



Council on Ethics
Swedish National Pension Funds

Annual Report 2021

Sustainable ownership through
dialogue and engagement



The Council on Ethics' guiding principle

To make a difference

We aspire to make a difference. We seek to exert influence on companies worldwide to take ethics and the environment into account, in other words to put pressure on companies in sustainability issues that are of great importance to people and society and to the creation of value in companies.

Through dialogues, we bring influence to bear both proactively and in the event of incidents. It is through dialogue that we prevent violations and accidents, and it is through dialogue that high values can be maintained, and enhanced, for companies, people and the environment.

We believe that sustainable companies create long-term value. That way, we contribute to sustainable development and, importantly, to sustainable pensions for current and future pensioners.



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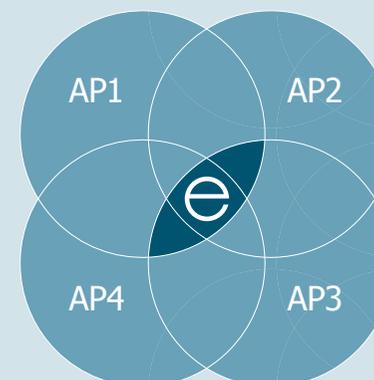
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In 2021, the Council on Ethics completed a successful three-year project focusing on mine tailings dams. Read more on [pages 19–20](#).

Encouraging positive change and transparency

The Swedish National Pension Funds, the AP Funds (AP1, AP2, AP3 and AP4), are of the view that well-managed companies that take responsibility for sustainability issues deliver higher returns at lower risk over time. The AP Funds' Council on Ethics is a collaboration between the AP Funds aimed at increasing the leverage to influence companies to pursue sustainable value creation and transparent reporting.



Through dialogues and engagement with companies, the Council on Ethics exerts pressure for positive change, and in so doing contributes to long-term returns for the AP Funds. The Council is a collaboration focused on the listed companies in the AP Funds' equity portfolios, mainly the non-Swedish holdings.

Collaboration – a key to success

The collective work and communication of the AP Funds on sustainability issues helps drive sustainable development, strengthens the role of the AP Funds as responsible owners and exemplary managers and serves to increase trust in the AP Funds. Working together for positive impact means greater weight in the dialogue with companies and plays a part in creating better investments and sustainable returns. The Council works **proactively** with companies, such that incidents do not happen. The Council also works **reactively**. If a violation of international conventions has already taken place, the Council endeavours to ensure that the company takes measures to ensure that a similar violation is not repeated.

Collaboration with other international investors with a similar sustainability agenda further increases the scope for exerting an influence on companies for positive change and transparency in reporting.

Long-termism and responsibility are part of the mandate

AP Funds' mandate from Riksdagen (the Swedish Parliament) is to manage the funds for the maximum benefit of the pension system. The Funds' assets are to be managed in an exemplary manner through responsible investments and responsible ownership. The management of assets is to focus specifically on promoting sustainable development without compromising on the target of high returns.

2021 in brief

Proactive work



The Council's proactive work helps drive positive change and addresses particularly vulnerable and difficult sustainability challenges in the activities and value chains of companies. This work aims to address challenges and prevent violations, accidents and incidents. This helps to bring about improvements at companies and to reduce risk in the assets held by the AP Funds.

Proactive projects

Sustainability area

Background

Outcomes

Safety at tailings dams

Human rights, Environment, Climate and Business ethics



Raw materials from mines are essential to our modern society, and equally to the climate transition. Mining has many difficult sustainability challenges.

It is estimated that there are at least 3,500 tailings dams globally, many of which provide limited public information regarding their safety status. The structures of the dams are ageing and the accident rate is expected to increase if they are not maintained. The consequences when a dam bursts are often far-reaching for the environment, flora and fauna, as well as for the community and the companies.

In 2021, the Council completed a major project on mining companies that had been ongoing for three years. The Council has played a leading role in creating a global and open database of essential information on mine tailings dams, ensuring the development of an initial global standard for tailings dams and establishing an institute to ensure compliance with the global standard by companies.

The Council is of the view that the project is now entering a more administrative phase and thus conducted its involvement in 2021. [Read more on pages 19–20.](#)

Tech giants and human rights

Human rights, Business ethics



Information technology is an integral part of global society and is used by billions of people every day. The Internet, personal electronic devices and social media are part of our economic and social future. Technology presents both opportunities and challenges in sustainability.

The project has been running for three years and started with an internal knowledge-building phase for the Council. The Council then worked with the Danish Institute for Human Rights (DIHR) on developing an expectations and requirements document: [Tech-giants and Human Rights - Investor Expectations](#) from investors to companies. During the year, dialogues were held with companies on the basis of this document with the positive result that several companies appointed more staff with knowledge of human rights and developed clearer policies on how they should work. [Read more on pages 21–22.](#)

Transition in emission-intensive sectors

Climate, Environment



Coping with the climate crisis requires a major transition. Governments need to put in place clear regulatory frameworks that make a fair and smooth transition possible, companies need to adapt their business models and consumers and citizens need to change their patterns of consumption and behaviour.

In 2020, a collaboration was established with the Institutional Investor Group on Climate Change (IIGCC), Climate Action 100+, to develop a plan as to how investors can best support and facilitate the transition to a low carbon society within and across various sectors. Roundtable discussions are now being held with actors in the value chains in various sectors to enable a faster technology transition through collaboration. [Read more on pages 23–24.](#)

Proactive projects

Sustainability area

Background

Outcomes

Forced labour in the construction and textile industries

Human rights, Business ethics



Forced labour, or "modern slavery", exists in many countries and industries globally and is estimated to involve at least 40 million people. Various forms of modern slavery exist both in developed markets and in countries with weaker legislation in the area. Demand for low-paid, flexible labour is often filled by marginalised groups in society.

In autumn 2020 a pilot study was conducted and in 2021 dialogues were initiated with companies in the construction and textile industries, two sectors in which the risk of forced labour is considered high. The project aims to make companies better able to identify and address the existence of modern slavery and forced labour in their supply chains, and to enable them to develop and implement policies and monitoring programmes. [Read more on pages 25–26.](#)

Child labour and the commodity cocoa

Human rights, Business ethics



The Ivory Coast and Ghana produce nearly 70 percent of the world's cocoa. It is estimated that in these countries alone more than 2 million children work in hazardous conditions in the cocoa supply chain.

The Council has been working on child labour in the cocoa industry since 2012. Improvements have been achieved, but the problems have not been solved. Monitoring and remediation systems at companies have been improved, and cocoa and chocolate companies are actively addressing the issues. The Council believes that blockchain technology, for example, can contribute to positive change. [Read more on pages 27–28.](#)

Biodiversity and food production

Climate, Environment



Global food production today is adding to emissions and deforestation, as well as increasing water scarcity and loss of biodiversity. At the same time, the world's population is increasing. This affects industries, companies and consumers alike, and a change is needed.

The Council's Biodiversity and Food Production project was launched in June 2021 and has so far been joined by companies in agriculture, the food industry and the grocery sector. Most companies have already some form of commitment to sustainable food production, in many cases linked to land use and deforestation. There are significant differences and several of the companies have not yet formalised their commitments or identified significant environmental risks in their activities or supply chains. [Read more on pages 29–30.](#)

Deforestation, biodiversity and climate change

Human rights, Environment, Climate and Business ethics



Palm oil and soybean cultivation, together with livestock production, provide essential raw materials for many different products, both industrial and for consumption. These industries face many difficult challenges and change is needed if deforestation and biodiversity loss are to be halted.

Deforestation and responsible production have been in focus for the Council since 2014. The Council works with a group of investors via the industry body Principles for Responsible Investments (PRI) to engage in dialogues with companies. Initially, the focus was mainly on producers of the commodity palm oil. In 2021, the Council conducted company dialogues and participated in a 12-month collaborative project on sustainable commodity production through PRI. The project will be completed in 2022. [Read more on pages 31–32.](#)

Anti-corruption

Business ethics



Corruption leads to unhealthy competition, undermines democracy and erodes economic growth. It is difficult to get to grips with the problem as it takes place covertly. The need for transparency and governance is particularly great in countries with rich natural resources but weak political governance.

The Council has been fighting corruption since the outset, and the topic is often raised in company dialogues. The Council supports the Extractive Industries Transparency Initiative (EITI), which works to promote responsible management of natural resources such as oil, gas, metals and minerals. [Read more on pages 33–34.](#)

2021 in brief

Reactive work

The Council's reactive work aims to exert influence on companies to manage and address accidents and incidents if they occur. By influencing companies to work more systematically on sustainability through policies, implementation and transparency, the Council can help to prevent incidents from happening.



Screening

2021 2020 2019

Number of companies in AP Funds portfolios – all screened	3,168	2,430	3,557
of which, confirmed violations	23	22	29
of which with risk of violation	89	72	91
of which with no comment from screening	3,056	2,336	3,437

The Council's screening of nearly 3,200 holdings at year-end 2021 identified a total of 112 companies with a confirmed, or at risk of, violation of an international convention. 3,056 companies passed the screening without comment.

Any **confirmed violation** of an international convention is verified and assessed against a number of criteria that focus on areas such as: the seriousness of the violation, its scale, the degree and preventability of the violation, how closely the company is involved in or linked to the violation, and the company's handling of the situation.

Risk of violation includes cases that, after analysis based on the above criteria, do not meet all the criteria for a confirmed violation, but where the Council assesses the degree of seriousness as high. This category of companies also includes those where a possible violation is under investigation and those where a dialogue has not yet been initiated. The category also includes companies where the Council has engaged in a dialogue, the objectives have been achieved and the dialogue has been closed, but where the risk is still assessed as high. This is why the Council monitors the company's work and the outcome of the measures taken by the company.

The Council engages in dialogue with companies with confirmed violations and at risk of violation. At year-end, 85 active dialogues were ongoing.

Dialogues

31/12/2021

Number of active dialogues (at year-end 2021)	85
Progress during the year from active dialogues, number of stages achieved	77

Outcomes of dialogues over whole year:

Number of new dialogues initiated	5
Number of dialogues resolved with objectives achieved	12
Number of companies recommended for exclusion	0

The above key indicators for dialogues are reported for the first time, so only figures for 2021 are presented.

At year-end, active dialogues were in progress with 85 companies. The progress in these dialogues totalled 77 stages completed during the year; see [page 59](#) for a description of how the dialogues progressed. 12 companies achieved the dialogue objectives and the dialogues were closed. These dialogues are described in more detail on [page 36](#).

The Council did not recommend exclusion of any company in 2021.

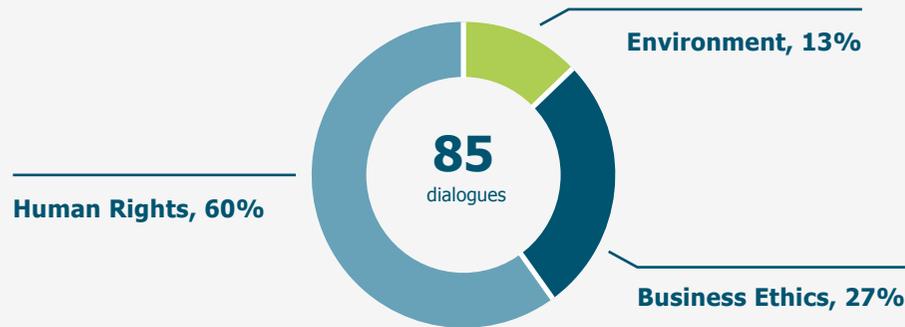
2021 in brief

Reactive work

Around 60 percent of the Council's 85 company dialogues at year-end were about human rights, with 13 percent concerned with the environment and 27 percent with business ethics.

See below for a breakdown of the Council's ongoing reactive company dialogues by region, sector and sustainability area.

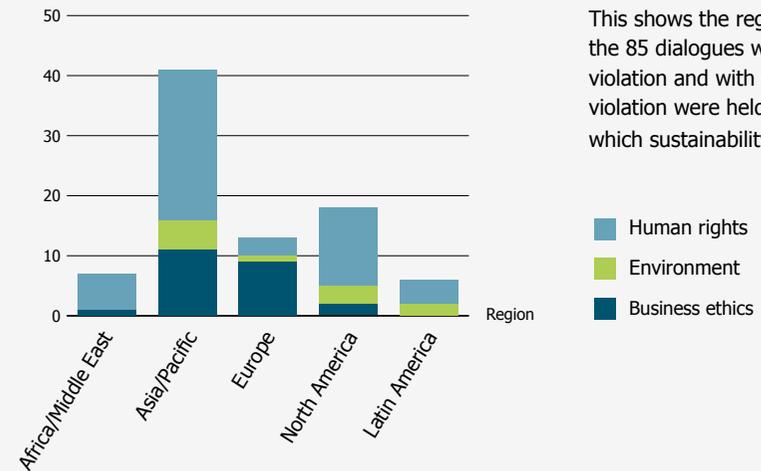
Dialogues, by sustainability area – ESG*



A graphical presentation of the progress in all reactive company dialogues over time is presented on [page 59](#).

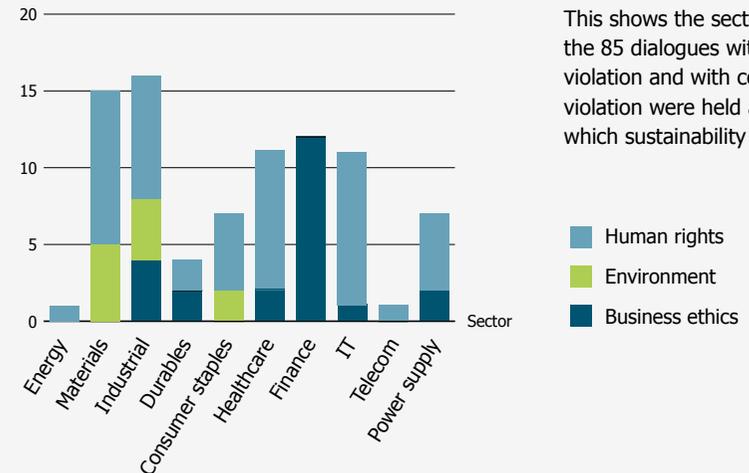
*ESG (Environment, Social, Governance), i.e. environmental and social issues, human rights and good corporate governance including business ethics.

Dialogues by region



This shows the region in which the 85 dialogues with risk of violation and with confirmed violation were held and in which sustainability area.

Dialogues by sector



This shows the sector in which the 85 dialogues with risk of violation and with confirmed violation were held and in which sustainability area.

Chairman:

The important role of the Council on Ethics

The pandemic has continued to affect people's lives and companies' operations. Interest in sustainability remains strong and the Council has an important role to play in the AP Funds' efforts to maintain the stability of, and trust in, the pension system.

Climate issue continuing to engage

One of the most important sustainability events of 2021 was the climate summit, COP26, held in Glasgow. Expectations were high and the outcome was rather weak, according to some observers, including activists who called for the

declaration of a climate emergency. However, the outcome document of COP26 contains steps in the right direction to achieve the goals of the Paris Agreement. Coal-based fuels are specifically mentioned for the first time, although coal is to be "phased down" rather than "phased out".

It was also agreed that emissions of the greenhouse gas methane should be reduced and deforestation halted. Perhaps most importantly, agreements were reached on how to report and monitor, and the conditions were created for global emissions trading, a crucial piece of the puzzle in our striving for a climate-smarter society.

At the Council, the climate issue is constantly in focus and we are actively collaborating with other investors and companies within the Climate Action 100+ project. The dialogues focus on the transition plans of companies towards net-zero greenhouse gas emissions in energy-intensive sectors such as energy and power, heavy transport, steel, cement, food, automotive, mining, chemicals and sea and air transport. Expectations documents were developed during the year for some of the sectors during the year and several similar transition plans will be presented in 2022.

The tech giants must redouble their efforts in human rights

The Council is calling for the tech giants, and in particular the social media platform companies, to work harder on human rights and comply with the UN Guiding Principles on Business and Human Rights, also known as the Ruggie Principles. As a guide for investors and companies, the Council has produced an expectations document in cooperation with the Danish Institute for Human Rights (DIHR).

The Council maintains ongoing dialogues with Meta Platforms Inc. (formerly Facebook), Microsoft, Twitter, Alphabet (Google) and Amazon on these important issues. The media attention surrounding Facebook, employee testimony in the US Congress and Senate hearings, indicates that accountability needs to be strengthened within the organisations of the tech giants. How companies are to balance growth and user engagement with the risks of harmful effects to which people are exposed on the social media platforms are issues that the Council addresses in its dialogues.

Safety in tailings dams – a successful project

This mining project touches on several of the Council's focus areas – Human rights, Environment and Business ethics. Within the project, the Council has contributed to the creation of a database to increase transparency and control of tailings dams,

and to the development of a global mining standard for tailings dams in collaboration with the industry. An independent monitoring body, the Tailings Management Institute (TMI), has also been established to ensure that companies comply with the standard

The project has met with great success and is often mentioned in the international press. The project is a good example of what effective advocacy can look like.

The AP Funds and development The Council's mandate

The Council has engaged in dialogues with thousands of listed foreign companies over 15 years. In parallel, sustainability has become increasingly integrated and given a strong focus in the management strategies and processes of the AP Funds. Against that background, the AP Funds have jointly decided to review the mandate and strategy of the Council. The aim is for the Council to be further strengthened in order to continue to play an essential role in the joint sustainability work of the AP Funds.

At the end of 2021, John Howchin stepped down from his role as Secretary-General of the Council. With his strong commitment, John has been instrumental in bringing the Council to a prominent position in sustainability advocacy. We would like to thank John for his excellent work over 12 years as Secretary-General.

Peter Lundkvist, Chairman of the AP Funds' Council of Ethics, 2021



Secretary-General: All companies need responsible owners

Over the past ten years or so, much has happened in the field of sustainability, both in companies and in the work of the Council. During this period, institutional owners have also understood their responsibilities and the Council was early to act.

Right from the start when the Council was established in 2007, we used dialogue as a tool for managing problematic behaviour at companies and for bringing about change. We also decided early on that we would be as transparent as possible with the dialogues we engage in, and we have also taken further steps in that direction in this year's report, where dialogue outcomes are described in clearer terms.

Cooperation – a strength

In 2007, the first standards-based review of the portfolios of the AP Funds was carried out with the aim of identifying companies whose actions in various areas could be linked to violations of conventions to which Sweden is a signatory. A "radar" was in place and a process was under way.

Initially, the Council's work was mostly reactive. Dialogues were very much about

companies having policies and processes in place to address their sustainability challenges. Today, we operate mainly in a preventive way. Most companies now have policies, processes and management systems in place to address issues such as human rights, corruption and various environmental problems. Sustainability is on the agenda of management and boards.

Our work is now focused on companies putting this work into practice, identifying solutions to sustainability problems, following up on actions and developments and reporting transparently on their work. It is a strength that the AP funds work together and engage in dialogue with companies through the Council. This becomes a collective form of leverage that works in favour of both us and the companies.

Over the years, the Council has also exerted influence on other investors to work collectively.

All companies need long-term, responsible owners

Most companies have at some point to deal with challenges in various sustainability areas such as climate and the environment, social issues related to human rights, and corruption. Companies face different sustainability challenges and, with long-term and responsible owners, they can work progressively to reduce any negative impact on people, the environment and society at large.

If responsible owners, like the AP Funds and other public institutions, sell their holdings in companies with sustainability challenges, it does not mean that the problems in those companies will disappear. Instead, the companies are left with owners with a low level of interest in pushing through the changes needed. The AP Funds' starting point is on the other hand to remain as owners and take responsibility. However, if changes are not made, we have the option, as a last resort, to sell our holding.

Simple problems are quick to solve – difficult ones take longer

After 12 years as Secretary-General of the Council, the most important lesson I've learned is that advocacy takes time, patience, knowledge and strong commitment. It also requires responsible owners who understand this and who are committed to change and influence for the better – that's what taking responsibility is all about!

My view is that sometimes unreasonably high demands are made on companies and on us investors about what we should be able to achieve in the area of climate change, for example. Of course we can do a lot, but the market cannot do it alone, and changes also have to be made using various policy instruments to achieve the Paris Agreement, for example.

Proud of the Council's contribution

In the Council, I have had the privilege of working with long-term and responsible owners who want to take ownership of companies with sustainability challenges. It's been a fantastic journey and I'm proud of the contribution that the Council and the AP Funds have made to a more sustainable society. It's also my hope that this work has contributed to the healthy returns that the AP Funds have generated over the years.

I would like to thank all my colleagues through the years, and wish the AP Funds good luck with the Council. Take good care of it and continue that long-term, dedicated work that will lead to continued great results!

*John Howchin, Secretary-General, Council on Ethics of the Swedish National Pension Funds
2010–2021*



How the Council works

Framework that guide the Council's work

The Council operates on the basis of the Swedish National Pension Insurance Funds Act, Sweden's instrument of government, a number of Swedish and international regulations, conventions, standards and other frameworks, which together set the course for its work.

The Swedish National Pension Insurance Funds Act (the AP Funds Act)

Responsible investing is part of the mandate laid down in the Swedish National Pension Insurance Funds Act (the AP Funds Act) (2000:192), and on that basis the Council on Ethics' activities are a collaboration between the AP Funds on sustainability issues, which primarily focus on the AP Funds' portfolios of foreign listed

equities. The activities of the AP Funds are governed by the AP Funds Act, which states that the overall objective is to manage the assets of the funds for the maximum benefit of the income pension scheme. The AP Funds are also required to manage their assets in an exemplary way through responsible investments and practices. Management of assets is to focus specifically on promoting sustainable development without compromising on the overall objective.

Today, sustainability is a common concept among investors and companies and embraces a number of different aspects:

- Environment
- Social issues
- Corporate governance
- Business ethics

Corporate governance is exercised by responsible owners through their ownership work, which includes, for example, dialogues with companies with a view to

bring about positive change. The AP Funds exercise corporate governance both individually and in partnership, including through the work of the Council.

International conventions

The Council's work is based on national and international legislation and statements of position by Sweden and the EU. It is also based on the UN's international conventions that Sweden has signed, concerning issues such as human rights, the environment and in particular inhumane weapons. These include:

- The International Covenant on Economic, Social and Cultural Rights (ICESCR)
- The Convention of the Rights of the Child (CRC)
- The Convention against Corruption
- The Convention on Prohibitions or Restrictions on the Use of Certain Conventional Weapons



Framework for the assessment of violations

The Council's regular reviews of the holdings of the AP Funds form the basis for the Council's reactive dialogues with companies in order to exert pressure on them to improve their activities. Screening identifies violations and risks of violations, based on the ten principles of the UN Global Compact (the UNGC principles). The principles are derived from the UN Universal Declaration of Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development and the UN Convention against Corruption.

The OECD Guidelines for Multinational Enterprises represent another important framework, being recommendations from governments to multinational companies regarding responsible business practices. The OECD Guidelines set out voluntary principles and standards for responsible business conduct and are used as standards on a range of issues such as human rights, labour law, the environment and anti-corruption measures. The governments of the acceding countries commit to promoting the guidelines by establishing a National Contact Point (NCP), where stakeholders can report companies that they believe have breached the guidelines.

“Selling holdings in companies is recommended only as a last resort, as UNGP considers this to be less effective in bringing about positive change in practice.”



UN Global Compact – 10 principles for business

Human rights

1. Support and respect international human rights in the sphere of corporate influence
2. Ensure that their own companies are not complicit in human rights abuses

Labour law

3. Uphold freedom of association and recognise the right to collective bargaining
4. Eliminate all forms of forced labour
5. Abolish child labour
6. Eliminate discrimination in recruitment and occupation

Environment

7. Support a precautionary approach with regard to environmental risks
8. Undertake initiatives to promote environmental awareness
9. Encourage the development of environmentally friendly technologies

Anti-corruption

10. Combat all forms of corruption, including extortion and bribery

UN Guiding Principles on Business and Human Rights

Define corporate responsibility for human rights

The UN Guiding Principles on Business and Human Rights (UNGPs) are a set of guidelines for states and companies in identifying, preventing and addressing human rights violations committed in business activities. UNGP was endorsed by the UN Human Rights Council in 2011 and has been guiding the process ever since. UNGP is in part the basis of the work of the Swedish government and future EU legislation in this area.

A key principle of UNGP that is particularly relevant to the AP Funds in their role as owners is that responsible ownership means continually seeking to identify and analyse risks in portfolios of holdings and exerting influence on companies in the way they are managed.

When a risk of negative impact is identified, the first step is to try to persuade the company to deal with the situation, compensate those affected and take action to prevent negative impacts in the future. In order to be better able to influence companies, UNGP recommends that investors work together and speak with one voice, which is exactly the concept on which the Council is based. Selling holdings in companies is recommended only as a last resort, as UNGP considers this to be less effective in bringing about positive change in practice.

The UN Sustainable Development Goals (SDGs)

The Council’s proactive work is contributing to improvements

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-objectives, requires commitment not only from governments and companies, but also from investors.

The 17 SDGs cover global challenges including climate change, inequality, environmental degradation, poverty and peace and justice. The SDGs have achieved a broad reach and acceptance among companies and investors alike. For example, the SDGs are used as a framework for sustainability in dialogues with companies and in the development of financial products.

The SDGs show that sustainability is fundamental to the positive development of society. In addition, they can direct investments to solutions to global challenges.



The SDGs clarify the conditions that are important to 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.

As global investors, the AP Funds can contribute in various ways to the global sustainability goals via their sustainability work and investments.

“The Council seeks to contribute to the SDGs through both reactive and proactive work.”

The Council seeks to contribute to the SDGs through both reactive and proactive work.

Reactive dialogues address confirmed and high risk violations that are identified in the regular screening of the AP Funds’ portfolios.

In its proactive work, the Council focuses on a number of sustainability areas which also contribute to progress towards the SDG:s.



The Council’s contribution to the UN Sustainable Development Goals

Human rights – focus on child and forced labour, as well as on health and safety:

SDG 1, 4, 5, 8, 10, 16



Climate – Focus on transition:

SDG 7, 9, 11, 13



Environment – focus on biodiversity:

SDG 6, 14, 15



Corporate governance and business ethics – focus on anti-corruption and responsible business practices:

SDG 9, 16



How the Council works

Dialogue as the primary tool of stewardship

Engaging in dialogue with a company is the Council's principal tool of influence for positive change. The Council's company dialogues always focus on how the companies can improve the governance of their operations, i.e. policies, implementation and transparent reporting. Change takes time, often many years.



What is a dialogue?

A dialogue is initiated when contact is established with the company. It is a discussion with the company about its challenges and the Council's expectations and requirements for improvements in specific areas of sustainability. Dialogues with companies are held directly by the Council, in some cases also with the support of a consultant. Contact with the companies takes place via email, telephone and video meetings and on-site visits, if appropriate.



Who takes part in a dialogue?

Participants in a dialogue may, for example, be a representative of the Council, a consultant engaged by the Council or a group of investors acting together in the dialogue with the company. The dialogue is often initiated through the company's investor relations contact. It can also be conducted through direct contact with the company's head of sustainability or other appropriate persons.



What are the objectives for a dialogue?

The aim is to influence on companies to make improvements, for example by strengthening preventive work where companies actively address and minimise sustainability risks in their operations. Companies are encouraged to identify areas for improvement and to create and implement a viable process for identifying and handling risks and monitoring the process. The company is also expected to report transparently. A viable process also requires training for the company's staff and the establishment of effective whistle blowing channels.



The Council supports transparency

The Council is well aware of the importance of transparency and demands transparency in reporting by companies. To lead by example, the Council aims to be as transparent as possible through openness in reporting how its work has been conducted.

Meanwhile, it is of the utmost importance to safeguard the trust that the Council has gained in dialogue with a company. The process to achieve improvement often takes time. If the Council can create a positive climate for dialogue with the company, it is more likely that the objectives can be achieved. Dialogue with a company is conducted in confidence and cannot always be reported on publicly.

However, the Council strives to increase transparency and reports as openly as possible on its work.

How the Council works

Proactive and reactive dialogues

The Council's advocacy work aims to strengthen the position of the AP Funds as exemplary managers and responsible owners, and to achieve positive impact on portfolio companies and on the impact of portfolio companies on the environment and society.

This advocacy work helps bring about positive change and solve various sustainability challenges in the companies' activities, which in turn reduces the risk in the portfolios of the AP Funds. The work of the Council embraces two types of activity, proactive projects and reactive dialogues.

Proactive projects

The Council's proactive projects addresses particularly vulnerable and problematical areas of sustainability. This work aims to address various sustainability challenges, prevent serious abuses and ensure that violations, accidents and incidents do not occur.

Dialogues are held with companies in sectors with difficult sustainability challenges, and where the AP Funds are directly and/or indirectly exposed. Direct exposure refers to the value chains of companies in which we have a direct or indirect holdings. Projects often involves activities related to different commodities and supply chains with significant challenges. The projects help bring about improvements at companies and reduce risk in the assets held by the AP Funds.

The Council's prioritisation and choice of focus areas take into account, for example, financial risks and opportunities, as well as the potential impact on people and the environment. The AP Funds' stakeholder dialogue identifies focus areas that are important to the Funds' stakeholders.

Reactive dialogues

The Council's reactive dialogues aims to exert influence holding companies to address and remedy accidents and incidents if they occur. The aim is to influence companies to work more systematically on sustainability through policies, implementation and transparent reporting, which may prevent violations and incidents from happening. This advocacy work applies to companies all over the world and addresses sustainability issues such as human rights and labour law, the environment and business ethics. A company dialogue addresses how companies deal with their particular challenges in a way that benefits people, the environment and society, and that can also preserve or create value for the company.

Dialogues are initiated with companies that have been identified in the bi-annual standards-based screening process. The aim is to set requirements and be a force for positive change with regard to various challenges in sustainability.

How the Council works

Proactive projects – preventing incidents

The Council's performs its proactive work in four areas of sustainability: Environment, Climate, Human rights and Business ethics. These four areas have been selected through the Council's stakeholder dialogues and in dialogue with the AP Funds' management. They take into account, for example, the AP Funds' financial exposure, both direct and indirect, and the potential impact on people and the environment.

Four sustainability areas in focus for proactive projects

Human rights

Focus on **child and forced labour** and **health and safety**. The Council's projects focus on the most vulnerable and the most serious risks to human rights.

Climate

Focus on transition. If the climate transition is to be achieved, greenhouse gas emissions need to fall sharply over the next ten years. According to IPCC, emissions in 2030 need to be roughly half of current levels, and net zero by 2050. This requires a significant transition.

Governments need to introduce clear regulations that enable a fair and smooth transition. Companies need to adapt their business models. Consumers and citizens need to change their patterns of consumption and behaviour.



Environment

Environment and biodiversity cover many issues that are crucial to the conditions for life on Earth. Biodiversity loss has a negative impact on important ecosystems and ecosystem services such as clean air, water and access to food. Biodiversity loss is accelerating rapidly. According to WWF, the measured population sizes of mammals, reptiles, birds and fish have declined by as much as 68 percent since 1970.

The Council focuses on issues where there is a risk that companies may contribute to and be affected by this negative trend, including through deforestation and chemical emissions.

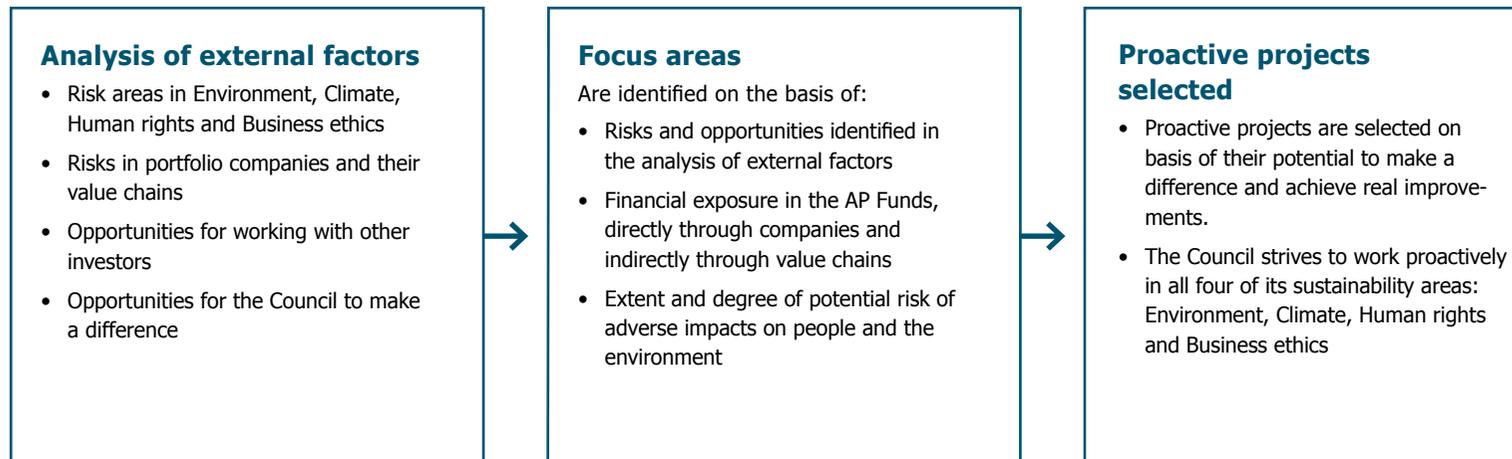
Business ethics

Anti-corruption and responsible business. Corruption destroys and undermines society, democracy and the rule of law. Corruption leads to violations of human rights and the environment and paves the way for organised crime and terrorism. Corruption distorts fair competition between companies, contributing to less effective solutions to problems and lower economic growth.

How the Council works

Selection of proactive projects

The Council has a systematic process to prioritise which proactive projects and initiatives to work on and support. Proactive projects sometimes address several of the Council's four sustainability areas. The Council's objective is for companies within a project to improve their preventive work so that the risk of incidents is minimised. The Council's proactive projects last over at least three years.



Different forms of dialogue – for the best impact

The Council conducts its proactive work through various forms of dialogue that are mutually complementary. These forms of dialogue have been developed over time to effectively address and contribute to solutions to various types of problems.

In some cases, the problem is specific to a particular company and if so the Council prioritises dialogue with the company concerned. A problem may also be common throughout an industry and if so dialogue with multiple companies is prioritised. With certain problems, various players in the value chain need to be brought together to jointly address the problem. In such projects, the Council can play a facilitating role and support the participation and responsibility of stakeholders to achieve a common result and positive change.



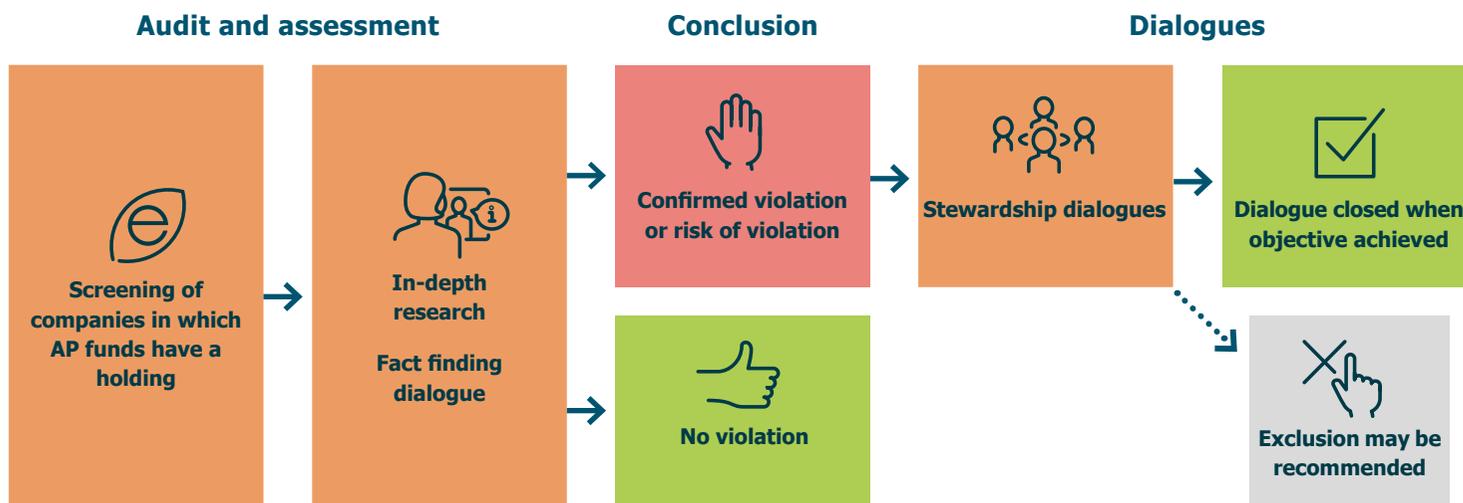
Success factors

- **Good knowledge** of a sustainability area facilitates successful dialogue and advocacy.
- **Achieving the best impact through collaboration** – to influence even large companies to change, the Council can work with other investors, often internationally, to create better leverage for change.
- **Selection of procedure and form of dialogue** – the Council employs different forms of dialogue depending on the problem to be addressed.
- **Highlighting best practice in a sector.** No company wants to be the worst and working with several companies in a sector at the same time is often a strategy for success.
- **Sharing best practices between different sectors** is a form of support that the Council can provide.

How the Council works

Reactive work – screening and influencing

The Council screens all listed companies in which the AP Funds have a holding. If a company is found to be violating or at risk of violating an international convention, the Council seeks to ensure that the company remedies what has happened and ensures that it does not happen again.



Confirmed violation – A violation of an international convention is regarded as being confirmed when it is verified and assessed against a number of criteria, such as: the seriousness of the violation in terms of scale, extent and preventability of the violation, how closely the company is involved or linked to the violation, and the company's handling of the situation.

Risk of violation – includes cases that do not meet all the criteria for a confirmed violation, but

where the Council judges the degree of seriousness as high.

If a dialogue does not lead to an outcome that the Council considers reasonable within four years, the Council may recommend that the company be excluded from the AP Funds. However,

To exert influence for positive change is to exercise responsibility – recommending exclusion is a last resort

this is a last resort that the Council regards as a failure, as the misconduct is likely to continue unless another responsible investor buys the shares and takes action to influence the company to improve.

When?

Twice a year, the Council screens approximately 3,200 foreign companies included in the AP Funds' portfolios of global listed equities, to identify any violations of the international conventions that Sweden has ratified.

The Council uses service providers for both analysis and dialogue. The Council always makes its own assessment and, if necessary, conducts its own dialogues.

Why?

In the screening process, a company is flagged when a violation is confirmed or when it is judged that a violation might have occurred. A dialogue is then initiated with the company to exert pressure on it to rectify what has happened and ensure that it does not happen again.

Long-term involvement

The Council's reactive advocacy dialogues with companies address the most serious and severe violations. A stewardship dialogue with a company usually lasts for several years. That is often the time needed for a company to implement changes and ensure that similar incidents do not reoccur.

Outcomes

The objective of the Council's dialogues is to ensure that companies around the world take action and ensure that it does not happen again. The Council's dialogues always focus on ensuring that companies improve their policies, implementation and transparency.

Proactive projects

The Council's proactive projects aims to contribute to positive change, solve various sustainability challenges in companies' activities and prevent violations, accidents and incidents from occurring. Dialogues are held with companies in sectors with severe sustainability challenges, and where the AP Funds are directly and/or indirectly exposed. Direct exposure refers to companies in the Funds' portfolios and indirect exposure refers to risks in these companies' value chains. Projects often address commodities and supply chains with significant challenges.

This contributes to improvements in the activities of companies and to reduce risk in the assets held by the AP Funds.

Contents

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Successful collaboration to improve safety in tailings dams

The Council on Ethics has played a globally leading role in establishing an open database of information on tailings dams, a first standard for tailings dams and an institute to ensure compliance with the global standard for tailings dams by companies.

In 2021, the Council closed this wide-ranging stewardship project, which has now entered an administrative phase.



Background facts

Region: Global

Focus area: Environment, Human rights, Business ethics

Topics: Transparency, Global standard

Number of companies: 726

UN Sustainable Development Goals:



Read more about the goals [here](#)

Background

Mining is an industry with a number of difficult challenges. The Council considers that neglected safety management of tailings

dams is a serious and underestimated risk.

It is calculated that there are at least 3,500 active tailings dams in the world, many with limited public information concerning the safety status of the dams. The dam structures are ageing and the accident rate is expected to increase if they are not maintained. When a dam bursts, the consequences are often far-reaching for the environment, flora and fauna, as well as for people in the surrounding areas.

In 2015, a major tailings dam accident occurred in Mariana, Brazil, with huge environmental and social consequences. In the incident, 19 people lost their lives. The accident prompted the Council to start working to reduce the risk of tailings

dam accidents by drawing the attention of investors and companies to the fundamental problem of how mining waste is stored. Despite this, the problems were not adequately managed and in 2019 an even bigger disaster occurred in Brumadinho, Brazil, when a tailings dam collapsed, killing 270 people. The environmental damage was extensive, with widespread destruction in nearby communities and major consequences for the company.

Objective for the project

The Council and the Church of England Pensions Board (CEPB) jointly launched a project with the aim of preventing similar accidents from happening again. The

project was expanded over time to include three sub-objectives:

1. Establish a global, transparent and public database of mine tailings dams, where all stakeholders can obtain information on the status of tailings dams. 726 listed companies were contacted to collect information for the database.
 - Build, maintain and arrange funding for the database.
2. Develop a global standard for tailings dams based on best practice, well established in the mining industry.
3. Establish an institute, the Global Tailings Management Institute, with

Outcome of the project Safety in tailings dams: All three overall sub-objectives achieved. Project completed.

Create a global, transparent and public database of information on nearly 2,000 mine tailings dams.

2019

Develop a global standard for mine tailings dams based on best practice and with broad support in the mining industry.

2020

Establish an institute, the Global Tailings Management Institute, with responsibility for ensuring that the global standard for tailings dams is adhered to by companies.

2021

responsibility for ensuring that the global standard for tailings dams is adhered to by companies.

- Arrange funding and staffing for the Institute.

Outcomes

The project has resulted in the achievement of all sub-objectives and the realisation of large-scale improvements in the mining industry.

Roundtable discussions with broad support

In 2019, the *Investor Mining & Tailings Safety Initiative* was launched, an effort led by the Council and CEPB. During the first year, four roundtable discussions were held in London, and all meetings were attended by investors, global mining companies, government mining regulators, UN experts and global mining experts – both professional and academic – as well as representatives of the investment, banking and insurance sectors.

The Council and CEPB ensured that meetings were held, led discussions with representatives of the stakeholders concerned, and ensured that work to bring about real improvements was progressing. In late October 2019, a summit on mining and tailings dam safety was held.

A global public database of tailings dams

The Council, CEPB and other stakeholders identified the need for a global database of publicly available information on tailings dams in order to better inform decision-making. The Investor Initiative contacted 726 listed mining, oil and gas companies, requesting them to report detailed data for each individual mine tailings dam in their operations, its geographic location and status, in order to make it publicly available.

The data portal is being developed with the support of UNEP, the Council on Ethics and CEPB. The first version of the portal was launched on 24 January 2020 to commemorate the Brumadinho accident.

The database is available to everyone and can be used free of charge. [Link to database.](#)

A global standard for management of tailings dams

During the investor-led roundtable discussions, the need for a global standard for management of tailings dams was identified.

The mining industry, with representatives from the International Council on Mining and Metals (ICMM), the United Nations Environment Programme (UNEP) and the Principles for Responsible Investment (PRI) represented by the Council on Ethics and the CEPB, initiated the development of a joint working process to produce a global standard of this kind, which was named the Global Tailings Review (GTR).

The *Global Industry Standard on Tailings Management* was launched in August 2020. The Council and CEPB, along with other investors with assets under management valued at USD 21 billion, ended the year by contacting more than 350 mining companies, 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 ICMM, but for it to be successful the standard will have to be implemented by every company across the entire sector.

The Council and CEPB, which headed the *Investor Mining & Tailings Safety Initiative* and acted as its initiator, were jointly awarded the PRI Stewardship Project of the Year 2020 for their work. All work was carried out with the aim of increasing safety in the mining industry and reducing the risk of similar accidents occurring.

A global institute is established

In 2021, the Global Tailings Management Institute was established, with responsibility for ensuring that the global standard for tailings dams is adhered to by companies.

Project completed

The Council is of the view that the project is now entering an administrative phase and thus concluded its engagement in 2021.



What is a tailings dam?

Mining waste stored in dams is referred to as tailings. Tailings are a residual product of mining, containing chemicals, small rock particles and water. Different types of dams can be created to store this waste.

Tailings dams are some of the largest structures in the world. Dams constructed by the settling and solidification of tailings are called upstream dams. This type of dam has been involved in a number of catastrophic accidents. All dams need regular maintenance. It is estimated that there are approximately 18,000 tailings dams worldwide, of which approximately 3,500 are currently active.

Tech giants and human rights

Information technology is an integral part of global society and is used by billions of people every day. The Internet, personal electronic devices and social media are part of economic and social day-to-day life. Technology presents both opportunities and challenges in sustainability.

The Council has been instrumental in establishing an expectations document on the human rights practices of tech giants and has engaged in dialogue with tech companies in collaboration with a wider group of international investors.



Background facts

Region: North America

Focus area: Human rights, Business ethics

Topics: Freedom of expression, advocacy etc.

Number of companies: 6

UN Sustainable Development Goals:



Read more about the goals [here](#)

Background

The platforms of the big tech giants, including Meta Platforms (Facebook), Twitter and Alphabet (Google), are creating

huge opportunities by making information available to the public. This promotes, for example, human rights, democracy and an open society, but it also raises new questions. Sustainability challenges are linked to complex issues such as the handling and commercialisation of personal data, extremism and terrorism, election rigging and other serious impacts on vulnerable people and groups at risk, not least children and young people.

Other challenges concern data management and the dissemination of opinions; the effects of content moderation and encryption can lead to discrimination and the circulation of one-sided opinions that can lead to human rights abuses. Further

consequences, at the systemic risk level, are the concentration of wealth and the entrenchment of inequalities.

Legislators and regulators have struggled to establish regulatory and control systems to keep up with the rapid pace of technological development. Tech companies have grown rapidly in a relatively short period of time, their businesses are dynamic, diversified, transnational and technologically complex. In many cases, the root causes of risks to human rights can be traced to the business models, corporate governance and incentive structures of the companies involved.

The tech giants need to understand and manage the risks to human rights responsibly to ensure long-term sustainability.

Objective for the project

The Council's objective for the project is for tech giants to strengthen and adjust their human rights sustainability practices so their activities are conducted in line with the *UN Guiding Principles on Business and Human Rights (UNGPR)*.

The project has three overall objectives:

1. Preliminary study: build knowledge and understanding of the sustainability challenges facing companies. Identify a focused issue and an appropriate "platform" for constructive advocacy dialogues with the companies.
2. Produce a document stating long-term expectations and requirements for corpo-

Outcome for the project Tech giants and human rights: Achieved all three overall sub-objectives for the project. Work is ongoing.

Preliminary study. Identify a focused "issue" and an appropriate "platform" for constructive advocacy dialogues with the companies.

2019

Produced the document **Tech-giants and human rights: Investor expectations** for corporate responsibility, which investors can use in advocacy dialogues.

2020

Conduct dialogues with the companies based on the expectations document and exert influence for improvements.

2021

rate responsibility, respect for and impact on human rights, which the Council and other investors can share and use in advocacy dialogues. The Council intends to gather broad support for its work from other major institutional investors in order to be able to exert greater power in promoting positive change at company-level.

3. Conduct dialogues with the companies based on the expectations document and exert influence for improvements.

Outcome

The project has been running for three years and all the sub-objectives have been achieved.

In 2019, the Council was building knowledge and analysing how best to address the sustainability risks identified. This resulted in the Council's second objective, to work with experts from the Danish Institute for Human Rights (DIHR) in 2020 on producing an expectations document, [Tech giants and human rights: Investor expectations](#), which describes the long-term expectations

of the Council and other investors as to how the sector should work strategically on human rights.

The Council sought and achieved broad international support for the initiative; the expectations document is supported by investors including APG, AXA Investment Management, the Church of England Pensions Board, the Church Commissioners of England, COMGEST, Kempen, Legal & General Investment Management, LGPS Central, New Zealand Super Fund, Robeco,

Royal London Asset Management and USS, among others.

The investors group established contact with the major US technology companies Meta Platforms (Facebook), Microsoft, Twitter, Alphabet (Google), Apple and Amazon in 2020.

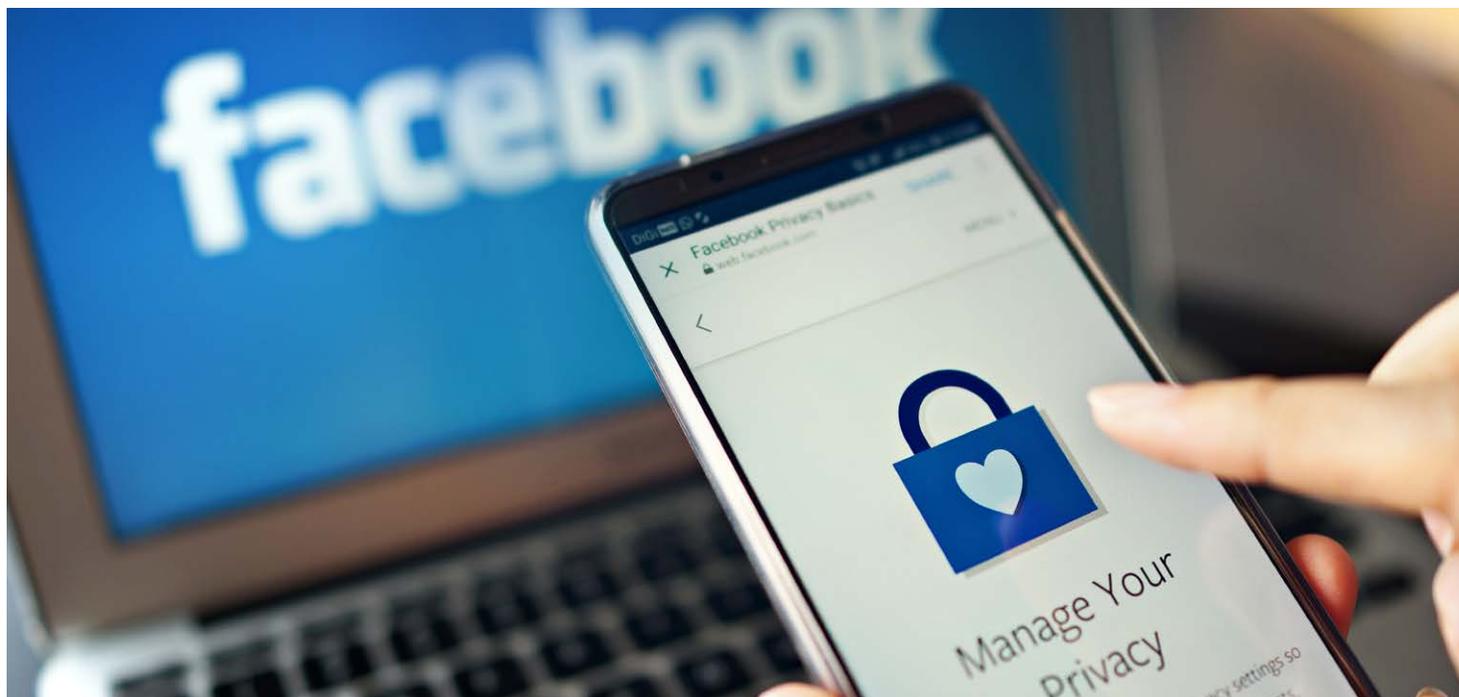
In 2021, dialogues based on the expectations document were held with the above mentioned companies. Several of the companies have hired more staff with human rights expertise and have started work on, and in some cases completed, clearer human rights policies.

Much-noted whistleblower case.

In late 2021, a former employee leaked information to the media and also testified in Congress that Facebook had prioritised growth and user engagement ahead of reducing the platform's negative impact. Following the revelation, the company's management was summoned to a hearing in the US Senate. This is evidence that work still remains to be done on corporate accountability.

The next step

In 2022, PRI will take over responsibility for the project. This is expected to enable more investors to take part in and contribute to the dialogues. The Council will continue to be involved in advocacy dialogues with companies to achieve positive change.



Transition in emission-intensive industries – dialogue across the whole value chain

Climate transition requires significant and rapid action. Governments need to introduce clear policies, consumers and the public at large need to change their patterns of consumption and behaviour, and many companies need to adapt their business models. Investors have a responsibility to ensure that the companies we own manage climate risks responsibly.

The transition is system-critical and the Council is working to ensure that actors in emission-intensive industries work together on developing action plans to enable the transition to take place.



Background facts

Region: Global

Focus area: Environment, Human rights, Business ethics

Topics: Transparency, Global standard

UN Sustainable Development Goals:



Read more about the goals [here](#)

Background

In many high-emitting sectors, the transition to a low-emissions society is very complex, costly and difficult. It is difficult for individual companies to develop action plans for how best to manage the transition, as they are also dependent on the decisions and activities of other actors. In many cases, innovation and still-in-development technology are required. There is a pressing need for investors, companies, companies' supply chains and customers, as well as other sector stakeholders to come together

to identify and prioritise technologies, activities and measures if an entire sector is to succeed in the transition.

Objective for the project

The objective of the project, which is being conducted via the global investor collaboration Climate Action 100+, is for companies, investors, policy makers and other actors to work together on developing practical plans for transitioning to a low carbon society and then to monitor their implementation. The project aims to bring together

different actors in a sector's value chain in order to develop joint action plans. Through coordinated interaction, investors are helping companies to increase the pace and scale of transition in their particular sector. The sectors in focus are energy- and emission-intensive sectors such as energy and power, heavy transport, steel, cement, food, automotive, mining, chemicals and sea and air transport.

The project produces and publishes expectations documents for high-emission sectors.

Outcome for project Transition in emission-intensive sectors: Project's sub-objectives achieved. Work is ongoing.

Preliminary study, collaboration with IIGCC and others established, first roundtable discussion held with actors in the value chain in the oil and gas sectors.

2020

Dialogues conducted with actors in the value chains of the sectors. Expectations documents for four sectors published: air transport, food, steel and power supply.

2021

Outcomes

In 2020, the Council was involved in *Climate Action 100+*, along with the *Institutional Investor Group on Climate Change (IIGCC)* and the *Transition Pathway Initiative (TPI)*, in organising meetings between companies and other actors whose engagement is needed to achieve net zero greenhouse gas emissions in energy-intensive sectors. It was decided that a suitable working format for the creation of action plans would be roundtable discussions for the actors concerned. The plans for transition are to be based on the technological options that are available today and are scalable, as well as on synergies

between different sectors. In 2020, a first roundtable discussion was held for the oil and gas, heavy transport and steel sectors. The Council led this work together with the Church of England Pensions Board.

In 2021, the project was expanded to support high-emission industries in the development of viable transition plans. The project was renamed "Global Sector Strategies" by Climate Action 100+ and more investors became able to support and follow the work. Objectives were adopted to develop an expectations document for each sector. This work is being driven by investors with deep knowledge of the sector in collaboration with other inves-

tors, experts and companies. As part of the initiative, twice-yearly meetings are held with actors in the particular sector to monitor progress.

To date, the project has resulted in a number of meetings and dialogues with actors from the value chains of different sectors. In addition, four expectations documents have been developed and published for the air transport, food, steel and power supply sectors.

The next step

In 2022, the plan is to publish expectations documents for the mining and heavy transport sectors.

Expectations documents published:

- [Recommended investor expectations for net zero aviation](#)
- [Recommended investor expectations for food and beverage](#)
- [Investor interventions to accelerate net zero steel](#)
- [Investor interventions to accelerate net zero electric utilities](#)



Forced labour in the construction and textile industries

Forced labour and various forms of modern slavery exist both in developed markets and in countries with weaker legislation in the area. Demand for low-paid, flexible labour is often filled by marginalised groups. Poverty and limited economic opportunities among low-skilled workers, especially among immigrants with poor language skills, often lead them to accept employment in abusive conditions. Fraud also plays an important role. The construction and manufacturing sectors are considered to be particularly vulnerable.

In 2021, the Council launched a three-year project involving companies in the construction and apparel sectors, with a focus on ensuring that companies have processes in place to identify various forms of modern slavery in their supply chains.

Background facts

Region: Global

Focus area: Labour rights

Topics: Forced labour/modern slavery in the construction and clothing sectors

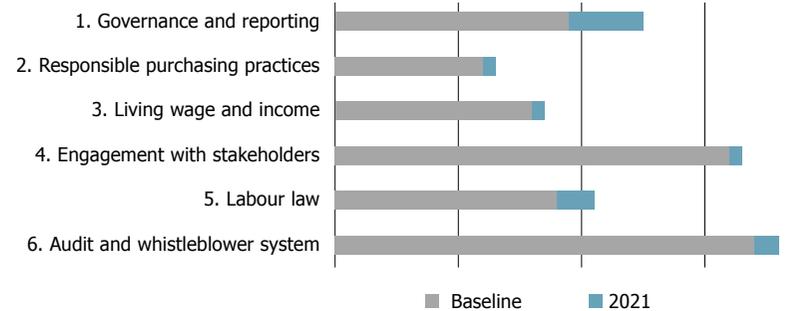
Number of companies: 12

UN Sustainable Development Goals:



Read more about the goals [here](#)

Progress in each target area for all companies, since inception



For newly added companies, which were not included in the project's baseline study, the scores have been calculated for 2021 and are used in averages for both the new baseline study and 2021. The average score for each target area is affected both by changes in scores and by changes in company selection.

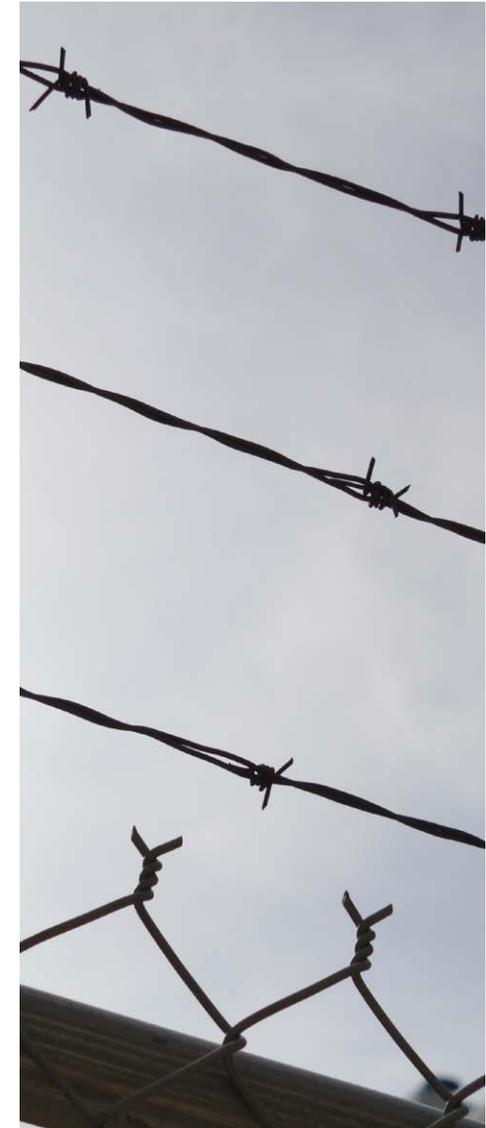
Background

The number of people held in modern slavery is estimated at more than 40 million, of whom around 25 million are subjected to forced labour. Most work for private companies, but many are linked through supply chains to major listed companies. In

addition to domestic work, the construction and manufacturing sectors have the highest shares of forced adult labour; 18 percent and 15 percent, respectively, of the total workforce in these sectors are estimated to be victims of some form of modern slavery. Forced labour often takes place covertly and

can be difficult for companies to identify.

There is a risk that companies may perceive modern slavery as a problem that exists largely in markets with weak legislation, but forced labour and associated problems also exist in legally more developed countries. This is because in many



cases demand for low-paid, flexible labour is filled by marginalised groups.

In 2021, the Council launched a project targeting 12 companies in the construction and apparel sectors. The project aims to improve the ability of companies to identify and address the existence of slave and forced labour in their supply chains, and to develop and implement policies and monitoring programmes.

Objective for the project

The objective for the project, which covers six development areas to address covert dependency on various forms of modern slavery, is to bring about positive advances

in each target area, as well as for the individual companies involved in the project.

Target areas:

1. Governance and reporting
2. Responsible purchasing practices
3. Living wage and income
4. Engagement with stakeholders
5. Labour Rights
6. Audit and whistleblower system

Outcomes

Only one out of twelve companies reported that they had identified the use of forced labour in their activities. It is worth noting that this company has a significantly lower

number of direct suppliers, fewer than 100, compared to the many other companies in the sector which may have thousands of suppliers.

Companies often use auditors and assessments to determine the existence of forced labour, but these forms of due diligence have well-known limitations and the worst forms of human rights abuses, such as child labour and modern slavery, are unlikely to be picked up in audits because they constitute covert crimes.

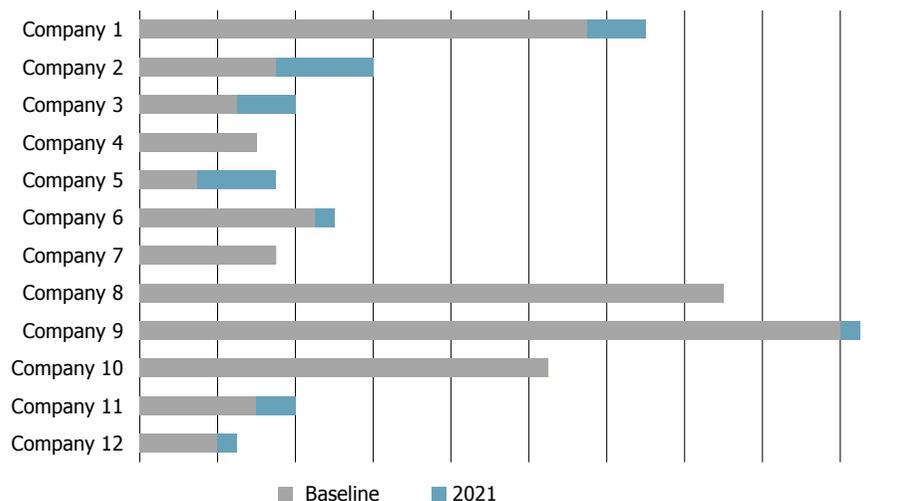
The project focuses on companies to also taking into account that modern slavery exists on a scale of forced labour and to use suitable indicators that can identify where potential problems may exist. The project also covers the risk associated with developed markets, and that appropriate due diligence should be implemented across the board.

A commonly used indicator of modern slavery is that unethical recruitment can lead to indebtedness on the part of employees. Companies are urged to comply with the "employer pays" principle, so that no one has to pay to get a job. For this to work, strong implementation and monitoring systems are needed. The project has found that several companies either do not have a policy in place or keep their policy internal. This will be addressed within the project.

Many companies have been willing to share their progress and challenges and have been open to discussion and ideas on how to improve their due diligence.



Progress in the target areas for each company, since inception



For newly added companies, which were not included when the project's baseline study was carried out, the scores have been calculated for 2021 and are used in both the baseline study and for 2021.

The next step

In 2022, the project will include a round-table discussion for the construction sector, in which companies and experts will be able to discuss challenges and potential solutions. The aim is also to attract more companies to the project.

Child labour in the cocoa industry

The Council has been working for a more sustainable cocoa industry for many years. In Ivory Coast and Ghana, an estimated 2 million children work in the cocoa supply chain. These two countries are the world’s leading cocoa producing countries, supplying nearly 70 percent of cocoa production worldwide. Major improvements have been made in recent years, but many challenges remain.

In 2021, the Council engaged in dialogue with major cocoa and chocolate companies, focusing on three areas: monitoring and action systems to combat child labour, access to education for children, and living incomes for cocoa farmers.



Background facts

Region: West Africa

Focus area: Human rights,

Topic: Child labour

Number of companies: 7

UN Sustainable Development Goals:



Read more about the goals [here](#)

from and poverty is widespread among cocoa farmers. As a result, many children see no future in cocoa production and instead move to the cities. In order to ensure sustainable cocoa production, attract and retain the right workforce and ensure a stable supply of cocoa as a commodity, the cocoa industry must ensure that cultivation is profitable and that farmers can earn a living.

The Council is in dialogue with seven of the world’s largest cocoa and chocolate producers. Child labour is a widespread challenge in the cocoa industry and is considered a serious sustainability risk to companies that buy and sell cocoa.

Objective for the project

The Council’s objective is that concrete measures should be taken and that child labour in cocoa farming is reduced and eventually eliminated. The seven cocoa and chocolate companies involved in the project

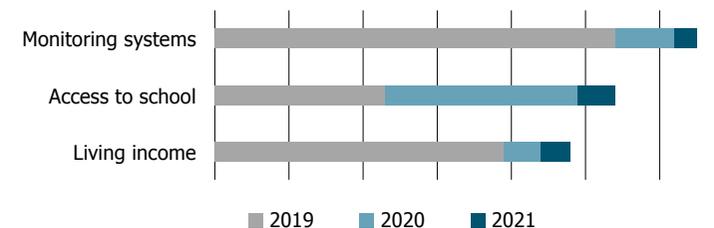
should, between 2019–2022, show significant progress in terms of:

- expansion of Child Labour Monitoring and Remediation Systems (CLMRS)
- how companies are promoting education for children in cocoa farming communities; and
- enabling cocoa farmers in Ivory Coast and Ghana to earn a living, that is, the income needed to support their families.

Outcomes

The Council and Sustainalytics organised a roundtable discussion in 2021 on the topic of "Accelerating farmer livelihoods" with a focus on blockchain technology as a tool to increase traceability. Representatives from several cocoa and chocolate companies, industry and stakeholder initiatives, the OECD and a number of investors participated in the discussion. A blockchain

Progress in each target area for all companies, since inception



Background

Cocoa is mainly grown on family farms and then handled in a complex supply chain. In small-scale cocoa farms, child labour at the expense of schooling is still common and often essential for family finances. Many intermediaries in the production chain mean a low profit share for the farmers. Today, cocoa farming is difficult to make a living

company that provides traceability tools and a beverage company that uses the tool to improve farmers' conditions shared their experiences. The tool collects data on the sale of agricultural products for each farmer in a digital ID, which increases traceability. The tool can also provide farmers with better access to the market and higher profits, by reducing the number of intermediaries.

Clarified policies. Several chocolate and cocoa companies have clarified their policies on children's rights and farmers' wages.

Better child labour monitoring and intervention systems. Companies in the joint project continue to report improved implementation of CLMRS. Most compa-

nies have more than 50 percent coverage with CLMRS in the cocoa communities they trade with in Ivory Coast and Ghana. A commitment also exists at industry level through the World Cocoa Foundation (WCF), which promotes a sustainable cocoa industry and the establishment of CLMRS or similar systems by 2025.

Training. Individual companies continue to assist in building schools and providing school supplies, as well as in facilitating children's access to birth certificates, which are needed to attend school.

Pay. Cocoa and chocolate companies are increasingly focusing on pay and "living wages", and new industry initiatives are

focusing not only on increasing productivity but also on other actions to increase profitability for farmers. Greater consistency is now evident in how companies are addressing the income issue through factors including crop diversification, access to finance,

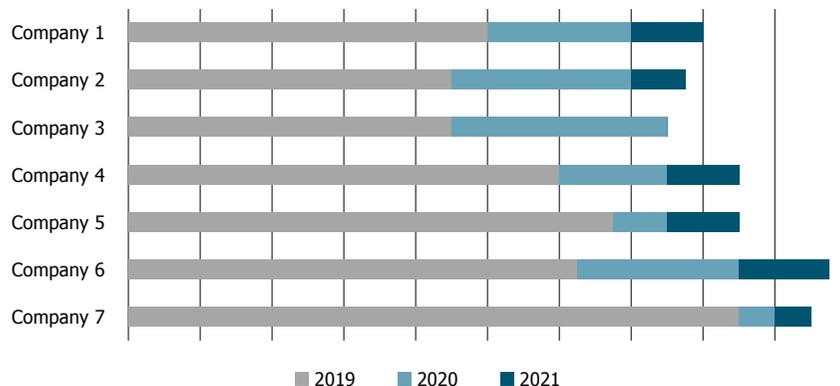
the right to and size of farmland, premiums and collaboration between farmers.

The next step

The project will continue and is scheduled to complete in 2022.



Progress in the target areas for each company, since inception



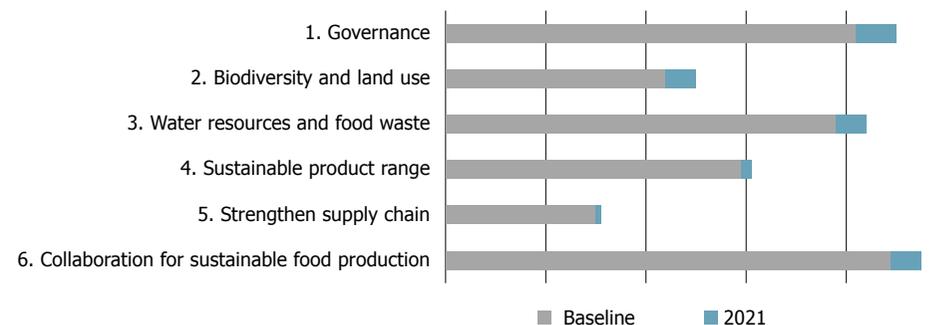
Biodiversity and food production

The importance of biodiversity is increasingly being recognised as the associated risks become clearer. One sector directly affects, and is at risk of being affected by, biodiversity loss is the agricultural sector. Climate change means that more food will have to be produced on less land as the availability of fertile farmland and water is expected to decline. Companies linked to food production systems will face increased demands and expectations to limit their negative impacts on biodiversity and climate. These companies need to ensure that natural resources are used in a sustainable way.

The Council's projects focus on environmental aspects. The aim is for the companies signed up to the project to develop their efforts to switch to long-term sustainable food production.



Progress in each target area for all companies, since inception



For newly added companies, that were not included in the project's baseline study the scores have been calculated for 2021, and are used in averages in both the new baseline study and for 2021. The average score for each target area is affected both by changes in scores and by changes in company selection.

Background facts

Region: Global

Focus area: Environment

Topic: Sustainable food production, water, chemicals, food waste, biodiversity

Number of companies: 11

UN Sustainable Development Goals:



Read more about the goals [here](#)

Background

Food companies face a number of challenges. Food production can play a negative part in climate change, water scarcity and soil degradation, and can threaten biodiversity. At the same time, the companies concerned

depend on good and stable access to natural resources to assure food production over time. In addition, the value chain is often complex, with both direct and indirect suppliers and production units spread across the globe.

Many companies are affected by increased regulations to protect biodiversity, including stricter requirements on the use of chemicals and prevention of imports of goods that can be linked to deforestation. In the EU, for example, proposals have been tabled to force companies to ensure that their supply chains do not contribute to deforestation.

The Council's *Biodiversity and Food Production* project was launched in June 2021. To date, ten companies in agriculture, agrochemicals, the food industry and grocery retailing have committed to the project.

Objective for the project

The objective for the project, which covers six development areas to develop more long-term sustainability in food produc-

tion, is to bring about positive advances in each target area and for the individual companies involved in the project.

Target areas:

1. Biodiversity and land use
2. Water resources and food waste
3. Sustainable product range
4. Strengthened supply chain
5. Collaboration for sustainable food production

Outcomes

Compared to the baseline study, average performance in the second half of 2021 improved slightly for about half of the companies. This was after the companies had been engaged in dialogue, which allowed a better understanding of their strategies.

Some companies have no policies. Most companies signed up to the project have already entered into some form of commitment to sustainable food production, in many cases linked to land use and deforestation. However, there are significant differences between targets and practical actions, and several of the companies have not yet formalised their commitments in a policy or identified various significant environmental risks in their activities or supply chain. The best performing companies have a strategy for environmentally sustainable food production, with active management commitment and well-documented processes to identify and manage risks.

Biodiversity – needs for data and standards. The interest in biodiversity is increasing as the associated risks become

clearer. In addition to deforestation, monocultures and agricultural practices, the use of chemicals is a major challenge. There is growing awareness that artificial fertilizers and pesticides, which are essential in the agricultural production of today, are spreading chemicals that negatively impact on the natural environment and people.

All companies signing up to the commitment have shown interest in developing biodiversity-related targets, but they express frustration that no standard currently exists for this large and complex topic. The forthcoming launch of the Taskforce on Nature-Related Financial Disclosure (TNFD) is expected to provide a framework that companies can use to identify, manage and reduce their exposure to nature-related risks.

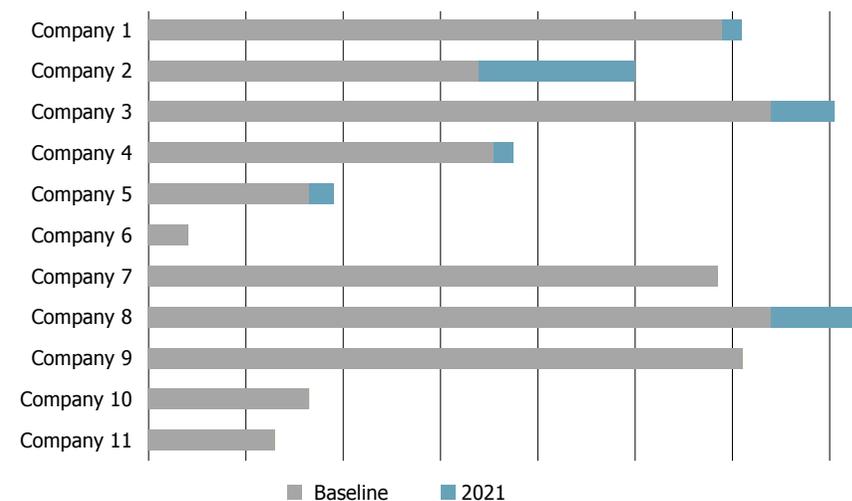
Sustainable products are central to the business model. All companies believe that sustainable products will be crucial to economic growth, as consumers are increasingly wishing for products with lower environmental impact, such as plant-based protein for example.

The next step

Further dialogues with the companies involved in the project will take place in 2022. At the same time, work will continue to increase the number of companies involved in the project. The project runs for three years and will continue until 2024.



Progress in the target areas for each company, since inception



For newly added companies, which were not included when the project's baseline study was carried out, the scores have been calculated for 2021 and are used in both the baseline study and for 2021.

Deforestation, biodiversity and climate change

Deforestation, biodiversity and climate change are “systemic” risks that are interlinked and need to be addressed for a successful transition to a sustainable society. The Council works both proactively and in individual reactive company dialogues with, for example, meat and soy producers in Brazil (see Reactive dialogues).



Background facts

Region: South America, Asia

Focus area: Climate

Topics: Biodiversity

UN Sustainable Development Goals:



Read more about the goals [here](#)

Background

Deforestation and the burning of rainforest is contributing to global warming and the destruction of a globally important greenhouse gas sink. In many cases, this is associated with the production of palm

oil, soya and beef, and often takes place in areas with fragile ecosystems. Deforestation also threatens biodiversity as species-rich rainforests are felled and replaced by plantations. Humans, animals and plant species have been displaced and habitats degraded or destroyed.

A growing world population is driving increased demand for food. More than half of deforestation is estimated to be for the production of food and animal feed, including soya beans, beef and palm oil. In addition, higher living standards are a contributory factor in the ravaging of land for crops and livestock (for more on this, see the article on the proactive *Biodiversity and Food Production* project, [page 29](#)).

To investors, many risks are associated with the lack of data and tools for tracking links to risks present throughout the companies’ supply chains. In countries with weak legislation and/or poor monitoring of deforestation, companies often find it difficult to demand information on links to deforestation from suppliers and subcontractors, especially smaller companies.

Over time, the Council has worked both preventively and reactively in this area. The Council is participating in a one-year project in the 2021/2022 period via Principles for Responsible Investment (PRI). The project focuses on sustainable commodities and deforestation. Another project, in which the Council has been involved since

2014, focuses on sustainable palm oil production and is described below.

Objective for the project

The Council’s objective for this project is to promote sustainable food production, conserve biodiversity, reduce deforestation and increase the focus on human rights.

Outcomes

The Council was for several years involved in PRI’s Investor Working Group on Sustainable Palm Oil, an international investor collaboration on advocacy dialogues with companies to that end. Initially, the investors engaged in advocacy dialogues with companies that bought palm oil and sold

Outcome of the Deforestation, Biodiversity and Climate Change project. Objectives partially achieved. Major challenges remain.



palm oil-based products, to convince them to buy and sell Certified Sustainable Palm Oil (CSPO) instead.

Demand for CSPO was limited due partly to a reluctance of end-consumers to pay a higher price for CSPO.

Starting in 2014, advocacy dialogues were held with 25 palm oil producers, mainly in Indonesia and Malaysia, to call for more sustainable cultivation and production and to encourage membership of the Roundtable on Sustainable Palm Oil (RSPO).

In 2019, the dialogue was expanded to include ten banks in Indonesia, Malaysia and Singapore, which together provide a significant share of financing to large palm

oil producers in the region. The aim was to persuade the banks to increase their accountability, and to demand greater corporate responsibility for environmental and social aspects of lending in the palm oil industry.

Although a number of global banks tightened their corporate lending policies and requirements, effectiveness was in part limited because of strong competition from regional and national banks.

In 2019, the investors also produced a public expectations document on sustainable palm oil production, and letters stating expectations for further progress were sent to the companies that had been engaged in dialogue

In 2020, PRI decided to start phasing out the investor partnership for sustainable palm oil and integrate the work into a number of other investor partnerships focused on sustainable commodity production.

However, selected company dialogues have been pursued by investors who have been active in the working group, including the Council. Clear progress has been noted in recent years among companies growing and producing sustainable palm oil, as well as in increased membership of the RSPO.

One-year PRI project on deforestation

The Council is participating in a new investor collaboration on deforestation, the PRI

Sustainable Commodities Practitioners' Group, which will run through 2021/22. The collaboration takes the form of regular workshops aimed at helping participating investors to better understand the challenges of deforestation as a financial and systemic risk in their holdings, as well as with regard to the data and tools to manage and report on risks related to deforestation during the climate transition.

The next step

The Council will evaluate various possible projects on deforestation. This is an area closely linked to issues including climate change mitigation, biodiversity conservation and ecosystem services.



EITI fighting corruption via double reporting

The Extractive Industries Transparency Initiative (EITI) was launched in 2002 with the aim of promoting responsible management of natural resources such as oil, gas, metals and minerals. The need for transparency and governance is particularly pressing in countries with rich natural resources but weak political governance.

The Council supports the anti-corruption work of EITI, whose work extends to nations and companies alike.

Background facts

Region: Global

Focus area: Business ethics

Topics: Corruption

UN Sustainable Development Goals:



Read more about the goals [here](#)

Background

Corruption leads to unhealthy competition, undermines democracies and erodes economic growth. Tackling corruption is difficult, as it takes place covertly. The need for transparency and governance is particularly pressing in countries with rich natural resources but weak political governance.

Transparency and public debate are important preconditions for responsible

management of extractive industries. It is also necessary to examine the legal and financial structures of the industry, including how contracts and licenses are awarded.

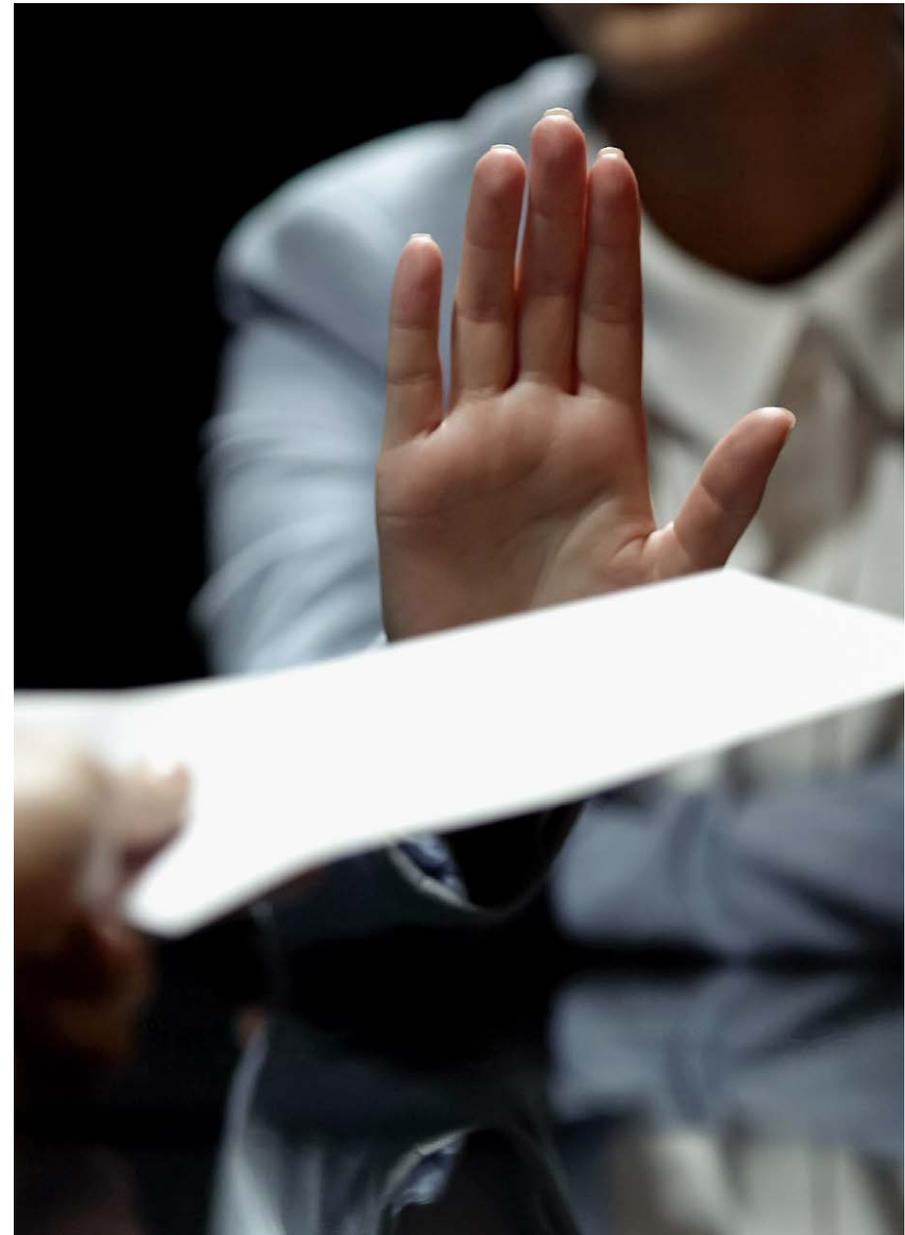
The Extractive Industries Transparency Initiative (EITI) is an international initiative that the Council has backed since 2007.

Objective

The objective is clear - transparent reporting from both nations and companies.

Nations should publicly report their revenues from the extraction of natural resources, such as oil, gas and minerals, just as companies should report what they pay for the resources. Public, transparent reporting increases transparency throughout society, helps create better conditions for economic governance and makes corruption more difficult.

In its work to combat corruption, the Council supports EITI, whose work sys-



tematically addresses a difficult sustainability challenge and extends to nations and companies alike.

Outcomes

EITI is supported by a number of companies, organisations and 56 nations, including Sweden. EITI provides a global standard for reporting of revenues from extractable raw materials.

The basis of the initiative is that a country's natural resources belong to its citizens and that revenues from extractive industries should benefit society.

In order to counter corruption, EITI requires transparent reporting of payments throughout the value chain, from licensing, contract, extraction and sale, through to how they ultimately benefit citizens. Both the companies and the public authorities involved should report. Clear and detailed double reporting of this kind enables the detection of corruption and other financial crimes. Such reporting also strengthens the ability of the public sector to collect tax revenues.

Each participating country is assessed on the basis of principles and requirements for countries established by EITI. If the requirements are not met and no progress is made regarding openness and anti-corruption in the extractive industries, the country may be temporarily or permanently excluded from the system. At year-end 2021, six nations were excluded;

Guatemala, Honduras, São Tomé and Príncipe, Tajikistan, Afghanistan and Myanmar. The latter two countries have been excluded due to political instability.

For companies backing the EITI, there are a number of expectations as to how they should report and against which their performance is measured.

In 2021

EITI re-admitted Gabon after the country addressed a number of issues that previously had excluded it from EITI.

In 2021, EITI widened the scope of its expectations with regard to supporting companies in the mining sector and commodity trading companies. Companies are now required to report in more detail on their own activities and on the taxes and other payments they make to governments and others. The Council participated in this consultation process, including by providing comments on early versions of the expectations document.

The next step

The new EITI *Expectations Document* for Supporting Companies was approved by the EITI Board on 17 February 2022 and is published [here](#)

EITI seeks to raise awareness among operators and other stakeholders via regular webinars and by publishing information and news on its website.



EITI's expectations and the AP Funds

The AP Funds and the Council on Ethics fully support EITI's *Expectations Document* and report on how we comply with the sections of this document that apply to us. However, as the AP Funds do not operate in extractive industries, only a small number of the EITI's expectations need to be reported on.

The AP Funds invest in companies that are subject to the EITI's expectations, and each AP Fund publicly discloses its holdings on its website. The Council's website publishes the positions of the AP Funds and the Council, including on *Business Ethics*, which deals with anti-corruption and financial crime, for example, as well as on *Tax*.

Reactive dialogues

The focus of the Council's reactive dialogues is to exert influence on companies worldwide to improve on sustainability issues such as human rights, the environment and business ethics. Issues that are of great importance to people and society and that can destroy or create value for companies. A company dialogue is about how the company handles violations/ difficult challenges in its operations, for example, 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 standards-based screening. The aim is to improve and be a force for positive change with regard to various challenges in sustainability.

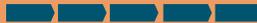
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The progress in a reactive dialogue is illustrated by arrows in a five-stage process: 

The five stages are 1. Initial contact 2. Established dialogue 3. The company makes a commitment 4. The company develops a strategy 5. The company is in the process of implementation.

The progress in the dialogue over the year is illustrated by arrows in different colours 

Resolved dialogue

Dialogue with Edison on preventing forest fires

Background facts

Status of dialogue: Resolved

Company: Edison International

Country: USA

Area: Human rights

Dialogue on: Product-related facilities/
equipment

Progress this year: ▲

Stages achieved in the dialogue:

**Background**

Edison International (Edison) owns the Southern California Edison Company (SCE), one of the largest electric utilities in the United States, which supplies electricity to approximately 15 million people. About a quarter of SCE's service area is at high of wildfires, and the company's equipment has been linked to causing several wildfires in recent years. The fires and subsequent landslides have caused deaths and extensive damage to farms and other properties.

Objective for the dialogue

The Council's objective for the dialogue was for Edison to provide support to those af-



ected, and to develop processes to prevent wildfires. Other objectives were more transparent reporting and the establishment of local partnerships to minimise the risk of future fires.

Outcomes

The dialogue has been successful and the objectives have been achieved. The Council has been in active dialogue with Edison since 2019. Edison has contributed to the efforts to repair the damage caused by

the forest fires and has also introduced preventive measures.

The measures taken are outlined in Edison's public wildfire mitigation plan, which was written in 2020. Some of the improvements the company reports are a shift from enterprise-level risk models to asset-level risk models, a longer time horizon in its risk analysis and increased Board oversight to evaluate all risks identified. Edison is continuing to work on wildfire reduction and mitigation measures to achieve targets

agreed with the authorities concerned.

According to Edison's reports, the objectives for 2020 have essentially been achieved and the company has also increased transparency in its reporting of fires that could potentially be linked to its equipment.

Resolved dialogue

Edison has not been linked to any serious wildfires in 2020 or 2021. The Council considers that Edison has achieved its objectives and has closed the dialogue.

Resolved dialogue

Dialogue with Habib Bank on anti-money laundering measures

Background facts

Status of dialogue: Resolved

Company: Habib Bank Ltd

Country: Pakistan

Area: Business ethics

Dialogue on: Money laundering

Progress this year: ▲

Stages achieved in the dialogue:



Background

In 2017, Habib Bank and its New York branch were fined for failing to comply with legislation designed to combat money laundering and terrorist financing.

Habib Bank had helped transfer billions of dollars to a private bank in Saudi Arabia that was allegedly linked to a terrorist organisation. Habib Bank had also failed to carry out adequate checks on its customers, allowing individuals and organisations subject to sanctions to transfer funds through its New York branch.

Habib Bank was fined USD 225 million and had its banking licence in New York revoked.

Objective for the dialogue

The Council's objective for the dialogue was to ensure that Habib Bank implemented appropriate risk management systems and internal controls to prevent financial crime, including money laundering and terrorist financing. Habib Bank was also to demonstrate that these systems and controls were robust and universally applicable. Furthermore, the bank was expected to ensure a good level of risk management at all its branches, in line with best practice for global banks.

Outcomes

The dialogue with Habib Bank has been successful and the objectives have been achieved. The Council initiated the dialogue with Habib Bank in October 2017. Since then, the company has introduced better controls to prevent money laundering, bribery and corruption and other financial crime.

In September 2020, the bank reported the closure of its New York branch. The company has also published a global manual to standardise supervisory processes and controls at its branches.

Habib Bank has introduced new control standards, including a modernisation of the

new client management process and the risk management process, to prevent money laundering and terrorist financing. The technical systems for compliance and anti-money laundering have been upgraded to be in line with global best practice for sanctions control and transaction monitoring. A financial crime risk assessment is carried out annually for all products, geographical areas, customer categories and activities.

In 2018, the Board established a committee to improve governance and over-

sight, and the company's CEO was replaced. The number of staff working on compliance-related issues has been more than doubled and internal training in anti-money laundering, compliance and project management is being implemented.

Resolved dialogue

Based on these initiatives, the Council considers that Habib Bank has achieved the objectives and the dialogue has been closed.



Resolved dialogue

Dialogue with Norilsk Nickel on negative environmental and human rights impacts

Background facts

Status of dialogue: Resolved

Company: Norilsk Nickel

Country: Russia

Area: Environment

Dialogue on: Activities resulting in negative environment and human rights impacts.

Progress this year: ▲

Stages achieved in the dialogue:

**Background**

Norilsk Nickel's (Nornickel) mining operations in northern Siberia have been linked to serious contamination through emissions of heavy metals and sulphur dioxide in the city of Norilsk and the surrounding countryside. Several adverse health impacts have been linked to the pollution, including respiratory problems, higher incidence of cancer and low body weight in newborns. The company's plans to reduce emissions have been delayed several times.

Objective for the dialogue

The Council's objective for the dialogue

was for Nornickel to ensure that the health impacts associated with the company's operations are properly managed and that the emissions do not cause harm to the environment.

Another aim was to thoroughly clean up past pollution impacts. Activities are to be conducted in line with Russian environmental regulations and international conventions such as the UN Convention on Biodiversity.

Outcomes

The dialogue with Nornickel is deemed to have been successful and the objectives are being achieved. The Council initiated a dialogue with Nornickel on its sulphur emissions as early as 2010. The company has since adopted an ambitious plan to reduce sulphur emissions across its operations.

Implementation of the first phase of the project began in 2014 with an upgrade of the Talnakh concentrator, refurbishment of one facility, and decommissioning of another.

The project initially faced some delays due to its large scale, but the second phase has now started with positive results.

Nornickel is meeting its targets on schedule. It has earmarked USD 3.6 billion to bring about a 95 percent reduction in sulphur dioxide emissions by 2030.

The next step

Nornickel's progress is linked to key performance indicators for the company's chief operating officer and management and the company has also made a commitment to the Russian government to complete the project. Construction companies have been

contracted to decommission the facility concerned, and all internal decisions have been approved regarding phase two of the project. A significant share of the emission reductions is expected to be achieved by 2025.

Resolved dialogue

Based on these initiatives, the Council considers that Norilsk Nickel has achieved the objectives and the dialogue has therefore been closed.



Resolved dialogue

Dialogue with Atlantia on quality and safety

Background facts

Status of dialogue: Resolved

Company: Atlantia S.p.A

Country: Italy

Area: Human rights

Dialogue on: Quality and safety

Progress this year: ▲

Stages achieved in the dialogue:



Background

On 14 August 2018, the Morandi Bridge collapsed in Genoa, Italy, killing 43 people and injuring another 16. Maintenance of the bridge was managed by Autostrade per L'Italia (API), a subsidiary of Atlantia S.p.A (Atlantia). Three separate investigations were launched, by the General Prosecutor of Genoa, the Ministry of Transport and Infrastructure and the company and to date no formal explanation or responsible party has been established.

According to API's investigation, the company had carried out regular inspections of the bridge and fulfilled all its contractual obligations.

Immediately after the collapse, the company set up a EUR 500 million fund for the

victims' families and to help relocate hundreds of people living near the bridge.

Objective for the dialogue

The aim of the Council's dialogue was to ensure that the company improved its quality and safety measures to prevent similar incidents in the future. Atlantia was expected to assess all its projects to prevent shortcomings and to ensure that project monitoring, maintenance and emergency processes were in place. The company was also required to develop a strategy to compensate and support those affected by the collapse.

Outcomes

The dialogue with Atlantia has been successful and the objectives for the dialogue have been achieved. The dialogue has focused on better monitoring of infrastructure projects and investments to improve roads and networks. The focus has also been on making core values such as safety part of the company culture. The dialogue with Atlantia has been constructive and the company has shown continuous improvement.

Atlantia has intensified its measures to improve quality and safety by double-checking its entire infrastructure portfolio, which



includes nearly 2,000 bridges and tunnels. The company has also developed a strategic plan for 2020–2023 to invest EUR 13.5 billion in developing roads and networks. The initiative includes a wide-ranging process of digitalisation and the use of cameras and drones for more effective monitoring of infrastructure projects.

To reflect the company's new approach and increased focus on security, Atlantia has made changes in its corporate governance. A new CEO took office in 2020 and 80 percent of the management team has been replaced to ensure that the company's

management is well positioned to deal with any challenges. Atlantia has continued to be involved in the reconstruction of Genoa after the bridge collapse, both through financial compensation to the families of the victims and by providing financial contributions to commercial activities affected by the incident.

Resolved dialogue

Based on these initiatives, the Council considers that Atlantia has achieved the objectives and the dialogue has therefore been closed.

Resolved dialogue

Dialogue with Bausch on accounting fraud

Background facts

Status of dialogue: Resolved

Company: Bausch Health Companies Inc.

Country: USA

Area: Business ethics

Dialogue on: Accounting fraud

Progress this year: ▲

Stages achieved in the dialogue:



Background

In March 2016, Bausch Health Companies Inc. (Bausch) reported lower-than-expected earnings for fiscal 2015, a late filing of its annual report and an error in its EBITDA forecast. In addition, the company's withdrawal of the EBITDA forecast fuelled allegations of accounting irregularities.

Since 2015, Bausch has faced allegations of improper accounting for its partnership with specialty pharmacy Philidor Rx Services LLC. Bausch was criticized for creating "phantom sales" via its partner, thereby misleading auditors and investors. Bausch is also under investigation by US authorities regarding its relationship with specialty pharmacies and its accounting practices. The company admitted that its former CFO had engaged in "inappropriate" behaviour,

which led to inaccuracies in the company's results. All this points to serious problems in the company's financial reporting that had not been adequately addressed.

In January 2018, a group of investors filed a lawsuit against the company, claiming that its negligence had caused losses valued at USD 80 billion. In 2018, two former managers were handed prison sentences for fraud.

Objective for the dialogue

The Council's objective for the dialogue was to ensure that Bausch has adequate systems in place for risk management and internal control. Bausch was to be able to demonstrate that its compliance programme and code of conduct are working well in practice, and that it is cooperating with the relevant authorities to resolve outstanding litigation.

Outcomes

The dialogue has been successful and the objectives have been achieved. Following the allegations, Bausch immediately replaced a large part of the company's management and appointed a new, external CEO in May 2016. A Head of Compliance was also appointed, reporting directly to the company's CEO and Board of Directors,

with responsibility for a fully independent compliance department.

In 2019, Bausch revised and published its Business Ethics Policy. The company conducts two days of internal business ethics training annually across the entire company, with additional, customised training for high-risk groups such as the Board of Directors and management. Bausch has also established a whistleblower system for busi-

ness ethics that is managed by a third party.

Finally, many of the most important investigations have been closed and the company has paid fines in a number of cases.

Resolved dialogue

Based on these initiatives, the Council considers that Bausch has achieved the objectives and the dialogue has therefore been closed.



Resolved dialogue

Dialogue with Bausch on price discrimination

Background facts

Status of dialogue: Resolved

Company: Bausch Health Companies Inc.

Country: USA

Area: Human rights

Dialogue on: Price discrimination

Progress this year: ▲

Stages achieved in the dialogue:



Background

In October 2015, Bausch Health Companies Inc. (Bausch) was subpoenaed by US prosecutors on the basis of documents related to the company's pricing for medicinal products. Bausch was criticised for acquiring niche pharmaceutical companies and then raising prices for medicinal products to exceptionally high levels. Several of these products were critically important in the treatment of chronic diseases.

In February 2016, it was reported that Bausch's pricing strategy had been developed to meet pre-set profit targets and that the company had generated 80 percent of its growth in the first quarter of 2015 through price increases for medicinal products.

Objective for the dialogue

The Council's objective for the dialogue was to exert influence on Bausch to implement policies and processes that ensure a consistent approach to the pricing of its medicinal products. The pricing model is to comply with competition guidelines and ensure fair access to affordable prices for medical products. The governance and supervision of the company must reflect the strategy, and incentives should be in place to discourage unjustified price increases.

Outcome

The dialogue with Bausch has been successful and the objectives have been achieved. Following the allegations, Bausch immediately replaced a large part of the company's management and appointed a new, external CEO in May 2016. In October 2016, the company set up a committee to annually review the prices of existing products and ensure that proposed price increases do not exceed nine percent. The committee also audits the pricing of new products either by comparison with the price of existing treatments for the same medical diagnosis or by comparison with as similar a medicine as possible. However, for commercial reasons, the company is not willing to



publish an annual update of its pricing of medicinal products.

Furthermore, Bausch states that in North America, where the majority of its sales take place, it has patient assistance programmes for most of its medicines, including all speciality medicines.

Resolved dialogue

Based on these initiatives, the Council considers that Bausch has achieved the objectives and the dialogue has therefore been closed.

Resolved dialogue

Dialogue with Bayer on failures in quality and safety

Background facts

Status of dialogue: Resolved

Company: Bayer AG

Country: USA

Area: Human rights

Dialogue on: Failures in quality and safety

Progress this year: ▲

Stages achieved in the dialogue:



Background

Bayer is a multinational chemical and pharmaceutical company that has been involved in several lawsuits concerning adverse health effects linked to three of its pharmaceutical products. One has been withdrawn from all markets.

Objective for the dialogue

The Council's objective for the dialogue was to ensure that Bayer has appropriate systems in place to identify and communicate the side-effects of its products to public authorities, healthcare professionals and patients. The company is to ensure that complaints from customers are reviewed by an independent third party able to evaluate the quality and safety of the product in relation to the complaint.

Outcomes

The dialogue with Bayer has been successful and the objectives have been achieved. The Council initiated the dialogue with the company in October 2019.

Bayer has explained its processes for research and development of new products and described all four phases of its clinical trials.

Before launching a new product, the company has all available clinical data reviewed by a safety management team consisting of specialists outside the research and development team. If potential problems are identified that cannot be satisfactorily addressed, the launch may be postponed or even cancelled.

In the course of the dialogue, Bayer has instituted greater transparency and made data from its clinical trials available to healthcare professionals and the public, as well as observing its legal requirements.

The company's global safety monitoring department works with regulators around the world after a new product is launched. Up-to-date safety information is compiled in Post Authorisation Safety Studies (PASS) which are entered into the EU PASS Register.



Bayer has also established an independent Sustainability Advisory Council (SAC) with external experts to further develop the company's sustainability strategy.

Resolved dialogue

Based on these initiatives, the Council considers that Bayer has achieved the objectives and the dialogue on the subject has therefore been closed.

Resolved dialogue

Dialogue with BMW on business ethics

Background facts

Status of dialogue: Resolved

Company: BMW Group

Country: Germany

Area: Business ethics

Dialogue on: Antitrust

Progress this year: ▲

Stages achieved in the dialogue:



Background

In October 2017, the European Commission (EC) inspected the BMW Group's (BMW) offices as part of an investigation into possible collusion between German car manufacturers.

In September 2018, the EC opened an official investigation into Daimler, BMW and Volkswagen (and its subsidiaries Audi and Porsche) for possible antitrust violations.

On 8 July 2018, all companies involved were found guilty of colluding to avoid competition regarding technology for control of emissions that exceeded legal requirements, despite the availability of effective technology.

This was the first time that the EC decided that collaboration on technological

development was to be seen as a cartel. In the decision, the EC withdrew some of the original allegations of antitrust violations.

BMW agreed to a settlement and paid fines of EUR 372 million.

Objective for the dialogue

The Council's objective for the dialogue was for BMW to ensure that it was not complicit in any antitrust violations. The company was encouraged to demonstrate that its compliance commitment was sufficiently supported by procedures and practices. Full collaboration with the authorities in order to enable the EC to conclude its investigation was also expected.

Outcomes

The dialogue with BMW has been successful and the objectives have been achieved. In October 2021, BMW was given the opportunity to describe its position on the EC investigation process and findings. During the meeting, BMW confirmed that its legal compliance code explicitly prohibits agreements that impair fair competition. The company has established compliance systems and structures for the entire BMW Group, which places the ultimate responsibility for the issue on the Board of Management.



In 2017, BMW enhanced its compliance system with an IT-based process for documenting and approval of various exchanging activities with competitors and sales partners. Use of this system is mandatory for BMW worldwide. Following the incident, the company also added a new category of activity to its system in order to reflect the risk of antitrust.

BMW has cooperated with the authorities to investigate the antitrust violations. Although BMW agreed to a settlement, it maintains that it did not violate competition regulations. However, it has updated its compliance systems in order to identify and manage this type of risk in the future.

Resolved dialogue

Having noted the EC's decision and on the basis of the actions taken by BMW, the Council has judged that the objectives of the dialogue have been achieved and has therefore closed the dialogue.

The Council is aware that BMW has not addressed the matter from a corporate culture perspective, which may expose the company to a number of business risks. The Council will reopen the dialogue with BMW on corporate culture if new, serious business ethics incidents arise.

Resolved dialogue

Dialogue with Corteva on product-related incidents

Background facts

Status of dialogue: Resolved

Company: Corteva Inc.

Country: USA

Area: Human rights

Dialogue on: Product-related incidents

Progress this year: ▲

Stages achieved in the dialogue:

**Background**

Corteva was formed in June 2019 as a spin-off from DowDuPont. Corteva assumed the legal liability associated with the production and use of pesticides containing chlorpyrifos. Because of this liability, the company is considered to be at high risk of being involved in future litigation concerning the use of chlorpyrifos and its alleged environmental and health effects. Chlorpyrifos has been banned in both the EU and parts of the USA.

Objective for the dialogue

The Council's objective for the dialogue was for Corteva to explain how it is preparing to deal with any future liabilities in relation to its products containing chlorpyrifos. Corteva was also to demonstrate the chang-

es it has made in its research and product development process to mitigate potential health and environmental impacts of its future products.

Outcomes

The dialogue with Corteva has been successful and the objectives have been achieved. In the course of the dialogue, Corteva confirmed in a 2019 press release that production of chlorpyrifos would cease by the end of April 2020, except for a contractual obligation valid until December 2020, to a former subsidiary.

Corteva also faced potential liabilities in connection with per- and poly-flouroalkyl substances (PFAS) – chemicals that are at the centre of a number of lawsuits both in the USA and internationally. Corteva has clarified its contractual obligations regarding PFAS and stressed that many of the pending court cases relate to product categories that neither it nor its predecessor, Dow-DuPont, have produced.

Corteva describes how it evaluates new and existing products to ensure that they do not have negative impact on the environment or health. The process takes into account impacts on water, soil and air, as well as sustainable production (including

bioaccumulation) and land use. Non-compliant products are taken out of production, which may explain the discontinuation of production of some chemicals, including chlorpyrifos.

Resolved dialogue

Based on these initiatives, the Council considers that Corteva has achieved the objectives and the dialogue has therefore been closed.



Resolved dialogue

Dialogue with Daimler on business ethics

Background facts

Status of dialogue: Resolved

Company: Daimler AG

Country: Germany

Area: Business ethics

Dialogue on: Antitrust

Progress this year: ▲

Stages achieved in the dialogue:



Background

In September 2018, the EC initiated an official investigation into Daimler, BMW and Volkswagen (and its subsidiaries Audi and Porsche) for possible antitrust violations.

On 8 July 2018, all companies involved were found guilty of colluding to avoid competition in technology for control of emissions that exceeded legal requirements, despite the availability of effective technology.

This was the first time that the EC decided that collaboration on technological development was to be seen as a cartel. Daimler admitted its involvement and disclosed the existence of the cartel to the EC. As a result, Daimler was granted full immunity and avoided fines.

Objective for the dialogue

The Council's objectives for the dialogue were for Daimler to clarify whether it was involved in any further violations of antitrust, and to demonstrate that its compliance commitments were sufficiently supported by processes and practices. Daimler was also to cooperate with the authorities concerned to enable the EC to complete its investigation.

Outcomes

The dialogue with Daimler has been successful and the objectives have been achieved. At the end of the investigation, the company was given the opportunity to state its position on the process and findings of the investigation.

Daimler described its compliance liability structure and its centralised compliance management system, and the Board's commitment to the issue was emphasised. Daimler has improved compliance training for its R&D staff to help them understand the implications of the EC's decision. The company's engineers and developers have been made aware of the importance of recognising antitrust dynamics beyond pricing and markets.

The fact that Daimler acted as a whistleblower, so that the EC could investigate antitrust violations, shows that the company has effective antitrust tools in place. The company has also improved and adapted its compliance systems during discussions with the EC.

Resolved dialogue

Based on these initiatives, the Council considers that Daimler has achieved the objectives and the dialogue has therefore been closed.



Resolved dialogue

Dialogue with Volkswagen on negative environmental and human rights impacts

Background facts

Status of dialogue: Resolved

Company: Volkswagen AG

Country: USA

Area: Environment

Dialogue on: Activities resulting in adverse environmental and human rights impacts.

Progress this year: ▲

Stages achieved in the dialogue:

**Background**

Volkswagen (VW) pleaded guilty to violating emissions regulations in what became known as the Dieselgate scandal.

Between 2008 and 2015, VW used illegal software in 11 million diesel vehicles to bypass US environmental regulations on nitrogen oxide emissions.

Since 2016, the company has paid fines, recalled vehicles and reached settlements with the authorities concerned and customers to mitigate the negative impacts on stakeholders worldwide.

Recently, the European Commission (EC) has also fined VW for colluding with

BMW and Daimler between 2009 and 2014 to avoid adopting the best available technology to reduce nitrogen oxide emissions.

Objective for the dialogue

The Council's objective for the dialogue was for VW to demonstrate that it has appropriate risk management systems and internal controls in place, and that its Supervisory Board has sufficient oversight, independence and competence to prevent similar violations in the future. Furthermore, VW was expected to demonstrate it had improved its corporate culture.

Outcomes

The dialogue has been successful and the objectives achieved. The Council initiated dialogue with VW on the rules of environmental and antitrust compliance in 2015. VW has acknowledged the lack of independent members on its Supervisory Board and that it has been a challenge for the members to address this effectively. An independent compliance auditor declared in 2020 that VW has succeeded in improving its governance, risk management, and compliance functions.

The Dieselgate scandal has forced VW to rethink its corporate culture. The company has begun to apply emissions testing, improved training in the company's code of conduct, developed reporting on its whistleblower system, encouraged employees to speak freely and is implementing ESG-linked remuneration for both top and middle managers. However, the Council considers that the independence of the Supervisory Board could be greater.

Resolved dialogue

Based on the company's cooperation with the authorities concerned, along with initiatives in internal compliance and corporate culture, the Council takes the view that VW has achieved the objectives and the dialogue has therefore been closed.



Resolved dialogue

Dialogue with Goldman Sachs on bribery and corruption

Background facts

Status of dialogue: Resolved

Company: The Goldman Sachs Group Inc.

Country: Malaysia

Area: Business ethics

Dialogue on: Bribery and corruption

Progress this year: ▲

Stages achieved in the dialogue:

**Background**

In November 2018, a former chairman of the Goldman Sachs Group Inc. (GS) in Southeast Asia pleaded guilty to complicity in money laundering and corruption offences.

In October 2020, an Asian subsidiary of GS pleaded guilty to corruption offences in connection with the payment of USD 1 billion in bribes to government officials representing Malaysia and Abu Dhabi. GS entered into a deferred prosecution agreement with the US Department of Justice (DOJ) in October 2020, as a result of which the criminal investigation of the company was halted.

In late 2020, GS agreed to a coordinated settlement of USD 2.9 billion with a number of public authorities worldwide.

**Objective for the dialogue**

The Council's objective for the dialogue is for GS to implement systematic controls on business ethics, corruption and bribery, and to report on such controls.

Outcomes

GS has improved its reporting on business ethics and corporate culture. A number of processes are now in place to deal with business ethics situations. The Board

oversees the processes, and separate committees deal with business ethics risks.

GS has also changed its incentive structure to take corporate culture into account.

In October 2020, the company published a document summarising the steps taken to strengthen the management of Anti-Money Laundering (AML) and Know Your Customer (KYC). The document also presents a strategy to address the issues, as well as a

number of improvements in the company's governance, an employment and training programme focused on AML and reporting on participation in industry organisations focused on AML.

Resolved dialogue

Based on these initiatives, the Council considers that Goldman Sachs has achieved the objectives and the dialogue has therefore been closed.

Ongoing dialogues

Dialogue with Rio Tinto on the rights of indigenous people.

Background facts

Status of dialogue: Ongoing

Company: Rio Tinto Ltd

Country: Australia

Area: Human rights

Dialogue on: Rights of the indigenous peoples

Progress this year: 

Stages achieved in the dialogue:



Background

Rio Tinto is one of the world's largest diversified mining companies. In May 2020, Rio Tinto destroyed two ancient rock formations at the Juukan Gorge in Western Australia, on land traditionally belonging to the Aboriginal Puutu Kuntj Kurrama people and the Pinikura people (PKKP).

The destruction took place in order to gain access to eight million tonnes of high-quality iron ore. Although development in the area was legal and in accordance with the agreements between Rio Tinto and the PKKP, it drew a strong backlash from the public and shareholders. The destroyed site was found to have been of major archaeological significance in Australia, and of unique significance to the PKKP.

Rio Tinto recognised that this should not have occurred, and that the process to obtain PKKP's consent for destroying the caves was at fault.

In September 2020, in response to pressure by stakeholders, the company's CEO and two other senior executives stepped down. A parliamentary inquiry into the incident was launched in October 2020.

Over the past decade, Rio Tinto has been involved in several other controversies involving local community relations around the world.

Objective for the dialogue

The Council's objective for the dialogue is for Rio Tinto to agree on compensation to the PKKP.

The company should also ensure that it rebuilds its relationships with the PKKP and has suitable community relations mechanisms in place throughout its operations that ensure that the local population is provided with important information in a timely manner. The company is to ensure that its community relations department is fully integrated into the business to ensure that all operational decisions are taken in consultation with the local population.

The aim is to prevent similar incidents in the future.

Outcomes

A key advance for Rio Tinto in 2021 was the publication of a report on its work on community and social issues, work that has focused on improving the management of heritage sites, restoring the rock formations at Juukan and improving agreements with the traditional owners of lands in Western Australia.

The next step

The Council will continue dialogue with Rio Tinto in 2022 to monitor the actions and the compensation it is undertaking with regard to the destruction of the Juukan Gorge, and concerning Rio Tinto's development of its leadership and integrated decision-making processes in cultural heritage management.



Ongoing dialogues

Dialogue with POSCO on its links to entities acting in breach of human rights.

Background facts

Status of dialogue: Ongoing

Company: Posco Coated & Color Steel

Country: Myanmar

Area: Human rights

Dialogue on: Engaging with entities connected with violations of human rights

Progress this year: ▲

Stages achieved in the dialogue:



Background

A wholly-owned subsidiary of POSCO, Posco Coated & Color Steel (POSCO C&C), has been reported to the OECD National Contact Point for South Korea because the company, through its commercial links with the Myanmar military, may be linked to gross human rights abuses.

This link has also been highlighted in a 2019 UN report. According to the UN report, the military is responsible for serious human rights violations, including killings, torture and persecution of the Rohingya people.

POSCO has, via POSCO C&C, two joint ventures with the Myanmar Economic Hold-



ing Limited (MEHL). MEHL has financial links to members of the Myanmar military.

Since the military seized power in a 2021 coup d'état in Myanmar, the risk of POSCO being associated with human rights abuses has increased.

Objective for the dialogue

The Council's objective for the dialogue is for POSCO to conduct human rights due

diligence of its operations in Myanmar, and to ensure that all financial transactions with MEHL cease.

Outcomes

In August 2021, POSCO announced its intention to terminate its business relationship with MEHL. POSCO has reported that it is considering acquiring all of MEHL's shares in the two joint ventures. No divi-

dends have been paid to MEHL since 2017.

POSCO is committed to conducting human rights due diligence on its operations in Myanmar to ensure compliance with the POSCO Group's human rights standards.

The next step

The Council will continue its dialogue with POSCO during 2022.

Ongoing dialogues

Engaging Hikvision on human rights

Background facts

Status of dialogue: Ongoing

Company: Hangzhou Hikvision

Country: China

Area: Human rights

Dialogue on: Human rights impacts of surveillance systems

Progress this year: ▶

Stages achieved in the dialogue:



Background

Hikvision is the world's largest manufacturer of video surveillance equipment. The company is deemed to be complicit in human rights violations through its sale of technology to Chinese government projects in Xinjiang Province. The projects have, for example, monitored the Uighur Muslim minority in Xinjiang.

Objective for the dialogue

The Council's objective for the dialogue is to ensure that Hikvision takes steps towards ensuring its surveillance products and services are not a factor contributing to human rights violations. The company is to carry out a due diligence process in



line with internationally accepted standards. The company is also to increase its transparency regarding reporting on human rights issues.

Outcomes

Hikvision believes that its policies comply with the Human Rights Guidelines. The company has established a complaints

mechanism that includes human rights.

Hikvision announced that its Global Advisory Committee will provide guidance on human rights issues.

The company is reviewing its process for how it sets up new projects in order to better anticipate potential problems related to how customers plan to use the company's products.

The next step

Hikvision's human rights due diligence and its action plan to address its human right exposures remain largely unclear. The Council and the company have agreed to continue the dialogue in 2022.

Ongoing dialogues

Dialogue with Adani Ports & SEZ on links to operators acting in breach of human rights.

Background facts

Status of dialogue: Ongoing

Company: Adani Ports & Special Economic Zone

Country: Myanmar

Area: Human rights

Dialogue on: Engaging with operators involved in violations of human rights.

Progress this year: ▶

Stages achieved in the dialogue:



Background

In May 2019, Adani Ports and Special Economic Zone's (Adani Ports & SEZ) wholly-owned subsidiary, Adani Yangon International Terminal Co., signed an agreement with the Myanmar Economic Corporation (MEC) to build a container terminal in Yangon.

In August 2019, a UN report was published describing the links between MEC and the Myanmar military. The report described how MEC had been a source of funding for the military. According to the report, the military was responsible for



serious human rights violations against the Rohingya ethnic population.

In March 2021, Adani Ports & SEZ was accused of complicity in human rights violations through the company's commercial links with the Myanmar military.

Objective for the dialogue

The Council's objective for the dialogue is for Adani Ports & SEZ to develop a com-

prehensive human rights strategy and to carry out human rights due diligence on its operations in Myanmar.

Outcomes

In September 2021, Adani Ports & SEZ announced that it will leave Myanmar due to the heightened human rights risks, and that it plans for this to happen in mid-2022.

The next step

Going forward, the dialogue will focus on monitoring Adani Ports & SEZ's plans to leave the country and ensuring that this is done in a responsible manner.

Ongoing dialogues

Dialogue with Amazon on workplace accidents, labour law and freedom of association

Background facts

Status of dialogue: Ongoing

Company: Company: Amazon

Country: USA

Area: Human rights

Dialogue on: Accidents at work, labour law
and freedom of association

Progress this year: ▼

Stages achieved in the dialogue:



Background

In recent years, Amazon has experienced recurring health and safety issues in its operations.

In 2020, the company was audited for its management of employee health, including social distancing, sick leave and safety measures during the Covid-19 pandemic. These issues are all the more pressing, given a history of employee deaths and serious injuries.

Amazon's attitude to trade unions and employees' freedom of association and assembly has been added as an additional focus area.

In April 2021, Amazon in the USA was charged with preventing a fair union election at a distribution centre in Alabama. The complaint alleges that Amazon had used several strategies to prevent union activity, including repeated threats, reassignment of unionised employees to isolate colleagues from each other, and pressuring workers to vote under surveillance.

Since February 2020, at least 37 reports have been filed against Amazon in 20 US cities for preventing freedom of association or the establishment of unions.

Objective for the dialogue

The Council's objective for the dialogue is for Amazon to take steps to understand the health and safety risks to which workers are exposed. The company should introduce appropriate improvements in its health and safety policies and procedures to proactively reduce the risks and create a better working environment.

Amazon should also increase transparency on health and safety developments and should consider bringing in a third party to evaluate the management system.

Regarding freedom of association, Amazon should ensure that there is no obstruction to trade union activity within the company, and that trade union elections are conducted in a fair and impartial manner. Amazon should be able to demonstrate how its global human rights principles, with references to ILO standards and freedom of association, are implemented throughout the organisation.

Outcomes

The results of the dialogue in 2021 have been limited. The company has hesitated to resume the dialogue in 2021 and the issue of freedom of association has not yet been discussed. Amazon has been encouraged to continue the measures, begun in 2020, to improve its social reporting and include more information on relevant people-related targets and performance statistics.

In 2021, Amazon's social reporting made positive progress. Both the June 2021 Sustainability Report and information shared in blog posts support the company's statements on its work on human rights, health and safety through audits and surveys.



Amazon's health and safety reporting continues to focus on major investments in materials, technology and programming. For example, Amazon reported that in 2020 it spent USD 11.5 billion on Covid-19 related health and safety measures. The company has set a new target to reduce the number of accidents by 50 percent by 2025. The target is a step in the right direction, but there is a clear lack of reporting on the numbers of accidents that occur.

On the freedom of association issue, Amazon states its position by saying that it respects its employees' right to freedom of association and that it will report the outcome of the controversial trade union vote in Alabama. However, Amazon does not report the percentage of its workforce that is covered by collective agreements and does not address the complaints made.

The next step

The focus will continue to be on Amazon's reporting of key indicators, priorities and targets to understand the extent to which its practices are working. The focus will also be on identifying opportunities for improvement in order to avoid recurring labour-related problems.



Ongoing dialogues

Dialogue with Bunge on deforestation

Background facts

Status of dialogue: Ongoing

Company: Bunge Ltd

Country: Brazil

Area: Environment

Dialogue on: Deforestation

Progress this year: ▲

Stages achieved in the dialogue:



Background

Based in the USA, Bunge operates in the agricultural products sector. Bunge has been criticised for several years for its links to deforestation, including in Bolivia and Brazil. The company is committed to making its supply chain completely deforestation-free by 2025.

In March 2021, it was reported that Bunge showed the highest deforestation risk among industry peers operating in Brazil's Cerrado region.

Objective for the dialogue

The Council's objective for the dialogue is for Bunge to stop buying soy from suppliers that are directly or indirectly involved in deforestation activities. Bunge is to implement wide-ranging measures to identify

non-compliant suppliers, to use the best available practices to achieve its deforestation commitments and to report regularly.

Outcomes

The dialogue has focused on Bunge's progress towards the objectives established, how the company can increase traceability and monitoring of indirect suppliers, and how it offers financial incentives in the supply chain to encourage solutions to the deforestation problem.

Bunge has made progress and is now monitoring 9,000 farms, up from around 7,700 in the previous year, and 100 percent of production from its direct suppliers in Brazil, up from 91 percent in 2020. Bunge has also initiated third-party verification of farm traceability.

As for the Cerrado region, Bunge announced that at year-end 2021 it was tracking and monitoring 50 percent of its subcontractors from the region, which exceeds the sub-objective of 35 percent.

Next steps

For the Cerrado region, Bunge's goal is to track and monitor 50 percent of its subcontractors from the region by the end of 2022 (already achieved in 2021) and 100 percent by 2025. To track and monitor

the remaining 50 percent of its subcontractors, the company needs to engage more small farms. This is expected to be a challenge.

Major industry initiatives will play an important role in identifying an effective

solution to the deforestation problem, and Bunge seems willing to work with industry colleagues.

The Council is continuing the dialogue on Bunge's plans for subcontracting, financial incentives and other ways forward.



Ongoing dialogues

Dialogue with JBS on antitrust and bribery and corruption

Background facts

Status of dialogue: Ongoing

Company: JBS

Country: USA

Area: Business ethics

Dialogue on: Antitrust and bribery and corruption

Progress this year: ▲

Stages achieved in the dialogue:



Background

In June 2020 two executives, including a former CEO, at a JBS subsidiary (Pilgrim's Pride) were charged with price fixing for chicken in the USA.

In 2017, the Brazilian police launched a major investigation into corruption in the country, targeting a number of meatpacking companies including JBS.

Several executives, including the CEO and Chairman of the Board of JBS, subsequently entered into a settlement with prosecutors regarding the corruption case and the bribing of politicians.

Objective for the dialogue

The Council's objective for the dialogue is for JBS to make clear that it is not involved



in any illegal price fixing or other forms of antitrust. The company is to demonstrate support for this in policies and processes, whistleblower protection and accountability at Board level. Furthermore, the JBS should cooperate fully with the public authorities concerned in all ongoing investigations.

Outcomes

Following the Brazilian corruption investigation, JBS reached a settlement with the public authorities concerned. Over the past four years, JBS has introduced a range of measures. The company has launched

a compliance programme, restructured its compliance department, implemented software to automate its due diligence process, set up a whistleblower function and a compliance website, introduced a number of business ethics policies and implemented regular training for all staff and management.

The Council believes that JBS has developed its handling of bribery and corruption issues and that certain compliance initiatives implemented also enhance the company's ability to deal with cartel issues. However, JBS's public reporting on man-

agement of cartel issues is very limited.

In 2021, JBS hired an external consultant to upgrade its due diligence software and employees receive regular anti-corruption training. JBS is developing an ESG portal that will enable real-time reporting of ESG-related information.

The next step

The Council is continuing the dialogue with JBS and monitoring the company's continued efforts to achieve the dialogue objectives.

Ongoing dialogues

Dialogue with JBS on deforestation

Background facts

Status of dialogue: Ongoing

Company: JBS

Country: Brazil

Area: Environment

Dialogue on: Deforestation

Progress this year: ▲

Stages achieved in the dialogue:



Background

To prevent deforestation in the Amazon, livestock farming and soybean cultivation are banned in many parts of Brazil. JBS, one of the world's largest meat producers, has tightened controls and actively excluded direct suppliers in these areas. However, extending these processes to include indirect suppliers has proved challenging. The Brazilian Environmental Protection Agency (IBAMA), which oversees JBS's livestock trade, has repeatedly fined various units of the company for violations of purchase bans.

Objective for the dialogue

The Council's objective for the dialogue is for JBS to stop buying cattle, meat and/or animal feed from suppliers that are either

directly or indirectly involved in illegal deforestation. The company should develop and implement wide-ranging measures to identify non-compliant suppliers. In addition, JBS should step up cooperation with other significant stakeholders to reduce deforestation.

Outcomes

JBS is working to find solutions to address the due diligence challenge regarding its indirect suppliers in Amazon. The Council believes that a traceability system for the entire Brazilian livestock sector is essential for a long-term solution to the problem.

JBS is committed to eliminating deforestation in Amazon from its supply chain, including from indirect suppliers, by 2025, and in the rest of Brazil by 2030.

JBS has a responsible commodity-sourcing policy and has signed up to the Cattle Moratorium, in which it commits not to buy beef linked to deforestation. In addition to deforestation, the company's supplier verification process includes forced labour, environmental protection and the rights of indigenous peoples. JBS has excluded more than 9,000 farms from its supply chain and is prepared to exclude even more.

JBS has actively promoted an industry-wide solution to the problem of deforest-



ation. Its supplier audit process relies in part on data from IBAMA, and the company participates in the multi-stakeholder Beef on Track initiative.

Despite the existence of a regulatory framework, this has proved difficult to implement. The framework does not extend to indirect suppliers satisfactorily and JBS does not obtain verification of its suppliers' subcontractors. Direct suppliers have shown a reluctance to demonstrate transparency, citing competition as the reason. It is not yet industry practice to request information on indirect suppliers from first-tier suppliers.

In 2021, JBS continued to develop a platform comparing information on the company's suppliers with data on livestock transport. The platform is based on blockchain technology to ensure that suppliers' information remains confidential and can be accessed securely. All of the company's direct suppliers must sign up to the platform by the end of 2025.

The next step

The Council is continuing the dialogue with JBS and monitoring the company's continued efforts to achieve the dialogue objectives.

Ongoing dialogues

Dialogue with Johnson & Johnson on product-related incidents

Background facts

Status of dialogue: Ongoing

Company: Johnson & Johnson

Country: USA

Area: Human rights

Dialogue on: Product-related incidents

Progress this year: ▶

Stages achieved in the dialogue:



Background

Johnson & Johnson (J&J), the world's largest and most diversified healthcare company, has been sued numerous times over the years over the safety and quality of its products.

Objective for the dialogue

The Council's goal for the dialogue is for J&J to increase its transparency and reporting on product information and safety.

Outcomes

J&J has improved its governance and reporting structures and has updated its quality policy. It has also continued to improve its quality and safety reporting. For example, J&J has confirmed how it



is carrying out product testing in response to allegations that its talc products contain asbestos. It has also described the governance structures in place to ensure product quality and prevent similar situations in the future.

In the dialogue, the Council has stressed the importance of better information about the processes that should apply broadly to J&J's product range. This includes information on standard operating procedures

regarding product quality issues, transparency on clinical studies, complaint statistics and assessment of the management and its quality planning process.

In the case of J&J's talc products, there is a concern that the company is limiting its liability by transferring these products to another unit. The Council has also urged the company to recall its talc-based products in favour of substitute products based on other ingredients.

The next step

J&J is expected to provide information that provides an overview of its quality and safety policies. Processes are in place, but limited details are available concerning how they are implemented. Dialogue will therefore continue on this topic, which will be a challenge in view of the company's wide range of products.

The Council will also continue to urge the company to increase its transparency and reporting.

Ongoing dialogues

Dialogue with Norilsk Nickel on leaks, spills and pollution – environmental and human rights impacts

Background facts

Status of dialogue: Ongoing

Company: Norilsk Nickel

Country: Russia

Area: Environment

Dialogue on: Leaks, spills and pollution – environmental and human rights impacts.

Progress this year: ▶

Stages achieved in the dialogue:



Background

Norilsk Nickel (Nornickel) is a Russian producer of base and precious minerals with operations mainly in Russia.

In May 2020, a fuel tank owned by one of Nornickel's subsidiaries collapsed, leading to leakage of around 21,000 tonnes of diesel fuel. The system that should have been in place to prevent this proved inadequate and the fuel spread into the surrounding soil and waterways around the city of Norilsk in Russia's Arctic region. The spill contaminated an area of around 350 square kilometres in the Siberian tundra.

The Russian authorities have issued the company with fines totalling USD 2.1 billion.

Objective for the dialogue

The Council's objective for the dialogue is for Nornickel to take appropriate measures to limit the spill and prevent further damage to the environment. The company is to ensure that it has maintenance and monitoring processes in place to manage the risks to its infrastructure, including the risk posed by melting permafrost.

Outcomes

The spread of the spill has been contained and a large-scale clean-up has been performed.

An independent audit was commissioned by the Board to assess the factors contributing to the incident. The audit found that flaws in the tank's design caused it to collapse and that ground conditions were weakened due to melting permafrost. The company's risk assessment and monitoring methodology was also found to be inadequate, as were its emergency preparedness resources.

In officially published reports, Nornickel announces that it is continuing to work on the shortcomings identified in its infra-

structure and risk review. The company's approach to these problems is now much more systematic than before.

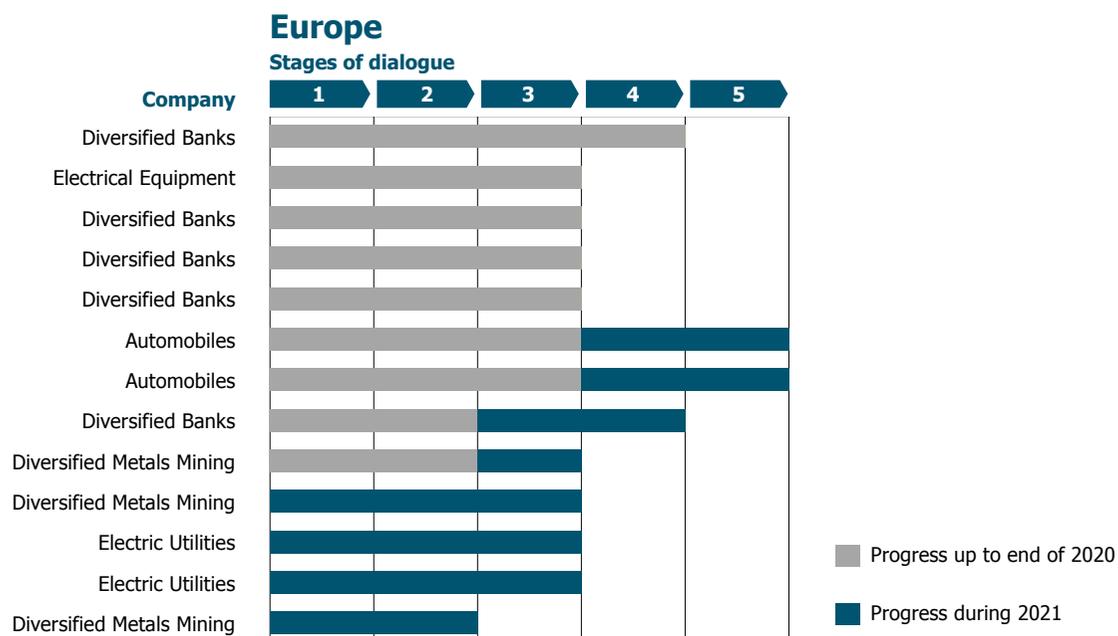
The next step

The Council is continuing to monitor Nornickel's progress in addressing the risks posed by permafrost melting and the company's legacy infrastructure. The Council's assessment is that the company has taken appropriate remedial measures to address the environmental impact caused by the spill.



Progress in a five-step process for reactive dialogues – Europe

The Council was engaged in 85 reactive company dialogues at year-end. Illustrated below is a summary of the estimated progress in each of the dialogues, based on the five stages of a reactive dialogue. A successful dialogue is based on trust. The Council has therefore chosen not to include company names below and reports each company dialogue according to the sector in which the company operates.



The progress in a dialogue is monitored in a five-stage process

1. Initial contact
2. Established dialogue
3. The company makes a commitment
4. The company develops a strategy
5. The company implements the strategy

A new dialogue starts with an analysis of the company and the violation in question. The objectives and strategy of the dialogue are based on this analysis. Initial contact is then made with the company, corresponding to step 1. Initial contact. The number of companies that reached stage 1 during the year, as shown in the graphs on the following pages, includes both the new dialogues listed in the table on page 6, and dialogues where the analysis was initiated in 2020, but where stage 1 had not been achieved by year-end.

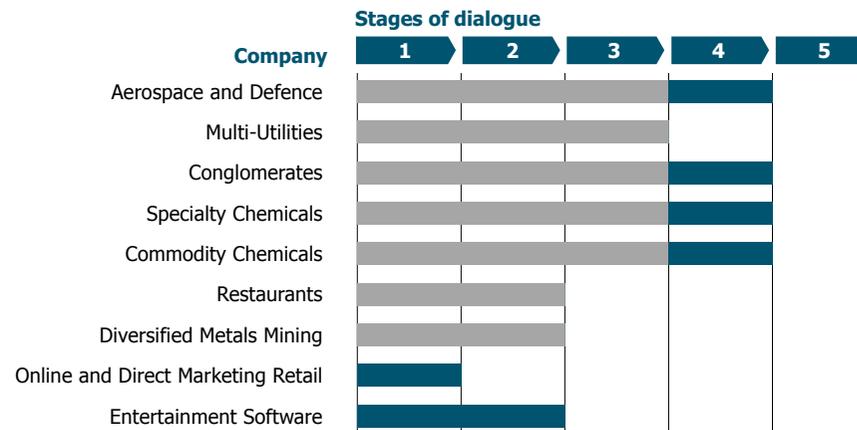
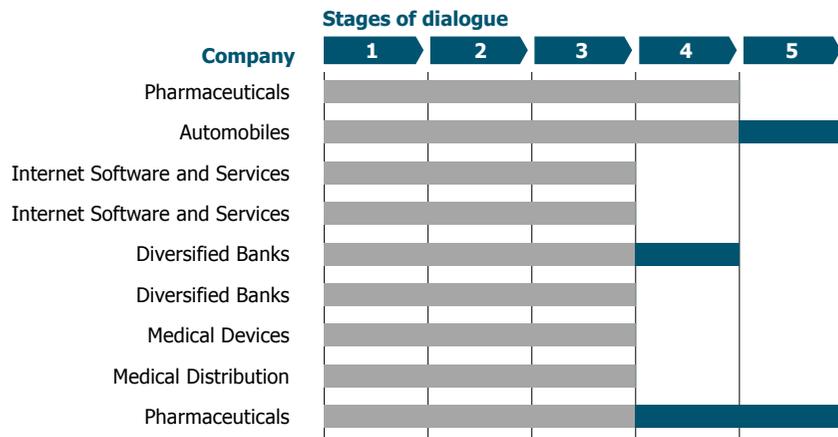
Progress in a five-step process for reactive dialogues – USA and Canada



USA and Canada

■ Progress up to end of 2020

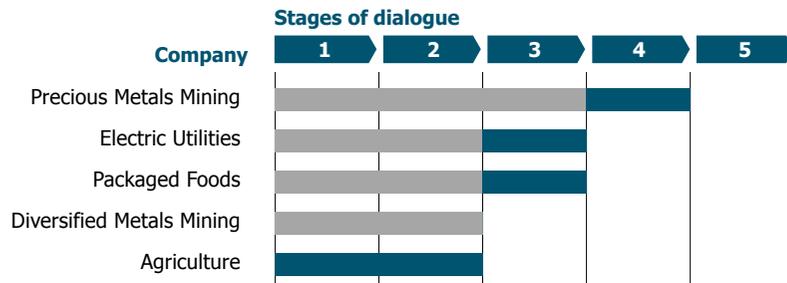
■ Progress during 2021



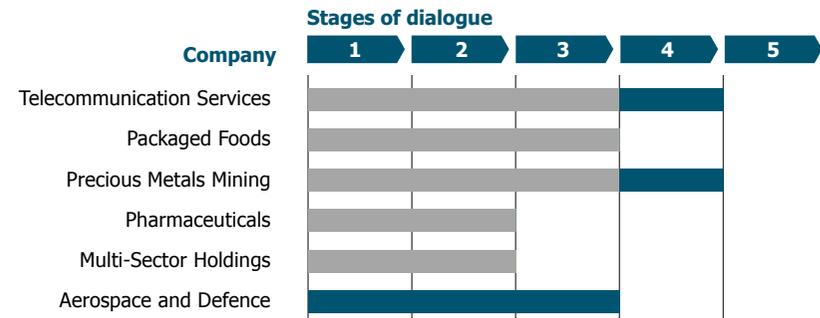
Progress in a five-step process for reactive dialogues – Latin America and Africa/Middle East



Latin America



Africa/Middle East



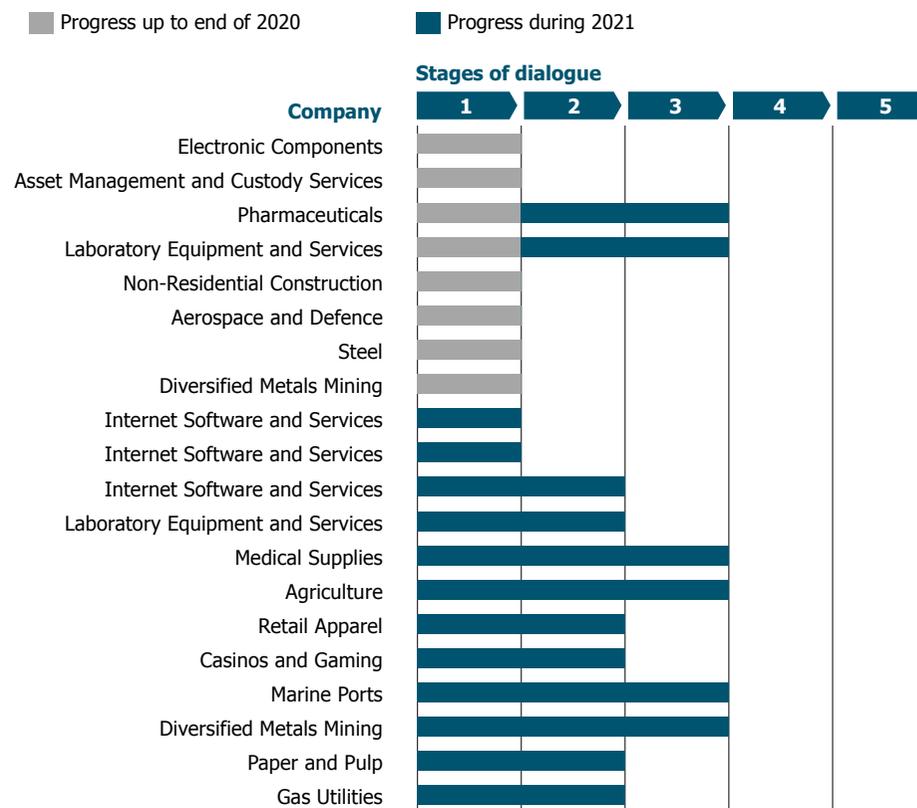
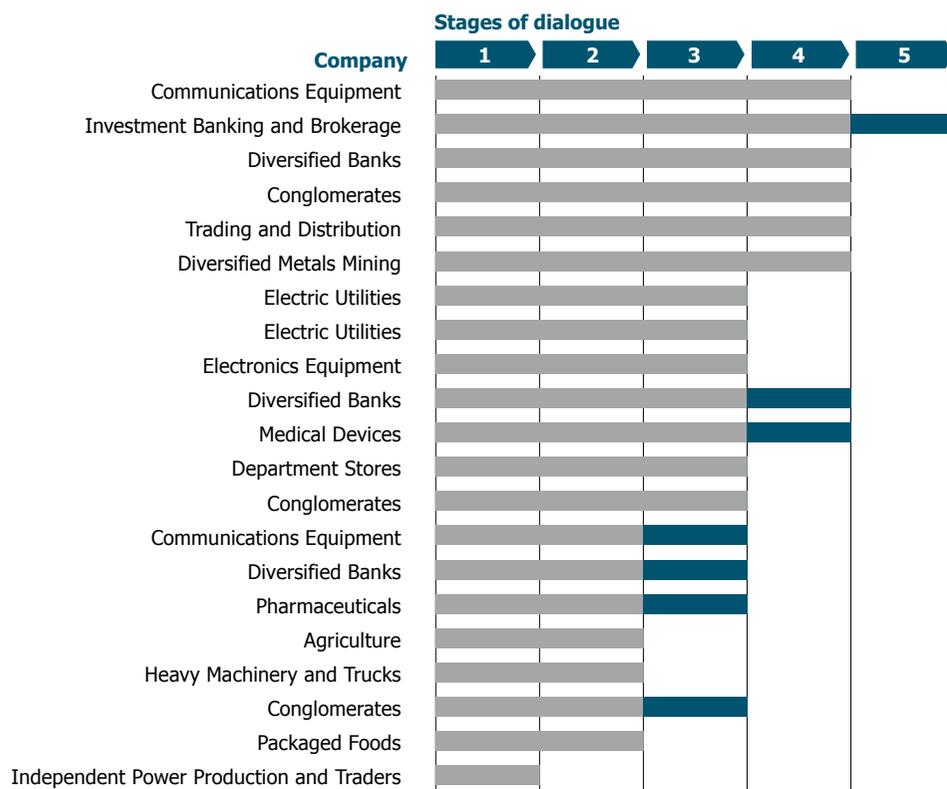
■ Progress up to end of 2020

■ Progress during 2021

Progress in a five-step process for reactive dialogues – Asia/Oceania



Asia/Oceania



Members of the AP Funds Council on Ethics



Peter Lundkvist

Chair in 2021 and member since 2014. Head of Corporate Governance AP3.



Pia Axelsson

Chair in 2022 and member since 2012. Senior Sustainability Manager AP4.



Ossian Ekdahl

Member since 2007. Head of Corporate Responsibility AP1.



Magdalena Håkansson

Member since 2019. Sustainability Manager AP1.



Council on Ethics
Swedish National Pension Funds



Lil Larås Lindgren.

Member since 2014. Head of Communications AP3.



Åsa Mossberg

Member since 2021. Senior Sustainability Strategist AP2.



Jan Petersson

Member since 2021. Senior Portfolio Manager AP4.



John Howchin

Secretary-General since 2010–2021. Stepped down in December 2021.



Beatrice Falk Project coordinator 2022.
Contact: info@councilonethics.org

Part of the income pension system

The AP Funds Council on Ethics was founded in 2007 at the initiative of the Swedish National Pension Funds (AP1, AP2, AP3 and AP4). The role of the Council is to use dialogue to help non-Swedish listed companies make improvements in sustainability. The mandate of the four AP Funds is to manage the state income pension system's buffer capital. Since 2001, when the current pension system was launched, the AP Funds have made a positive contribution to stability of the national pension system and managed the buffer capital with good value growth.

The contribution of the AP Funds to a strong Swedish income-based pension system is through managing the buffer capital of the national pension system. Withdrawals are made from this capital to cover any deficits in pension payments. Deficits may arise, for example, if demographic generational differences arise, or if there is weak socio-economic growth. The pension system is designed to cope with such occurrences – that is why the system's buffer capital exists. Through long-term asset management, the role of the AP Funds is to ensure positive growth in value of the buffer capital. This helps to assure a stable pension system and secure pension payments over time – for current and future generations.

Mandate from the Swedish parliament

The AP Funds' mandate from Riksdagen (the Swedish Parliament) is to create high returns at low risk for current and future pensioners and at the same time help assure the stability

of the income pension system.

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

The buffer capital of the pension system has over time been well managed by the AP Funds. The capital has shown good value growth and today accounts for more than 18 per cent of the assets of the pension system. Four AP Funds with the same mandate – to manage their part of the buffer capital – serve, for example, to spread the risks in the pension system and incentivise positive competition and growth in the AP Funds. Partly through the latter, AP Funds' asset management and ownership at the AP Funds are viewed as being at the forefront internation-

ally. Management at the AP Funds is evaluated annually by external auditors, as well as via a separate audit by the government. A comprehensive evaluation report is published and presented to Riksdagen every spring.

The mandate of the AP Funds' Council of Ethics

The Council seeks to exert influence on companies globally to improve their sustainability performance. This includes environmental, social and corporate governance aspects that are important to people, communities and value creation of the companies themselves.

Through dialogues and projects, the Council becomes engaged both proactively and reactively, that is, in connection with incidents. The fact that the activities of the companies are conducted sustainably benefits both the companies' long-term earning capacity and their long-term financial returns. Sustainable companies contribute over time to good investments. This benefits both the pension system and pensioners.

Pensioners

The income-based pension scheme is a notional defined benefit system where the year's paid-in pension contributions from employees are used to pay out pensions to current pensioners. Those who work and pay taxes make an automatic provision of 18.5 per cent 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 being established in 2001. Deficits occur in times of high numbers of retirements (as has been the case since 2009) and forecasts show deficits until 2040. Low unemployment, a high birth rate, labour migration and Sweden's socio-economic development are important factors in terms of the well-being of pensions to show good growth over time. Read more about the system Pension Authority's website www.pensionsmyndigheten.se.



History of the Council on Ethics

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

2007

The Council on Ethics is formed. The Council's first report is published. Dialogue is conducted with 14 companies. As early as the first year one company is removed from the dialogue list because the objectives for the dialogue has been achieved. The Council travels to China to learn more about how companies approach social responsibility and to 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. This follows pressure from the Council over inhumane conditions in refugee centres in England. The UN adopts the Convention on Cluster Munitions, and the Council recommends exclusion of nine companies, all based in nations that have failed to ratify the convention and where as a result there is little scope for the Council to exert influence.

2010

Together with a group of Canadian investors, the Council prompts the mining company Goldcorp to conduct an inde-



pendent assessment of the extent to which human rights are taken into account at the Marlin Mine in Guatemala. As a result, the company adopts a large number of measures to improve the situation – a process that has a knock-on effect, with a number of other mining companies turning to Goldcorp to learn from its experiences. John Howchin is appointed Secretary General.

2011

The Council expands the scope of its activities. During the year, the Council completes its first proactive project, focused on the mining industry. The objective is to extend the preventive measures taken by companies generally, and to encourage them to strive for the best working methods in each area of the industry. When the project was followed up in 2014, the Council noted general improvement in all areas of sustainability discussed with the companies.

2012

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

2013

The Council arranges a seminar about financing the transition to a low fossil-fuel society. Politicians, stakeholder organisations and investors are invited to listen to a talk by Michael Liebreich, from Bloomberg New Energy Finance. The telecom sector is in the spotlight as one of the Council's proactive initiatives. The Council elects to adopt a four-year time limit for reactive dialogues, as from 2014. The change is made in the light of certain dialogues continuing for many years without a time limit, 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), also known as the Ruggie Principles. The aim is to inspire Nordic companies to implement and report in line with 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 tenth anniversary. On the occasion, two highly attended seminars on responsible and sustainable investments were held. The first dealt with climate change and featured Al Gore and Johan Rockström. The second focused on responsible investment, human rights and the environment.



2018

The Council recommends the exclusion of three cannabis companies. In the Council's view, the companies are in breach of the UN conventions on narcotics, since they manufacture and/or market products with cannabis for non-medical use. After work at a strategic level including stakeholders' dialogues, the Council decides to proactively focus on four sustainability areas: the environment, climate, human rights and business ethics.

The Council and its company dialogue consultant work with the human rights organization Shift in a learning exchange project aiming to further develop the processes for observing human rights.

2019

The accident in Brumadinho, Brazil, occurred when the mining company Vale's tailings dam collapsed with terrible consequences. The Council was already engaged in an ongoing dialogue with the company following a similar accident two years previously. The Council recommended the AP Funds to exclude Vale. Shortly thereafter, the Church of England Pensions Board and the Council established a major joint project to ensure that mining companies take responsibility globally for their tailings dams.

2020

In January, one year after the tailings dam accident in Brumadinho, Brazil, a public global database had been created, 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 publishing an Expectations Document on Human Rights and the Tech Sector, produced in collaboration with the Danish Institute for Human Rights.

2021

The Council completed a successful three-year project focusing on tailings dams. The document "Tech Giants and Human Rights – Investor Expectations" is used in dialogues and plays a part in the positive development of tech companies. In 2021, the Swedish National Audit Office audited the sustainability work of the AP Funds and the Council on Ethics, which was found to be effective. The AP Funds jointly decide to review the mandate and strategy of the Council on Ethics' with a view to further strengthening the Council's work in the future.



Council on Ethics
Swedish National Pension Funds

An ownership collaboration for sustainability through dialogue and engagement

For more information go to:

www.etikradet.se www.ap1.se, www.ap2.se,
www.ap3.se, www.ap4.se

Contact details:

Telephone: +46 (0) 8-555 17 100
E-mail: info@etikradet.se