

NORDIC ENGAGEMENT COOPERATION

Annual Engagement
Report, 2018

A collaborative engagement
network between

PFA
Mere til dig

Folksam

ILMARINEN

ALP



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ABOUT THE NORDIC ENGAGEMENT COOPERATION

Launched in 2009, the Nordic Engagement Cooperation (NEC) consists of four Nordic institutional investors: The Folksam Group from Sweden, Ilmarinen Mutual Pension Insurance Company from Finland, KLP from Norway and PFA Asset Management from Denmark. To complement our own engagement, we have made the strategic decision to coordinate some of our engagement activities with companies on environmental, social and governance issues. Collectively we have approximately EUR 213 billion in assets under management as of the end of 2018.

OUR APPROACH

The common denominator for NEC is a belief in dialogue as the most efficient tool to achieve change. However, other tools are also available if the engagement goals are not achieved. We engage with companies in collaboration with our service provider GES, now part of Sustainalytics¹. The engagement process is based on a systematic screening of companies regarding their compliance with well-established international conventions and guidelines on environmental, social and governance (ESG) issues within the framework of the UN Global Compact.

NEC is an integrated part of the members' regular engagement work. NEC engages with companies that are, or have been, involved in systematic incidents or an isolated incident that has severe consequences for the environment or humans. NEC can also initiate engagement with an industry leader to support the development of best-practice within an industry such as the textile industry which continued to be a specific focus in 2018. The collaboration strives to cover a broad range of issues focusing on non-Nordic companies in which all four NEC members have holdings. Companies that the NEC collaboration has agreed to engage with to achieve progress are put on **NEC Focus List**. Companies are selected based on:

- NEC's ability to influence;
- potential for NEC to gain in-depth understanding of an issue; and
- material issues where monitoring of developments, including company's response and progress, are essential to NEC.

A case can be kept on the NEC Focus list of engagement for a three-year period. If deemed relevant, the dialogue can be extended beyond that period. All members of NEC invest with a long-term horizon. Hence, we have the opportunity to have a long-term dialogue with companies.

The NEC structure includes quarterly meetings, a clear delegation of responsibilities and a secretariat that is responsible for the operational work. NEC is not a closed cooperation – it has from time to time collaborated with other investors. As determined on a case-by-case basis, the NEC members welcome the addition of other investors as regular members.

¹ GES became part of Sustainalytics in January 2019 [www.sustainalytics.com/press-release/sustainalytics-acquires-
ges-international/](http://www.sustainalytics.com/press-release/sustainalytics-acquires-ges-international/)

ENGAGEMENT BRIEF









2018 was the tenth year of collaboration within the Nordic Engagement Cooperation (NEC). During the year, we added four new engagements cases to the NEC Focus List: AB Foods/Primark, Burberry, Ralph Lauren and Johnson & Johnson. Three engagement cases were completed during the year: BHP Group, Nestle and Deutsche Post. There were in total 10 companies with 11 engagement cases on the NEC Focus List during 2018.





NEC FOCUS LIST 2018

Proactive Engagements

COMPANY	TOPIC	ENGAGEMENT INITIATED
Burberry	Textile sector – Focus on sustainable cotton	2018
L-brands	Textile sector – Focus on sustainable cotton	2017
Ralph Lauren	Textile sector – Focus on sustainable cotton	2018
Primark	Textile sector – Focus on sustainable cotton	2018

Norm-Based Engagements – based on incidents

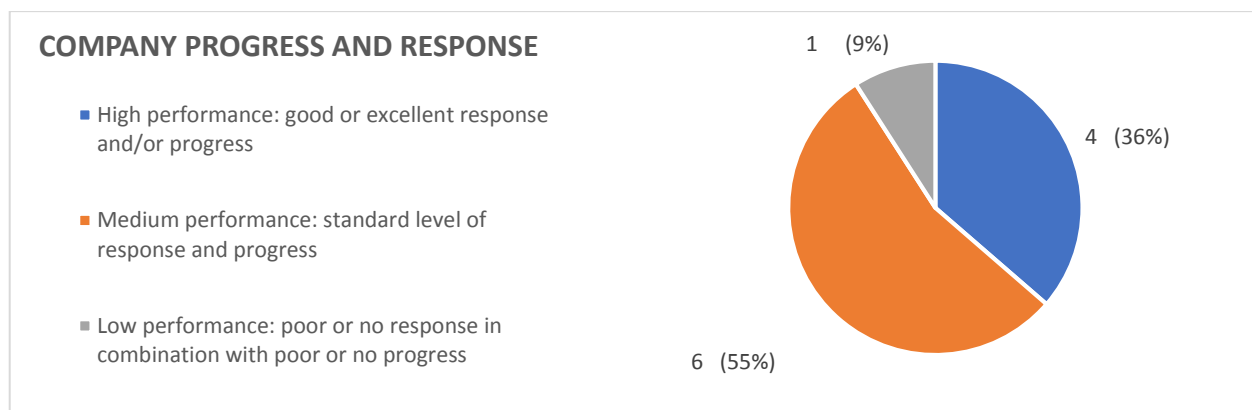
COMPANY	GLOBAL COMPACT PRINCIPLE	INCIDENT	ENGAGEMENT INITIATED
Enbridge		Violations of indigenous peoples' rights	2017
ENI		Corruption	2016
Johnson & Johnson		Product-related injuries	2018
Novartis		Corrupt practices	2017
Royal Dutch Shell	 	Human rights violations and environmental damage	2013
Royal Dutch Shell		Corruption	2016
Volkswagen		Violations of emissions standards	2015

KEY  - Human rights  - Labour rights  - Corruption  - Environment

ENGAGEMENT PROGRESS AND RESPONSE

Multiple indicators are used to measure engagement activity and performance.

During 2018, 16 meetings and conference calls on ESG issues were held with companies on the NEC Focus List. Response and progress on the engagement cases are measured and combined to create a performance score. Of the 11 cases on NEC's Focus List, six had medium performance, four had high performance and one had low performance.



PROACTIVE ENGAGEMENTS

TEXTILE SECTOR - SUSTAINABLE COTTON

During 2018, NEC extended the textile engagement beyond L Brands and three new companies were included – Burberry, Primark and Ralph Lauren. Dialogue has been held with all companies during the year, and they all grasp the importance of sustainable cotton. However, there can be a long way between theory and practice, and some gaps in performance are visible. While Burberry and Primark have taken some measures to address this, although of different character and to a different extent, L Brands and Ralph Lauren have not. Both companies state to have started looking into what can be done and how strategies can be developed but have so far not taken any practical steps towards a more sustainable cotton consumption. Without a strategy for sustainable cotton, companies are exposed to significant risks relating to the cultivation of conventional cotton.

As mentioned above, there are various ways for companies to address the use of sustainable cotton which dialogue and face-to-face meetings with Burberry and Primark have indicated. The different approaches are interesting to see, especially keeping in mind that these are two very different kind of companies – one high end brand and one fast fashion company.

Burberry joined the Better Cotton Initiative (BCI) in 2015. The ambition is to eventually use only sustainable cotton, and the company has recently set a target to have 100 per cent Better Cotton by 2022. There are internal interim targets for each year up until then. In March 2018 the figure was 28 per cent, up from 21 per cent in 2017. In the dialogue, Burberry has highlighted that it is important to remember that this is 'better' cotton, and not necessarily the best. With regards to Uzbek cotton, it is impossible to guarantee zero Uzbek cotton given the complex structure of the cotton supply chain where different cotton is often mixed along the way and hard to segregate. The BCI Mass Balance System model instead ensures that a specific amount of sustainable cotton will be farmed due to member companies' specific demands and volumes.

Apart from this target, Burberry is assessing its cotton sourcing portfolio, to see if for example more organic cotton can be included. However, this is challenging due to the amounts available; the long staple cotton the company uses most is not available in larger quantities. Recycled cotton is challenging because the quality is degraded. There is a materials innovation team looking at alternative options and sources.

Primark has opted for another strategy with regards to sustainable cotton. The company signed the Cotton Pledge in 2015 to ban the use of Uzbek cotton. However, as traceability is extremely challenging and it is not possible to ensure no Uzbek cotton is prevalent in the supply chain, the company decided to shift focus. A partnership with CottonConnect was created to develop a Sustainable Cotton Programme, implemented among farmers in India focussing on minimising environmental impacts, health and safety educating farmers, irrigation, use natural earthy pesticides etc. In 2018, the program was extended into Pakistan and is now covering 20,000 farmers in total. From the cotton obtained through the Sustainable Cotton Programme, Primark has produced a pyjama made of 100 per cent sustainably certified cotton of which 4.4 million pairs have sold. The company has not set any targets for the overall use of sustainable cotton.

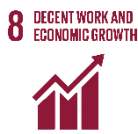
These are two different approaches to sustainable cotton, each with its pros and cons. Primark can ensure a product made of 100 per cent sustainable, non-Uzbek cotton which is very positive. However, this is a

very small part of the company's product portfolio, and it lacks an overarching long-term commitment to sustainable cotton. Burberry on the other hand has a company-wide strategy with set goals and timeline. The company cannot ensure that Uzbek cotton is not prevalent in its supply chain but compensates for this through the BCI commitment and the Mass Balance System model.

Another part of the textile project is engaging with stakeholders to expand knowledge about relevant issues. In May 2018 a conference call was held with UNICEF, who recently initiated a project on children's rights in global garment & footwear supply chains, as a collaboration with Norges Bank Investment Manager (NBIM). The objective of the project is to create a network to get companies together and explore how to improve policies on children's rights based on the UN Guiding Principles for Business and Human Rights. Global supply chain issues are not only limited to child labour but also cover broader issues like living conditions of families, and a lot is still needed to identify and address the way children are impacted.

A face-to-face meeting was held with NBIM in Oslo in September 2018 to learn more about its approach to sustainable textile and experience from working with the project mentioned above. NBIM has benchmarked 600 of its investee companies on children's rights in line with UNGP and Children's Rights and Business Principles, and initiated engagement with 12 sector leaders in order to try to raise industry standards.

Engagement contributes to UN Sustainable Development Goal(s):



NORM-BASED ENGAGEMENTS

COMPLETED ENGAGEMENTS 2018

NEC officially ended its engagement with Deutsche Post in 2018. The case was described in detail in the Annual Report 2017. NEC also closed engagement with BHP Group and Nestlé during 2018, and the cases are described below.

BHP Group

NEC added the global resources company BHP Group (formerly known as BHP Billiton Plc) to its focus list in 2016. BHP Group is a producer of various commodities, including iron ore, metallurgical coal, copper and uranium. The company extracts and processes minerals, oil and gas from its production operations located primarily in Australia and the Americas.

In November 2015, a tailings dam operated by Samarco Mineração (Samarco), a joint venture in which BHP and Vale S.A. (Vale) each hold 50 per cent, breached, releasing tailings which overtopped the Santarém dam and flooded the town and district of Bento Rodrigues in Minas Gerais state, Brazil. As a result, 19 people died and over 700 were displaced. The tailings dams had been used to hold the waste from iron ore processing operated by Samarco and from Vale's own mine. The tailings were a mixture of water and discarded rock. The dams had all the necessary operating licences and were compliant with local regulations.

The cause of the accident was subject to Brazilian federal and state investigations, as well a commissioned external technical review started in December 2015. The technical review was publicly reported in August 2016. The review was very critical of the construction, redesign and management of the dam; BHP incorporated the findings into its internal review.

In March 2016, the companies reached a collective agreement with the State and Federal governments and the Attorney General, which outlined 42 remedial socio-economic and environmental programmes, as well as 29 "good will projects". It also set the terms of reference for the Renova Foundation to manage the remedial programmes. The programmes are very comprehensive and have withstood scrutiny by the Public Prosecutors and their experts during negotiations in 2017.

In August 2016, the Fundação Renova (the Renova Foundation) was established by the companies to manage and oversee the remedial works. In August 2018, the Renova Foundation informed stakeholders that local authorities had given their approval for construction work on the first resettlement of Bento Rodrigues to commence.

By early 2018, compensation had been agreed with the majority of family members who had lost a relative in the accident. Compensation had also been paid for those who had had their water supply interrupted. Whilst arrangements were made for fishermen whose livelihood was impacted by the fishing bans to receive a monthly wage. To date the compensation programme has settled the majority of claims. There are some claims which have yet to be settled through the compensation programme, with some claimants deciding to seek compensation through the courts.

BHP has not suffered any reported tailing dam failures since November 2015. Given the remedial measures put in place by the company, which enables the company to manage its risks associated with its non-

operated joint ventures and its tailings management in a centralised and more consistent manner as well as addressing the socio-economic and environmental impacts of the collapse, the case is considered to be resolved.

NESTLÉ

NEC added Nestlé to its focus list in 2016 in relation to allegations of labour rights violations in the company's seafood supply chain. The alleged abuses included payment issues and forced overtime shifts, as well as involuntary detention and fatalities caused by improper working conditions. As a response, Nestlé stated that such practices were unacceptable and launched an internal investigation in its supply chain to identify any potential wrongdoings. The key findings were presented in a Thailand Action Plan for the Responsible Sourcing of Seafood, detailing the company's commitment to eliminating labour and human rights abuses in the seafood supply chain in Thailand.

NEC continued its dialogue with Nestlé by participating in a few conference calls with the company. Over the course of the engagement, the discussions concerned traceability enhancement, supplier risk assessment, grievance mechanisms, education programme provided to migrants as well as collaboration with all relevant stakeholders. Between January 2016 and December 2017, Nestlé implemented the Action Plan, which aimed at improving labour conditions and eliminating human rights abuses in its supply chain. Nestlé, in cooperation with its major supplier, the Thai government, and Thailand's Shrimp Sustainable Supply Chain Task Force, introduced a supply chain traceability system that enables traceability of seafood ingredients from fishing vessels through the supply chain to finished products. This involves the implementation of a fishing vessels verification programme that includes the third party verified audits of randomly selected boats. Currently, 99 per cent of the seafood ingredients that Nestlé sources from its seafood supply chain in Thailand are traceable back to fishing vessels and farms. Back in 2015, the company's traceability was only 9 per cent.

Nestlé in cooperation with a number of stakeholders developed an education programme for factories, primary processors and fish farms to help end unfair practices, and tools to support the inspection of fishing vessels to identify where forced and child labour is taking place. The training programme has already been introduced to some port and boat workers. The first group that underwent training was informed about how to use a grievance mechanism. At the beginning of 2018, the company launched a demonstration boat which is a part of the education programme focused on training migrant workers in the fishing industry. The idea of the demonstration boat is to show how it is like to have a boat that complies with all international requirements including the ILO Convention on Human Rights at Sea. Currently, Nestlé is using this boat as a training facility, invites boat captains onto the boat to make them aware of the requirements that they should abide by. Nestlé also trains them on good working conditions and health and safety requirements.

In July 2018, Nestlé published a new Responsible Sourcing Standard that replaced previous versions of the Nestlé Supplier Code. The document describes the policies and requirements which Nestlé applies within its supply chain. As a result of the company's initiatives, Sustainalytics decided in November 2018 to resolve this case.

Nestlé has adopted a responsible course of action and implemented the Action Plan that aimed at improving traceability across the seafood supply chain as well as the working and living conditions of workers. However, as the country and the sector still pose a risk of labour violations, Sustainalytics will continue to monitor further developments in relation to this specific issue.

ONGOING PROJECTS AND COMPANY DIALOGUES

With the exception of Johnson & Johnson, NEC had ongoing dialogues with all companies on the NEC Focus List during 2018. Specific actions within NEC include company meetings, conference calls, investor letters, contacts with NGOs and labour unions. Through quarterly meetings, the NEC members determine the strategic direction for their joint engagements.

Case profiles for all norm-based cases on the NEC Focus List can be found in the appendix. The Enbridge case is highlighted here in more detail.

ENBRIDGE

In 2016, protests around the controversial Dakota Access Pipeline (DAPL) escalated and in September the same year, the UN Special Rapporteur on the rights of indigenous peoples stated that the project posed significant risks to the Standing Rock Sioux tribe. The pipeline passes close to the tribe's reservation and beneath the Missouri River, the reservation's main source of drinking water. The pipeline's risks include water pollution and the destruction of burial grounds and sacred sites. The Special Rapporteur, among others, has also alleged that the tribe was not effectively consulted and did not give its consent to the current routing of the pipeline. On the other hand, although not without hurdles, the project has been approved by regulatory agencies in all four states where the pipeline operates. In February 2017, the US Army Corps of Engineers, the US authority which issues permits for the part of the pipeline crossing federal land, granted the final permit needed for its completion. In June 2017, the pipeline became operational.

The DAPL, part of the wider Bakken Oil Pipeline, transports crude oil from the Bakken fields of North Dakota to a distribution centre in Patoka, Illinois. The pipeline was developed and is operated by Energy Transfer LP, which holds a 38.25 per cent ownership in the pipeline. In February 2017, Enbridge communicated to NEC's service provider, Sustainalytics, that the final conditions had been met and that the Bakken Pipeline System deal, which includes Dakota Access Pipeline, had been closed. With the deal, Enbridge Energy Partners acquired a 27.6 per cent stake in the project. Since then, Sustainalytics has engaged Enbridge to strengthen policies and processes on the respect of indigenous peoples' rights.

Criticism over the pipeline by Standing Rock Sioux and others remains unresolved and is subject to a litigation process in the US. Questions also remain on alignment by Enbridge to international norms on the rights of indigenous people and on security and human rights matters. The dialogue with the company has however been constructive and it has shown openness and has taken concrete measures to improve its practices.

Indigenous Rights and Relationships in North American Energy Infrastructure

A Discussion Paper: June 2018



ENBRIDGE
Life. Power. Energy.

Version: June 18, 2018

In late June 2018, the report named "Indigenous Rights and Relationships in North American Energy Infrastructure" was released by Enbridge. The report is a comprehensive outline of Enbridge indigenous rights policy and how it is systematically applied in company operations. The report also includes a review of Enbridge's policies and procedures in relation to the Foley Hoag's (US law firm specialised in human rights) good practice reports on social impacts in the US pipeline industry.

A stakeholder engagement process followed the report and the company is currently reviewing feedback. NEC will continue its engagement with Enbridge in 2019 and encourage the company to integrate stakeholder input into its processes. Key points to follow-up on with the company are alignment with international norms in relation to indigenous peoples' rights as well as security and human rights matters.

Contributes to UN Sustainable Development Goal(s):



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COUNTRY

Brazil

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

In November 2015, a tailings dam operated by Samarco Mineração (Samarco), a joint venture in which BHP and Vale SA (Vale) each hold 50 per cent, breached, releasing a mud flow which overtopped the Santarém dam and flooded the district of Bento Rodrigues in Minas Gerais state, Brazil. As a result, 19 people died and over 700 were displaced. The tailings dams had been used to hold the waste from iron ore processing operated by Samarco and from Vale's own mine. The tailings were a mixture of water and discarded rock. The dams had all the necessary operating licences and were in compliance with regulations. The cause of the accident has been subject to Brazilian federal and state investigations as well as the companies' internal investigations and could be summarised as being due to a combination of poor design and inappropriate operational controls. In March 2016, an agreement was reached between Samarco, Vale, BHP and the Brazilian authorities in which the companies would pay BRL 20 billion (USD 5.1 billion) over the next 15 years to cover the costs of social and environmental remediation measures. In August 2016, the Fundação Renova (the Renova Foundation) was established by the companies to manage and oversee the remedial works. In August 2018, the Renova Foundation informed stakeholders that local authorities had given their approval for construction work on the first resettlement of Bento Rodrigues to commence.

GOAL

BHP has identified the cause of the dam failure and has undertaken internal reviews of its tailings facilities and its non-BHP operated joint ventures, including a risk assessment, and has amended the associated emergency procedures where applicable. It has developed a remediation strategy (including compensation programmes) and supports its management through the Renova Foundation.

THIS YEAR'S DEVELOPMENT

BHP has identified the cause of the dam failure and has undertaken internal reviews of its tailings facilities and its non-BHP operated joint ventures, including a risk assessment, and has amended the associated emergency procedures where applicable. It has developed a remediation strategy (including compensation programmes) and supports its management through the Renova Foundation; this body was established in August 2018 by the company to manage the numerous remedial programmes, commencing construction works on the resettlement of Bento Rodrigues. With this, there are no outstanding issues in relation to the company and the case was resolved.

COUNTRY

India

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

Deutsche Post has been accused of involvement in anti-union practices in several countries since 2010. Between 2010 and 2012, the company was accused of international labour laws violations at its subsidiaries, including in Turkey and Colombia, but it managed to reach a settlement with the ITF and UNI Global (UNI) through the mediation of the German National Contact Point (NCP) for the OECD Multinational Guidelines in January 2014. According to a March 2015 report commissioned by the International Transport Workers' Federation (ITF), workers at DHL India, a subsidiary of Deutsche Post, experienced various practices aimed at suppressing unionisation at the company. The allegations included local and national DHL India managers threatening and discriminating against pro-union workers, as well as relocating such workers, to undermine existing unions. The company also allegedly reclassified the employment status of some couriers into low-level management, without any change in their duties, to make them ineligible to join a union. The company released a report with its review of the allegations, but the publication was criticised by ITF. Additionally, in March 2016 a report was released containing allegations of labour rights violations also in Chile and Paraguay. In July 2016, ITF, UNI and DP-DHL agreed to a protocol committing them to continue dialogue on employment and industrial relations, as an outcome of the complaint to the German NCP for the OECD Multinational Guidelines. The parties agreed to meet four times a year and attempt to resolve issues in a mutually acceptable manner to avoid future problems. In October 2017, the protocol was renewed to continue until late 2019.

GOAL

Deutsche Post has ensured its Code of Conduct is observed throughout its global operations, including subsidiaries. This refers to the Code of Conduct generally and freedom of association specifically. DP has shown it has accurate processes to manage employee complaints, and improved transparency in reporting how it ensures compliance with the Code.

THIS YEAR'S DEVELOPMENT

A face-to-face meeting was held with Deutsche Post at its Bonn headquarters in February 2017, with the to re-boot dialogue and create a better understanding of the importance of transparency and disclosure from an investor perspective, after the company previously being rather defensive. The meeting was positive and constructive. Another positive development during the year was that in September 2017, the company together with union counterparts agreed to extend the protocol of regular dialogue on industrial topics through the German OECD NCP, as all parties considered this constructive atmosphere and solution-oriented approach providing effective mutual benefit. With this, there are no outstanding issues in relation to the company and it was decided to resolve the case in Q1 2018.

COUNTRY

United States

NORM AREA



RESPONSE & PROGRESS



INCIDENT

In September 2016, the UN Special Rapporteur on the rights of indigenous peoples stated that the US Dakota Access Pipeline (DAPL) project posed significant risks to the Standing Rock Sioux tribe. The DAPL, part of the wider Bakken Oil Pipeline, transports crude oil from the Bakken fields of North Dakota to a distribution centre in Patoka, Illinois. The pipeline was developed by Energy Transfer LP, which holds a 38.25 per cent ownership in the pipeline. The remaining partners with significant ownership include Phillips 66, which owns 25 per cent of the pipeline, and Enbridge Energy Partners LP, an affiliate of Enbridge, with a 27.6 per cent stake. The pipeline passes close to the tribe's reservation and beneath the Missouri River, the reservation's main source of drinking water. The pipeline's risks include water pollution and the destruction of burial grounds and sacred sites. The Special Rapporteur, among others, has also alleged that the tribe was not effectively consulted and did not give its consent to the current routing of the pipeline. The project has been approved by regulatory agencies in all four states where the pipeline will operate. In February 2017, the US Army Corps of Engineers, the US authority which issues permits for the part of the pipeline crossing federal land, granted the final permit needed for its completion. In June 2017, the pipeline became operational.

GOAL

Enbridge should enter in to a reconciliation dialogue with Standing Rock, with the objective to reach an agreement on how to improve trust and collaboration related to similar project in the future, as well as mitigation measures by the company to minimise risks and impacts on Standing Rock's territory and population, including its water resources.

THIS YEAR'S DEVELOPMENT

Although all permits are in place and the pipeline is operational, criticism by Standing Rock Sioux and others remains unresolved and is subject to a litigation process in the US. On the other hand, Enbridge has made continuous improvements in its human rights due diligence process, in particular in relation to indigenous peoples' rights. In June 2018, Enbridge released an extensive review of its processes to respect indigenous peoples' rights, including for minority investments such as DAPL. An engagement period followed the report with, among others, First Nations and investors. NEC, through its service provider Sustainalytics, provided feedback before the public release. Stakeholder feedback is being reviewed and will be presented together with Enbridge's sustainability report in June 2019. Key points to follow-up on will be alignment with international norms in relation to indigenous peoples' rights as well as security and human rights matters.

COUNTRY

Nigeria

NORM AREA



RESPONSE & PROGRESS



INCIDENT

In 2011, Eni and Royal Dutch Shell (Shell) paid the Nigerian government USD 1.3 billion for offshore oil block OPL 245. According to a May 2012 report by the NGO Global Witness, UK High Court case proceedings revealed the companies had known that USD 1.1 billion of the money would be transferred to Malabu Oil&Gas (Malabu), a company allegedly controlled by a former Petroleum Minister of the country. The case was fought between Malabu and an agency that said it had brokered the deal. According to the NGO, court documents indicate that both Shell and Eni dealt with the ex-minister before the payment to the government, which included secret meetings and negotiating the block's price. The companies denied the allegations. In October 2014 it was reported that, according to Italian prosecutors investigating Eni's involvement in the deal, at least half of the USD 1.1 billion was used to bribe local politicians, intermediaries and others. In December 2015 Global Witness reported that new evidence from leaked internal emails between senior Shell and Eni managers showed that the companies were fully aware and actively arranged for their USD 1.1 billion payment for OPL 245 to be sent Malabu Oil and Gas. In December 2017, media reported that an Italian judge had ordered Shell, Eni and the CEO of Eni, among past and present managers, to stand trial for corruption in Nigeria. The trial started in June 2018, and, in the first ruling in September 2018, the court reportedly sentenced to four years in prison two men who had acted as go-betweens in the attribution of rights over the oil block. The trial continues.

GOAL

Eni should demonstrate that its code of conduct, due diligence and risk management processes in the areas of acquisitions and divestments are robust and universally applied.

THIS YEAR'S DEVELOPMENT

In June 2018, the international corruption trial began in Italy of CEO Claudio Descalzi, Chief Development Operations & Technology Officer Roberto Casula, several other individuals and Eni and Shell as companies. The trial is expected to continue into the second half of 2019, but there have been notable developments in these and related legal proceedings in the meantime. In September, a Milan court reportedly sentenced to four years in prison two men, Emeka Obi and Gianluca di Nardo, who had acted as go-betweens in the attribution of rights over the oil block. In her written reasons for this conviction the judge reportedly said that Eni and Shell were fully aware their purchase of the Nigerian oilfield would result in corrupt payments to politicians and officials. In November 2018, former Eni board member Luigi Zingales has told the court in the international corruption trial that the company made no thorough background checks on a middleman it hired to broker the OPL 245 acquisition. According to a media report in December 2018, the Nigerian government is suing Eni, Shell and other companies in London for USD 1.1 billion over the OPL 245 deal. The suit alleges that Eni and Shell are partly responsible for the behaviour of "corrupt Nigerian officials" who used the payment for personal enrichment. A slightly more positive development for the company occurred in September when an Italian court acquitted Eni, its former CEO Paolo Scaroni and its current upstream head Antonio Vella of corruption charges in a long-running trial over bribes in Algeria.

Alongside these legal developments NEC has continued a dialogue with the Chairman of the company Emma Marcegaglia flowing from our letter of November 2017. The dialogue has focussed on a number of aspects of Eni's anti-corruption system and the company's response to the OPL 245 affair. It has resulted in significant additional information on succession planning in relation to the CEO, the CEO's role as head of the Anti-Corruption Compliance

Unit, the functioning of this Unit and the company's whistleblowing channel. We also discussed with the Chairman the question of disclosing greater detail on its internal investigations into the OPL 245 affair, as well the company's position on a report published by Global Witness in November indicating that the deal for the OPL 245 licence included previously unreported terms that were very generous to Eni and Shell. On the basis of the company's public disclosure and our dialogue, Eni displays a strong anti-corruption system, including internal guidance, a compliance programme and training. However, we will of course continue to monitor the proceedings in Italy as any adverse judgement may exposes weaknesses in this system.

COUNTRY

United States

NORM AREA



RESPONSE & PROGRESS



INCIDENT

As the media reported in December 2016, a US federal jury ordered Johnson & Johnson (J&J) to pay over USD 1 billion in damages to six plaintiffs who alleged that they were injured by a faulty hip replacement device, Pinnacle Acetabular Cup System (Pinnacle), manufactured by a subsidiary of the company, DePuy. Reportedly, the plaintiffs experienced tissue death, bone erosion and other health problems. In December 2016, due to constitutional considerations, a US District Judge halved the damages award that the company was previously ordered to pay. Prior to that, in March 2016, the company paid USD 150 million in punitive damages to patients who were implanted with DePuy Pinnacle device. In November 2017, J&J was ordered to pay 247 million to six patients who claimed that the company hid defects in its hip replacement system. As of March 2018, there were over 9,400 pending lawsuits in relation to Pinnacle hip implants. Moreover, in March 2018, J&J was facing 13,000 lawsuits in relation to pelvic mesh devices. Additional 7,000 talc powder lawsuits were pending as of April 2018.

GOAL

The company should develop a code for the disclosure of all product-related data across all its operations to ensure concerns in relation to its products are communicated to users as soon as is practicable.

THIS YEAR'S DEVELOPMENT

Johnson and Johnson has refused all requests for a conference call with Sustainalytics, however, in July it did send its Health for Humanity 2017 Sustainability report. During 2018, there have been numerous court cases in the US, and elsewhere, regarding the alleged presence of asbestos in Johnson and Johnson's talcum powder. A number of court cases and appeals have been found in favour of the company for example in, Missouri in June, New Jersey and California in November and Singapore in December. The New Jersey case was an appeal against a previous decision to award damages of some USD117 million against a plaintiff who allegedly developed mesothelioma from a 30-year use of talcum powder over some. But Johnson and Johnson was ordered to pay some USD 4.7 billion in damages to 22 women in July by a Missouri court.

There have also been developments with regard to the company's faulty hip replacement, particularly in India where affected patients refused the Government's compensation plan for up to INR 1.2 crore (USD 170,000) per patient in December 2018.

In January 2018, Johnson and Johnson did not meet the deadline set by the Australian Therapeutic Goods Administration on updating product information on transvaginal sling and mesh devices to include warnings about potential adverse side effects. The company withdrew the supply of its mid-urethral sling devices and the devices will no longer be imported.

COUNTRY

Thailand

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

In 2015, it was reported that a company supplying fish to Thai Union Frozen Products, a supplier to Nestlé SA, was abusing its workers. Allegedly, fishermen reported labour violations, including payment issues and forced overtime shifts. Involuntary detention and fatalities caused by improper working conditions reportedly also took place. Nestlé stated that such practices were unacceptable and launched an internal investigation in its supply chain to identify any potential wrongdoings. The key findings were presented in an action plan that Nestlé was implementing from January 2016 to December 2017. Consequently, Nestlé has improved labour conditions within its seafood supply chain.

GOAL

Nestlé introduced a verifiable supply chain traceability system that enables traceability of seafood ingredients through the supply chain to finished products. This includes implementation of a fishing vessels verification programme that covers the third party verified audits of randomly selected boats. Nestlé also implemented business requirements toward its suppliers that address human rights and labour standards. Nestlé reporting covers monitoring of management systems assessed by an independent body.

THIS YEAR'S DEVELOPMENT

During the call in April 2018, GES learnt that Nestlé fully incorporated the business requirements of the Thailand Action Plan for the Responsible Sourcing of Seafood into commercial relationships. The principles of the Supplier Code were shared with and signed by 100% of first and second tiers suppliers. The company also improved traceability to vessel through mock recalls with its Thai seafood suppliers. At the beginning of 2018, the company launched a demonstration boat which is a part of the education programme focused on training migrant workers in the fishing industry. The idea of the demonstration boat is to show how it is like to have a boat that complies with all international requirements including the ILO Convention on Human Rights at Sea. Currently, Nestlé is using this boat as a training facility, invites boat captains onto the boat to make them aware of the requirements that they should abide by. Nestlé also trains them on good working conditions and health and safety requirements. In July 2018, Nestlé published a new Responsible Sourcing Standard that replaced previous versions of the Nestlé Supplier Code. The document describes the policies and requirements which Nestlé applies within its supply chain. As Nestlé has taken relevant measures and addressed the issue properly, the case has been resolved.

COUNTRY

South Korea

NORM AREA



RESPONSE & PROGRESS



INCIDENT

In recent years, Novartis has been investigated over alleged corrupt practices in several countries. In January 2017, the media reported that Greek prosecutors raided the company's offices in the country as part of a probe into bribery allegations. The company stated that it was cooperating with authorities. Prior to that, in April 2016, the Turkish chief prosecutor launched an investigation into the Turkish unit of Novartis following accusations by an anonymous whistleblower about alleged bribes paid to increase sales of Novartis medicines. Allegedly, between 2013 and 2014, the company paid the equivalent of USD 290,000 to secure a USD 85 million profit. As reported, these payments were made to a consulting firm which helped to include the company's products in lists of medicines approved by government-run hospitals. The firm also aided Novartis to avoid price cuts by gaining the government's approval to change the names of two medicines. Additionally, as reported in April 2016, the South Korean prosecutors launched an investigation into alleged kickbacks that were paid to doctors in exchange for prescribing the company's medicines. In August 2016, six former and current Novartis Korea officials, including a former CEO, were indicted without detention. Novartis Korea rejected the allegations but admitted that the internal investigation discovered some unfair trade practices which were conducted without the executives' knowledge. In March 2016, the Securities and Exchange Commission reported that Novartis agreed to resolve allegations that its subsidiaries in China had violated the US Foreign Practices Corrupt Act. Prior to that, in November 2015, the news media reported that the company reached a settlement with the US Department of Justice over alleged kickbacks paid to speciality pharmacies to increase sales of Novartis' products in the United States.

GOAL

Novartis should ensure that the revised and updated anti-bribery policy is followed worldwide and at subsidiary level, and reflects the company's corruption risk exposure. Allocated resources, implementation, corrective actions, monitoring and external verification in relation to the policy should be communicated.

THIS YEAR'S DEVELOPMENT

In a conference call in March 2018, Novartis provided an update on its compliance work as well as its improvements in its due diligence process. Novartis also stated that it has an external legal counsel assisting in the company's own internal investigation regarding the allegations in Greece, but it could not give a timeline for when it is to be finalised. The company further informed that court proceedings are ongoing in South Korea. In early June 2018, Novartis answered Sustainalytics that the company has launched an internal investigation regarding the recent bribery allegations in China but stated that the allegations are unsubstantiated at this time. Novartis also informed that it has made progress with its own internal investigation examining the allegations in Greece. The company explained that it is conducting a thorough investigation, checking all financial transactions with thousands of documents over a 10-year period, hence this needs a lot of time. The company stated that it will take fast and decisive action and do everything to prevent future misconduct, if any wrongdoing is found.

On Novartis' general progress with its compliance program, the company commented that it is discussing an external review of its compliance program. It further stated that it is working on strengthening its third-party risk management across the organization, including how it

engages third parties and how it leverages IT systems to ensure better visibility of the third parties it has engaged as well as how it better monitor compliance of its third parties. This program is currently developing a holistic third-party audit plan. The company also detailed how its sales force is continuously trained in its ethical standards and that the incentive structure for the sales force was changed in 2016, including that Novartis values and behaviours rating must make up a minimum of 20 percent of any associate's variable compensation.

In November 2018, Corporate Compliance Insights reported that "the company has elevated its approach to compliance, culture and trust to best practice", examples including making the Chief Compliance Officer (CCO) a direct report to the Chief Executive Officer (CEO) as well as a seat on the Executive Committee. In addition, the company tied remuneration to an ethics metric.

COUNTRY

Nigeria

NORM AREA



RESPONSE & PROGRESS



INCIDENT

In 2011, Eni and Royal Dutch Shell (Shell) paid the Nigerian government USD 1.3 billion for offshore oil block OPL 245. According to a May 2012 report by the NGO Global Witness, UK High Court case proceedings revealed the companies had known that USD 1.1 billion of the money would be transferred to Malabu Oil&Gas (Malabu), a company allegedly controlled by a former Petroleum Minister of the country. The case was fought between Malabu and an agency that said it had brokered the deal. According to the NGO, court documents indicate that both Shell and Eni dealt with the ex-minister before the payment to the government, which included secret meetings and negotiating the block’s price. The companies denied the allegations. In October 2014 it was reported that, according to Italian prosecutors investigating Eni’s involvement in the deal, at least half of the USD 1.1 billion was used to bribe local politicians, intermediaries and others. In December 2015 Global Witness reported that new evidence from leaked internal emails between senior Shell and Eni managers showed that the companies were fully aware and actively arranged for their USD 1.1 billion payment for OPL 245 to be sent Malabu Oil and Gas. In December 2017, media reported that an Italian judge had ordered Shell, Eni and the CEO of Eni, among past and present managers, to stand trial for corruption in Nigeria. The trial started in June 2018, and, in the first ruling in September 2018, the court reportedly sentenced to four years in prison two men who had acted as go-betweens in the attribution of rights over the oil block. The trial continues.

GOAL

Shell should demonstrate that its code of conduct, due diligence and risk management processes in the areas of acquisitions and divestments are robust and universally applied.

THIS YEAR'S DEVELOPMENT

In June 2018, the international corruption trial began in Italy of Shell and Eni and companies as well as several individuals. The trial is expected to continue into the second half of 2019, but there have been notable developments in these and related legal proceedings in the meantime. In September, a Milan court reportedly sentenced to four years in prison two men, Emeka Obi and Gianluca di Nardo, who had acted as go-betweens in the attribution of rights over the oil block. In her written reasons for this conviction the judge reportedly said that Shell and Eni were fully aware their purchase of the Nigerian oilfield would result in corrupt payments to politicians and officials. According to a media report in December 2018, the Nigerian government is suing Shell, Eni and other companies in London for USD 1.1 billion over the OPL 245 deal. The suit alleges that Shell and Eni are partly responsible for the behaviour of "corrupt Nigerian officials" who used the payment for personal enrichment. The dialogue between NEC and the company also continued over the course of the year. NEC was represented once again at the company’s Sustainability Day in April where the company’s Legal Director gave an update on the company’s position on the OPL 245 affair. During a call with Shell in May 2018, the company disclosed that all management personnel receive online training in the company’s anti-bribery and corruption standards and investor relations agreed to feedback internally the suggestion of assuring the anti-corruption system against an international standard. In September, NEC participated in a conference call with the Managing Director of Shell Petroleum Development Corporation (SPDC) and a meeting with Shell’s investor relations team in Stockholm a week later. Among other matters, these meetings covered a variety of aspects of the anti-corruption system of SPDC, including the application of Shell programmes by SPDC, due diligence and board-level review in relation to transactions.

Overall, we consider that the company displays a fairly well-developed anti-corruption system, which includes its Business Principles and Code of Conduct, risk assessment processes and ethics and compliance training. However, it remains unclear how the company assesses corruption risk associated with the sellers of assets. We wrote to the company about this and outstanding questions in October and December 2018. We will press for answers to these questions in 2019 and continue to monitor the proceedings in Italy.

COUNTRY

Nigeria

NORM AREA



RESPONSE & PROGRESS



INCIDENT

Shell Petroleum Development Company of Nigeria Limited, a subsidiary of Royal Dutch Shell, operates onshore oilfields in the Niger Delta region of Nigeria on behalf of its JV partners the Nigerian National Petroleum Corporation (55 percent), Total S.A. (10 percent) and Eni (5 percent). The consortium produces about 20 percent of Nigeria's annual oil output. In 2011, the extensive oil pollution attributable to SPDC's operations in the Ogoniland part of the Niger Delta was scientifically documented for the first time by the United Nations Environment Programme (UNEP). UNEP scientists examined 69 sites and found that at more than ten locations a severe risk to public health was posed. The report further said that the impact on mangrove habitat has been "disastrous". The extent of the pollution was regional in scale and UNEP estimated that clean-up would take 30 years and cost at least USD 1 billion. A range of recommendations was made to oil companies and the Nigerian government.

GOAL

Shell should have a detailed programme in place to address the recommendations of the UNEP's Environmental Assessment of Ogoniland and demonstrate that regular progress is being made towards achieving the objectives. The company should communicate the plan and progress transparently to shareholders. Shell should also exert its influence on all stakeholders to counter oil theft activity and its related social and environmental impacts.

THIS YEAR'S DEVELOPMENT

The dialogue between NEC and the company continued over the course of the year. NEC was represented once again at the company's Sustainability Day in April where the company's collaboration with the IUCN and the associated assessment of its remediation practices were discussed. During a call with Shell in May we elicited further information about the company's livelihood and training programmes and asked the company about a recent Amnesty International report alleging complicity with human rights abuses by the Nigerian military in the 1990s. The company denied the allegations and considered that a legal case would have no merit. In September, NEC participated in a conference call with the Managing Director of Shell Petroleum Development Corporation (SPDC) and a meeting with Shell's investor relations team in Stockholm a week later. Among other matters, these meetings focussed on Shell and SPDC's disclosure in relation to various aspects of the UNEP recommendations, including operational matters, changes to the regulatory framework, technical working groups and the sale of oil blocks. Overall, we consider that the company has made significant progress in fulfilling the UNEP recommendations, for example, through re-assessment and/or remediation of sites mentioned in the UNEP report, reviewing and improving its remediation system and contributing to the Environmental Restoration Fund for Ogoniland. However, it remains unclear to what extent key recommendations have been implemented, such as in relation to emergency measures for water. We wrote to the company about this and outstanding questions in October and December 2018. We will press for answers to these questions in 2019 and then review the company's progress against the change objective again.

COUNTRY

United States

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

In September 2015, the US Environmental Protection Agency (EPA) and the California Air Resources Board (CARB) revealed that Volkswagen AG (Volkswagen) used illegal software, a so-called "defeat device", in several diesel car models in order to bypass US environmental standards. According to the regulators, the company installed a device that boosted emissions controls during testing and turned them down during normal driving, which resulted in exceeding the pollution limits allowed under federal clean air rules by up to 40 times. As a result, the EPA ordered a recall of over 480,000 cars produced in the years 2009-2015 and Volkswagen announced at the end of September 2015 that it will refit 11 million cars. Volkswagen admitted to fitting the device in September 2015 and stated that it was cooperating with an investigation led by the Department of Justice on behalf of the EPA in April 2016. In June 2016, Volkswagen reached a civil settlement with the US authorities and agreed to pay more than USD 15.3 billion to settle the charges in relation to the 2.0 litre diesel engine vehicles that were fitted with a defeat device. In December 2016, Volkswagen reached a civil settlement with the US authorities in relation to the 3.0 litre engine vehicles and agreed to pay USD 225 million toward nitrogen oxide reduction projects. In January 2017, Volkswagen pleaded guilty to three criminal felony counts in the US. The company agreed to pay USD 4.8 billion to settle these remaining criminal and civil penalties and was put on a three-year probationary period, with a court-appointed monitor overseeing the necessary compliance systems changes. Six Volkswagen executives and employees were also charged for their roles in the emissions scandal. In 2016, the company set aside EUR 18.4 billion to deal with costs related to the scandal. So far, the company has had to pay approximately EUR 28 billion in penalties (primarily in the U.S.). After an EUR 800 million fine by Munich prosecutors in 2018, Volkswagen is reported to have lawsuits in over 50 countries with shareholders alone suing for EUR 9 in damages. While a new CEO and Supervisory Board Member were appointed that year, the CEO of Audi was relieved from his duties in conjunction with an arrest and pending trial, while 70 current and former employees reportedly remain under suspicion. Two German consumer group filed the country's first ever class action suit tied to the emissions.

GOAL

VW should ensure that it has adequate risk management systems and internal controls and that the Supervisory Board has sufficient oversight, independence and skills in order to prevent future violations. Furthermore, VW should demonstrate that it has improved its corporate culture.

THIS YEAR'S DEVELOPMENT

In 2018, GES focused its engagement primarily on what actions Volkswagen was taking to remedy the situation Ahead of the company's 2018 AGM, GES met with the Head of Investor Relations to get an update on management and supervisory board changes, internal controls and corporate culture. The first of three annual reports was published as required under the U.S. and California Consent Decrees. The Independent Compliance Auditor ("ICA") recognised that certain structural changes had been implemented, tied to segregation of duties and the appointment of an Environmental Compliance Officer. The ICA recommended greater specificity with respect to procedures and implementation, as well as more tracking and reporting, uniformity in training programs, additional changes to the whistleblowing system, and greater transparency in information sharing. In 2019, the engagement will focus on improvements vis-à-vis recommendation. In terms of remuneration, there were reports of

Volkswagen modifying variable pay for senior management to take individual wrongdoing into account starting in 2019. The company remained restricted from discussing any topics that may impact ongoing and emerging legal proceedings and cannot yet confirm that they are no longer selling vehicles that contain a defeat device because, according to the company, the definition of such a device only exists in US law. In 2018, the company offered a 'mobility pledge' to any new customer that purchases a diesel vehicle in Germany and may be affected by a potential 'diesel ban'. In 2019, the engagement will focus on progress on ICA recommendations, vehicle testing outcomes, as well as Supervisory board oversight and succession planning.