist (AP3), Lil Larås Lindgren (AP3), Pia Axelsson (AP4) and Arne Lööv (AP4). The chairmanship of the Council on Ethics rotates annually between the Funds. In 2020 Christina Olivecrona (AP2) was chairperson and in 2021 Peter Lundkvist (AP3) takes over.

Control and evaluation

The Council on Ethics' work is based on a principle agreement between the AP Funds. This agreement states that the Council, for example, shall report quarterly on the work of the Council on Ethics to the CEOs and that the Council shall have a meeting with the CEOs once a year. The Council on Ethics is part of the AP Funds and its work is therefore included in the evaluations of the Funds, including the Ministry of Finance's annual evaluation, which is reported to the Swedish Parliament every spring. The Council on Ethics also conducts its own evaluation on how to further develop its work. In 2020, the Swedish National Audit Office began an evaluation of the work of both the AP Funds and the Council on Ethics. This evaluation is expected to be completed in the first half of 2021.



How is the work carried out?

The Council on Ethics' activities can be divided into dialogues and projects. The starting point for the dialogues is primarily the result of the screening for possible violations of international conventions made by the AP Funds' listed shareholdings twice a year by an external supplier. In projects, the Council on Ethics engages proactively in dialogue with companies and relevant stakeholders to address a specific problem area. The Council on Ethics always engages with a focus on policy, implementation and transparent reporting.

Screening

The Council on Ethics screens approximately 3,500 listed companies worldwide with the help of service providers such as Sustainalytics and ISS-ESG (from 2021). These service providers have a large number of analysts employed who work with analysing companies on an ongoing basis. In this way, the Council on Ethics and the AP Funds can keep costs at a reasonable level but still have access to high quality research in their work.

It is important to point out that these service providers give the Council on Ethics analysis and support in the dialogue work.

The Council on Ethics always makes its own assessment and, if necessary, conducts its own dialogues.

The Council on Ethics also receives ongoing information about companies' actions from other investors and a number of stakeholders from around the world, such as civil society organizations, trade unions, journalists etc.

The purpose of the screenings is to identify companies that can be associated with violations of conventions Sweden has ratified. If a company, following dialogue efforts, is not willing to address the issue, the Council on

Ethics can recommend the Funds to exclude the company from their investment universe.

The Council on Ethics engages with a focus on policy, implementation and transparency. The Council on Ethics uses its influence to improve companies and encourage them to take responsibility for any problems they create with their operations. The Council on Ethics is not the only stakeholder who influences companies, employees, other investors, and civil society often also expects companies to take responsibility and develop in a positive direction.

To minimise risk and prevent companies from getting in to trouble, the Council on Ethics works proactively with companies operating in sectors where specific problems frequently occur. The Council on Ethics can then encourage companies to put new or updated policies in place, improve processes and request the company to report on progress and be transparent on any challenges

they have. In this way the companies can avoid problems that others in their industry have had or problems that other industries have.

Exclusions of sectors

The Council on Ethics often receives questions from various stakeholders as to why the Council on Ethics does not recommend the exclusion of entire sectors, such as tobacco or fossil fuels.

A basic principle for the Council on Ethics is that all products that are legal in Sweden must also be permitted investments for the AP Funds. It is the Swedish Parliament that decides when tobacco or fossil fuels are banned, not the Council on Ethics.

If Sweden ratifies a convention that clearly bans certain products, such as the convention on cluster bombs or the conventions concerning cannabis, the Council on Ethics can make broader recommendations on the exclusion of products to the AP Funds.

The Council on Ethics' working process for incident based dialogues.



Working process for dialogues

Screening for malpractice take place based on conventions or international guidelines that Sweden has signed. When a misconduct is identified, a dialogue is initiated to obtain more information. If the misconduct is serious and systematic and the company's actions are deemed to be in violation of conventions or international guidelines the first objective is to stop the misconduct (if it is still ongoing). The next objective is that the company create or update its policy. Then the policy has to be implemented and finally the company has to report in a transparent manner in order to show that the company does its utmost to avoid the violation from being repeated.

Before concluding a dialogue, the company must show that it has acted to prevent a recurrence. The Council on Ethics focuses on practical implementation, internal guidelines, third part verification of these and external reporting on progress.

Of the approximately 3,500 companies, approximately 300 companies are usually identified in a screening and about 30 com-

panies, are usually finally assessed to violate international conventions. The Secretary General and members of the Council on Ethics are directly involved in approximately 30-50 company dialogues annually. These companies are selected based on where the Council on Ethics' direct efforts adds most value, and the Council is always involved in the dialogues with the companies that have been concluded to violate conventions.

The Council on Ethics has a time limit for dialogues of approximately four years. If the dialogue has not then led to the results that the Council on Ethics considers reasonable, there is an opportunity to recommend the Funds to exclude the company. However, this is a last resort, and the Council on Ethics sees it as a failure because the misconduct will probably continue.

The Council on Ethics does an annually follow-up on the companies that have been excluded and if the circumstances have been remedied, the Council on Ethics can recommend the Funds to re-include the company.

Projects

The Council on Ethics has chosen to work on projects in certain areas in order to prevent violations and serious misconduct. The focus areas are: Environment (Biodiversity), Human Rights (Child and Forced Labor and Health and Safety), Climate (Paris Agreement) and Business Ethics (Anti-corruption and Responsible Business). Preventative projects can also address more than one focus area. One such project is *the Mining and Tailings Safety Initiative*.

Over the years, the Council on Ethics' work with projects aimed at preventing malpractice and violations has developed from sector-specific to thematic to problem-solving oriented projects. The Council on Ethics today works with all these different forms of projects. Running problem-solving oriented projects, where the Council on Ethics works to facilitate that different actors come together to jointly discuss and develop solutions to major problems, has in recent years been shown to enable significant positive changes with a real imprint and broad impact.

Successfactors for projects

Which individual projects the Council on Ethics chooses to work on depends on a number of different factors. A success factor for driving and achieving results is that you have a deep knowledge of the problem area and its various challenges before initiating the project. This means that knowledge and analysis of the area is suitably built up before a project is initiated. An example of a successful project run by the Council on Ethics is on the Mining and Tailing Safety Initiative. This project was made possible through the Council on Ethics' many years of commitment and dialogues with mining companies and knowledge of the sector.

In projects initiated and run by other parties, for example the Ethical Council's service providers or PRI, the same prior knowledge on the part of the Ethical Council is not required. The projects that the Council on Ethics chooses to work with must also support the Council on Ethics' focus areas. For example, PRI's palm oil project focus on biodiversity and Sustainalytic's projects on child labor vis-à-vis cocoa companies and working conditions in the food industry's supply chains.

Different ways the Council on Ethics carries out its work



The Council on Ethics conducts its work through various types of dialogue that complement each other. The forms of dialogue have been developed over time to effectively address and contribute to solutions to various types of problems. Sometimes the problem is specific to a certain company and then the Council on Ethics prioritise dialogue with the company in question: A problem can also be common to an industry and then dialogues multipel companies is more suitable. In order to address certain problems the Council on Ethics uses its convening power to bring various players together to address the problem. In these cases the Council on Ethics main role is to facilitate the project.

The UN Sustainable Development Goals part of the framework

The Council on Ethics and the AP Funds use the Sustainable Development Goals (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 Council on Ethics indicate in this report which SDGs the different projects and dialogues are supportive of.

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 importance of investor engagement

Fiona Reynolds, CEO at the Principals for Responsible Investment (PRI) emphasis in this interview with the Council on Ethics the importance of institutional investors individual and collective engagement efforts to address global challenges.

Thank you for your personal engagement in the process of developing the Global Industry Standard on Tailings Management, do you feel this kind of work reflects the Principles for Responsible Investment (PRI) push for Active Ownership 2.0?

– Yes, we need to achieve real-world outcomes at scale. This is a perfect example of that ambition and it is also consistent with our Blueprint for Responsible Investment; we recognize the need to focus on the effectiveness of active ownership and our own role in better supporting signatories to deliver them.

Strengthened collaboration is a key concept here. The institutional framework that produced this global standard has attracted quite some interest and is seen as a possible blueprint for future projects at scale?

– The setup with UN Environment Program, all the major mining companies represented through International Council on Mining and Metals (ICMM) and finally the global investment community is a strong foundational framework that we can explore further. It is important to include other stakeholders in the process, but also to strike that balance between practicality and ambition. I believe we can explore this further and there will be new opportunities to do so. This is a great start.

Active ownership continues to be a bit of a conundrum for some stakeholders, even though as a practice it is both logical and has evolved significantly over the years.

– When PRI was established in 2006, its founders recognised the power and potential of active ownership (or ‘stewardship’) and codified it as the second of the six PRI principles. Active ownership is the means by which investors most directly influence companies, markets, and economies; and, in turn, society and the environment as a whole. In the years since the PRI’s establishment, active ownership has been affirmed by the stewardship codes that financial regulators have introduced in many jurisdictions. At the same time, industry capabilities have developed to meet this need, in the form of internal stewardship teams and external services. It has also been strengthened as both individual engagement efforts and new investor networks have reached scale. With mechanisms and momentum for active ownership now in place, it is time to evaluate how active ownership needs to evolve to realize its full potential.

Our own experience here at the Council on Ethics and the AP Funds is that there needs to be some institutional maturity and “learning by doing” in order to step up to the really challenging structural challenges, like setting global frameworks and standards. Do you agree?

– Yes, while stewardship is the most powerful tool investors have to align the economy and society with the interests of beneficiaries, many asset owners are not using it to its fullest potential. Institutional investors can contribute more and use the influence they have to address the global challenges we face. Many institutional investors have been reluctant to use their influence. Where they have used this influence, they’ve taken tentative steps, focusing on the short-term and on individual holdings in their portfolio, not the bigger picture. We need more ambition and now there seems to be more appetite and enough maturity within many investment organisations to step-up to these challenges. Interesting times ahead.

Tell us a bit more about Active Ownership 2.0?

– Active Ownership 2.0 is an aspirational standard for improved stewardship that builds on existing practice. It sets a framework for the future of stewardship where investors seek outcomes, prioritise systemic sustainability issues, and use collaboration as an integral tool to overcome the collective action problem. The implementation of Active Ownership 2.0 will represent a greater challenge for signatories whose responsible investment commitments are still developing but we believe the programme will provide signatories with greater clarity about the goals they should be aiming to reach.



Projects

The Council on Ethics' work with projects aims to solve various sustainability challenges.

The projects that the Council on Ethics supports, is involved in and/or initiates are mainly within the Council's focus areas: Climate (the Paris Agreement), Environment (Biodiversity), Human rights (Child & Forced Labour and Health & Safety) and Business ethics (Anti-corruption and Responsible Business)

The Council on Ethics' prioritisation and choice of focus areas takes into account, among other things, financial risks and opportunities, as well as the public's confidence in the AP Funds' and the Council on Ethics' activities.

Leading a coalition for a safer mining industry

The Investor Mining and Tailings Safety Initiative is a project which covers in part all of the Council’s focus areas and is, so far, the largest project ever for the Council on Ethics to take on.

Background facts

Region: Global
 Focus area: Human rights, Environment
 Topics: Transparency, Global standard
 Number of companies: 726
 UN Sustainable Development Goal:



The Council on Ethics believes that tailings facilities represent an under appreciated systemic risk, the neglect of which has been shown to have catastrophic effects on people and the environment. In the immediate aftermath of the Brumadinho dam failure the Council on Ethics and the Church of England Pensions Board were determined to step up their efforts and work with partners to ensure such a man-made disaster would not be allowed to happen yet again. The disaster in Brumadinho, Brazil should never have happened. In January 2019 the collapse of a tailings storage facility at Vale’s mine caused the loss of 270 lives, widespread environmental damage, and long-lasting devastation of the local community.

Compounding the tragedy for the affected families was the knowledge that their suffering was not unique: a little over three years

earlier and only 80 miles away, in November 2015 a community near Mariana, Minas Gerais in Brazil had suffered huge destruction due to a collapsed tailings dam. Mariana was operated by Samarco, a company owned by Vale and BHP, and that tailings dam failure had killed 19 people and spread pollutants across 415 miles of waterways.

The project started early 2019

The Investor Mining & Tailings Safety Initiative started early 2019 and is led by the Council on Ethics and the Church of England Penions Board. In 2019, four Investor Roundtables was held in London, which culminated with the Mining & Tailings Safety Summit at the end of October 2019. 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.

In response to the investors call for a global tailings facilities management standard the mining industry represented by the International Council on Mining and Metals (ICMM), UN Environment Programme (UNEP) and PRI - Principles for Responsible Investment (represented by John Howchin of the Council on Ethics and Adam Matthews of the Church of England Pensions Board) co-convened a process - *The Global Tailings Review (GTR)*



What is a tailings dam?

Tailings is the name given to byproducts of mining operations, which include chemicals, tiny rock particles and water. Different types of dams can be created to store these waste products, and they are some of the world’s largest engineered structures. The cheaper ‘upstream’ variant is constructed from the sediment itself as it settles and solidifies. This type of dam has been involved in a number of disastrous failures. All dams need regular monitoring and maintenance to ensure that faults are not developing. It is estimated that there are approximately 18,000 tailings storage facilities worldwide, of which approximately 3,500 are currently active.

to develop the first global standard for tailings facilities management.

The Investor Initiative 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 database is publicly available at tailing.grida.no/

Accomplishments in 2020

To mark the first anniversary of the Brumadhino dam break, in January 2020 Church House hosted *the Summit on Global Mining and Tailings Safety*, which brought together community representatives, investors, mining companies and international organisations to discuss tailings safety and progress on the Standard. In August 2020, *the Global Industry Standard on Tailings Management* was launched at an online event attended by 2,000 participants.

Subsequently, the Council on Ethics and the Church of England Pensions Board closed out the year by contacting over 350 mining companies on behalf of investors with \$21 trillion in assets under management, asking them to confirm on their company websites their support for the Standard and to set out a timeline for their intended compliance with it.

Compliance with the Standard is already mandatory for members of the ICCM, but take-up at a company level across the sector will be key to its success.

This project continues to be a large-scale, ambitious endeavour, and the Council on Ethics and the Church of England Pensions Board were honoured to be jointly recognised by the PRI’s independent judging panel as *Stewardship Project of the Year 2020*. However, we are acutely conscious that this award stems from suffering that should never have occurred, and that our work on this issue is not yet complete.



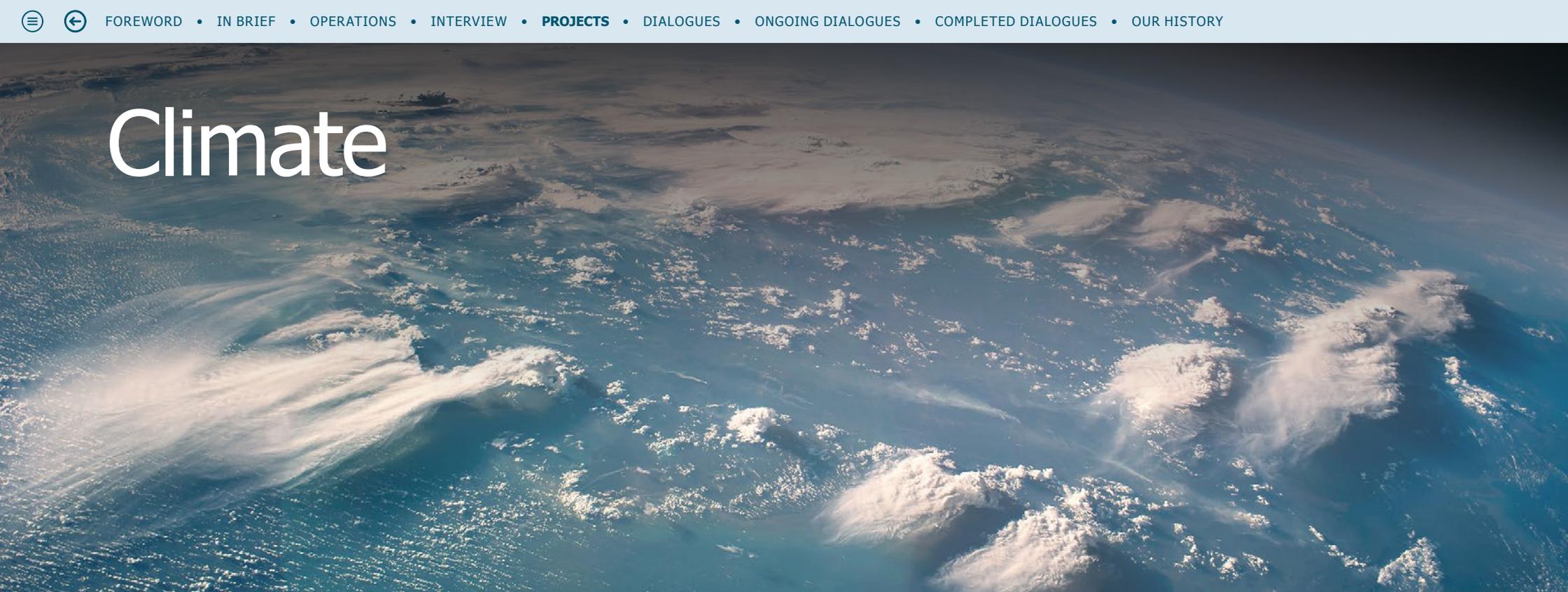
Lessons learnt

Mining done well can be a powerful force for development. However, when it goes wrong it can go badly wrong, causing loss of life and long-term environmental impacts. The mining sector provide raw material to products which are in demand in society, many of which are needed for modern life as well as the low carbon transition.

Drawing on the lessons learnt in leading the global engagement on tailings dams together with the Church of England Pension Board, the Council on Ethics has learned that a success factor for the project to be effective was the creation of a partnership amongst companies and asset owners and asset managers. One other important success factor is also to be focused on a problem that is essential and where the actions taken to address it have the potential to change how the sector operates

The Council on Ethics is now using the experience and lessons learnt from the Mining and Tailings Safety Initiative in a new project addressing human rights challenges within the tech-sector. Read more at page 23.

Climate



Climate change is a systemic risk that, if not stopped, will adversely affect the living conditions of current and future generations. The Council on Ethics is working for a transition to a low-carbon society and the achievement of the Paris Agreement.

In the Paris Agreement concluded in December 2015, 195 states, including Sweden, pledged to keep the global temperature increase “well below 2 degrees” and to “strive to limit it to 1.5 degrees”. When the Intergovernmental Panel on Climate Change’s (IPCC) special report on the effects of a global warming of 1.5 degrees Celsius was published in 2018, it became even clearer that a rapid and powerful change is required. To stabilise the climate, net emissions have to be zero by 2050. The Swedish Parliament has decided that Sweden will achieve net zero emissions of greenhouse gases by 2045.

Transition to low carbon

In today’s society, most industries, companies and consumers/individuals are exposed to and dependent on fossil energy. Combustion of fossil fuels is the dominant cause of climate change. Regarding industries and companies one identifies direct exposure (production and sale of fossil fuels) and indirect exposure (everything that is manufactured and operated using fossil fuels). The risks and opportunities that follow from the transition differ between industries and companies and are affected by how the transition takes place.

Since the increase in temperature depends on how much greenhouse gases have been emitted over time, it is important that emissions are reduced as soon as possible. A major global initiative that works both to push large, listed companies to reduce their emissions and to increase their reporting on climate risks and opportunities is *Climate Action 100+*. An initiative in which both the Council on Ethics and the AP Funds are involved. Read more on next page.

Collaboration needed

The AP Funds and the Council on Ethics are also engaged in the *Institutional Investor Group on Climate Change* (IIGCC). IIGCC is a European member organisation for investor cooperation on climate change. The organi-

zation has more than 270 members, mainly pension funds and asset managers, from 16 countries. The IIGCC’s vision is to mobilize capital for the necessary change and ensure resilience to the effects of a changing climate by working with companies, decisionmakers and other investors.

IIGCC works to support and influence decision-makers, companies and investors. In 2020, for example, the IIGCC sent letter¹ to EU leaders to put pressure on it to respond sustainably to the challenges posed by Covid-19 and to prepare for a sustainable restart.

1) <https://www.iigcc.org/download/iigcc-letter-to-eu-leaders-from-investors-on-a-sustainable-recovery-from-covid-19/?wpdm-dl=3446&refresh=5f6e692ec8dc51606314286>

Climate – Focus on transition

To combat climate change, carbon dioxide emissions need to fall sharply over the next ten years. According to IPCC, emissions in 2030 need to be about half of the current and net zero in 2050. This requires a significant transition. Governments need to introduce clear regulations that enable a fair and smooth change. Companies need to change their business models, consumers and citizens need to change their consumption and behavior patterns.

Background facts

Region: Global
 Focus area: Climate
 Topics: Transition, the Paris Agreement
 Number of companies: 161
 UN Sustainable Development Goal:



A project that the Council on Ethics and the AP Funds are involved in is *Climate Action 100+*. It is a five-year global climate initiative that started in 2017 and is supported by more than 540 investors with assets under management of \$52,000 billions. The initiative has dialogues with more than 160 companies around the world. These companies have been selected because they have large total carbon

dioxide emissions (Scope 1–3, i.e. both the companies’ direct emissions, emissions from purchased electricity and all other emissions from purchases and use of products). These companies are estimated to account for about 80 percent of the world’s industrial carbon dioxide emissions.

- The purpose of Climate Action 100+ is to:
- Improve companies’ governance in terms of climate risks and opportunities,
 - Reduce their CO₂ emissions in accordance with accepted climate science, and
 - Report in accordance with the TCFD (Task Force on Climate related Financial Disclosure) which is an international framework for climate reporting.

Dialogues have an impact

During 2020 Climate Action 100+ has secured several important commitments from companies in industries especially taxing to the climate. Here are some examples.

In April 2020 Shell announced their plans to achieve climate neutrality, or net zero emissions, by 2050 at the latest. As one of the world’s largest energy companies this commitment is groundbreaking. They also plan to accelerate the pace of reduction in their carbon dioxide emissions to align with the goals



of the Paris Agreement. In May 2020, another global oil and gas corporation, Total, went public with a similar decision. After collaborative investor engagement with the company through Climate Action 100+ Total promised climate neutrality by 2050 in both production and products, and to have their oil and gas capex allocation to be assessed for consistency against the Paris Agreement.

They also pledge to support other corporations and countries in the transition to net zero emissions. Total will revise their targets at least every five years to follow the development of policy, market, and technology. In the oil and gas sector several commitments have been made, among others by BP, Repsol and Petrochina.

Later in May the American energy corporation Southern Company followed suit and published the goal climate neutrality by 2050. In total, six American energy corporations have now announced this aim.

Unilever have set their goal of net zero emissions by 2039 along with plans to establish a €1 billion Climate and Nature Fund. In the consumer products sector, Woolworths has also set a new target to reduce its operational emissions. Other companies that have made progress towards the goals of Climate Action 100+ are Coca Cola, PepsiCo, Walmart, Colgate-Palmolive, and Danone.



Major progress during the year but more is needed

The successes of 2020 have been significant; commitments of net zero emissions from these large corporations are not only an important step in slowing climate change but can also be seen as the beginning of a new standard of conduct in various industries, and it puts pressure on other companies to follow suit and revise their climate strategies. Through Climate Action 100+ and the coordinated investor engagement that this initiative makes possible, true change can be achieved.

At the same time, Climate Action 100+'s annual report emphasizes that there is still a long way to go and that commitment in words needs to be followed up with actions. Despite

the number of newly announced goals for net zero emissions, 194 of the oil and gas projects that have been sanctioned this year are not aligned with a climate scenario where the temperature increase falls below 1.75°C.

Evaluation model

In 2020, Climate Action 100+ has developed an evaluation model, *Net Zero Company Benchmark*, to analyse how well companies live up to the requirements of Climate Action 100+. The first scorecards based on this benchmark will be published early in 2021. This will provide information to investors on which companies where special commitment is needed in the future.

Dialogues with companies throughout the value chain

Collaboration is essential for a smooth transition to net-zero. In 2020, the Council on Ethics has worked within Climate Action 100+ and together with the Institutional Investor Group Climate Change (IIGCC) and the Transition Pathway Initiative (TPI) to bringing together companies in different value chains for energy-intensive sectors in order to develop ways to achieve net-zero emissions. Achieving net zero requires collaboration between companies, investors, policy makers and other actors. Therefore there is new project within Climate Action 100+ with the purpose to jointly develop action plans for different sectors and then implement them.

Some of the sectors selected are: Oil and gas, heavy transport, steel, cement, and shipping. The roadmaps will be developed in roundtable meetings which the stakeholder concerned participate. In 2020, a first roundtable discussion was held for oil and gas, heavy transport and steel sector. In 2021, the work of developing action plans for these sectors will continue. The Secretary General of the Council on Ethics leads this work together with the Church of England Pensions Board.

More information www.climateaction100.org



Human rights



Human rights are universal, mutually interdependent and indivisible. This means they are parts of a whole, that no right is more important than another, and that all human beings are born free and equal in dignity and rights.

Human rights are part of international law and are enshrined in various types of international agreements such as conventions. Governments therefore have the ultimate responsibility for the protection of human rights in their respective countries. There are different types of human rights, including civil and political rights; economic, social and cultural rights; and special protection for individuals who belong to specific groups.

UN Guiding Principles on Business and Human Rights

The companies' responsibility is to respect human rights. Respecting human rights means that companies must avoid having a negative impact on human rights and that companies must act to prevent this from happening. This is clarified in the UN Guiding Principles on Business and Human Rights (UNGP) which are based on international conventions and frameworks. Companies can have an impact on human

rights through their operations, supply chains, interaction with society and stakeholders and through the use of the company's products and services. Respect for human rights is part of a healthy and sustainable business and risk management.

The Council on Ethics' expectations

The Council on Ethics expects companies to respect human rights and to work actively to implement the UNGP. This means that they must integrate respect for human rights in their activities, policies, strategy, risk management and engage and transparently report publicly about them.

Commitment and communication with stakeholders as well as transparency is necessary and important. Information relating to human rights can be sensitive information for both the company and relevant stakeholders. Despite this, the Council on Ethics encourages companies to be as transparent as possible about the dilemmas they face as well as the priorities they are forced to make regarding human rights.

In the area of human rights, the Council on Ethics has chosen to focus on child and forced labour as well as health and safety. In 2020, the Council on Ethics has started a new project concerning human rights issues in the tech sector.

Collaborative efforts to scale-up interventions against child labour in cocoa

Ivory Coast and Ghana are the world’s leading cocoa producing countries, accounting for almost 70 percent of cocoa production worldwide. However, it is estimated that in these countries combined, over 1.5 million children work in hazardous conditions in the cocoa supply chain alone.

Background facts

Region: West Africa
 Focus Area: Human rights
 Topics: Child labour in cocoa supply chain
 Number of companies: 7
 UN Sustainable Development Goal:



Together with a large group of institutional investors, the Council on Ethics engaged major cocoa and chocolate companies in three focus areas: child labour monitoring and remediation, access to education and living income for cocoa-growing farmers. This collaboration is led by Sustainabilitycs.

Monitoring and remediation systems

Most companies apply Child Labour Monitoring and Remediation Systems (CLMRS), or similar, and are continuing roll-outs in line

1) <https://www.norc.org/NewsEventsPublications/PressReleases/Pages/increase-in-hazardous-child-labor-in-cocoa-production-amid-an-expansion-of-cocoa-farming-in-cote-d'ivoire-and-ghana.aspx>

with a pledge by the industry organization World Cocoa Foundation to have CLMRS, or equivalent systems, in all cocoa-growing communities the member companies supply from in Ivory Coast and Ghana by 2025. Some companies are ahead of schedule to meet the pledge and several companies have initiated roll-out beyond Ivory Coast and Ghana.

Private sector interventions

While efforts are strengthened against child labour, they are overshadowed by the large-scale survey released in October 2020 on the status of child labour in cocoa-growing communities in Ivory Coast and Ghana, commissioned by the US Department of Labor and conducted by the University of Chicago¹. The results suggested that more than 1.5 million children are still involved in child labour in cocoa production in the two countries.

On a more positive note, the report stated that school attendance among children in agricultural households increased from 58 percent to 80 in Ivory Coast and from 89 to 96 percent in Ghana. An area which the investor collaboration has been encouraging companies to contribute to. In spring 2020, several cocoa and chocolate companies also announced their



support to two new programmes by the Jacobs Foundation aiming to support, among other things, access to quality primary education in Ivory Coast for five million children.

A separate study by the same university, commissioned by the World Cocoa Foundation, has assessed the effects of the industry’s interventions on child labour and suggests that hazardous child labour has been reduced by one-third in communities where company programmes are in place. According to the study, when multiple interventions were implemented in a community, it led to a statistically significant reduction in the rates of child labor and hazardous child labor in cocoa production.

The International Cocoa Initiative, a multi-stakeholder initiative against child labour in cocoa, estimates that 20 percent of

the cocoa supply chains in Ivory Coast and Ghana are covered by such industry programmes preventing and remediating child labour.

Living income

It is clear that progress is continuing with regards to companies’ uptake of living income. Some of the cocoa and chocolate companies have strategies in place to improve income for cocoa-growing farmers and are explicitly measuring farmer income as part of monitoring their farmer programmes in West Africa, including data collection to understand what types of interventions are effective.

In dialogues with companies during 2020, insightful studies commissioned by cocoa and chocolate companies, as well as promis-

ing pilot interventions have been presented and discussed. Public examples include Lindt & Sprungli's impact study carried out by the research institute KIT, which looked at measuring how the company's farmer programmes impact income and yield, and Mondelez joint report with the Wageningen University and Research - 'No Silver Bullets: Closing the \$10 billion income gap in cocoa'.

Through the latter report, Mondelez calls for cross-sector action and concludes that the annual cost to close the living income gap in Ivory Coast and Ghana can be as much as USD 10 billion.

Digital identities - a tool for change

In order to further drive positive change, the Council on Ethics has continued to explore the

positive impact of blockchain solutions. The focus has been on digital identities, aiming not only at addressing child labour but also to eradicate the root cause of it, poverty. These solutions are trying to secure that the small-holder farmers' household data is not kept in silos across multiple organisations, but held by the individuals themselves, thereby ensuring not only data privacy but more importantly

the economic value that this data has for the farmer and other household members.

With data from different crops connected to the ID of the farmer, he or she can then use it to get financial support to make necessary investment at the farm and for the household. It also has the potential to provide the farmer with better market access, and thereby a chance to increased profit for agricultural products. Companies developing or connecting to digital identity solutions that are inclusive to farmers are more likely to build a stable farmer base, crucial to secure a long-term supply of agricultural products.

A harmonized solution for a larger number of farmers and market leading companies combined also has the potential to facilitate and bring to scale joint interventions to support farmers towards more lucrative farming businesses.

Further engagement effort will be undertaken with the cocoa industry on the above matters, until the conclusion of this investor effort in the latter part of 2022.



Tackling systemic challenges in food supply chains

Over a period of three years, the Council on Ethics has participated in a collaborative investor initiative, led by Sustainalytics, aiming at addressing systemic labour rights issues in food supply chains. As the initiative ended in December 2020, this article presents a summary and reflection of results and key topic developments.

Background facts

Region: Global
 Focus Area: Human rights
 Topic: Labour rights in food supply chains
 Number of companies: 17
 UN Sustainable Development Goal:



During 2020, the pandemic cast a shadow on the overall increased private sector response to labour rights issues in agriculture. According to the International Labor Organization (ILO) and UNICEF, as many as 40 to 60 million additional people may live in extreme poverty as compared to pre-pandemic. The organisations also note that in order to secure livelihood, child labour is a likely resort for many households. Migrant workers and other groups at risk of being involved in forced labour pre-pandemic are also likely to have

1) https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---ippec/documents/publication/wcms_747421.pdf; <https://www.antislavery.org/covid-19-and-slavery-the-five-big-impacts/>; https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---ippec/documents/publication/wcms_745287.pdf

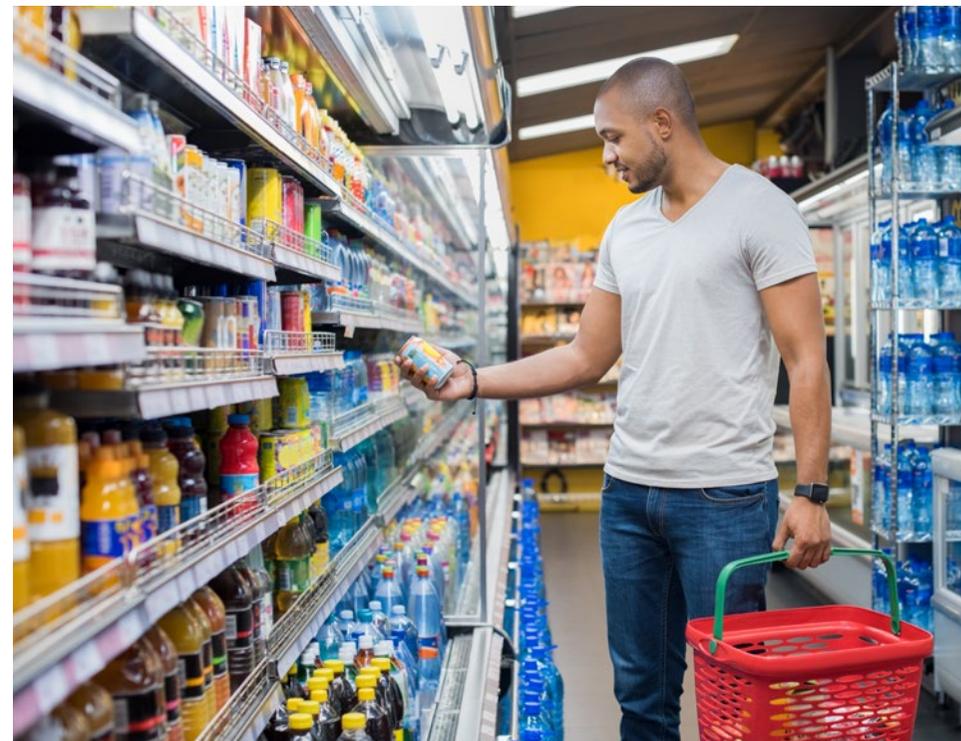
taken an unproportionate hit by the global economic downturn.¹

Engagement outcomes

An increased private sector response is evident in the wake of the pandemic, and throughout the course of the three-year period of this engagement. Since its start in 2018, progress have been measured for all companies on a set of KPIs including supplier code of conduct on the respect of human rights, labour rights due diligence, mitigation of elevated labour rights risks, and collaboration to bring mitigative practices to scale.

As the engagement was concluded in December 2020, an average level of fulfilment by companies targeted in the engagement of 65 percent was reached, an improvement from baseline by 26 percent and from the first biannual report an improvement by 16 percent. Looking at the scores and summarizing the output from engagement meetings with the companies, three segments of leading, mid-level and lagging companies have crystalized:

- Leading companies are typically piloting innovative and cutting-edge interventions in their agricultural supply chains to mitigate labour rights risks and work towards



living income and living wages. They have robust due diligence processes in place.

- Mid-level companies have due diligence procedures in place and might be doing some ad hoc forms of mitigative work.
- Lagging companies have policies in place on labour rights and might have some due diligence procedures, but not very comprehensive and lack a plan to mitigate identified risks.

Tackling root causes

The engagement has put extra effort on tackling root causes to labour rights issues in agricultural supply chains by alleviating poverty and encouraging companies to build corporate roadmaps towards living income and living wages for smallholders and agri-

cultural workers in their agricultural supply chains. When the engagement started in 2018, a momentum was emerging on this topic. This has certainly grown. Several multi-stakeholder networks and collaborations are actively contributing to the advancement of the area.

There is a wealth of reports and guiding documents issued only in the last couple of years. Clearly, there is also an uptake from a growing group of companies, industry initiatives and other standard-setting bodies, in developing corporate roadmaps on living income and living wages.

The investor initiative has worked to support companies by clearly communicating investor expectations in the area, through an

investor statement, by co-hosting a webinar on how to build a corporate roadmap to living income, by surveying companies on their current efforts in the area and by spreading good practices in direct dialogues with individual companies.

While it is not possible to prove a causal link, the Council on Ethics believes such efforts have played a role in further private sector actions in this area.

More legal requirements

As the engagement is concluded, a growing number of countries, such as the UK, the Netherlands, France, and Australia already have legal requirements on corporate human rights due diligence of some sort, most of them focused on reporting requirements. Similar legislations are also underway in Germany.

The most prominent development is, however, the EU level human rights due diligence legislation likely to be adopted during 2021. This development is likely to have an increased positive effect on building private human rights due diligence, not the least to shed light on lagging companies not taking responsibility to respect internationally recognized human rights.

Reflection - criteria for successful engagement

Since the beginning of this thematic engagement, the initiative has conducted 75 engagement meetings, sent approximately 600 e-mails and has coordinated an investor statement to the broader food sector.

In addition, the Council on Ethics and other investors visited in 2019 Italian food producers, and the initiative hosted a follow-up virtual

roundtable to share experiences and good practices in addressing labour rights issues in this context and beyond.

The initiative co-hosted a living income survey and webinar and developed good practice material on living income and labour rights due diligence. The success of this thematic engagement, in short, has been thanks to:

- Active involvement by investors.
- Understanding the companies, the sectors and the topics.
- A continuous drive in dialogues, and finding new ways of sharing good practices and linking companies and their actions with each other, for example through the investor trip to Italy, the roundtable, the living income webinar and in bilateral dialogues.
- Having a clear focus, primarily in the latter half of the engagement, on living income

and living wages, addressing root caused to labour rights issues, and at the same time using and adding to the momentum in the area.

- Maintain an active network of stakeholders and drive core issues together with those, not only to build leverage and have a greater impact but also to ensure companies are linked to such networks as time-bound investor engagements like this one are concluded.



Responsible mining of cobalt

Since 2016, the Council on Ethics has been involved in an investor initiative that conducts dialogue with companies in the electronics and automotive industries in order to promote a more responsible extraction of cobalt.

Background facts

Region: West Africa

Focus area: Human Rights

Topic: Child Labour

Number of companies: 15

UN Sustainable Development Goal:



Cobalt is an important component in batteries used in e.g. mobile phones, computers and electric cars. A significant proportion of all cobalt is extracted in the Democratic Republic of Congo, often under conditions with severe human rights risks. The extraction takes place both in regulated and unregulated mines. Even in the established regulated large-scale mines (LSM) the workers can be exposed to toxic metals and lack protective equipment.

The mining activities may also lead to conflicts with the local population. In addition to the regulated mines, cobalt is also extracted from unregulated mines in connection to LSM, where the local population dig by hand under poor working conditions and child labour is common. The extracted cobalt then travels through long and complex supply chains before reaching the final customer. In addition to serious violations of human rights, mining is also subject to environmental risks and corruption.

Investor collaboration

In collaboration with several institutional investors and the Principles for Responsible Investments (PRI), the Council on Ethics has conducted a dialogue with around 15 companies in the electronics and automotive industries including: Apple, Microsoft, Daimler and Volkswagen. In recent years, annual round-table discussions have also been arranged, in which the Council on Ethics, together with other investors, companies and stakeholders, has participated.

The purpose of the dialogue has been to improve how companies address human rights risks regarding cobalt. To enable comparison between the companies, the investor initiative produced an expectation document with defined asks that formed the basis for the continued dialogue. The document is based on the OECD's guidelines for due diligence and covers three main areas:

- The company's risk assessment should include a mapping and analysis of the entire supply chain regarding how human rights compliance
- The company's corrective actions when negative impacts
- The company's cooperation with other stakeholders to address structural issues.

During the project, there has been a positive development regarding the companies' understanding of and transparency about their supply chains. How the companies have chosen to manage the risks differs. For exam-



ple, Apple has mapped its supply chain and introduced minimum requirements and audits that are followed up through reviews. Daimler has decided to only buy cobalt from certified mines, which requires traceability throughout the supply chain.

Industry collaborations such as the *Responsible Minerals Initiative* (RMI) and the *Responsible Cobalt Initiative* (RCI) are also addressing these challenges. An important tool is the checklist, developed by RMI, which is used by companies to assess supply chains with specific focus on cobalt and human rights. In the spring of 2021, PRI will publish a report that summarizes the experiences and

progress made. The report will also provide suggestions on how investors and companies can continue to address the issue of responsible cobalt extraction.

New battery technology

Companies are investing to increase the efficiency and the reuse of batteries and developing new battery technologies without cobalt. This development is important to meet the increased need for battery solutions for a green transition, while an increased demand for cobalt would provide new opportunities for the region and the local population if conditions on site improve.

The Council signals its expectations for tech giants on human rights

Information technology is embedded in global society and used daily by billions of people. The internet, personal electronic devices and social media are intrinsic to our economic and social future and offer important opportunities to tackle social and sustainability challenges.

Background facts

Region: North America
 Focus area: Human Rights
 Topic: Among others freedom of speech
 Number of companies: 6
 UN Sustainable Development Goal:



Today, tech companies are integral to global society. Their platforms are used daily by billions of people. With expert input from *the Danish Institute for Human Rights* (DIHR), the Council on Ethics has identified what are reasonable human rights expectations of companies such as Facebook, Google (Alphabet) and Twitter. Such companies have grown rapidly in a short time. Their platforms have brought many gains in access to information and transparency.

However, they also entail new challenges linked to complex issues such as the collection, use and commercialisation of personal data, extremism and terrorism, electoral

manipulation and severe impacts on vulnerable and at risk groups, such as children and human rights defenders.

Human rights challenges

Tech giants' human rights impacts range widely. Besides workforce and other supply chain issues, they include impacts linked to the gathering, use and commercialisation of personal data and spread of opinions. Other challenges are the impacts of content moderation and encryption can lead to discrimination and algorithmic bias can result in human rights abuses.

At system level, further impacts relate to concentration of wealth and reinforcement of inequalities, large-scale tax avoidance and its



consequences for public revenues, economic instability and criminality linked to cryptocurrencies, for example. Many such issues have assumed new dimensions in the context of the Covid-19 pandemic.

Regulators face difficulties in addressing such risks and securing compliance by powerful tech giants whose activities are dynamic, diversified, transnational and technically complex. In many cases, root causes of risks to human rights go beyond individual products or services to implicate tech giants' business models, corporate governance and incentives structures.

Expectations of global tech companies on human rights

The Council on Ethics has in cooperation with the DIHR, developed *Human Rights Expectations for Tech Giants*. The Expectations demand that tech giants reinforce measures to respect human rights and fully align their work with the UN Guiding Principles on Business and Human Rights.

The Expectation document outlines the long-term expectations on the tech sector of how the sector should work strategically on human rights. The purpose of the Expectations is to serve as a platform for the Council

on Ethics and for other investors, to conduct a more constructive and effective dialogue with the tech sector regarding the companies' responsibility for and impacts on human rights.

The Expectation document was published in December 2020 and is available on the Council on Ethics' website.

Engagement

Based on the expectations the Council on Ethics has also initiated engagement with tech giants on human rights together with a larger group of international investors, APG, AXA Investment Management, Church of England Pensions Board, Church Commissioners of England, COMGEST, Kempen, Legal & General Investment Management, LGPS Central, New Zealand Super Fund, Robeco, Royal Lon-

don Asset Management and USS. This group was also engaged during the preparation of the Expectations.

There is a need for a broader discussion on the corporate responsibility of tech companies and respect for fundamental human rights. It is still a relatively "young" sector that in a short time has grown rapidly and has a wide impact. With this, many difficult issues have followed. The Council on Ethics does not

have all the answers to these questions as in many ways a new playing field is developing. Based on the Council on Ethics experience of engaging with other sectors over the years these difficult questions need to be discussed with stakeholders.

Twitter, Facebook, YouTube and other less known versions of all these tools are fantastic tools for global democracy, transparency, open society, positive and globalisation, and sharing information, but there are drawbacks to all these platforms and all these technologies. The Council on Ethics wants to see corporate cultures where there are handbrakes internally, where people actually can be empowered to say "no, we can't do that, we need to think twice before we do these things, because we actually have a policy [regarding human rights]".

These platforms have an opportunity to play a huge role in advancing human rights, democracy and freedom of speech. The Council on Ethics also works on how the positives can be amplified and at the same time address and manage the negative consequences. In order to solve these problems they have to be worked on in a structured way.



Biodiversity



Biodiversity includes many issues and areas that are crucial to the living conditions on earth - everything from clean air and clean water, raw materials and food production to genetic variation, inspiration for technical solutions and cures for diseases.

Biodiversity is a collective term that encompasses all the variation in species and habitats that exist on earth and forms the basis for many ecosystem services to function. The UN Convention on Biological Diversity defines the term as: “the variability among living organisms from all sources including, inter alia, terrestrial, marine and other aquatic ecosystems and the ecological complexes of which they are part; this includes diversity within species, between species and of ecosystems”. The aim of the Convention is to preserve and

use biological diversity in a sustainable way, while distributing profits through the use of genetic resources in a fair way. Sweden signed the convention in 1993.

The fact that the area is large and complex is maybe the reason why it has not received as much attention as climate change. Climate change is a driving force for the loss of biodiversity, so work done to reduce greenhouse gas emissions can also be seen as work to preserve biodiversity.

Platform on Biodiversity and Ecosystem Services

In recent years, investors have increasingly begun to pay attention to biodiversity. One reason for this may be a report presented by the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) 2019 on the state of the world’s biodiversity and ecosystem services.

The situation is described as serious or very serious. More species than ever in human history are threatened with extinction and many ecosystems are changing rapidly. The report points out the following five major driving forces behind the loss: 1) Destroyed habitats, 2) Exploitation of species through fisheries, agriculture and forestry, 3) Climate change, 4) Invasive species and 5) Pollution.

IPBES is an independent intergovernmental organization that was formed in 2012 and more than 130 nations are members. Its role is to provide policy makers with objective scientific assessments of the planet’s biodiversity, its ecosystems, and the contributions they make to us humans. IPBES is therefore often referred to as the “IPCC for Biodiversity”. (IPCC, Intergovernmental Panel on Climate Change is UN’s climate panel that produces scientific data for governments.)

The Council on Ethics’s engagement

Over the years, the Council on Ethics has been involved in various dialogues that address different problem areas in biological diversity, including deforestation and chemicals. The Council on Ethics plans to increase its involvement in biological diversity in 2021.

Palm oil - still major challenges for the world's dominant vegetable oil

Palm oil production poses major challenges in terms of climate, environment and social aspects. The Council on Ethics has been participating for several years in an international investor collaboration that works for sustainable production of palm oil.

Background facts

Region: Asia
 Focus area: Biodiversity
 Topic: Deforestation
 Number of companies: 30
 UN Sustainable Development Goal:



Palm oil is a vegetable fat which is found in foods and products that are used daily, everything from margarine, cakes and chocolate to makeup, soap, detergent, candles and bio-fuels. Residues from the production can also be used in animal feed. It is extracted from oil palms, which are grown in large plantations. The plantations are mainly found in Indonesia and Malaysia, but the plantations are also increasing in other countries. Indonesia is the world's largest exporter of palm oil and produces about 50 percent of all palm oil.

Deforestation risk

Global palm oil production is growing and is expected to be four times larger by 2050, according to WWF. This development risks

further increasing the deforestation that takes place to increase the size and production of the plantations. Deforestation and burning of rainforest contributes to global warming and the destruction of a globally important greenhouse gas sink. Deforestation also threatens biodiversity as species-rich rainforests are cut down and replaced by oil palm plantations. Humans, animals and plant species have been displaced and their habitats deteriorated or destroyed. The challenges regarding climate, environment and social aspects are increasing and important ecosystems are threatened.

An expanding production of palm oil thus poses a major threat while also contributing to economic development. In palm oil-producing countries, this industry offers new sources of income and the opportunity for improved living standards. A large part of the production takes place in small-scale agriculture and by family companies. Small-scale farmers manage roughly 40 percent of Indonesian oil palm plantations, but account for only 30 percent of the nation's palm oil output.

Knowledge, investments and willingness to pay

More sustainable production requires knowledge and investment. Palm oil is a versatile



and effective product that will continue to be used in various industries and in many food products. For an increased share of certified sustainable palm oil, it is required that existing palm oil plantations are managed more efficiently and sustainably, as well as that there is a demand and willingness to pay for sustainably grown palm oil.

A growing middle class in India and China, the two countries that buy up almost half of global palm oil production, is a strong driving force for increased areas of palm oil plantations and palm oil production. However, the demand for certified sustainable palm oil in these countries is low. The largest

demand for certified palm oil is in Europe and the USA.

Boycotting palm oil is not an easy way out. Substitute products such as coconut, soybean or shea butter could lead to the need for significantly more land. Instead, it is important to find opportunities to work for a more responsible development. Greater demands must be placed on all players in the supply chain from small producers and family businesses to the companies that trade in palm oil and that use palm oil in their products. Banks and requirements for financing sustainable palm oil production are important steps in the work for sustainable palm oil production.

Roundtable on Sustainable Palm Oil (RSPO) which addresses all actors in the chain - from oil palm plantations to users, has developed criteria for more sustainable palm oil production to prevent deforestation of natural forests, for more sustainable cultivation methods, for better working conditions in production and requirements on traceability and certification. A minimum requirement is that companies in the entire supply chain have a *No Deforestation, No Peat, No Exploitation policy*. Certification must ensure that the palm oil used is deforestation-free.

Challenges

A wide range of uses means that palm oil will continue to be an important raw material for

several companies in the AP Funds' portfolios. Deforestation and serious issues of land and labour rights can pose both financial and reputational risks to the Funds' investment companies. A major challenge is how the large proportion of small-scale agriculture should be encouraged to improve their production methods as well as how traceability of palm oil should be achieved throughout the supply chain.

The number of companies that have designed policies, systems and processes for more sustainable palm oil production has increased over the years. Commitments include no contribution to deforestation or cultivation on peatland, improving the management of incidents in the business, traceability and increasing transparency in report-

ing. Many challenges remain, but greater knowledge, technological development, such as the use of satellites for ground surveillance and increased pressure from various stakeholder groups, open up opportunities.

Sustainability work is further developed

During the year, the Council on Ethics, together with other investors, in collaboration initiated by PRI, continued the dialogue work to persuade companies to act more responsibly with more explicit demands for sustainable palm oil production. The focus has been on how the companies and stakeholder included in the dialogue have developed their guidelines and goals and how these are implemented and followed up.

There is still a significant implementation gap. *Zoological Society of London SPOTT* shows in a survey covering 100 players that 71 percent of the companies had clear commitments to counter deforestation, but only 42 percent were able to provide detailed information on how they implemented their guidelines. The outcome for companies in the supply chain shows an even larger gap of 54 percent and 10 percent, respectively. Traceability and reporting of this, together with better working conditions in all production, including third parties, are areas for continued dialogues.



Business ethics



Why focus on anti-corruption and responsible business? The answer is simple the existence of corruption has major negative effects on society. Corruption undermines democracy and the rule of law, leads to human rights violations, mainly affects poor people, and enables organized crime and terrorism.

Corruption also distorts markets and puts competition between companies out of play, which among other things causes low economic growth. Fighting corruption is therefore an important sustainability issue and crucial to achieving all the UN's Global

Sustainability Goals, therefore the fight against corruption can be seen as a fundamental goal. Corruption is included in goal 16 "Peaceful and inclusive societies where sub-goal 16.5 is to "significantly reduce all forms of corruption and bribery". Transparency is an

important tool in the fight against corruption. Sub-goal 16.6 is to build up efficient, reliable and transparent institutions with accountability at all levels.

The Council on Ethics' engagement Anti-corruption is in focus in many of the Council on Ethics' dialogues. In recent years, the Council on Ethics has also focused on money laundering and, by arranging seminars, has facilitated the discussion on this issue between different stakeholders. The

Council on Ethics had planned to conduct a seminar on money laundering in 2020 as a follow-up to what was carried out in 2019. Due to covid-19, this has not been possible.

Since 2007, the Council on Ethics has supported the *Extractive Industries Transparency Initiative* (EITI), which works to combat corruption by creating transparency regarding payment flows between governments and companies in extractive industries.

The EITI fights corruption through transparency

The Extractive Industries Transparency Initiative was launched in 2002 with the aim of promoting responsible management of natural resources. The need for transparency and governance is particularly great in countries with rich natural resources but inadequate political governance.

Background facts

Region: Global

Focus area: Business ethics

Topic: Anti-corruption

UN Sustainable Development Goal:



An international initiative that the Council on Ethics has supported since 2007 is the *Extractive Industries Transparency Initiative* (EITI). Clear reporting of income in the host countries, as well as the fact that companies report what they pay, increases transparency in society and contributes to better conditions for economic governance. The Council on Ethics' formal support for EITI signals that countries and companies with extraction activities shall have clear and transparent reporting.

Standard for transparent revenue streams

The EITI is supported by many different stakeholder, 69 companies, 15 countries, and civil society organisations. The initiative provides a global standard for transparent and reliable reporting of revenues from extractable raw materials. The standard has been

implemented by 55 countries. Companies supporting the EITI also commit to publicly disclosing taxes and payments.

The guiding principle of the initiative is that a country's natural resources belong to its citizens and that a country's income from extractive industries should benefit the whole society. The standard therefore requires transparency in terms of revenue streams from the entire value chain, from extraction, including through the state apparatus to sales. Throughout the process, value for the public is expected to be created.

The data that becomes available through reporting not only contributes to identifying corruption risks but also strengthens the possibilities of collecting taxes, for example.

One of the expectations of the countries reporting under the EITI framework is to make complete information on revenue streams from extractive industries available each year in a systematic way. EITI reporting should be timely, at the latest covering the second to last complete accounting period. The initial steps of implementing EITI in a country are as follows:

1. A national stakeholder group (government, corporations and civil society) decides how the EITI process should work in the specific country.



2. Important information about the industry's governance is reported within 18 months of admission and thereafter annually along with recommendations for improvements.
3. This information is widely disseminated to inform public debate, and a review of the outcomes and impact of EITI implementation on natural resource governance is undertaken by the multi-stakeholder group.

Depending on the relative success of complying with EITI principles and requirements, each country is evaluated against the standard. If the requirements are not met and no progress is noted regarding openness and anti-corruption in the extractive industries,

the country may be temporarily or permanently excluded from the framework.

Knowledge and transparency

In addition to working on the standard, EITI works to increase knowledge about the management of the extractive industry through regular webinars and the publication of information and news on EITI's website. Transparency and public debate are necessary preconditions for responsible management of extractive industries. An examination of the legal and financial structures of the industry, which includes the award of contracts and licenses, is also necessary. All this helps to eliminate corruption and maximize the societal benefits of extraction.

Dialogues

The focus for the Council on Ethics' dialogues is 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 which can destroy or create value for companies.

A company dialogue is about how the company handles difficult challenges in its operations such as corruption, human rights, working conditions, health and safety, environmental pollution and biodiversity. The dialogues are initiated with companies that have been identified in the bi-annual norm based screening. The aim is to improve and be a force for positive change with regard to various challenges in sustainability.

The Council on Ethics' dialogues during 2020

The Council on Ethics participated in dialogues with more than 363 listed non-Swedish companies based on its norm based screening. Through dialogue, the Council on Ethics can contribute to preventing problems, violations and accidents in various companies and industries.

The Council on Ethics' registered 423 incidents based on the screening that takes place twice a year. A company can have several incidents, which means that the total number of companies with norm-violating incidents is 363 companies. As can be seen from the map below, almost half of the incidents occur in Asia. Human rights are the area where most norm-violating incidents are registered. The most common industries are industrial and materials.

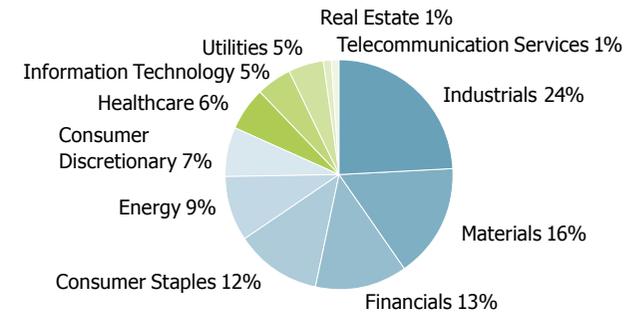
In 2020, 21 dialogues were concluded as the objectives of the dialogue were achieved. Read more about some of these dialogues below in Completed dialogues.

In 2020, the Council on Ethics was directly involved in approximately 30 company dialogues regarding selected reported incidents where violations are judged to be confirmed and well documented.

During the year, the Council on Ethics made a recommendation for exclusion, of China Spacesat Co Ltd due to the company's link to the production and sale of cluster munitions, thus associated with violation of the Convention on Cluster Munitions. There are 18 companies on the Council on Ethics' list of recommended exclusions. The list is available at www.etikradet.se

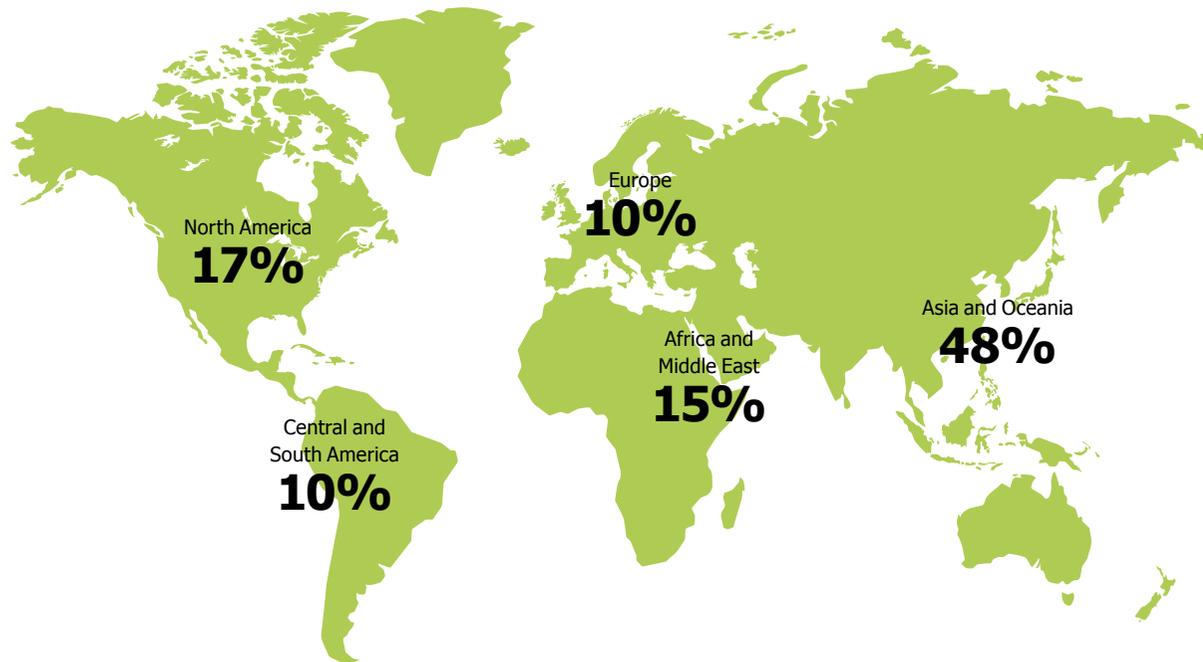
Sector for incident

(423 recorded incidents)



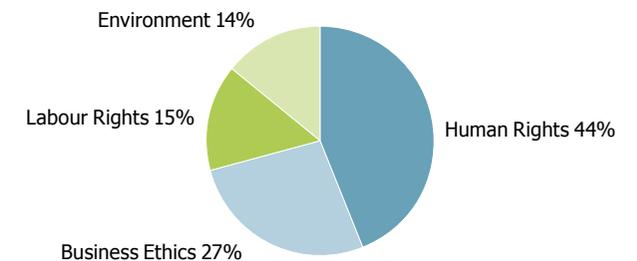
Region where incident occurred

(423 recorded incidents)



Type of incident

(423 recorded incidents)



Engaging Hikvision on human rights

Background facts

Company: Hangzhou Hikvision Digital Technology
 Country: China
 Topic: Human Rights
 Dialogues: Human Rights Impacts of Surveillance Systems
 UN Sustainable Development Goal:



Background

Hikvision is the world's largest manufacturer of video surveillance equipment. At issue is its complicity in human rights violations to which the company is exposed via its sale of technology to Chinese state projects in Xinjiang province. The projects have monitored the Uighur Muslim minority in Xinjiang.

Engagement objectives

The objective is to see Hikvision take steps towards ensuring its surveillance products and services are not contributing to human rights abuses. The company shall implement a due diligence in line with internationally accepted standards. The company should also increase its transparency on human rights issues.

Outcomes

The company states that its policies follow human rights guidelines and that it established a complaints mechanism that will capture human rights concerns. Hikvision announced its Global Advisory Committee that will provide guidance on human rights issues. The company has stated that it was working to restructure its process of establishing project partnerships to better screen projects.

Next steps

The company's human rights due diligence and its action plan to address its human right exposure remain largely unclear. The Council on Ethics and the company have agreed to continue the dialogue in 2021.

Rio Tinto - the removal of Juukan Gorge

Background facts

Company: Rio Tinto
 Country: Australia
 Topic: Human rights
 Dialogues: Violation of the Rights of Indigenous Peoples
 UN Sustainable Development Goal:



Background

Rio Tinto is one of the world's largest diversified mining companies. In May 2020, Rio Tinto destroyed two ancient rock-shelters at the Juukan Gorge in the Pilbara region of Western Australia, on the land of the Aboriginal people Puutu Kunti Kurrama and Pinikura (PKKP), the Traditional Owners of the area. The destruction took place to access 8 mn tonnes of high-grade iron ore worth approximately USD 97 million, as part of the development the company's Brockman 4 mine. Although the blast was legal under Section 18 of Australia's Aboriginal Heritage Act and under the agreements Rio Tinto entered into with the PKKP, the action drew strong public and shareholder backlash. The destroyed site was found to have been of the highest archaeological significance in Australia and of unique personal significance to the PKKP. Juukan was dated at more than 46,000 years old and was the only rock-shelter in the country to show continuous human occupation since the last Ice Age. According to the outcomes of the Internal Board Review of Cultural Heritage, released in August, a series of

flaws in the company systems failed to prevent the damage. Rio Tinto acknowledged that this should not have occurred and also admitted that its partnership with the PKKP and the process to obtain their consent for destroying the caves was at fault.

In September 2020, in response to pressure by stakeholders, the company's CEO and two other executives agreed to step down. Then in October 2020, a parliamentary inquiry into the incident was opened by the Joint Standing Committee on Northern Australia. Over the past decade, Rio Tinto has also been involved in several other community relations controversies globally.

Engagement objective

RioTinto should agree on a compensation package with the PKKP, the Traditional Owners of the destroyed rock-shelters.

The company should ensure that it rebuilds community relations with the PKKP and has suitable community relations mechanisms across all its operations that inform communities of important findings in a timely manner.

The company should ensure that its community relations teams are fully integrated into its operations to ensure that all operational decisions are made in conjunction with the community relations teams to prevent similar incidents in the future.

Next steps

The Council on Ethics will continue to engage Rio Tinto during 2021 together with a large group of international and Australian investors.

Many topics to engage JBS on

Background facts

Company: JBS
 Country: Brazil, USA
 Topic: Climate, Human rights
 Dialogues: Occupational health & Safety, Deforestation, Corruption, Anti-trust
 UN Sustainable Development Goal:



JBS is an international company involved in beef, lamb, and poultry processing. JBS is among the world's largest exporters of animal protein. Engagement with JBS also featured in previous annual reports. The dialogue covers multiple ESG issues. The Council on Ethics is pleased with JBS's responsiveness to the engagement but there remain work to be done.

In 2020, the Council on Ethics continued the engagement efforts on deforestation in Brazil and occupational health and safety.

Deforestation

To prevent deforestation of the Amazon rainforest, cattle and soy farming are under embargo in several areas in Brazil. JBS has tightened control and has actively cut out direct suppliers in embargoed areas, but it has been very challenging for JBS to extend these procedures to its numerous indirect suppliers. The Brazilian environmental protection agency IBAMA monitors JBS's cattle purchasing activities and has repeatedly fined JBS entities for breaching sourcing embargoes.

Engagement activities

JBS acknowledges the severity of its association with illegal deforestation and is working

on various options to address the challenges with the due diligence of its many indirect suppliers throughout the Amazon region.

In February 2020, the Council on Ethics together with a larger group of investors asked the Brazilian meatpackers JBS, Marfrig and Minerva for a collective call on traceability systems of beef in the Brazilian supply chain. It was a productive call but highlighted some challenges with current systems. There were some concerns of antitrust issues raised. The Council on Ethics strongly believes that one traceability system for the whole cattle sector in Brazil is the only solution to resolving this issue once and for all.

Outcome

JBS has a responsible raw material procurement policy and is committed to zero deforestation in the Amazon biome. JBS has been working on new procedures and technologies to prevent deforestation in the Amazon rainforest. The company sources from 100,000 cattle suppliers of which 50,000 in Amazon region. Besides deforestation, the supplier screening also covers forced labour, environmental protection, and indigenous rights. JBS has blocked 9,000 farms in its commercial system and expects to continue adding more.

JBS has been actively lobbying for an industry-wide solution to deforestation. JBS's supplier screening procedures partly rely on embargo data provided by IBAMA. JBS also runs its own satellite imaging procedure and participate in the multi-stakeholder initiative Beef on Track. There is a protocol, but enforcement has been a challenge. Reportedly, the provincial prosecutors lack resources and coordination, and the protocol fails to reach indirect suppliers adequately. Currently, JBS does not receive any verification of the indi-

rect suppliers from its direct suppliers. Direct suppliers are reluctant to provide transparency, allegedly for competitive reasons. It is not yet common practice in the industry to request information about indirect suppliers from suppliers.

During 2020 JBS launched an initiative that will cross-reference information about the company's suppliers with livestock transportation data. The platform will employ blockchain technology in order to provide confidentiality and security of access to the information and transparency in the analyses of suppliers. The Council on Ethics is positive to JBS taking this step, but there remains numerous issues to be resolved in this engagement. The Council on Ethics reiterates that one traceability system used by the whole sector in Brazil should be the aim for the initiative.

Occupational health & safety

Meat processing facilities operated by JBS subsidiaries Pilgrim's Pride and JBS USA were inspected and repeatedly fined by the US Occupational Safety and Health Administration (OSHA). OSHA's inspections found persistent health and safety violations and there have been several fatalities. JBS was also prosecuted by Brazilian authorities in a number of states for various types of labour rights violations.

Engagement objective

The engagement's objective required JBS to take responsibility for addressing the frequent occupational health and safety (H&S) incidents at its subsidiaries. Its H&S policies and practices shall be aligned with International Labour Organization (ILO) standards and JBS need to ensure their enforcement across the group. The company also need to include proactive assessment of risks and mitigation of hazards, supported by appropriate disclosure.

Engagement activities

The dialogue with JBS about occupational health and safety started in 2015. JBS has clearly demonstrated commitment to improve its accountability with respect to occupational health and safety, as well as various other ESG aspects for all of its operations globally. In the engagement call in November 2020, JBS's global human resources director reassured that JBS is ready to roll out a company-wide health and safety policy, accompanied by enhanced performance metrics in Q1 2021.

Outcome

The performance disclosure demonstrates that the company's efforts to improve incident reporting have had effect. Also, the company has been making various tangible adjustments to improve working conditions. Reporting discipline remains high and safety performance has reportedly been steady in Brazil and improving in the US. In early 2020, there were two fatalities at facilities in the US, but the authorities did not identify any major shortcomings and there have not been any new fatalities since then. JBS benchmarks its safety performance to industry and geographical averages. Historically, JBS has usually outperformed industry averages. The engagement also addressed the company's response to the Covid-19 pandemic which also had serious health and safety implications.

JBS has reached an advanced stage of implementing its company-wide health and safety strategy. As a result, the engagement focus for 2021 can shift to anti-bribery and anti-price fixing as well as mitigation of deforestation in the Amazon region.

Norilsk Nickel in focus, again

Background facts

Company: Norilsk Nickel
 Country: Russia
 Topic: Environment
 Dialogues: Pollution
 UN Sustainable Development Goal:



Background

Norilsk Nickel (Nornickel) is a Russian producer of base and precious minerals with operations primarily in Russia. Nickel is very much in focus due to its possibilities to substitute cobalt in Lithium Ion batteries. In May 2020, a fuel storage tank owned by one of Nornickel's subsidiaries collapsed and caused about 21,000 tonnes of diesel fuel to spill. The backup containment system which should have contained the spill proved insufficient and the fuel spread into the surrounding soil and waterways near the city of Norilsk in Russia's remote Arctic region. The spill did not directly affect the city but contaminated an area reported to be around 350 square kilometres in the Siberian tundra. Russian authorities have issued the company with a fine of USD 2.1 billion.

The spread of the spill was contained using absorbent booms and a large-scale clean-up operation was undertaken over the ensuing weeks and months. An independent review was commissioned by the board to evaluate the factors contributing to the incident. The review found that failings in the original tank construction caused the structure to fail during a period when the ground conditions were weakened by permafrost melt. The com-

pany's risk assessment approach and monitoring was found to be inadequate and emergency response resources to be insufficient.

Engagement objectives

Initial engagement focused on ensuring the company took prompt and appropriate actions to contain the spill and to limit the environmental damage. The impacts of the spill should be addressed with appropriate remedial measures. Nornickel should also undertake a comprehensive strategic review to ensure that maintenance and monitoring programmes address the risks to its infrastructure, which includes risks from melting permafrost and aging infrastructure.

Engagement activities

The company is open to dialogue and shared regular updates on the clean-up and remedial measures.

The independent review of the incident which was commissioned by the board is welcomed, and the results have been shared with investors. Nornickel has announced a number of measures to address the shortcomings identified in the independent review, relating to infrastructure repairs, permafrost and foundations monitoring, risk assessments and emergency response plans.

Next steps

The Council on Ethics will continue to monitor the progress and results of cleaning up the spill and remedial measures. The ongoing dialogue with the company will focus on avoiding a 'patchwork approach' to improvements in favour of a comprehensive review of risks and a holistic approach to resolutions.

Ensuring infrastructure is safe in Italy

Background facts

Company: Atlantia
 Country: Italy
 Topic: Infrastructure safety
 Dialogues: Safety management
 UN Sustainable Development Goal:



Background

The Morandi bridge in Genoa collapsed in August 2018, resulting in 43 fatalities and more than 600 persons homeless. The bridge was operated by Autostrade per l'Italia (API), a subsidiary of Atlantia. Since 2018, Atlantia has taken several measures to strengthen its quality and safety work. This has been further reinforced during 2020, and by year-end Atlantia has extended monitoring by double-checking its entire infrastructure portfolio of close to 2,000 bridges and tunnels.

Engagement objectives

As highlighted in last years report, the dialogue has focused on accelerating maintenance and ensuring project monitoring and emergency procedures are in place. In line with this, Atlantia has developed a 2020 - 2023 strategic plan committing to invest 13.5 billion EUR on development and improvement of roads and networks. This includes a major digitalization process, new systems for real-time control of traffic conditions, and the implementation of cameras and drones for the surveillance of infrastructure projects.

To reflect the strengthened focus on sustainability and new mindset in the company,

Atlantia has also made changes in relation to corporate governance. A new CEO is in place since early 2020, and during the year 80 per cent of top management has been replaced to ensure safety is the key value and having the right company culture to tackle challenges. Atlantia has also reviewed its whistleblowing tool and Ethics Officer process, to ensure it is properly implemented and provides accessible opportunities for anyone to raise concerns.

Atlantia has continued contributing to the society of Genoa after the collapse, giving not only compensation to the victim's families but also financial contributions to commercial activities affected by the incident. The company has also committed to implementing additional non-remuneration contributions, such as making discount to commuters and drivers that have been hit and delayed by road-work when constructing the new bridge during 2020.

One interesting update during the year was the announcement in July 2020 that Atlantia has agreed to sell its stake in API to the Italian government. A broad level agreement has been made, but the two parties are still working on finalizing the details of the transaction.

The outcome of the formal investigation into what caused the collapse was expected to be finalized early 2020 but has been further postponed due to Covid-19.

Next steps

The efforts taken by Atlantia to strengthen its quality and safety work indicates a very positive case development, but we will monitor the outcome of the formal investigation and the sale of API stakes.

Product safety in focus

Background facts

Company: Johnson & Johnson
 Country: United States
 Topic: Pharmaceutical and Healthcare
 Dialogues: Product safety
 UN Sustainable Development Goal:



Background

Johnson & Johnson (J&J), the largest and most diversified healthcare company in the world, has over the years faced numerous lawsuits in relation to the safety and quality of its products. The corporation includes some 250 subsidiary companies with operations in 60 countries and products sold in over 175 countries. Over the last few years, the Council on Ethics noted a number of concerns regarding J&J and product safety.

Engagement

The Council on Ethics initiated a dialogue in 2018. Initially, focus was on issues related to hip replacements, vaginal mesh implants and antipsychotic drugs. Over time it has expanded to also include issues relating to opioids and to talc products. The Council on Ethics has together with a larger group of investors had good contact with the company on these issues, quality procedures internally and the boards commitment to the issues.

The Regulatory Compliance Committee, a board-level committee oversees product quality and safety matters as a part of its remit. There has been evolution of the board's responsibility in overseeing this area and providing strategic advice to management over

the past decade. Previously, product quality and safety management teams were a part of individual business division's remit but this was changed to be centrally managed at the corporate group level. This made product quality and safety management systems independent of commercial interests..

The board and the Regulatory Compliance Committee receives regular reporting on this issue from the Chief Quality Officer and the Chief Compliance Officer. The company has made notable reforms to its product quality and safety management practices across its three key divisions (of medical devices, pharmaceuticals and consumer health) in the past few years with the long-term target to ensure a more resilient company with the highest standard of management practices

J&J has increased their disclosure on the topic with the 2019 Health for Humanity Report. There is substantial reporting and in 2019 the company undertook a program to improve clarity on the issue of quality. This restructuring of the Policy Standards resulted in the addition of six new Quality Policies that better reflect the lifecycle of J&J products. Two ambitions stated by the company are: making quality a priority and putting safety first.

Next steps

There is data available that provide an overview but little detail, and few examples of how they are implemented, monitored, or reviewed. This will continue to be a challenging topic due to the company having a wide array of products and the company will need to continue its improvements in terms of reporting and transparency. The Council on Ethics will continue the engagement to see whether there will be more data provided.

Boohoo – getting to grips with your supply chain close at home

Background facts

Company: Boohoo
 Country: UK
 Topic: Human rights
 Dialogues: Labour rights violations in supply chain
 UN Sustainable Development Goal:



Background

In July 2020, online fast fashion retailer Boohoo faced a media exposé when it was accused of using a supplier that underpaid its workers and that also did not adopt sufficient measures to protect employees from the spread of Covid-19. Earlier concerns about unethical practices in Boohoo's Leicester (UK) supply base had been reported by a labor-rights NGO in June 2020. In response to the media accusations, Boohoo immediately launched an independent investigation. This concluded that the allegations about poor working conditions and low rates of pay were 'substantially true' and that Boohoo's directors 'knew for a fact' about the poor treatment of factory workers but had not taken sufficient action in time.

Engagement objective

Boohoo should ensure that it no longer sources from suppliers that violate workers' right and put in place a human rights due-diligence programme that includes robust audits and addresses the root-causes of illegal practices in its supply chain (e.g. purchasing practices and unauthorised sub-contractors). In addition, the

company should adopt an effective grievance mechanism accessible to supply chain workers.

Outcomes

Boohoo committed to adopt all recommendations made by the independent review, which included measures to strengthen due diligence of its supply base, publication of an annual supplier list, training for buyers on purchasing practices, strengthening of Boohoo's governance structures, and appointment of an independent person to oversee implementation. Boohoo has publicly stated that it wants to adopt a leadership position with respect to ethical working practices in Leicester and, at present, it is in the early stages of its programme to achieve the changes needed. Boohoo plans to open its own manufacturing facility in the UK to demonstrate best practice to its suppliers. In November 2020, the company appointed a retired judge to oversee its improvement programme. It is hoped that this level of oversight will build rigorous processes to raise standards. In late December 2020, Boohoo was again faced with media allegations of unethical practices at two factories in Pakistan. The company said its third-party auditing partner would look into the claims.

Next steps

To continue the dialogue the company's supply chain challenges. The retailer has the potential to transform its practices and create positive change for workers but this will demand transparency and working closely with multiple stakeholders. The Council on Ethics will continue to monitor Boohoo's actions and engage further in 2021.

Amazon and workplace safety

Background facts

Company: Amazon

Country: United States

Topic: Engage, Human rights

Dialogues: Labour Rights, Workplace Accidents

UN Sustainable Development Goal:



Background

Over the past several years, Amazon has experienced recurring health and safety issues at its operations. During 2020, the company received increased scrutiny over how it manages worker health, including social distancing and sick leave benefits, and safety during the Covid-19 pandemic. These concerns are aggregated with an historical record that includes employee fatalities and serious physical injuries.

Engagement objectives

The objective of the engagement is to see Amazon take steps to understand the health and

safety risks faced by its workers. The company should introduce appropriate improvements involving health and safety policies and practices aligned with international standards, including proactively mitigating hazards, and improving working conditions. The company should establish improved transparency on its health and safety performance and consider independent third-party verification of its management system.

Outcomes

Amazon's Global Human Rights Principles statement establishes a commitment to employees' right to safe and healthy workplaces. The expectation of a safe and healthy workplace is echoed in its Code of Business Conduct and Ethics.

The company's 2020 sustainability report provides information on the company's management of health and safety and working conditions and represents an improvement over its previous year's disclosure on this issue. Health and safety receive due attention in the report and particular focus is spent emphasizing capital investments in health and safety improvements and related programmatic responses.

Amazon's Safety Leadership Index (SLI) measures employees' perception of safety management using input solicited from its workforce.

The company also reports a training program based on academic research and delivered by certified athletic therapists intended to support new and existing employees in maintaining good conditioning and practices to prevent musculoskeletal disorders. Short guided physical and mental exercises delivered directly to employees via the technology they use in their work also began to be introduced during the year. These exercises support reduction of physical and mental fatigue during the workday.

Amazon is pursuing improvements in safety technology in its warehouses as well; the company notes investments it is making concerning its powered industrial trucks and within robotics facilities where humans and robotic drive units operate in close proximity.

During 2020, Amazon has been conducting a human rights impact assessment. This assessment will capture operations and working conditions, among other factors.

Regarding its Covid-19 response, Amazon disclosed that it made over 150 significant pro-

cess changes in its operations, including daily audits, procuring and requiring the wear of 100 million masks, conducting mandatory daily temperature checks, and testing employees for Covid-19. Amazon disclosed that it expected to spend USD 10 billion in 2020 on Covid-19 related health and safety initiatives for its employees.

Next step

Amazon maintains to managing its employees' health and safety risks while being rather reticent in terms of disclosure. Amazon's reporting does show that the issue has importance for the company, but it is so far limited to detailing areas in which the company has made investments. There is limited to no disclosure underlining how Amazon has assessed its performance to direct investment decisions or against industry benchmarks. The engagement in 2021 will focus on Amazon's existing disclosure, understanding how it has established a level of comfort with its management, such as key metrics it utilizes, and how the company is prioritizing aspects for disclosure.

Dialogues in progress

The Council on Ethics works in tandem with many investors and service providers such as Sustainalytics. The Council on Ethics conducts dialogues with large numbers of companies around the world. Below are examples of some ongoing dialogues as well as the areas of concern in question.

Company	Associated with	Country of incident
3M Co	Activities Resulting in Negative Environmental and Human Rights Impacts	USA
Alphabet	Human Rights	USA
Amazon	Workplace accidents	USA
Arlantia	Bridge collapse resulting in fatalities	Italy
Barry Callebaut	Child labour	Ghana
Bayer	Concealing data on product-related toxicity (including neonicotinoids)	USA
BHP Group	Environmental and human rights violations caused by dam collapse	Brazil
Bolloré	Activities Resulting in Adverse Human Rights Impact	United Kingdom
Daimler	Responsible sourcing of cobalt	Democratic Republic of the Congo
Facebook	Privacy breach	USA
FGV Holdings	Labour rights abuses at Malaysian palm oil plantations	Malaysia
G4S	Forced Labour	South Africa
Hangzhou Hikvision Digital Technology	Human rights impacts of surveillance systems	China

Company	Associated with	Country of incident
JBS	Labour rights including several serious health and safety issues	Brazil
Johnson & Johnson	Product-related injuries	USA
Kirin	Human Rights	Myanmar
Lindt	Child labour	West Africa
Mondelez International	Child labour	West Africa
Nestle	Child labour	West Africa
Norilsk Nickel	Environmental and health impacts from metal extraction	Russia
Pilgrim's Pride	Labour rights including repeated health and safety violations	USA
Rio Tinto	Indigenous Rights	Australia
Samsung Electronics	Corruption	South Korea
SK Holdings	Human Rights	Laos
Syngenta	Quality and Safety Breaches (including neonicotinoids)	Switzerland
The Boeing Company	Quality and Safety breaches	USA
Toshiba	Accounting Fraud	Japan
Twitter	Human Rights	USA

Bunge moves in the right direction

Background facts

Company: Bunge
Country: Brasil
Topic: Deforestation
Dialogues:
UN Sustainable Development Goal:



Background

In February 2017, the NGOs Mighty Earth and Rainforest Foundation Norway released a report in which it linked Bunge Limited (Bunge) to deforestation in Brazil and Bolivia. An investigation conducted by NGOs in the Brazilian Cerrado and in the Amazon basin lowlands in Bolivia revealed that local farmers systematically carried out forest-burning to grow soybeans for Bunge. As reported, the company was one of the agricultural traders operating in the area that were most closely linked to deforestation. According to the report, around 700,000 hectares of forest land were cleared between 2011 and 2015 in Brazil and Bolivia, affecting jaguars, giant anteaters and sloths.

Developments in 2020

Bunge remained responsive to the engagement. During the dialogue in 2020 it demonstrated progress against set commitments: the company disclosed a growing number of monitored farms, increased traceability, and farmer engagement. In April 2020 it monitored over 7,700 farms and over 34 million

acres of farmland, which is 800 farms more than in 2019. It also reported it monitored 91 per cent of volumes from direct source farms in Brazil.

When it comes to the Cerrado biome in Brazil, 25 municipalities were identified as a priority for engagement and analysis. For those, Bunge had 98 per cent of direct sourcing and it engaged with around 40 per cent of the indirect sources. The company set the goal to achieve a 60 per cent engagement level in 2020.

Bunge immediately suspends cooperation with suppliers that illegally deforest land. In the case of suppliers with a legal right to do so, the company starts an engagement, focusing on explaining that the farmer could lose certain benefits, e.g. access to financing programmes. The company confirmed that, in some cases, a lack of meaningful engagement can lead to suspending a contract.

Bunge works on incentivising sustainable expansion into open land and go zones as well as the development of traceable supply chains.

Engagement objectives

The case was resolved in August 2020 as Bunge met the objectives by publicly committing to ending deforestation in its supply chain worldwide by 2025. As part of that main goal, it also committed to protecting peatland and other carbon-capturing ecosystems and applying free, prior and informed consent for land purchase and use. Bunge demonstrated ongoing progress in farm monitoring in high priority regions and is actively engaging with its direct and indirect suppliers.

Concluding a challenging engagement

Background facts

Company: China Railway Group
Country: China
Topic: Human Rights
Dialogues: Health and safety
UN Sustainable Development Goal:



Background

China Railway Group (CRG) has had several recurring fatal accidents at its subsidiaries. In 2017 two serious accidents happened. The first in Jinan City in China, a gantry crane collapsed during a demolition process, causing the death of five people. The second was the Sigiri Bridge in Kenya which collapsed before it was completed, injuring at least 27 people. The company stated the accidents were investigated and that it implemented the recommendations issued by the authorities.

Dialogue

The dialogue with the company has been challenging but CRG now reports on safety-related issues in its 2019 CSR report. The company has formulated safety goals and linked related KPIs to the senior management remuneration. The company has a safety committee which includes members from the company's executive and senior management teams.

CRG carries out safety inspections of its enterprises and projects and performs analysis of safety incidents when those occur. Based

on that, requirements for further improvement are made. Also, CRG performs a risk assessment of new projects and establishes special measures for those considered to be of high-risk. Expert discussion meetings are held before any approval is granted. CRG also committed to ensuring good safety records of its contractors, which is especially relevant in the light of this case.

The 2019 CSR report reported no major safety incidents. CRG provides regular health and safety training to its workers. CRG also disclosed it strengthened the management of its overseas safety production by implementing actions such as strengthening safety training, carrying out risk control and hidden danger investigation, improving emergency handling capacity.

Outcomes

CRG has improved its disclosure on safety-related issues. The company has strengthened its management of operational safety by implementing training for employees, carrying out risk controls and evaluating contractors' safety records in the bidding process. CRG has strengthened its health and safety management and public disclosure which is a significant step forward.

The company has disclosed measures taken to mitigate corruption risks. Given that CRG's report quite detailed information on the company's compliance and anti-corruption measures, including anti-corruption training, internal and external auditing mechanisms, and protection of whistleblowers. The Council on Ethics therefore concludes this engagement.

The dialogue with Enbridge ends

Background facts

Company: Enbridge Inc.
Country: United States
Topic: Human rights
Dialogues: Indigenous rights
UN Sustainable Development Goal:



Background

In September 2016, the UN Special Rapporteur on the rights of indigenous peoples stated that the Dakota Access Pipeline (DAPL) posed significant risks to the Standing Rock Sioux tribe. The DAPL transports crude oil from North Dakota to Illinois and was developed by Energy Transfer LP, also holding the largest ownership stake in the pipeline. The remaining partners include Enbridge Energy Partners LP, an affiliate of Enbridge Inc (Enbridge), Phillips 66 and Marathon Petroleum. The pipeline passes close to the tribe's reservation and beneath the reservation's main source of drinking water. The pipeline's risks include water pollution and the destruction of burial grounds and sacred sites. It has also been alleged that the tribe was not meaningfully consulted and did not give its consent to the routing of the pipeline. All necessary permits were granted by US authorities and the pipeline became operational in June 2017.

Engagement objective

Enbridge was expected to use its leverage to enable a reconciliation dialogue between Standing Rock, and the developer and operator of the pipeline, Energy Transfer LP. Furthermore, the company was expected to adopt a human rights policy and establish a due dili-

gence process to align with international norms on indigenous peoples' rights across its operations, as well as on security and human rights.

Engagement activities

Enbridge has discussed indigenous rights issues and stakeholder engagement with Energy Transfer LP. With regards to aligning company policies and procedures with international norms on indigenous peoples' rights and security and human rights, the company has made substantial progress during the course of the engagement. In doing so, it has been transparent and open to input. A key improvement has been the implementation of a 'life-cycle engagement' approach with indigenous communities, i.e., continuous engagement throughout a project's lifecycle. It is aligned with international norms and goes beyond a more limited one-off consultation process in the early development stages of a project.

Outcome

Enbridge is not the operator of the DAPL but has encouraged the pipeline operator to advance efforts to respect indigenous peoples' rights. Enbridge has adopted a stand-alone indigenous rights policy, as well as a comprehensive framework on the rights of indigenous peoples', and security principles which include human rights provisions. Although DAPL remains a controversial operation, Sustainability regards Enbridge, given the company's limited leverage, to have taken sufficient measures to improve the respect of indigenous peoples' rights. Its life-cycle engagement approach should be regarded as a best practice in the industry and is likely to contribute to raising the bar on expected efforts by companies with regards to the respect of the rights of indigenous peoples.

Kirin Breweries leaves Myanmar joint-ventures

Background facts

Company: Kirin Breweries
Region: Japan
Topic: Human rights
Dialogues: Multiple human rights issues
UN Sustainable Development Goal:



Background

Kirin Breweries has received criticism for owning two joint ventures with Myanmar Economic Holdings Public Company Limited (MEHL), the country's military-owned conglomerate. This after the military carried out a campaign of ethnic cleansing against the Rohingya Muslim-minority population in 2017, killing thousands and forcing 750,000 to flee to neighboring Bangladesh.

In August 2019, a UN independent international fact-finding mission on Myanmar issued a report to the Human Rights Council that among many things, highlighted the two subsidiaries. The report alleged that the Myanmar military was responsible for serious human rights violations and breaches of international humanitarian law, including

murder, imprisonment, enforced disappearance, torture, sexual violence, persecution, and enslavement.

Kirin and its subsidiaries faced criticism following the report and the company announced that it was re-evaluating its partnership with the Myanmar military. Kirin asked Deloitte to make an independent assessment of the financial and governance structures of MEHL with the purpose to determine the destination of proceeds received by MEHL from the joint-venture businesses.

Engagement objective

The dialogue with Kirin has focused on understanding the financial and governance structures of its joint-ventures in Myanmar.

Outcome

In January 2021, Kirin announced that the investigation into its links to the Myanmar military ended with inconclusive results, due to insufficient information on the case. In February 2021, Kirin announced that it would end its joint venture following the military coup that took place in Myanmar on February 1, 2021. According to Kirin, the military's actions were against its standards and human rights policy.

Grupo México make substantial moves on human rights

Background facts

Company: Grupo México

Country: Peru

Topic: Human rights

Dialogues: Various human rights issues

UN Sustainable Development Goal:



Background

In 2015, four people were reportedly killed and more than 200 injured in clashes with police during protests against the Tia Maria mine project in Peru. The proposed project, which local communities have opposed for several years due to water pollution concerns, is owned by Southern Copper Corporation (SCC), a subsidiary of Grupo México (GM). Since then, GM altered the design of the project and in October 2019, the Mining Council

of the Ministry of Energy and Mines in Peru issued a construction license.

Engagement objective

The engagement focused on improving company practices with regard to the security, human rights, community relations and water management of the proposed Tia Maria mine. The dialogue also centered on encouraging and advising GM and SCC to strengthen their human rights framework overall.

Engagement activities

On behalf of the Council on Ethics and other investors Sustainalytics has had a longstanding dialogue with both GM and SCC.

GM and SCC have the necessary permits to proceed with construction; however, they have stated that they will not to build Tia Maria until it has clear support from the government and community acceptance is higher. The company is expecting a public announcement of support from the government. Water

management of the proposed mine is aligned with international standards, and grievance mechanisms are in place across company operations.

In a call in June 2020, a human rights consultant to the company presented comprehensive improvements in the development of GM's human rights framework and stated more would be included in its upcoming sustainability report. The report was published in August 2020 and included 130 pages of human rights reporting.

Outcome

Among the improvements presented in the sustainability report is a comprehensive human rights framework, including human due diligence and community relations procedures, describing how the grievance mechanism is set up as well as providing aggregated results and example grievances. GM further outlines its community relations framework, including example projects.

It also includes a presentation of how the company adheres to the main principles of the *Voluntary Principles on Security and Human Rights*, although the company is not an official signatory. With regards to community relations, the company has held a number of meetings and four community centers operated by SCC have been established. The company has also signed an agreement to fund local health centers.

Following substantial improvements both in relation to human rights and water management, the case is regarded resolved.

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.

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 on Ethics 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 on Ethics 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 on Ethics 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 on Ethics 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 on Ethics 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 on Ethics 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 on Ethics 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 on Ethics 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 on Ethics 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 on Ethics 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 on Ethics 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 on Ethics 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 on Ethics had had an ongoing dialogue with the company following a similar accident two years previously. The Council on Ethics recommended the AP Funds to exclude Vale. Shortly thereafter, the Church of England Pensions Board and the Council on Ethics initiated a major joint project, the mining and tailing dam safety initiative to ensure that mining companies take responsibility for their tailings dams.

2020 In January, one year after the tailing dam accident in Brumadinho, a public global database was available with information on more than 1,800 tailing dams. In August, a Global Industry Standard on Tailings Management was presented. The mining and tailing dam safety initiative won the PRI Stewardship Project of the Year Award. The year ended with the Council on Ethics publishing Expectation Document on Human Rights and the Tech Giants, which was produced in collaboration with the Danish Institute for Human Rights.

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 on Ethics 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 on Ethics 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.



Andra
AP-fonden

AP3 Tredje AP-fonden





Council on Ethics
Swedish National Pension Funds

An ownership collaboration for sustainability through dialogue and engagement

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