

Lessons from Norway: A Sovereign Wealth Fund that takes Ethics Seriously **Dr Robert Howell, Chair, Council for Socially Responsible Investment**

The recent tragedy in Norway, where a far-right Islamophile ran amok with car bombing and machine gun attacks, has drawn attention to Norway. In reporting the news the *Economist* has an article entitled "The Peacemakers" that describes Norway's role in the world and how such a small country plays a large part. It in particular describes the long standing role it has played as a contributor to conflict resolution, with examples such as the Arab-Israel conflict, but also Columbia, Haiti, Cyprus, and numerous others. In addition it has used its oil and gas income to fund many worthwhile causes: hunger in the Horn of Africa; paying Brazil not to chop down the Amazon, and many United Nations activities. What the *Economist* article only mentioned very briefly was the success that the Norwegians have in the setting up of their sovereign wealth fund.

Norway

The Norwegian Petroleum Fund was set up in 1990 (Council of Ethics). The Norwegians established the Graver Committee in 2002 to recommend ethical guidelines to the Storting (parliament). The Storting adopted these, and the Ministry of Finance made them effective from 1 December 2004. The Council on Ethics was established by Royal Decree 19 November 2004. The Act relating to the *Government Pension Fund – Global* gives the Ministry of Finance responsibility for management of the Fund. The Ministry of Finance has delegated operational management of the Fund's capital to Norges Bank. The Council on Ethics provides evaluation of whether potential investments in financial instruments issued by specified issuers are inconsistent with the ethical guidelines.

The ethical guidelines are based on two premises. First, the Fund is an instrument for ensuring that a reasonable portion of the country's petroleum wealth benefits future generations. The financial wealth must be managed so as to generate a sound return in the long term, which is contingent on sustainable development in the economic, environmental and social sense. The financial interests of the Fund shall be strengthened by using the Fund's ownership interests to promote such sustainable development.

Second, the Fund should not make investments which constitute an unacceptable risk that the Fund may contribute to unethical acts or omissions, such as violations of fundamental humanitarian principles, serious violations of human rights, gross corruption or severe environmental damage. The exercise of ownership rights in order to promote long-term financial returns, is based on the UN Global Compact and the OECD Guidelines for Corporate Governance and for Multinational Enterprises. There is negative screening of companies from the investment universe that either themselves, or through entities they control, produce weapons that through normal use may violate fundamental humanitarian principles. There shall be exclusion of companies from the investment universe where there is considered to be an unacceptable risk of contributing to serious or systematic human rights violations, such as murder, torture, deprivation of liberty, forced labour, the worst forms of child labour and other child exploitation; serious violations of individuals' rights in situations of war or conflict; severe environmental damages; gross corruption; and other particularly serious violations of fundamental ethical norms.

Since its inception the Council has recommended for exclusion tobacco companies, Walmart (serious or systematic human rights violations) and companies that cause severe environmental damage. The latter include Rio Tinto and Freeport McMoran

(Council of Ethics).

New Zealand

The New Zealand Government's investment agencies are called Crown Financial Institutions. They are the NZ Superannuation Fund, the Government Superannuation Fund, the National Provident Fund, the Accident Compensation Corporation, and the Earthquake Commission. The primary "ethical" requirement is the "international reputation" clause, or "to avoid prejudice to New Zealand's reputation as a responsible member of the world community. Our second conference in 2005 focused on the investing activities of the Crown Financial Institutions (CFIs) and how they were carrying out their responsibilities to invest so that New Zealand's international reputation was not prejudiced. Our research on the CFIs found that they were not significantly excluding anything, and carrying out no engagement. We found that they were all invested in tobacco, and companies with terrible labour and environmental records. On the day of our conference the Accident Compensation Corporation announced that they would divest from tobacco. After the Conference a number of the CFIs excluded investment in certain activities such as whaling and landmine manufacture, and engaged with companies using UN criteria.

Following on from the 2005 conference on CFIs Maryan Street sponsored a private member's bill to change the legislation for CFIs. When she became Minister of ACC in 2007 she had to drop her bill, but she asked them what they would do differently if her bill had been passed. They replied "We would divest our investments in the nuclear weapons industry". They subsequently did so. However, the NZ Superannuation Fund has not followed. Russel Norman recently questioned the NZ Superannuation Fund's investment in Mumbai-based multinational Larsen and Toubro, which is involved in designing and building a fleet of nuclear-armed submarines for India. The NZ Superannuation Fund continues to invest in companies that the Norwegians have excluded because of their severe environmental damage.

Conclusion

Norway has a similar sized population to New Zealand. Norway's SWF fund has \$571.5 billion. New Zealand's Superannuation Fund has \$12.1 billion (SWF Institute). Despite the difference in size Norway has invested in a way that is consistent with its values. New Zealand has not. Over three decades New Zealand took on the French and American Government's about nuclear weapons. It forgot to mention this to the New Zealand Treasury. Norway's fund is seen as best practice but New Zealand's CFIs are not. Claims have been made that New Zealand should not worry about climate change because we only contribute .2% of the world's emissions. Yet we have participated in many wars on the basis that, no matter how small, we have a responsibility to play a part in helping deal with global issues. Norway does that in many ways including its investments. New Zealand should do so as well.

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