

Using investors, specifically the Norwegian
Sovereign Wealth Fund (SWF) to influence
Multinational Corporations (MNCs) to focus more
on International Human Rights

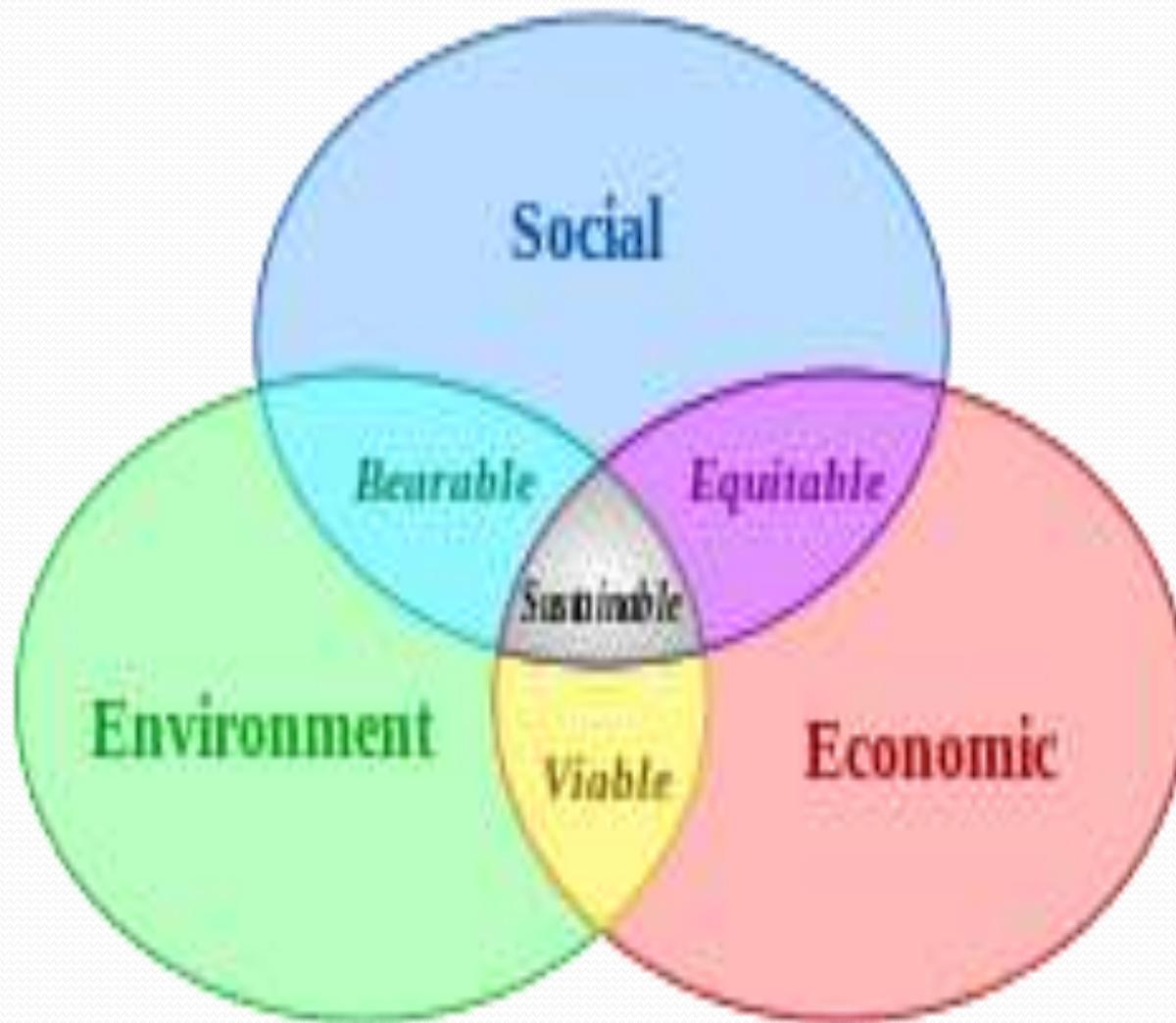
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Overview -2

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International Human Rights and Development

- How can we influence multinational corporations (MNCs) to focus more on upholding International Human Rights?
- No binding international law directly addresses human rights abuses by corporations
- Yet, several non-binding standards exist:
 - OECD Guidelines (OECD GL) , Ruggie Principles, etc.
- Some sovereign wealth funds (SWF) are having a positive impact on MNCs:
 - Moving them from operating “business as usual” -> toward the path of sustainable development

What is development?

- Sustainable development- Brundtland definition – “development that meets ...”
- human person is the central subject of development - Declaration Right to Development
- tension between economic growth and the property rights and other human rights of vulnerable groups is a longstanding development challenge
- SWF are investors are beginning to have an impact on MNCs

III. Sustainable development and SWFs

- **The issues raised in the Brundtland Commissions Report attempted to show how human survival and well-being would depend on our success in elevating sustainable development to a global ethic.**
- **UN Principles on Responsible Investment (PRI) – addresses Environment, Social, and Governance (ESG) issues**
 - **1251 signatories (Asset owners, investment managers, etc.)**
- **Similar to Corporate Social Responsibility (CSR) – the need for MNCs to integrate environmental and social considerations along with traditional economic considerations in their productions and governance practices.**
- **UN Global Compact – (over 10,000 participants) 10 principles in the areas of human rights, labor and the environment -**

Sustainable development and SWFs-2

- PRI – The **ESG issues** are material to the performance of their portfolio (the investment portfolio) and therefore must be factored into investment analysis and decision-making.
- For investors, this is not an exercise in philanthropy but rather an effort to maximize long-range investment returns, while also contributing to societal goals.



IV. The Norwegian SWF, the Government Pension Fund – Global (GPF) (or Oil Fund)

- GPF has Ethics Guidelines (unique compared to other SWFs)
- Has been called “the gold standard” for SWFs
- Norwegian SWF – Is it a good model for other SWFs?
- The goal of making the investments contingent on sustainable development
- This model will also promote MNCs to take environmental, social (human rights), and governance (ESG) issues into account in their decision-making

GPFG - “Trust Fund” for the Future

- The largest pension fund in the world
- NOK 4,920 billion pr. 1. September, 2013
(\$803 billion)
- Established in 1991 – as Petroleum Fund/ Oil Fund
- Received its first allocations in 1996
- Name change – From ‘Oil Fund’ to ‘Government Pension Fund - Global’ (GPFG) - 2006

GPFG - “Trust Fund” for the Future-2

- GPFG holds surplus wealth produced by the Norwegian petroleum income- The Fund is an instrument for general savings integrated with the fiscal budget
 - Not earmarked for pension or other liabilities – use over long term timeframe
- GPFG - Only invests abroad – in 7,000 companies
- 60% equity, 35-40 bonds, 5% real estate
- Diversified investments –geographical distribution
50% in Europe, 35% Americas & Africa and 15% in Asia
(change)

GPFG -“Trust Fund” for the Future-3

- Purpose: to ensure that this wealth can benefit all generations, whilst at the same time making an important contribution to stability in output and employment.
- To invest the funds to achieve the maximum possible return with moderate risk based on sound, long-term management
- Contingent on **sustainable development**

Clear division of labor between Ministry of Finance and the Central Bank

1. The Ministry of Finance determines:
 - The general investment strategy for the fund
 - The ethical guidelines
 - Follows up on operational management
 - Reports to the Storting (Norwegian Parliament)

Operational management

2. Norges Bank (Central Bank) – Norges Bank Investment Management (**NBIM**):

- Implements the investment strategy
- Is an active investor
- Controls the risk
- Exercises the Fund's ownership rights - addressing ESG issues - using PRI principles, OECD GL, etc.
- Provides professional advice on investment strategy

V. GPFG efforts in addressing sustainable development in the form of ETHICS

Responsible investor – ensuring the Fund is:

- managed in a way that promotes better functioning,
- legitimate and efficient markets and sustainable development in the broadest sense

GPFG efforts in addressing sustainable development in the form of ethics

- **The Ethics Guidelines**

based on the work of the **Graver Commission:**

The Graver Commission

The ethical guidelines for the Government Petroleum Fund are based on two premises:

- The Government Petroleum Fund is an instrument for ensuring that a reasonable portion of the country's petroleum wealth should **benefit future generations**. The financial wealth must be managed with a view to generating a **sound return** in the long term, which is **contingent on sustainable development in the economic, environmental and social sense**. The Fund's financial interests should be consolidated by using the Fund's ownership interests to promote sustainable development.
- The Government Petroleum Fund should **not make investments which constitute an unacceptable risk that the Fund may contribute to unethical acts or omissions, such as violations of fundamental humanitarian principles, serious violations of human rights, gross corruption or severe environmental degradation**.

Ethical Guidelines and Corporate Governance

- Ensure sound financial returns for present and future generations
- Obligation to respect fundamental rights for those who are affected by the companies in which the Fund invests
- Mechanisms:
 1. Exercising ownership rights (NBIM)
 2. Negative screening (products-based)
 3. Avoid investments in companies (exclusion) whose **practices** constitute an unacceptable risk that the Fund is or will be complicit in grossly unethical activities

Council on Ethics

Guidelines for Observation and Exclusion from the GPFG Investment Universe

Council on Ethics makes recommendations to the Ministry of Finance – which makes the final decision on:

- Negative screening (product-based) - weapons, tobacco
- Observation and Exclusion
- Exclusion (conduct-based) if unacceptable risk that the company contributes to or is responsible for
 - serious or systematic human rights violations,
 - serious violations of the rights of individuals in situations of war or conflict;
 - severe environmental damage;
 - gross corruption;
 - other particularly serious violations of fundamental ethical norms.

VI. Renewed focus on sustainable development and climate change -1

- Environmental aspects and good corporate governance are to be integrated to a greater extent as relevant factors in the management of the Fund
- The exclusion mechanism - The Ministry wants to give more weight to the assessments of opportunities to influence a company or comprehensive assessments. The Ministry believes that our interest in having “clean hands” cannot release us from our responsibility for undertaking a broader assessment, so that as an investor, alone or together with others, we can use our ownership power to **effect positive changes**.

Renewed focus on sustainable development and climate change -2

- The NBIM has published expectations for corporate performance on climate change – NBIM Investor Expectations: Climate Change Management and also Water Management
- The St.meld. No.20: 2008-2009 represents a greater emphasis on the desire to contribute to positive changes in sustainability issues and companies' conduct with respect to good corporate governance and social and environmental factors.

Renewed focus on sustainable development and climate change -3

- Environmental investment program (Positive Screening) + Program to invest in developing countries
 1. Aimed at environmental issues and sustainable growth in emerging markets
 2. Aimed at investments that will yield undisputable environmental benefits
 - Climate friendly energy, improving energy efficiency, carbon capture and storage, water technology, management of waste and pollution
 3. NOK 20 billion (\$4 billion) invested over 5 years for both programs – environment friendly technology and emerging economies

VII. Promote corporations to take ESG issues into account- active ownership (NBIM)

- Using the Norwegian model, corporations that are in the GPFG investment portfolio that are not acting responsibly will get prodded into action through the NBIM Investor Expectations on : Climate Change Management, Children's Rights, and Water, with their respective Compliance Reports
- And through dialogue between the NBIM and the corporation

Nothing is perfect

- POSCO case
- Complaint was brought against NBIM and the Dutch pension fund, ABP, to the OECD National Contact Point (NCP) in Norway and the Netherlands, respectively, by several NGOs for human rights abuses in India by South Korean Pohang Iron and Steel Company (Posco) in which NBIM is invested.
- Forcibly displacing over 22, 000 people
- The NCP found NBIM to be in breach of the OECD GL
- NBIM claimed the OECD doesn't apply to minority shareholders

