International conference "Investing for the Future. Financial Investment and Ethical Challenges" Summary report

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and the following speakers:

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Abstract of the summary report

The international conference "Investing for the future. Financial Investments and Ethical Challenges" took place in Oslo on 16-17 January 2008. The conference gathered leading representatives from academia, financial institutions, NGOs, companies and investor groups to discuss the challenges of integrating environmental, social and governance (ESG) considerations when making financial investment decisions.

The conference's panellists discussed various challenges related to responsible investment. Among others, focus was on: (1) to what extent ethical guidelines have led the investor to put in place effective processes that drive shareholder influence; and (2) to what extent the investor can show clear improvements in the ESG performance of companies and the policy environment (i.e. public regulation and other relevant framework), as a way of measuring the effect of ethical guidelines.

Two distinctive trends emerged: (1) Those investors who prefer engagement and sometimes positive screening considered themselves long-term investors whose objective is to change companies' behaviour because they are interested in sustainability and long-term returns. They made clear that they have a fiduciary duty that comes first or as stated: "the ownership power shall be used to enhance ethics and sustainability, when this is in the interest of the long-term financial return of the portfolio." Thus "the first priority is ownership rights and corporate governance as precondition to corporate responsibility." On positive screening it was said: "even though targeted investments ("positive screening") can complement corporate governance, the danger is that the competence of portfolio managers is overruled. Investments are instead chosen for political or other reasons and the investor is seen as a political "activist" that does not care about the financial well-being of the company." For these panellists, divestment should not be used as it decreases the value of a portfolio and prevents a fund from influencing the company's behaviour through active ownership.

On the other hand, (2) there were some panellists that represented investors who, in addition to engagement and positive screening, would also consider divestment. The main reason for favoring divestment was that shareholder engagement cannot justifiably be limited to those issues that maximize return in the long run. There are times where the violations of ethical norms are part of the business strategy and essential to giving the corporation a comparative advantage. To be a responsible investor one should therefore strive to combine securing and maximizing returns with ESG considerations. Going public with exclusions and showing the company's unethical conduct sends a strong message. This may also influence corporate behaviour. For many, exclusion is to be used as a last resort, where companies are unwilling to cooperate and have a complete disregard for basic social and/or environmental standards. A responsible investor cannot morally contribute to the wrongs in the world.

The panellists also illustrated these models of integrating ethical considerations with their own experiences in search for best practice in this field. Some contexts were particularly discussed, such as companies' operating in armed conflict areas, child labour and climate challenges. Some of the main challenges ahead, in both these and other contexts, will be to streamline responsible investor initiatives, build and develop platforms for information sharing and to encourage more research in this area.

Summary Report

Why a conference on responsible investment in Norway

As the Norwegian Minister of Finance, Kristin Halvorsen stated in her opening speech: "Norway has large incomes from the petroleum sector. It has taken nature hundreds of millions of years to produce oil and gas. We cannot allow ourselves to spend this fortune during one or two generations. That is why we have set up a fund to manage this wealth in the first place. The Fund is currently valued at approximately 350 billion US dollars, which is about the same as Norwegian GDP. But it is just as important to ensure that we are not contributing to grossly unethical practices through our investments."

It is of great importance for the Norwegian Government to ensure that the Fund yields favourable financial return over time for the benefit of its owners, the Norwegian people and future generations of Norwegians. "At the same time", she added, "we believe that we have a responsibility towards the environment and the people that are affected by the companies in which the Fund invests worldwide. This dual responsibility and the tools with which to meet it are laid down in the Ethical Guidelines for the Norwegian Government Pension Fund – Global."

The guidelines are considered to represent broad consensus among the Norwegian people. This conference marked the beginning of an evaluation of the Guidelines, which will continue through 2008. The Ministry of Finance plans to present the findings from the evaluation to the Norwegian Parliament during the spring of 2009.

Introduction

International awareness on corporate responsibility has been growing over the last decade. In 2000, the UN Global Compact established a set of fundamental values for business operations such as respect for human rights, labour standards and the environment, as well as anticorruption principles. A few years later, in 2006, the UN Principles for Responsible Investment (PRI) were launched. This initiative brought together the world's largest institutional investors to develop a set of principles to provide a framework for the integration of environmental, social and governance (ESG) considerations into investment policy and investment decision-making.

As it was stated during the conference: "Now, just two years on we have 270 institutional investors representing USD 13 trillion—or 15% of global capital market value—supporting the PRI. Another way of looking at this is that nearly one tenth of total financial assets, which stand at USD 150 trillion, now back a framework for responsible investment. This is a very strong and welcome signal to the global investment community."

One of the panellists summarised investor responsibility as follows: "When international corporations perform gross violations of human rights or commit environmental crimes, investors must expect to be held morally accountable. An investment decision is a free choice, and as such subject to normal moral considerations." He continued "an investor is to answer two questions: (1) Am I contributing to unnecessary harm through my investments? (or moral complicity) (2) Am I in a position where I should pursue moral aims?"

On the other hand investment managers also have other moral considerations to take into account: (1) the money should be well cared for (fiduciary obligation) and (2) the ethical considerations of the investor should reflect those of the owners of the money. Regarding the second moral implication, it must be said that different ethical considerations are relevant in different settings - owner/investor types - and markets.

Different types of investors have different approaches to ethical investment, e.g. large "long-only" institutional investors show more awareness of ESG (environmental, social and governance) policies and products than sell-side analysts do. Besides, as well as there are different types of funds, there are also different approaches to ethical responsibilities based on the different market practices. A values-based approach seeks to align investors' portfolio holdings with their beliefs; a values-seeking approach seeks to identify social and environmental criteria which affect financial performance and share price; a values-enhancing approach uses the techniques of "shareholder activism" and "engagement" to maintain or increase the financial value of their investments. Each approach, in turn will be more suited to a different fund/investor, which in turn will use different forms of screening or models to integrate ethical considerations in their investment process, ownership activities or divestment process.

Models for integrating ethical considerations and ways of engaging with companies

Major trends

Most pension funds use engagement with companies as the main way of integrating ethical considerations, sometimes supplemented by positive screening in some form. There are also some that use negative screening or exclusion in combination with engagement and positive screening.

Those who prefer positive screening and engagement consider themselves long-term investors whose objective is to change companies' behaviour because they are interested in sustainability and long-term returns. They made clear that they have a fiduciary duty that comes first. One of them put it this way: "The ownership power shall be used to enhance ethics and sustainability, when this is in the interest of the long-term financial return of the portfolio." Thus "the first priority is ownership rights and corporate governance as precondition to corporate responsibility." On positive screening he added: "even though targeted investments ("positive screening") can complement corporate governance, the danger is that the competence of portfolio managers is overruled. Investments are instead chosen for political or other reasons." Another panellist representing corporations' views, agreed and added that financial investors have to focus on financial results, transparency and a balanced distribution between investors' responsibility and political responsibility and must not be considered an "activist" fund that make decisions based on non-financial criteria all-together. Many also expressed that divestment/exclusion should not be used as it decreases the value of your portfolio and prevents you from influencing the company's behaviour through active ownership. For private investment managers, the active ownership advocated by long-term investors does not necessarily apply to private funds that traditionally have practiced passive ownership because it has been more cost effective. Nevertheless, this trend is changing and some private funds have developed principles for engagement and have noticed that active management funds produce better returns. That said, not all funds can afford to build the resources to engage in active ownership.

How to engage with companies

All panellists gave their opinions on what works best when engaging with companies and some discussed how to measure the success of ethical criteria. These are the main points:

1. The success of ethical criteria is measured by looking to (1) what extent they have led you to put in place effective processes that drive shareholder influence and (2) to what extent you can demonstrate clear improvements in the ESG performance of companies and the policy environment. To this it was added that it is necessary to carry out scientific research in which all stakeholders are analysed.
2. According to our panellists, the main effective processes that allow investors to influence company behaviour through engagement are:
    a. Normative power: Be an active shareholder. Perform corporate governance. Focus on the right to vote; the right to nominate and elect board members; the right to trade one's shares and the right to open and timely information.
    b. Legitimacy: Show that as an investor you care not only about ESG issues but also about the financial well-being of the company. Show that you have knowledge of the company and you are competent. That way you will not be seen as an "activist" fund that takes political decisions and does not care about the "well-being" of the company.
    c. Urgency and intensity: Persistent long-term "real" engagement, i.e. show to the company that you are in for the long-run and are willing to put the resources needed. Argue for long-term financial benefits.
    d. Collaboration with other funds in order to send a stronger signal to the company.
    e. Engagement with policy makers/governments to promote regulation regarding ESG issues.
    f. Solid and accurate information is critical. Therefore, it is important to focus on a high level of specification regarding the issues at hand. Do not allow the company to side track you.
    g. Engagement cannot be outsourced.
    h. Engagement needs to be well organised. Who owns the process? Be specific and select strategic areas of engagement and come with realistic demands. Get to the level of the companies.
    i. Better reporting, transparency, commitment to international norms and debate on and with the boards about these issues.
    j. Targeting: see who is more willing in the company to be receptive to your demands and start there. See which issues will be more easily discussed. Then, see if the ethical guidelines facilitate coalition building and scalability. Working with a set of standards (PRI) can create much more scalable opportunities than working in ad hoc company engagement.

<u>Exclusion and what type of corporate behaviour should not be acceptable</u>

<u>Major trends</u>

Panellists were asked if exclusion was reserved to more ethical investments or if it was becoming main stream. Some considered that divestment should never be used because the portfolio value goes down, there are other investors that will seize the chance to invest in the excluded company – thus it does not affect the company – and the investor misses the possibility of influencing corporate conduct by active ownership. For others, represented by some pension funds, NGOs, academia and labour standards inspectors, exclusion is an important tool to be used sparingly and other times as the only way of making very unwilling companies understand that they need to adopt a more ethical conduct. Going public with the exclusion and showing the company's unethical conduct sends a strong message. Some argued that this may also influence corporate behaviour.
It seems that the defining line between those who are for divestment and against relates for a large part to the definition of fiduciary duty. One of the panellist stated that "his fiduciary albatross tells him divestment is too difficult to implement for funds such as his." He considers divestment more suited to a more ethical investor. Others mentioned that ESG considerations are to be included when it is in the interest of the long-term financial return of the portfolio. However, according to other panellists exclusion is necessary; shareholder engagement cannot justifiably be limited to those issues that maximize return in the long run. There are times where the violations are part of the business strategy and essential to giving the corporation a comparative advantage. A responsible investor, should, according to some, respect the fundamental interest of *all parties affected* by the investment, by trying to redress the wrongs perpetrated by corporations and avoiding moral complicity in the wrong acts that nevertheless do occur. Here, the main mechanism is to divest from certain corporations, particularly where gross violations of certain fundamental norms must be expected to continue. Those investors who divest can pursue to influence companies in another way e.g. by changing the rules and the practices the companies operate within. The quest for maximum profit makes it appealing to "cheat" on the environment and society. One panellist argued that that is the very cause for unethical behaviour.

Some of the panellists who use exclusion also used positive screening and engagement to integrate ethical considerations. The threat of public statements makes companies behave and engage in dialogue. This view was particularly supported by one panellist. Based on her experience as social auditor, exclusion should come first and dialogue afterwards particularly when the company does not respond by providing information or is willing to improve its conduct. Furthermore, she mentioned how she had been monitoring companies involved in the engagement process for six-seven years and has not seen any progress. She concluded that engagement can be effective but when dealing with companies that are difficult and not at all in compliance with social standards, engagement might not work on a stand-alone-basis.

<u>Exclusion process by the Government Pension Fund - Global</u>

The Ministry of Finance introduced Ethical Guidelines for the Government Pension Fund – Global in November 2004 that open for exclusion of some companies from the investment universe of the Fund. A Council on Ethics has been established and mandated to monitor the Fund's portfolio and to recommend exclusions of companies based on a set of ethical criteria as laid down in the said guidelines. The investigated companies are offered the possibility to comment on the basis for a possible recommendation to exclude before the recommendation is issued. A final recommendation is given to the Ministry of Finance, that ultimately decides whether a company should be excluded or not. There does not appear to be any other investors who deal with an exclusion mechanism in quite the same manner as the Pension Fund does through its Council on Ethics. This relates in particular to the fact that all decisions to exclude companies, and the basis for doing so, are made known to the public.

The threshold for exclusion of companies is established through a set of criteria as laid down in the Fund's Ethical Guidelines. These relate to unacceptable products and to unacceptable conduct. Companies that produce "weapons that through normal use may violate fundamental humanitarian principles", will automatically be excluded from the Fund through a negative screen. The preparatory work to the Guidelines states clearly which types of weapons fall under this definition.

The other type of exclusion relates to company conduct. There are five specified criteria in the Guidelines, all including qualifications. (For an account of the criteria, please refer to point 4.4 of the Norwegian Pension Fund – Global Ethical Guidelines). A high threshold for exclusion is intended. The Council has focused on the worst cases in the industries. The Council sees it as challenging to obtain solid information on allegations. The guidelines are forward looking, meaning that a company should only be excluded if there exists "an *unacceptable risk* that the Fund *contributes* to" the above serious violations. This entails making a risk assessment, which in many cases can be quite challenging to undertake. Many NGOs have criticised this forward looking approach. They have expressed that previous wrongs should be penalised through exclusion. This however, would not be in accordance with the guidelines.

The Guidelines require that the Fund should not contribute to companies' human rights violations. The general understanding of human rights law, which the Council applies, is that companies as such are not direct violators of human rights since these rights basically address the relationship between citizens and states. One has to assess the company's possible contribution to the human rights violations an in turn, the Fund's, the investor's, contribution.

Another challenge in the application of the Guidelines is to which degree unethical production or conduct (e.g. in the supply chain of a company) should be attributed to a particular company. As an example, in cases where a company is found to have control over its supply chain, the company would normally be considered responsible for the violations committed in the chain.

Finding updated and reliable information is a constant challenge, and in some cases proves more difficult than in others. The potential information bias that may exist vis-à-vis certain companies, does not – in the view of the Council – excuse the behaviour at hand. The fact that you have managed to demonstrate unacceptable conduct because you have access to information, cannot be an argument against exclusion based on that same information. Thus information accessibility is no argument against recommendations for exclusion.

Possible effects of exclusions and the possibility of interaction between engagement and divestment

The panellists in general agreed that:

a. Excluding companies makes more sense when it entails a reputation cost for the company, especially if we are looking for a change in behaviour and not only for contribution avoidance.
b. Making a public, well reasoned divestment gives more impact.
c. Following a transparent process with clear standards and indicators is essential so that the exclusions do not seem arbitrary.
d. Allowing for the company to make its case before the exclusion is desirable.
e. Excluding companies works best if combined with an engagement process.
f. The threat of exclusion should be used first, e.g. by creating a watch list.
g. Signing confidentiality agreements prevents the investor from making public statements (the investor's weapon). Many funds are engaged in very long engagement processes where there is no progress and one cannot use public speech to influence the companies either.
h. Contemplating routines for re-inclusion in the fund and procedures for dialogue with excluded companies can be a good incentive for companies.
i. The threat of divestment may in itself reduce the impact of engagement. This might happen in at least two ways: (1) the management of 'problematic' corporations may decide to 'weather it out' until the noisy and 'hypersensitive' investors pull out; Or (2) the managers may find the criteria for disinvestment so blurry that managers will ignore the repercussions of divestment – and stick to their previous policies regardless of engagement, since no strategy seems available that will avoid the bad press generated by divestment.
j. Threatening with divestment has to be done in a predictable manner that follows clearly defined procedures. This can increase the influence of shareholder engagement.
k. Deciding on divestment can be done by an independent body other than those involved in the dialogues with management. This helps: (1) boost the credibility of warnings of divestment by those engaged with management (2) Increase the quality of information from management and reduce the risk that those carrying out engagement may be influenced/mislead by the company, since lies or distortions are more likely to be detected later on, by an independent body (3) The division of responsibility reduces public suspicion that there has been an unacceptable sacrifice that entails moral complicity, to achieve some marginal changes in the corporation – or even in order to not reduce profits .

Engagement and divestment applied

Companies in armed conflict areas

To what extent do companies contribute to oppressive regimes by operating in areas of war or conflict? This overarching question raises questions not only on ethical issues involving corporate liability, but also international criminal law questions on legal criminal complicity that might be important to address in order to keep a company out of court. The panellists focused on what types of conduct in these situations may trigger a decision to divest; to what extent is exclusion the best way to go in these armed conflict situations; and the issue of legal criminal complicity and the advantages and disadvantages of exploring corporate contribution to violations through an ethical framework or through legal criminal complicity.

These are some of the views:

a. Mere presence in a conflict zone is not sufficient reason to exclude a company.
b. In the case of the Council on Ethics for the Government Pension Fund - Global, the Ethical Guidelines require a direct link between the unethical/illegal acts and the company. This is not an easy standard to apply, especially when gathering information in these situations is extremely difficult, among others due to security risks for those gathering the information. In addition, anecdotal information can be hard to substantiate. Discerning at what point a company should be excluded when facing the range of possible corporate liability that goes from the company's mere presence to direct company involvement, is also a challenge. A further challenge is how to attribute liability to a company for the acts of its subsidiary and discerning the ownership structure within the company.
c. Some panellists did not favour exclusions in these situations. They think that companies should stay and try to do some good as the population needs them. The UN and other humanitarian organisations that might also be in the area need the companies' services. Furthermore, if these companies have any kind of relationship with the oppressive regime, that is an opportunity to try to influence the regime. Others said that although exclusion can send a strong message, there are always other companies that are willing to take the place of the excluded one. This is because the most valuable resources are often found in areas that are subject to oppressive regimes and companies do not, in one panellists' opinion, have the luxury any more to walk away from challenging countries, both from a financial and a human rights perspective.
d. In reports from the UN Special Representative on issues of human rights and translational corporations, the grounds for legal criminal complicity are stated as follows: although corporations do not have obligations as parties to the human rights treaties, the states they operate in do have such obligations and corporate behaviour can be seen as contributing to violations by those states. Against this background, it makes sense to talk about corporations being complicit in such violations. In other words, a company doing business in a country under a repressive regime must not provide financing or other sources for the perpetuation of wrongdoing or atrocities. Following this idea, many lawsuits have been brought under the American Aliens Torts Statute in the US, in which companies are accused of contributing to human rights violations. Lately, if a link to a state actor was required at first, that requirement is no longer necessary today where genocide, slave trading, slavery, forced labour and war crimes are recognised by the court. Finally, the Rome Statue (the treaty establishing the International Court of Justice) also contemplates corporate legal complicity. It requires either purposeful assistance which has a substantial effect on the crime, or another form of contribution to a crime committed by a group of people, which is either done with the intent to further the crime, or with the knowledge of the intention of the group to commit the crime. Thus to know about the intent of the other group of people (that you are dealing with) even though you do not share their intent is enough to make you liable.

e. This is not to be confused with engagement. Engagement is not the same as contribution. If an investor engages with a company known for violating human rights, to deter the company from committing human rights abuses, this is not contribution. On the other hand, further investing in a company without discouraging the activity would be contribution.
f. However, assigning legal complicity to a company might not be in the best interest of the victims. Iinternational criminal law builds in important guarantees for defendants in order to ensure that they are not deprived of their liberty or a fair trial rather than apportion blame to different legal entities and does not necessarily contemplate damages for the victims.
g. The Council on Ethics follows a dual approach: (1) the Council issues recommendations on whether an investment may constitute a violation of Norway's obligations under international law. But the Guidelines' language also allows for (2) an evaluation of corporate behaviour which might not necessarily be in violation of international law but can be seen as undermining the rule for international law in its spirit and purpose. The UN Global Compact and the OECD guidelines for multinational enterprises are not legally binding and the reference to "fundamental humanitarian principles" show a will to analyse corporate behaviour that goes beyond laws and includes principles and norms.

Child labour

The most important child right's issue related to corporate governance is child labour. There are almost 160 million children below the age of 14 engaged in child labour. Child labour is a cause and consequence for poverty. It is oppressive; it damages children's health, pulls them out of school, or prevents them from ever getting there. It makes them more vulnerable to AIDS, jeopardises their future and at the last instance, puts even the development of nations on hold. Against this background, what is good corporate governance regarding children's rights? After hearing the panellists these were some of the views:

a. Alongside governments, civil society and NGOs, the corporate sector – companies, industries and investors – have a clear role to play in ending this abuse. Indeed, child labour can never be acceptable to any responsible investor.
b. Good corporate behaviour means (1) understanding the issue, its nature, its extent, its impact on economies and on individual children; (2) understanding and accepting the norms and principles that govern the work of children; (3) individuals and companies running their businesses, including managing their supply and distribution chains in ways which protect children from the negative effects of exploitative behaviour; (4) setting good examples and positively influencing the behaviour of others; (5) running the business in a way that secure that children are not subject to such abuse and doing this simply because it is right and not because when legally compelled to doing it.
c. Just pulling the children out of work can create worse problems because entire families may depend on a child's labour, and local schools may be non-existent. Thus these are systemic, structural problems that cannot be addressed in isolation. That is why it is so important to work with governments and development actors on a comprehensive approach to end child labour. That is also why it is critical to get the facts right, and to develop knowledge about the situation in countries and industries.

d. Codes of conduct and corporate guidelines have made contributions but are not enough. Child labour is found in supply chains that range well beyond factories and plantations. Traditional labour inspection is not sufficient. More elaborate initiatives are required.
e. These are lessons learnt form successful projects carried out by ILO IPEC (International Program for the Elimination of Child labour), some of them in collaboration with UNICEF: (1) successful child labour systems are community based. If the monitoring system is just carried out by the company and within the company, it is a risk because the company is not interacting with the community. Companies' interaction with local actors, NGOs, local governments, local unions is crucial. Local independent NGOs or inspectors are more able to find irregularities in the company than the company's "auto-inspections"; (2) Providing alternatives to child labour is essential. Transfer children to school. If the company is to interfere in the child's life it needs to improve it; (3) Trade unions are the best guarantee that children are kept out of child labour. In companies where there is labour bargaining, there is no child labour. Companies that are willing to invest in developing countries because of the low cost must be aware that child labour is a risk and not close their eyes. They have an obligation to take preventive measures from the beginning. The cost of joining community sector-wide monitoring systems is not prohibitive; (4) Elimination of child labour is within our reach. Investors can form alliances among themselves and focus on some specific issues such as this one.
f. Finally, good governance is context-dependent. It is not a policy but a framework within which individual companies operate. One has to adapt to the context i.e. culture, geography, and how the situation has evolved with time. Thus a company might need to come with different solutions for each context. Investors might need to understand the contextual aspect too, if they want to influence long-term corporate behavior.

<u>Climate change</u>

What are investors' roles and interests in mitigating climate change? What is the appropriate role of companies in the context for government policies on climate change? What are the appropriate strategies for addressing climate change: engagement, divestment or both? These are some of the comments and answers:

a. Climate change is a potential downside risk. We need legal regulations to combat climate change. Lobbying by large companies has a big impact on law making. However, some companies are lobbying against the interests of long term investors. Therefore, one possibility is to identify those companies lobbying against sustainability and engage with them to change their behaviour.
b. Six important points when engaging with companies regarding climate change: (1) We have to do the analysis right and apply some creativity, (2) Be honest about our economic interest; (3) Recognise the reality of the company; (4) Focus is labour intensive; (5) Be constructive, helpful and consistent; (6) Be aware that you have potential global reach!
c. Another strategy is investing. Deployment of these solutions can be accelerated by:

    (1) Investing more now in the sectors that already offer positive economic returns; Seek opportunities in new sectors responding to climate change. There is a wide

range of opportunities to invest in sectors with strong growth forecasts, e.g.: (a) Renewable energy - assets and companies; (b)Energy efficiency products and services; (c)Leaders in affected industries (can extend to most industries); (d) Carbon trading; and

(2) Following policy which involves business compliance:. Some examples are:(a) Reduce own emissions, e.g.: Identify efficiency savings through audit of energy use/ Use CCS (b) Change fuel mix to low carbon sources (switch to renewable electricity, biofuels and hybrid cars for transport fleet); (c) Offset remaining emissions by purchasing emission reduction certificates from either the Kyoto market or the voluntary market (d) Consider performance of portfolio investments by assessing risk and reputation issues of emissions performance of subsidiaries.

d. A fourth avenue is to advise policy-makers on the steps needed to make the other alternatives economically viable. Investors can help governments: Understand where policy is failing; Recommend key policy features; Achieve consumer support for policy changes.

Conclusion

One of the objectives of the conference was to start the evaluation process of the Ethical Guidelines for the Norwegian Government Pension Fund – Global. During the conference some panellists offered suggestions for improvement of the guidelines. Some of them are summarised here:

a. It was said that it is odd that Norges Bank Investment Management (NBIM) only works with engagement and the Council on Ethics only with exclusions. It was suggested that now that we are starting the evaluation of the Guidelines, it might be appropriate to reconsider the separation of tasks between the two entities. Two suggestions were made: (1) If the purpose of the Council's decisions is to avoid Norway's contribution, the decisions could just have been kept quiet, also to avoid some of the criticism. (2) If the intention is to change corporate conduct, then the solution should not be to sell companies, but to buy them in order to gain more influence over them.

b. Thus, there are two possible "constructive solutions": (1) Create more elaborate guidelines. It is important to see divestment as part of a spectrum of tools. (2) Elaborate guidelines for rehabilitation. Create a watch list (could be public) of companies that have a case (shaming behaviour) and use the Council's recommendation as criteria for readmission (carrot). Try to combine divestment and engagement in this way. The way the guidelines are implemented today, it is not always clear whether a decision to exclude is based on a risk assessment of potentially unethical behaviour in the future or a punishment for past behaviour.

c. A recurrent theme during the conference was information gathering. Most of the panellists highlighted how difficult it is to obtain solid reliable information on companies. The problem worsens when the companies researched operate in armed conflict areas. However, the quality of this information is crucial to carrying out engagement processes, positive or negative screening. As a result, a call, in general was made by most of the panellists, for transparency in the gathering of information, the standards and procedures applied. The majority of the panellists agreed that predictability and being consistent were crucial to creating legitimacy and thus being taken seriously by companies.

<u>The road ahead</u>

There are a few basic trends in the field. Rapid changes are shaping expectations and how people assess what has value, what is good and what is bad. There is a willingness to share and disclose. Also the nature of enterprise risk has changed and risk and opportunities today relate to what one may call "soft" issues or ESG issues. Soft issues are becoming material, but how fast is this happening and how far can it be accelerated? Many would argue that coming to grips with ESG issues is a necessary precondition for becoming a leader and to stay a leader business wise.

When the UN Global Compact was launched, there was a feeling that investors were lagging behind business. But investors are now catching up and overtaking businesses. Now we need to look into the future making sure that we learn form the past:

a. We need to make sure that all investments initiatives are pointing in one direction, and we need consistency and synergies in order to make a change. We can succeed by building on the synergies between a number of scalable building blocks such as the UN Global Compact, the PRI or the Carbon Disclosure Project.
b. We need to keep a global interaction perspective on 2 global dimensions: (1) technology, because it is essential and (2) the political will to sustain openness. We have to make an extra effort to understand the needs from the emerging markets. A fair and level playing field is necessary for anyone to be able to make a premium on SRI.
c. We need to ensure that knowledge travels fast between languages and countries. We have to make sure that good knowledge is shared swiftly.
d. We need honest research: (1) How do voluntary approaches relate to public policy making? (2) How can universal ownership be used so that collaborative action becomes more efficient? We need to bring business and investors together.
e. We give a lot of attention to the pressing issue of climate change. However, it is important not to allow climate change to squeeze out other issues by giving it exclusive attention. Instead climate change could be used to shift the focus from only corporate governance issues to other environmental and social issues that also deserve attention. A focus on the opportunities of climate change by enhancing business opportunities is also a way to tackle these other issues.