

# Engagement Report

April, 2011



**IIPMI**

INFORMED PORTFOLIO MANAGEMENT



# Our approach

At IPM Informed Portfolio Management (IPM) we support the principle that companies have a responsibility to comply with international norms, even though they are not legally obliged to do so. Furthermore, we do not wish to support the violation of the well-established international norms by which the companies in our investment universe operate.

It is our belief that an Environmental, Social and Governance (ESG) overlay will lead to long-term rewards in terms of risk reduction and potentially higher returns.

At IPM we screen our equity portfolios regarding their compliance with international conventions and guidelines on environment, human rights and business ethics such as UN Global Compact, OECD Guidelines for Multinational Enterprises, ILO Core Labour Conventions, Environmental Conventions, Weapons-related Conventions. Non-compliance is dealt with through an engagement and exclusion process. For this purpose, IPM uses the GES Global Ethical Standard and GES Engagement Forum. Additionally, IPM independently engages in a dialogue with relevant companies.

We are also active owners voting according to best governance standards through a cooperation with the RiskMetrics Group.

IPM is a signatory to UN Principles for Responsible Investment since Q1 2010.

# Our working model

We engage with companies in collaboration with our service provider GES Investment Services. The engagement process is based on results from the analysis model GES Global Ethical Standard - a systematic screening of companies regarding their compliance with well-established international conventions and guidelines on Environmental, Social and Governance (ESG) issues.

Among others this includes:

- UN Global Compact
- OECD Guidelines for Multinational Enterprises
- Human rights conventions
- Environmental conventions
- Weapons-related conventions

Two factors are critical when deciding whether to proceed with the analysis of a reported incident: Reporting criteria and incident criteria.

Reporting criteria includes one or more of the following:
















- Examination by an official and credible body that confirms the connection between the company and the reported violation;
- Sanctions against the company issued by regional/national courts or an official body;
- The company has admitted responsibility for the incident(s).

Incident criteria include one or more of the following:

- An association on the basis of systematic actions; or
- An association on the basis of isolated actions leading to severe negative consequences.

If a company from our investment universe that has been included in the GES Global Ethical Standard analysis process accepts responsibility and takes appropriate action to correct the reported violation and/or takes preventive action to avoid similar occurrences in the future, this is considered a positive development and is added to the analysis. In all cases, it must be possible to verify the company's action to enable a revision of the recommendation.

Since dialogue is one of the most effective tools for an investor to have an impact on management performance it is a key feature of the engagement activities. However, other tools, such as collaborative engagement and proxy voting, are also available if the engagement goals are not achieved within the set period of time.

Problem Areas				
				
Labour Rights	Corruption	Inhumane Weapons	Environment	Human Rights
Response		Progress		
	Excellent Response		Excellent Progress	
	Good Response		Good Progress	
	Standard Response		Standard Progress	
	Poor Response		Poor Progress	
	No Response		No Progress	

# Completed cases

**G4S PLC**

**SECTOR: Commercial Services & Suppl...**  
**HEAD OFFICE: United Kingdom**

## COUNTRY

Indonesia

## NORM AREA



## RESPONSE & PROGRESS



## INCIDENT

In December 2006 and January 2007, the international trade union alliance UNI filed two complaints to the UK National Contact Point (UK NCP) for the OECD Guidelines for Multinational Enterprises, charging G4S with systematic labour violations in twelve countries. Violations in at least five countries can be verified by official bodies, e.g. International Labour Organization (ILO).

## GOAL

G4S must develop detailed guidelines as a working tool in concrete personnel decisions to avoid violations of the company's code of conduct. Also, the company must develop and implement training programs and convincing mechanisms for monitoring their use, adapted to the specific context of each of the member companies of the corporate group, with an oversight responsibility lodged in G4S (UK).

## THIS YEAR'S DEVELOPMENT

A constructive and intense dialogue has been held with the company and G4S has demonstrated substantial improvements in its management of employee relations and labour rights. G4S has presented a structured approach to handle labour issues responsibly, including global training programs and mechanisms for monitoring compliance. The company has also engaged in constructive negotiations with the global union UNI, leading to a framework agreement to improve labour standards across its global operations, as well as the remaining security services industry. Both G4S and UNI agree that it will take some time to fully develop the necessary local relationships and structures in all markets. However, both parties are working constructively with the implementation, which has already delivered concrete positive results.

# Ongoing cases

## AES CORP

SECTOR: Independent Power Producers...  
HEAD OFFICE: United States

### COUNTRY

Panama

### NORM AREA



### RESPONSE & PROGRESS



### INCIDENT

Since late 2007, AES Panama (AES) has been constructing the dam Chan 75 on the Changuinola River in Bocas del Toro, Panama. The UN Special Rapporteur on the situation of human rights and fundamental freedoms of indigenous people has publicly condemned a number of human rights violations against the Ngöbe indigenous community Charco la Pava, that reportedly have occurred in connection with the construction of the Chan 75.

### GOAL

AES shall demonstrate and implement a plan for how to, within its sphere of influence, ensure the respect of the rights of the indigenous communities in its relocation program and other activities and implement a policy, in line with the ILO Convention 169 and United Nations Declaration on the rights of Indigenous Peoples.

### THIS YEAR'S DEVELOPMENT

Several telephone conferences were held with AES during 2010. In December, AES reported that another community, Guyabal, is included in the negotiations of the High Level Commission. The Panamanian government has signed a resolution, which grants collective property to the communities. AES has adopted a relocation policy for its operations in Panama but not on a corporate level.

**COUNTRY**

Turkey

**NORM AREA****RESPONSE & PROGRESS****INCIDENT**

Akbank is one of three commercial banks financing the construction of the Ilisu hydropower dam in southern Turkey. The project has been criticized for many years for its expected vast environmental and social impacts. In 2008, an independent Committee of Experts concluded the project to be incompliant with the World Bank Safeguard Policies on environment, cultural heritage and resettlement. The World Bank itself has refrained from financing the dam and several construction companies, commercial banks and European export credit agencies have abandoned the project consortium. In 2010, the European Parliament adopted a resolution urging the project to be halted until impacts on the cultural and environmental heritage, as well as the displacement of the local population, are further assessed.

**GOAL**

The bank must ensure that impacts from the Ilisu dam project are in line with international environmental and social standards, e.g. World Bank Safeguard Policies, before continuing with financing the project. If this cannot be assured the bank should withdraw its credit. The bank must actively monitor the project planning process and engage in stakeholder dialogue, including direct dialogue with key NGOs. Deficiencies and uncertainties regarding project impacts should be raised with the responsible Turkish agency DSI. To prevent financing of future similar projects the bank should adopt corporate policies that address environmental and social risks in infrastructure projects. The policies should advocate a precautionary approach and require that projects comply with internationally proclaimed environmental and social standards.

**THIS YEAR'S DEVELOPMENT**

Telephone meeting held in January 2011. Akbank repeated its position that it will continue financing the project since it is a commitment made with the Turkish state, which also has assured that the project will have minimal environmental and social impact. The construction of the dam was initiated in 2010 and several protests have been held by villagers and NGOs the latest year. Akbank was advised to actively monitor the project and engage in dialogue with the project agency regarding project impacts. The bank was also encouraged to develop explicit ESG criteria for its credit approval process, if not adopting the Equator Principles. In 2009, Akbank launched a new CSR strategy and a CSR Committee was established to monitor the implementation. More information will be included in the next CR report, to be released in April 2011.

**COUNTRY**

Sudan

**NORM AREA****RESPONSE & PROGRESS****INCIDENT**

In August 2007, a UN Special Rapporteur from the Human Rights Council called upon companies involved in the Merowe Dam project in Sudan to halt the operations. The statement was made due to concerns over reports on human rights violations in connection with large resettlements. Among the companies is Alstom, which is the main supplier of electrical equipment to the project. None of the companies have followed the recommendation from the UN Special Rapporteur.

**GOAL**

To secure that Alstom acts responsibly regarding the human rights violations and ensures that the recommendations by the UN Special Rapporteur are adhered to. The company should also adopt a corporate policy that addresses the risks associated to operations in weak governance zones like Sudan.

**THIS YEAR'S DEVELOPMENT**

A continuous dialogue has been held with Alstom. The company has communicated that the resettlement plan has been implemented but cannot inform about any details. Alstom states that they are not the principal operator of the project and are therefore not responsible for ensuring that the resettlement was carried out in a responsible and sustainable manner. The purpose with the engagement process with Alstom is to ensure that they will work on improving their due diligence processes in relation to ESG issues in future infrastructure projects.

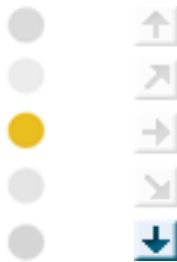
## COUNTRY

United States

## NORM AREA



## RESPONSE & PROGRESS



## INCIDENT

Anadarko is a 25 per cent joint venture partner in the BP operated Macondo oil prospect in the Gulf of Mexico. In April 2010, a well blowout resulted in the loss of 11 lives and the discharge of large quantities of oil into the sea. As a partner with a significant vested interest, Anadarko had a joint responsibility to ensure that the project was undertaken safely. However, the company appears to be complicit in the incident due to its acts and omissions.

## GOAL

Anadarko should demonstrate that it has met its responsibilities regarding the remediation of the environmental and social impacts of the Gulf of Mexico spill. The company should also demonstrate that it has routines in place for assessing and controlling the safety and environmental risks of its projects.

## THIS YEAR'S DEVELOPMENT

Anadarko has told investors that the Gulf of Mexico oil spill was a preventable incident caused by the poor practices of its partner BP. The company also says it was not involved during the drilling operations and had no knowledge of problems on the Macondo project until the actual blowout occurred. Despite this, lawsuits have been brought against Anadarko and the other Macondo stakeholder companies by the US Federal and Louisiana State governments.

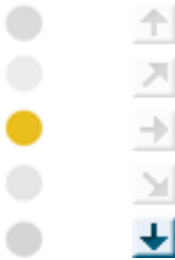
## COUNTRY

Indonesia

## NORM AREA



## RESPONSE & PROGRESS



## INCIDENT

PT Astra Agro Lestari TBK has been associated to the destruction of the rainforest habitat of the critically endangered orangutans in the Tripa peat swamp forest in the Aceh Province, Indonesia. The UNEP/UNESCO Great Ape Survival Programme lists Tripa as a priority site for the endangered orangutans and the area belongs to the Leuser Ecosystem, renowned for its biodiversity value. PT Astra International TBK is the parent company of PT Astra Agro Lestari TBK.

## GOAL

Astra Agro Lestari should adopt a sustainable and precautionary approach when operating in environmentally sensitive areas. The company's management of environmental issues and operation of Oil Palm plantations should align with Roundtable of Sustainable Palm Oil's certification process.

## THIS YEAR'S DEVELOPMENT

Astra Agro Lestari and its related companies has not been very responsive to key issues in the investor dialogue. In October 2010, it was reported that the criticised oil palm concession PT Surya Panen Subur was sold to two non listed companies, PT Agro Maju Raya and PT Hamparan Sawit Nusantara. However, Astra Agro Lestari still owns palm oil operations, it is still unclear if they are also located in sensitive areas so further dialogue is needed to clarify the situation.

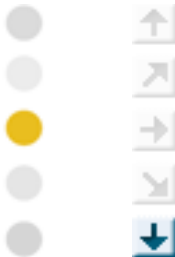
## COUNTRY

Papua New Guinea

## NORM AREA



## RESPONSE & PROGRESS



## INCIDENT

Barrick Gold Corporation is the majority owner and operator of the Porgera gold mine in Papua New Guinea. The mine disposes its waste tailings directly to local rivers, a practise regarded as unacceptable by most national regulators, the World Bank and the broader mining community. The discharge of tailings has lead to very high levels of toxic metals and depletion of wildlife in the Porgera river and poses an unnecessary risk to people dependent on the river, as well as Papua New Guinea's largest lake. GES Investment Services has also issued an Observation recommendation on Barrick, related to alleged security force human rights abuses at Porgera.

## GOAL

Barrick Gold should implement internationally accepted standards for tailings management and commit to remediating the rivers and catchments impacted by riverine tailings deposition. The details of the remediation should be documented in the decommissioning plan for the Porgera mine.

## THIS YEAR'S DEVELOPMENT

During 2010 Barrick, via a stakeholder website, published the results of the annual environmental monitoring program for the Porgera gold mine. Whilst the publication was a positive transparency step, it also showed the extent of downstream impacts from the mine. Unfortunately, the company intends to adhere to its relatively high impact waste disposal practises, and has not indicated that it will include the downstream environment in its decommissioning plans. Positively, the company has agreed to appoint an environmental expert to the Board of Directors, following shareholder requests.

**COUNTRY**

United States

**NORM AREA**



**RESPONSE & PROGRESS**



**INCIDENT**

BP is the operator of the Macondo oil prospect in the Gulf of Mexico. In April 2010, a well blowout resulted in the loss of 11 lives and the discharge of large quantities of oil into the sea. The environmental and economic impacts to the Gulf coast were serious and may be ongoing for decades. As operator BP was responsible for the safe design and execution of the project, and for stopping the flow of oil in the event of a blowout. The cause of the blowout has been attributed to the breaching of multiple barriers and human errors. BP also was not in possession of sufficient technology for quickly stopping the flow. The incident confirms that there are systemic safety management deficiencies at BP which need to be addressed.

**GOAL**

BP should demonstrate that it has properly remediated the environmental and social impacts of the Gulf of Mexico spill, and has achieved significant improvements in risk and safety management and culture within the company. The company should also demonstrate that it has sufficient technology for bringing well blowout situations rapidly under control.

**THIS YEAR'S DEVELOPMENT**

BP has communicated its willingness to learn and improve following the Macondo Gulf of Mexico oil spill incident. The company has announced changes in senior management positions, and has created new divisions and internal safety and risk management functions. These changes, now being implemented, address the various shortfalls identified by BP's own and external US government incident investigation reports. Numerous lawsuits have been brought against BP, including major suits by the US Federal and Louisiana State governments.

**COUNTRY**

Liberia

**NORM AREA****RESPONSE & PROGRESS****INCIDENT**

In May 2006, the UN Mission in Liberia (UN MiL) published a report on human rights conditions at Liberian rubber plantations, including a plantation owned by a subsidiary of the Bridgestone Corporation. The report portrays child labour as a serious problem, supporting the allegations of child labour previously forwarded in a lawsuit against the company, filed by the International Labor Rights Fund (ILRF) in 2005. The company claims it has banned children from tapping trees, but workers say the ban is not enforced. Allegedly, the children begin to work at the age of nine or ten in order to help their parents meet the quotas set by the company.

**GOAL**

Bridgestone should adopt a company-wide policy to ban child labour, and in the light of persisting difficulties to put an end to child labour at the Liberian plant the company needs to implement a credible monitoring and compliance mechanism. The company's management of labour rights should align with ILO core conventions 138 and 182.

**THIS YEAR'S DEVELOPMENT**

Bridgestone has been responsive to engagement outreach and also has included an invitation to an onsite visit. In June 2010, Bridgestone/Firestone and the Firestone Agricultural Union of Liberia (FAWUL) signed a new Collective Bargaining Agreement (CBA). One of the major changes in the new CBA is a new transport system, which has already been implemented in several divisions of the plantation and is scheduled to be extended to other areas by the end of 2010. In February 2011 FAWUL was awarded with the Iqbal Masih Award by the U.S. Department of Labor due to the new positive developments.

## COUNTRY

Ecuador

## NORM AREA



## RESPONSE & PROGRESS



## INCIDENT

In 2004, a trial was initiated against Chevron, formerly ChevronTexaco, in Ecuador. The company stands accused of systematically dumping billions of gallons of highly toxic waste into pits dug into the earth. The gravity of the environmental situation has also been confirmed by the New York State Common Retirement Fund after a fact-finding trip to the area, and spurred the fund to repeatedly file resolutions with the company.

## GOAL

Chevron should take a proactive approach through means of strengthening policies and guidelines, as well as address the specific health and environmental concerns in the area in which Texaco Petroleum operated. All measures taken must be verified by an independent third party.

## THIS YEAR'S DEVELOPMENT

Chevron has been in regular contact during 2010 and continues to vigorously defended itself. The company says the Ecuadorian lawsuit is based on false evidence and is designed to use Chevron as a scapegoat for pollution which is the sole responsibility of the State oil company, Petroecuador. Despite this, in February 2011, the Ecuadorian judge fined Chevron more than USD 8 billion for the alleged Amazon jungle contamination. However, as Chevron no longer has assets in Ecuador, the plaintiffs will need to seek enforcement of the judgement outside of the country. Anticipating this, Chevron quickly won a restraining order in the US District Court and an international arbitration court in The Hague. The legal actions are likely to continue for a long time.

## COUNTRY

United States

## NORM AREA



## RESPONSE & PROGRESS



## INCIDENT

In 2007, the US Supreme Court ruled against Duke Energy in a long-running dispute with the Environmental Protection Agency and environmental groups. The case originated in the late 1990s when the company conducted refurbishment work on eight of its oldest coal-fired electric power plants, but failed to install best available technology equipment for control of nitrogen and sulfur oxide air emissions. The refurbishment work was found to be in breach of provisions of the Clean Air Act, as such controls could have significantly reduced total emissions volumes. Legal action is ongoing.

## GOAL

Duke should ensure that pollution controls for NOx and SOx at the eight plants are representative of industry-accepted best available technology, and operate the plants in compliance with applicable US laws. The company should adopt a policy of assessing best available technologies on all significant power generator upgrade and construction and projects.

## THIS YEAR'S DEVELOPMENT

Duke Energy has recently provided information which indicates that most of the company's Carolinas coal-fired power plants with outdated emissions technology will be either retired or upgraded to industry standards by 2015. According to the Duke Energy, litigation continues over alleged violations of the US Environmental Protection Agency's provisions relating to the plants. A trial court decision in the company's favour was appealed, and was reversed by the US Supreme Court. The litigation has been remanded to the trial court and the legal action is ongoing.

## COUNTRY

Russian Federation

## NORM AREA



## RESPONSE & PROGRESS



## INCIDENT

Exxon Mobil Corporation's (Exxon) subsidiary Exxon Neftegas Ltd. (ENL) operates the oil and gas project Sakhalin-1 off Sakhalin Island, in waters that constitute the only known feeding grounds for the western gray whale, listed as a critically endangered species. IUCN's Western Gray Whale Advisory Panel (WGWAP) reported in March 2011 that the lack of information concerning the timing and nature of activities from ENL leads to inability to provide reliable advice concerning mitigation efforts. The link between underwater noise from ENL activities and the 2008 decline in observed whales cannot be ruled out since ENL does not provided the necessary data. In addition, since 2008, the WGWAP has repeatedly expressed strong concern about ENL's construction of a pipeline that the panel fears may disturb the ecosystem.

## GOAL

Exxon should demonstrate openness towards all relevant stakeholders and transparently disclose key data that enables independent verification of potential impacts of the Sakhalin-1 operations on the health and survival of the endangered Western Gray Whale species. The company's management of Western Gray Whale conservation should align with the UN Convention on Biological Diversity.

## THIS YEAR'S DEVELOPMENT

During the spring 2011 a series of engagement meetings with ExxonMobil aims at finding ways to solve the deadlocked position. The company considers finding IWC representatives that may support ExxonMobil's position that ENL's operations are compatible with responsible management of the Western Gray Whale. Also, improved communication regarding the actions of the Western Gray Whale Interagency Work Group may be a way forward.

## COUNTRY

Indonesia

## NORM AREA



## RESPONSE & PROGRESS



## INCIDENT

PT Freeport Indonesia, a subsidiary to Freeport McMoRan Copper and Gold (Freeport), is the operator of the Grasberg mine in Papua, Indonesia. The mine has been subject to criticism due to the nature and scale of environmental impacts from riverine tailings disposal, a mine waste disposal practise regarded as unacceptable by most national regulators, the World Bank and the broader mining community. Riverine disposal with only partial waste containment is particularly inappropriate in such a highly biodiverse environment. Freeport defends its practices at Grasberg, but has not produced sufficient evidence to demonstrate that they are low impact.

## GOAL

Freeport McMoran should at minimum implement necessary measures to comply with Indonesian environmental laws and regulations regarding tailings management and water quality, and secondarily implement internationally accepted standards for tailings management. The company should also demonstrate it has adequate management measures in place for acid drainage from tailings and overburden.

## THIS YEAR'S DEVELOPMENT

In 2010, shareholders again filed a resolution calling on Freeport to appoint an environmental expert to the Board of Directors. Similarly to 2009, the resolution was relatively successful, attracting about thirty percent of the vote. Freeport still has not signalled any intention of meeting the shareholders request. Freeport's annual environmental reporting from the Grasberg mine remains deficient in key areas.

## COUNTRY

United States

## NORM AREA



## RESPONSE & PROGRESS



## INCIDENT

GenCorp Inc. has manufactured special components for cluster munitions and still markets the products on its website. The components are designed and marketed for use in specific types of cluster munitions that “cause unacceptable harm to civilians” according to the Convention on Cluster Munitions. The convention prohibits all activities that in any way promote the use of these weapons.

## GOAL

The company must discontinue its marketing of special components for cluster munitions that are banned by the Convention on Cluster Munitions. The company must also implement a corporate policy which prevents it from engaging in any future activities that would be considered a violation of the convention.

## THIS YEAR'S DEVELOPMENT

Defence companies are highly dependent and closely linked to their national defence departments. Therefore, they have limited freedom (and interest) in avoiding involvement in certain weapons or adopting policies which go against national policies. The general outlook for investor engagement is therefore limited and many investors choose to exclude the companies from the investment universe.

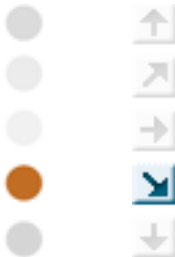
## COUNTRY

United States

## NORM AREA



## RESPONSE & PROGRESS



## INCIDENT

General Dynamics has manufactured cluster munitions and their components and still markets several of the products on its website. The cluster munitions, as well as the components, fulfil the definition under the Convention on Cluster Munitions of weapons that “cause unacceptable harm to civilians”. The convention prohibits all activities that in any way promote the use of these weapons.

## GOAL

The company must discontinue its marketing of cluster munitions and its components that are banned by the Convention on Cluster Munitions. The company must also implement a corporate policy which prevents it from engaging in future activities that would be considered a violation of the convention.

## THIS YEAR'S DEVELOPMENT

Defence companies are highly dependent and closely linked to their national defence departments. Therefore, they have limited freedom (and interest) in avoiding involvement in certain weapons or adopting policies which go against national policies. The general outlook for investor engagement is therefore limited and many investors choose to exclude the companies from the investment universe.

## COUNTRY

United States

## NORM AREA



## RESPONSE & PROGRESS



## INCIDENT

L-3 Communications manufactures and markets cluster munitions and their special components. The cluster munitions, as well as the components, fulfil the definition under the Convention on Cluster Munitions of weapons that “cause unacceptable harm to civilians”. The convention prohibits all activities that in any way promote the use of these weapons.

## GOAL

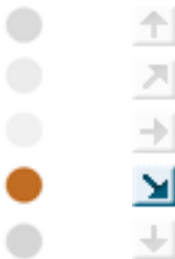
The company must discontinue its marketing and production of special components for cluster munitions that are banned by the Convention on Cluster Munitions. The company must also implement a corporate policy which prevents it from engaging in any future activities that would be considered a violation of the convention.

## THIS YEAR'S DEVELOPMENT

Defence companies are highly dependent and closely linked to their national defence departments. Therefore, they have limited freedom (and interest) in avoiding involvement in certain weapons or adopting policies which go against national policies. The general outlook for investor engagement is therefore limited and many investors choose to exclude the companies from the investment universe.

**COUNTRY**

Iraq

**NORM AREA****RESPONSE & PROGRESS****INCIDENT**

In May and August 2004, reports emerged from the US military's investigations associating Titan Corp. (Titan) employees to human rights abuses in US detention operations at the prison Abu Ghraib in Iraq. The company was a major supplier of linguist and translator services to the US government. In July 2005, Titan was acquired by L-3 Communications Holdings Inc., which is continuing to supply these services to the US Army.

**GOAL**

L-3 Communications must ensure their employees are educated in the basic related conventions and implement mechanisms to safeguard the quality of their knowledge. Furthermore, L-3 Communication should adopt a human rights policy, specifically addressing relevant issues for operations in sensitive countries like Iraq and Afghanistan.

**THIS YEAR'S DEVELOPMENT**

Late 2010 GES Investment Services was contacted by a consultant to L-3 Communications investor relations department. The consultant yet again asked for a clarification of what GES Investment Services is asking for. Consequently GES Investment Services has sent a summary of the case and the dialogue to the company, as well as a clarification that if the company does not start responding, GES Investment Services may have to re-evaluate its recommendation on the company. As a result of the new engagement process, companies that have not responded or shown any progress during a two year period may receive an 'exclude' recommendation by GES Investment Services.

## COUNTRY

United States

## NORM AREA



## RESPONSE & PROGRESS



## INCIDENT

Lockheed Martin manufactures and markets weapon systems for dispensing cluster munitions. The cluster munitions fulfil the definition under the Convention on Cluster Munitions of a weapon that “cause unacceptable harm to civilians”. The convention prohibits all activities that in any way promote the use of these weapons.

## GOAL

The company must discontinue its development, manufacturing and marketing of weapon systems used for dispensing cluster munitions as well as components for cluster munitions that are banned by the Convention on Cluster Munitions. The company must also implement a corporate policy which prevents it from engaging in any future activities that would be considered a violation of the convention.

## THIS YEAR'S DEVELOPMENT

Defence companies are highly dependent and closely linked to their national defence departments. Therefore, they have limited freedom (and interest) in avoiding involvement in certain weapons or adopting policies which go against national policies. The general outlook for investor engagement is therefore limited and many investors choose to exclude the companies from the investment universe.

## COUNTRY

Russian Federation

## NORM AREA



## RESPONSE & PROGRESS



## INCIDENT

MMC Norilsk Nickel's mining and metal production operations in northern Siberia can be associated to serious heavy metal and sulphur dioxide contamination of Norilsk city and the surrounding countryside. A range of health impacts have been attributed to the pollution including respiratory problems, higher incidences of cancers and low birth weight babies. Some of the contaminants are also transported further around the Arctic region due to the far northerly location of the facilities.

## GOAL

Norilsk Nickel should ensure that pollution emissions from its Polar division facilities are reduced to levels which will not cause excessive harm to the environment and properly remediate its historical impacts. Norilsk Nickel should align with Russian environmental regulations, the Convention on Long-range Transboundary Air Pollution, the Convention on Environmental Impact Assessment in a Transboundary Context and the UN Convention on Biological Diversity.

## THIS YEAR'S DEVELOPMENT

In 2010, MMC Norilsk Nickel has passed through audit of compliance with ISO 9001:2008 (quality management system) and ISO 14001:2004 (environmental management system) international standards. Norilsk Nickel has stated that environmental issues are a top priority and that SO<sub>2</sub> emissions will be reduced with 95% by implementing technologies of SO<sub>2</sub> recovery at their Copper Plant (CP) and Nadezhda Metallurgical Plant (NMP) in their Polar Division, for which they have posted an international tender in March 2011.

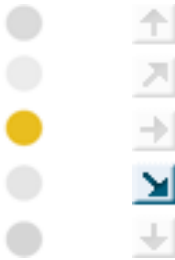
## COUNTRY

Occupied Palestinian Territory

## NORM AREA



## RESPONSE & PROGRESS



## INCIDENT

Motorola's subsidiary, Motorola Israel, provides radar-based surveillance systems for the Israeli settlements in the occupied Palestinian territories. The systems have been installed around several of the settlements. According to the Fourth Geneva Convention, it is illegal for an occupying state to settle parts of its population in an occupied territory. The UN Security Council has concluded that "Israel's policy and practices of settling parts of its population and new immigrants in those territories constitute a flagrant violation of the Fourth Geneva Convention". The existence and expansion of the settlements also constitute a critical obstacle for peace in the region and Motorola's provisioning of the systems is considered an active and central support in fortifying the settlements and thereby solidifying the illegalities.

## GOAL

The company should cease the provisioning of surveillance systems for protecting illegal Israeli settlements in the occupied Palestinian territories. The company should also widen the scope of its Human Rights policy to fully conform to international human rights and humanitarian standards. The policy should reflect a comprehensive understanding of human rights and humanitarian law and address specific risks associated to how its products are used.

## THIS YEAR'S DEVELOPMENT

Email correspondence has been held with the company. Motorola has confirmed that it "has sold radar surveillance systems in Israel" but due to "security reasons" the company "cannot comment on the exact locations where the systems are deployed". The company believes that all of its global activities comply "with U.S., local, country and all other applicable laws" and "with the highest standards of integrity and ethical business conduct applied uniformly and consistently". Several attempts have been made to hold a meeting with Motorola but the company has declined to discuss the issue further.

**COUNTRY**

Russian Federation

**NORM AREA****RESPONSE & PROGRESS****INCIDENT**

Oil and Natural Gas Corporation Limited's (ONGC) owns 20 per cent of the oil and gas project Sakhalin-1, operated by Exxon Neftegas Ltd. (ENL) off Sakhalin Island, in waters that constitute the only known feeding grounds for the western gray whale, listed as a critically endangered species. The Western Gray Whale Advisory Panel (WGWAP) reported in February 2009 that the number of observed whales in the area declined during 2008 and that the scarcity may be linked to underwater noise from ENL activities. In addition, since 2008, the WGWAP has repeatedly expressed strong concern about ENL's construction of a pipeline that the panel fears may disturb the ecosystem.

**GOAL**

ONGC should ensure that ENL reports transparently on key industrial and scientific monitoring data, in order for stakeholders to be able to verify that Sakhalin-1 operations do not adversely affect the health and survival of the endangered Western Gray Whale species. The company's management of Western Gray Whale conservation should align with the UN Convention on Biological Diversity.

**THIS YEAR'S DEVELOPMENT**

Investors have repeatedly tried to initiate a dialogue with the company but investors are also in dialogue with the operator, ExxonMobile, on behalf of ONGC on the issue in order to ensure protection of the Western Gray Whales. The aim is to probe the ExxonMobile on its efforts to improve dialogue with WGWAP and to provide them with scientific data and operational plans that are necessary for WGWAP's mitigation efforts. ExxonMobile is continuing to signal its willingness to engage in such a dialogue but has so far failed to participate in proposed meetings.

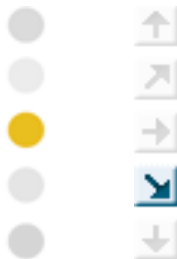
**COUNTRY**

Indonesia

**NORM AREA**



**RESPONSE & PROGRESS**



**INCIDENT**

Rio Tinto is a long-term influential partner in the Freeport McMoRan (Freeport) owned Grasberg mine in Papua, Indonesia. The mine has been subject to criticism due to the nature and scale of environmental impacts, in particular riverine tailings disposal, which is regarded as unacceptable by most national regulators, the World Bank and the broader mining community. The practice is particularly inappropriate in such a highly biodiverse environment. Rio Tinto's involvement has been assessed as one which exacerbates the environmental damage caused by the Freeport established operation, due to the doubling of production facilitated by Rio Tinto's involvement, and the company's adherence to the riverine tailings disposal practice.

**GOAL**

Rio Tinto should demonstrate a strongly proactive approach in ensuring that the Grasberg operation implements the necessary measures to comply with internationally accepted standards for tailings management. The company should also demonstrate there are adequate management measures in place for acid drainage from tailings and overburden.

**THIS YEAR'S DEVELOPMENT**

Rio Tinto claims that it is working hard, with its partner Freeport, on improving mine waste management practises at Grasberg, although riverine discharge is still the primary mine waste disposal method being used. Rio Tinto now has public and internal policies in place which rule out the use of rivers and shallow marine waters for mine waste disposal purposes, at the company's operated sites. The policies do not however extend to Grasberg, in which Rio Tinto is a non-operating partner.

## COUNTRY

Russian Federation

## NORM AREA



## RESPONSE & PROGRESS



## INCIDENT

Rosneft owns 20 per cent of the oil and gas project Sakhalin-1, operated by Exxon Neftegas Ltd. (ENL) off Sakhalin Island, in waters that constitute the only known feeding grounds for the western gray whale, listed as a critically endangered species. The Western Gray Whale Advisory Panel (WGWAP) reported in February 2009 that the number of observed whales in the area declined during 2008 and that the scarcity may be linked to underwater noise from ENL activities. In addition, since 2008, the WGWAP has repeatedly expressed strong concern about Rosneft's seismic surveys in the area as well as ENL's construction of a pipeline that the panel fears may disturb the ecosystem.

## GOAL

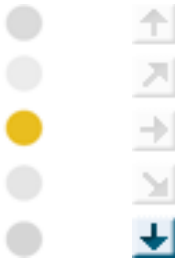
Rosneft should ensure that ENL reports transparently on key industrial and scientific monitoring data, in order for stakeholders to be able to verify that Sakhalin-1 operations do not adversely affect the health and survival of the endangered Western Gray Whale species. The company's management of Western Gray Whale conservation should align with the UN Convention on Biological Diversity.

## THIS YEAR'S DEVELOPMENT

Investors have repeatedly tried to initiate a dialogue with the company but investors are also in dialogue with the operator, ExxonMobile, on behalf of Rosneft on the issue in order to ensure protection of the Western Gray Whales. The aim is to probe the company on its efforts to improve dialogue with WGWAP and to provide them with scientific data and operational plans that are necessary for WGWAP's mitigation efforts. The company is continuing to signal its willingness to engage in such a dialogue but has so far failed to participate in proposed meetings.

**COUNTRY**

Singapore

**NORM AREA****RESPONSE & PROGRESS****INCIDENT**

Singapore Technologies Kinetics (ST Kinetics), a wholly-owned subsidiary of Singapore Technologies Engineering (STE), produces anti-personnel landmines. The company has confirmed the production of the mines on several occasions, latest to GES Investment Services in November 2007. The company underlines that the mines are not for export. Singapore's Ministry of Foreign Affairs has on several occasions confirmed the country's production of landmines, latest in 2009. Singapore has a moratorium on export of anti-personnel mines since 1998.

**GOAL**

STE should enforce the discontinuation of ST Kinetics anti-personnel mine production and this should preferably be verified by a third party.

**THIS YEAR'S DEVELOPMENT**

Defence companies are highly dependent and closely linked to their national defence departments. Therefore, they have limited freedom (and interest) in avoiding involvement in certain weapons or adopting policies which go against national policies. The general outlook for investor engagement is therefore limited and many investors choose to exclude the companies from the investment universe.

**COUNTRY**

United States

**NORM AREA**



**RESPONSE & PROGRESS**



**INCIDENT**

Textron develops and markets cluster munitions and their submunitions. The cluster munitions, as well as the components, fulfil the definition under the Convention on Cluster Munitions of weapons that “cause unacceptable harm to civilians”. The convention prohibits all activities that in any way promote the use of these weapons.

**GOAL**

The company must discontinue its development, marketing and manufacture of cluster munitions and components that are banned by the Convention on Cluster Munitions. The company must also implement a corporate policy which prevents it from engaging in future activities that would be considered a violation of the convention.

**THIS YEAR'S DEVELOPMENT**

Defence companies are highly dependent and closely linked to their national defence departments. Therefore, they have limited freedom (and interest) in avoiding involvement in certain weapons or adopting policies which go against national policies. The general outlook for investor engagement is therefore limited and many investors choose to exclude the companies from the investment universe.

## COUNTRY

Philippines

## NORM AREA



## RESPONSE & PROGRESS



## INCIDENT

The Toyota Motor Philippines Company Workers' Association (TMPCWA) union alleges that the management of Toyota Motor Philippines Corporation, a Toyota Motor Corporation subsidiary, has impeded the rights to organise and to collective bargaining and resorted to illegal dismissals of workers. The case is under scrutiny by the Philippine court system and by the International Labour Organization (ILO) Committee of Freedom of Association. ILO reporting from 2003 and onwards lists a number of actions taken by the company to challenge the certification of the union and to intimidate employees in their preference of union.

## GOAL

Toyota should adopt a labour rights policy including the right to freedom of association and the right to collective bargaining that is in accordance with ILO core conventions 87 and 98. Also the situation in the Philippines should be solved in a constructive way were all partners are satisfied. The company's management of labour rights should that aligns with ILO core conventions 87 and 98.

## THIS YEAR'S DEVELOPMENT

In June 2010 a meeting was held with Toyota to discuss the new ILO report and a clarification of Toyota's CSR policy. Prior the meeting a comparison of CSR Policies was made between Toyota and their top ten competitors. The comparison showed that many of Toyotas competitors had clearer policies. Toyota listened to the findings and said it would be discussed at the Head Quarters in Japan. However, so far no changes has been made in Toyotas CSR Policy.

**COUNTRY**

Turkey

**NORM AREA****RESPONSE & PROGRESS****INCIDENT**

Turkiye Garanti Bankasi is one of three commercial banks financing the construction of the Ilisu hydropower dam in southern Turkey. The project has been criticized for many years for its expected vast environmental and social impacts. In 2008, an independent Committee of Experts concluded the project to be incompliant with the World Bank Safeguard Policies on environment, cultural heritage and resettlement. The World Bank itself has refrained from financing the dam and several construction companies, commercial banks and European export credit agencies have abandoned the project consortium. In 2010, the European Parliament adopted a resolution urging the project to be halted until impacts on the cultural and environmental heritage, as well as the displacement of the local population, are further assessed.

**GOAL**

The bank must ensure that impacts from the Ilisu dam project are in line with international environmental and social standards, e.g. World Bank Safeguard Policies, before continuing with financing the project. If this cannot be assured the bank should withdraw its credit. The bank must actively monitor the project planning process and engage in stakeholder dialogue, including direct dialogue with key NGOs. Deficiencies and uncertainties regarding project impacts should be raised with the responsible Turkish agency DSI. To prevent financing of future similar projects the bank should adopt corporate policies that address environmental and social risks in infrastructure projects. The policies should advocate a precautionary approach and require that projects comply with internationally proclaimed environmental and social standards.

**THIS YEAR'S DEVELOPMENT**

Telephone meeting held in October 2010. The bank has said that it will continue financing the project and has received written assurance from the responsible Turkish state authority that the project will have minimal environmental and social impact. The Turkish bank also feels obligated to stay in the project since the contract is signed with the Turkish state. Turkiye Garanti Bankasi did not wish to share any technical details of the project. The construction of the dam was initiated in 2010 and several protests have been held by villagers and NGOs the latest year.

**COUNTRY**

Turkey

**NORM AREA****RESPONSE & PROGRESS****INCIDENT**

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**THIS YEAR'S DEVELOPMENT**

Several attempts to have a dialogue with the bank have been made, but no response so far. The company is government-controlled (75 per cent ownership by the Turkish state) and its position is expected to be aligned with the government's position that the project impacts comply with international standards.

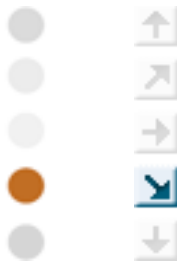
## COUNTRY

United States

## NORM AREA



## RESPONSE & PROGRESS



## INCIDENT

Several media reports and lawsuits concern Wal-Mart's labour practices. The company is criticised for regulatory and legal non-compliance in several areas related to labour rights. Incidents concern sweatshop conditions at factories, discrimination of women, child labour and anti-union practices. Several lawsuits have resulted in fines against the company or settlements with the plaintiffs.

## GOAL

Wal-Mart should cease their non-compliance in areas related to labour rights and take a responsible course of action by improving its policies and guidelines on these issues. The company's management of labour rights should align with ILO core conventions.

## THIS YEAR'S DEVELOPMENT

During 2010 Wal-Mart intensified its dialogue with investor groups, however this dialogue has so far not resulted in any significant development in labour rights issues.

In August 2010 Wal-Mart asked the U.S. Supreme Court to overturn a lower-court ruling that allowed a class-action lawsuit alleging the company discriminated against female employees (Dukes vs. Wal-Mart). In October 2010, the plaintiffs filed a brief opposing the Supreme Court review. The court case will continue during 2011.

## COUNTRY

India

## NORM AREA



## RESPONSE & PROGRESS



## INCIDENT

Vedanta Resources is in the process of establishing an aluminium production complex consisting of a bauxite mine and alumina refinery in the Indian state of Orissa. In establishing its operation the company has, according to the local authorities, breached Indian environmental laws, misled authorities and caused environmental harm. Reportedly, Vedanta has also contributed to human rights abuses, including forced relocations, violence and intimidation against local residents. Vedanta has been criticized for similar conduct at its other Indian operations.

## GOAL

Vedanta should ensure that its Orissa alumina extraction and refining operations do not jeopardise local communities and the environment. The proposed Niyamgiri Hills mine location is problematic due to the dependence of the indigenous Dongria Kondh people on this land.

## THIS YEAR'S DEVELOPMENT

During 2010, Vedanta was refused permits by the Indian environmental authorities for both the construction of the controversial Niyamgiri Hills mine and the expansion of the company's nearby refinery. Vedanta's future intentions for the project are yet to be communicated to investors in detail. The company commissioned its own external review of the refinery's operations and has published the report online. The consultants concluded that some improvements were needed to the refinery's Environmental Impact Assessment and to community consultation and transparency practises.

## COUNTRY

Western Sahara

## NORM AREA



## RESPONSE & PROGRESS



## INCIDENT

In June 2007, the Saharawi Journalists' & Writers' Union forwarded allegations against Wesfarmers' subsidiary, CSBP, for importing phosphate from Western Sahara and thus indirectly funding Morocco's illegal occupation of the country. The practice of importing phosphate rock from the concerned territory has been confirmed by the company. In an opinion, issued in 2002, by the UN Under-Secretary General for Legal Affairs, the exploitation of natural resources in colonised territories, Western Sahara in particular, was declared illegal if it is not to the benefit of the people of the territory.

## GOAL

Wesfarmers/CSBP should demonstrate and implement a plan on how to entirely cease its imports of phosphates from Western Sahara, or demonstrate how the exploitation is in line with the interests and wishes of the Saharawi people, in accordance with the right to self-determination stipulated in the International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights.

## THIS YEAR'S DEVELOPMENT

In December 2010, a meeting was held with Wesfarmers in Perth, Australia. The company reported that the development of the new technology, that will enable them to use phosphate from sources other than Western Sahara, has started and will be completed in late 2011 or early 2012. Wesfarmers confirmed that CSBP will determine phosphate rock blends and consider supply options once the new technology has been implemented.

**COUNTRY**

China

**NORM AREA**



**RESPONSE & PROGRESS**



**INCIDENT**

Yahoo stands criticised for the release of personal user data to China's state security for identifying a Chinese journalist. The release led to a ten-year imprisonment of the journalist in 2005 and has been confirmed by Chinese court documents and company statements.

**GOAL**

Yahoo must develop a clear set of policies and guidelines on human rights, preferably for its operations globally, but at a minimum for its joint-venture operations in China. The measures should include adequate protection against the release of user data to repressive regimes when it risks being used to prosecute users who exercise their freedom of speech.

**THIS YEAR'S DEVELOPMENT**

Telephone meeting held in January 2011. Yahoo is underway implementing the GNI principles and has generally made quite good progress in addressing risks throughout the organisation, except in China. The relationship with the joint-venture partner Alibaba Group has deteriorated and the two parties have no dialogue regarding the issue. The only change achieved in China since 2005 is a disclaimer posted on the website informing users that Yahoo!'s services are subject to Chinese law.



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