



FAIR TRADE CENTER

PUSHING THE PLANET TO RETIREMENT

THE SWEDISH NATIONAL PENSION FUNDS AND BIODIVERSITY LOSS

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Cargill's Problems With Palm Oil

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1. Executive summary

The variation of ecosystems and species on earth is declining more rapidly than ever before in human history. Vast forest and grassland areas are being converted to cropland, 75% of fish stocks are fully or over exploited and some 10–30% of mammal, bird, and amphibian species are threatened with extinction. This substantial damage significantly deteriorates the ecosystems capacity to deliver services indispensable for our survival – so called ecosystem services - including clean water, food, and vital ecological processes such as climate regulation and flood control.

Environmental impacts from business operations play a central role in this global crisis. According to the United Nations Principles for Responsible Investment the cost of the environmental damage caused by the world's 3,000 largest listed companies amounts to USD 2.15 trillion annually. The Swedish National Pension Funds invest in a majority of these companies. The report describes how the funds' investments are linked to key drivers of biodiversity loss. Examples include pollution from mining and oil & gas operations, deforestation caused by the palm oil industry in Indonesia and Malaysia and loss of natural ecosystems due to soy production in South America. Furthermore, the funds are heavily invested in companies extracting fossil fuels that contribute to climate change, another key driver of biodiversity loss.

Currently, engagement dialogue with companies is the funds main tool for managing their environmental impact of their equity portfolios. However, due to the lack of information available on the results of the conducted dialogues, it is difficult to evaluate what kinds of outcomes that the funds achieve. Furthermore, the funds are not guided by clear priorities for how to reduce the most important biodiversity impacts of the equity portfolios. For example, none of the funds are engaged in dialogue with actors producing or trading with soy from South America, even though the expansion of soy fields is one of the leading causes of loss of natural ecosystems in the region. Furthermore, engagement dialogue with actors in the palm oil industry in Indonesia and Malaysia has only been carried out to a very limited extent during 2013. It has been an established fact for several years that palm oil plantations are the leading cause of rainforest destruction in those two countries. The funds have also failed to reduce their exposure to companies producing

fossil fuels in line with the goal of keeping global warming well below 2°C. The absence of effective strategic work needs to be addressed at two levels.

At a regulatory level, the Parliament should ensure that guidelines are developed for the funds work with responsible investment. The guidelines should require the funds to take preventative measures to avoid contributing to biodiversity loss and include provisions regarding transparency. In addition, the Parliament should review the implications of the investment rules for the AP funds' responsible investment strategies. In particular, the Parliament should commission an investigation into whether the rules could enable investments in companies that proactively manage their environmental impacts as well as companies that see business opportunities in protecting biodiversity and ecosystem services.

At an operative level, the funds should conduct assessments of how the funds' equity portfolios impact and depend on biodiversity and ecosystem services, in line with the recommendations of the United Nations Environment Programme Finance Initiative. This will enable the funds to adopt strategies for selection of companies for engagement as well as for engagement with initiatives that seek to promote voluntary standards for corporate conduct or certifications aimed at protecting biodiversity. The funds should also pursue a commitment to exclude companies for whom environmentally harmful practices that risk causing large-scale biodiversity loss is an integral part of the business model.

2. Introduction

The earth's magnificent variety of species and ecosystems is being depleted at an unprecedented rate in human history.¹ The increased pressure on ecosystems is driven mainly by the growing and relentless demand for food, fresh water, timber and fuel. While the use of natural resources has contributed to significant economic development in many countries, it has also led to deforestation, pollution, forced displacement and loss of livelihoods. Degradation and destruction of ecosystems and the associated human rights violations disproportionately affect the world's rural poor. This population relies heavily on agriculture, the collection of fuel-wood or fishing for the survival of their communities.

Unsustainable business practices play a central role in this global crisis. According to an estimate conducted on behalf of the United Nations Principles for Responsible Investment, the cost of the environmental damage caused by the world's 3,000 largest listed companies amounts to USD 2.15 trillion annually.² This constitutes as much as one third of the total annual environmental costs from human activity.

In the Swedish national pension system, several funds manage the SEK 1,200 billion³ that will cover future pension disbursements. A substantial share of the capital is invested in the stock market. The Swedish National Pension Funds hold shares in thousands of companies, including the absolute majority of the world's largest listed companies. The environmental damage caused by these companies undermines the environment's ability to support the economy through for example climate regulation and provision of water. The shift toward sustainable business operations is therefore a precondition for long-term value creation and stable returns within the pension system.

The purpose of this study is to scrutinise whether the Swedish National Pension Funds identify and manage the impact of their equity portfolios on biodiversity and ecosystem services. The report makes recommendations for improvements to the National Pension Funds and the Parliament, which is currently preparing for an overhaul of the pension system. The reform is a unique opportunity for ensuring that our pensions do not deplete and degrade the natural assets that are vital for the well-being of everyone on the planet.

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1. Millennium Ecosystem Assessment, Ecosystems and Human Well-being: Synthesis, 2005, <http://www.maweb.org/documents/document.356.aspx.pdf>
 2. UN PRI and UNEP FI, Universal Ownership - Why environmental externalities matter to institutional investors, 2011, http://www.unpri.org/viewer?file=files/6728_ES_report_environmental_externalities.pdf
 3. McKinsey & Company (commissioned by the Swedish Ministry of Finance), Utvärdering av AP-fondernas verksamhet 2013 [Evaluation of the AP funds' operations 2013], 28 March 2014, <http://www.ap1.se/upload/M%C3%A51%20och%20utv%C3%A4rdering/McKinseys%20Utv%C3%A4rdering%20av%20AP-fondernas%20verksamhet%202013.pdf>

3. Methodology

This study covers the responsible investment strategies for listed equities of the five Swedish National Pension Funds AP1-4 and AP7 (henceforth the AP funds). AP6 only invests in unlisted companies and is therefore not included in this study.

The research consists of three main parts. Firstly, the report investigates how the funds' investments are linked to loss of biodiversity. The key drivers of change in ecosystems identified by the Millennium Ecosystem Assessment are used as a basis for the analysis. Secondly, the requirements concerning responsible investment in the framework that governs the AP funds are analysed. Finally, the methods used by the funds for managing their impact on biodiversity and ecosystem services are scrutinized.

The research was conducted between February and May 2014. AP1-4 and AP7 responded individually to a questionnaire concerning identification and management of their equity portfolios' impacts on biodiversity and ecosystem services. AP1-4 coordinates the majority of their responsible investment work through the Ethical Council. The Ethical Council also responded to a questionnaire related to the Council's engagement dialogue with non-Swedish companies concerning biodiversity and ecosystem services. The funds were given the opportunity to comment on a draft version of the report to ensure that it gave an accurate reflection of the funds' activities. All figures regarding the size of the funds' holdings in individual companies are as of 31 December 2013.⁴

4. AP1 http://ap1.se/upload/Innehav/Copy%20of%20innehavslista_ap1se_131231.pdf, AP2 <http://www.ap2.se/sv/Innehav/aktie-och-ranteportfolj/?foreign=true>, AP3 <http://www.ap3.se/SiteCollectionDocuments/Forvaltning/Innehav/2013/Equity%20Holdings%20excl%20Sweden%20Dec%202013%20Webb.pdf>, AP4 http://ap4.se/upload/FinansiellaRapporter/AP4.AktieOchAndelar_2013_12_31_Beslutad_upd.pdf, AP7 <http://www.ap7.se/PageFiles/92/2013/%C3%85rsber%C3%A4ttelse%202013%20AP7%20Aktiefond%20Bilaga%20Innehav.pdf>

4. Background

In 2005 the Millennium Ecosystem Assessment - initiated by the United Nations and the result of the work of 1,360 experts globally, concluded that the human impacts on ecosystems over the past 50 years are unprecedented. Vast forest and grassland areas have been converted to cropland, 75% of fish stocks are fully or overexploited⁵ and some 10–30% of mammal, bird, and amphibian species are currently on the brink of extinction.⁶ The colossal damage to ecosystems and the resulting depletion of biodiversity has significantly deteriorated the ecosystems capacity to deliver services indispensable for our survival, including clean water, food, climate regulation and flood control. The decline in such services aggravates poverty and increases the risks of sudden, nonlinear changes to ecosystems.

The Millennium Ecosystem Assessment identified five main direct drivers of change in ecosystems over the past 50-100 years:

- Pollution
- Habitat change (for example deforestation to make way for agriculture)
- Climate change
- Invasive species (organisms that are introduced into an environment where they are not native)
- Overexploitation (for example of fish stocks)

The study also found that the trends in the level of impact of these drivers on ecosystems are either steady or increasing.⁷ In section 6, the links between the first three drivers and the AP Funds' investments will be presented.

Biodiversity means the variability among living organisms from all sources including terrestrial, marine and other aquatic ecosystems and ecological complexes of which they are part; this includes diversity within species, between species and of ecosystems.⁸

Ecosystem services are the benefits that people receive from ecosystems and include soil formation, the provision of food and fibre, air quality and climate regulation, the regulation of water supply and quality and the cultural and aesthetic value of certain plants and species.⁹

5. Millennium Ecosystem Assessment , see above, p.67

6. Millennium Ecosystem Assessment , see above, p.4

7. Millennium Ecosystem Assessment , see above, p.67-68

8. Article 2, Convention on Biological Diversity

9. Millennium Ecosystem Assessment, see above, p.v-vi

5. Guidelines for investors

Investors are becoming increasingly aware that goods and services from nature are finite and unpriced. Therefore, environmental costs rarely show up in the balance sheets of companies within their portfolios. To be able to address these unaccounted costs, investors have begun to develop tools and guidelines for evaluating risks and opportunities linked to corporate impacts and dependencies on biodiversity and ecosystem services.

The most recent initiative is the Natural Capital Declaration, launched in 2012. The project is led by financial institutions and backed by the United Nations Environment Programme's Finance Initiative (UNEP FI). Signatories of this initiative commit to integrating natural capital (natural resources and the ecosystem services the earth produces from them) into their financial products. Work is ongoing within the initiative to develop practical tools, methodologies, and indicators for financial institutions to understand, embed, account for and report on natural capital factors. Among others, guidance to address deforestation caused by agricultural production of palm oil, soy, beef and timber is being developed together with the United Nations Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries (UN-REDD). Over 40 financial

institutions have signed up to date, among them Calvert Investments, Robeco and the National Australia Bank. To date, none of the AP funds are involved in this initiative.

Another important project is the Natural Value Initiative, a collaboration between Fauna & Flora International, UNEP FI, Nyenrode Business University, the Dutch Association of Investors for Sustainable Development and the Brazilian Business School Fundação Getulio Vargas. Among others, the initiative has developed a benchmarking methodology for evaluating companies' management of impacts and dependencies on biodiversity and ecosystem services. The results of the benchmarking can be used as a basis for engagement with companies that are lagging behind sector peers.

6. How is biodiversity loss connected to our pensions?

The links between the AP funds' investments and biodiversity loss are complex due to the large number of companies in the AP funds' equity portfolios. Each of the AP Funds hold shares in up to 3,500 listed companies in a broad range of industries with operations that span the globe.¹⁰ Some of these companies can cause a loss of biodiversity directly through their own operations, such as mining companies, oil and gas companies or companies cultivating palm oil. The funds are also invested in companies involved in different levels of the commodity supply chains, such as the palm oil, timber, beef and soy industries. These companies can indirectly contribute to biodiversity loss through their sourcing processes. Furthermore, the funds are invested in companies that are highly dependent on biodiversity and ecosystem services for their business operations.

6.1. LINKS TO COMPANIES CAUSING OR CONTRIBUTING TO BIODIVERSITY LOSS

The list below provides examples of how the funds' investments are linked to three of the main drivers of change in ecosystems as identified by the Millennium Ecosystem Assessment; pollution, habitat change and climate change.



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Pollution from mining operations has over the past 50 years had devastating local and regional impacts on the organisms of inland waters.

10. Information on the exact distribution of the funds' investments between different sectors is not publicly available.



Clearing land for palm oil plantations has led to wide-spread loss of rainforests in Indonesia and Malaysia.

Pollution of air, water and soil can kill organisms, degrade habitats and make ecological processes dysfunctional. The funds hold large investments in mining and oil & gas companies, whose operations frequently cause pollution of water bodies and soil through poor management of mine waste or oil spills.¹¹ Pollution is often associated with negative impacts on the livelihoods of local communities, such a restricting access to clean water for drinking, livestock and irrigation. One example is Rio Tinto, where AP1-4 and AP7 have holdings worth over SEK 1 billion. The company is involved in the Grasberg mine in Indonesia which disposes over 360 000 tons of mine waste per day directly into a nearby river. The mine borders the Lorentz National Park, a UNESCO World Heritage site.¹²

Habitat change due to deforestation is mainly driven by the demand for timber, soy, palm oil and beef.¹³ In

Indonesia and Malaysia, some of the world's most biologically diverse tropical forests are being cleared to make way for palm oil plantations. As a result, endangered species including rhinos, elephants, tigers and orangutans have been pushed to the brink of extinction. Furthermore, many palm oil plantations have been developed without consulting local communities over the use of their land, sometimes even resulting in forced evictions.¹⁴ Deforestation also contributes significantly to climate change, accounting for 10-15% of the world's greenhouse gas emissions.¹⁵ The AP funds hold stakes in companies involved in cultivation, processing and trading of palm oil, as well as companies that manufacture and sell products that contain palm oil.¹⁶ For example, AP2, AP3, AP4 and AP7 together hold over SEK 52 million¹⁷ in the world's largest palm oil trader Wilmar International Ltd. According to Greenpeace and other NGOs, Wilmar has been among the top offenders when it comes to deforestation in Indonesia over the past years.¹⁸ Among others, Wilmar has purchased large amounts of palm oil from the company Bumitama Agri which has allegedly cleared forests in Indonesia leading to severe consequences for orangutan habitat.¹⁹ Bumitama manages a plantation without the necessary permits, thereby bringing illegal palm oil into the supply chain.²⁰ In December 2013 Wilmar adopted a policy²¹ against deforestation. However, enforcement of the policy still lies ahead.

Habitat change to make way for soy production is one of the primary driving forces behind the loss of natural ecosystems in South America.²² Some of the greatest impacts are currently being felt in grasslands, savannah and dry-forest ecosystems such as the Chaco

11. For an overview of the impacts of the mining and oil and gas industry please see, Grigg, A., Harper, M. and Verbunt, S. Tread lightly - Biodiversity and ecosystem services risk and opportunity management within the extractive industry, The Natural Value Initiative, http://www.naturalvalueinitiative.org/download/documents/Publications/NVI%20Extractive%20Report_Tread%20lightly_LR.pdf, p.17-18
12. Council on Ethics, Recommendation to the Norwegian Ministry of Finance concerning Rio Tinto, 2008, <http://www.regjeringen.no/upload/FIN/etikkk/Recommendation%20RT.pdf>
13. Carbon Disclosure Project, Global Forests Report - The commodity crunch: value at risk from deforestation, 2013, <https://www.cdp.net/en-US/Programmes/Pages/forests-commodities.aspx>
14. Roundtable on Sustainable Palm Oil, "Palm oil and sustainable palm oil FAQ", http://www.rspo.org/en/PALM_OIL_AND_SUSTAINABLE_PALM_OIL_FAQ
15. Carbon Disclosure Project, see above.
16. For example, the funds hold shares in several of the 23 palm oil companies from which the Norwegian Government Pension Fund has divested, <http://www.redd-monitor.org/2013/03/13/norways-sovereign-wealth-fund-divests-from-23-palm-oil-companies/#list>
17. Figure as of 31 December 2013. As of April 2014, AP7 no longer holds shares in Wilmar.
18. Greenpeace, Certifying destruction – Why consumer companies need to go beyond the RSPO to stop forest destruction, 2013, <http://www.greenpeace.org/international/Global/international/publications/forests/2013/Indonesia/RSPO-Certifying-Destruction.pdf>
19. Friends of the Earth, Commodity Crimes - Illicit land grabs, illegal palm oil, and endangered orangutans, 2013, http://www.foeurope.org/sites/default/files/press_releases/commodity_crimes_nov13_0.pdf
20. Friends of the Earth, Bumitama's diary of destruction , 2014, http://foeurope.org/bumitama_diary_destruction_250314
21. Wilmar International Ltd., "No Deforestation, No Peat, No Exploitation Policy" <http://www.wilmar-international.com/wp-content/uploads/2012/11/No-Deforestation-No-Peat-No-Exploitation-Policy.pdf>
22. WWF, The growth of soy - Impacts and solutions, 2014, http://wwf.panda.org/what_we_do/footprint/agriculture/soy/soyreport/soy_controversies/

in Argentina, Paraguay and Bolivia and the Cerrado in Brazil. The Chaco is particularly rich in species and the Cerrado holds around 5% of the earth's biodiversity and is an essential water source in South America. The soy boom has also resulted in forced evictions of local communities. While most soy farms in South America are owned by unlisted companies, a small group of four multinationals, Archer Daniels Midland (ADM), Bunge, Cargill and Louis Dreyfus, dominate the crushing and trading of soy.²³ The only publicly listed companies within this group are ADM and Bunge. AP2-4 and AP7 together hold over SEK 470 million in these two companies alone. While ADM and Bunge have committed to not purchasing soy from lands that have been deforested in the Amazon biome, they have failed to adopt similar policies for other areas of high biodiversity, such as the Cerrado and the Chaco. Furthermore, the companies have not made any time-bound commitment for transitioning to trading soy certified by the sustainability standard of the Roundtable on Responsible Soy. Without a change in the practices of these influential players, there are no incentives for the producers to prevent further conversion of natural ecosystems rich in biodiversity into agricultural land.

Climate change affects the distribution of species, population sizes, the timing of reproduction or migration events. Additionally, it increases the frequency of disease outbreaks. The biodiversity of coral reefs and of Arctic regions are particularly exposed to the negative impacts caused by climate change.²⁴ Climate change also poses a severe threat to basic human rights, such as the right to safe and adequate water and food, the right to health and adequate housing.²⁵ According to a 2013 analysis by WWF, the AP funds invest in 133 of the world's 200 largest listed coal-, oil and gas companies. The AP funds' holdings in these 133 companies represent 625 million tons of CO₂, which is 11 times the total emission of Sweden in 2012.²⁶ Thus, the funds' investments support further extraction and burning of fossil reserves which contribute to climate change, a key driver of biodiversity loss.

6.2 LINKS TO COMPANIES DEPENDENT ON BIODIVERSITY

Apart from investments in companies that cause or contribute to biodiversity loss, the funds also hold shares in companies that depend on biodiversity and ecosystem services. Loss of biodiversity invariably leads to a decline in the capacity of ecosystems to deliver services that are important for business operations. For example, the mining industry is dependent on access to large amounts of water for extraction and processing of minerals. Another example of dependence on an ecosystem service is agricultural companies that require pollination for growing crops. Fishery, tourism and forestry are other sectors whose operations depend on well-functioning ecosystems. As very large funds with globally diversified portfolios, the AP funds all hold shares in companies that are to a large extent dependent on biodiversity. Investors are increasingly starting to identify the financial risks that resource scarcity, loss of biodiversity and degradation of ecosystems can pose to their investments.²⁷ Therefore, it is important to note that the links between our pensions and biodiversity loss goes both ways – the AP funds' investments can both have an impact and be impacted.



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The mining sector is highly dependent on water supply for mineral processing.

23. United Soybean Board and U.S. Soybean export council, How the Global Oilseed and Grain Trade Works, 2011, http://www.unitedsoybean.org/wp-content/uploads/2013/07/RevisedJan12_GlobalOilSeedGrainTrade_2011.pdf, p.54 and WWF, see above, p.27 and Oxfam, Cereal secrets - The world's largest grain traders and global agriculture, 2012, <http://www.oxfam.org/sites/www.oxfam.org/files/tr-cereal-secrets-grain-traders-agriculture-30082012-en.pdf>
24. Millennium Ecosystem Assessment, see above, p.17
25. United Nations Office of the High Commissioner for Human Rights, "Human rights and climate change", <http://www.ohchr.org/EN/Issues/HRAAndClimateChange/Pages/HRClimateChangeIndex.aspx>
26. WWF, "The Carbon Bubble and the Swedish Pension Funds", 2013 http://awsassets.wwf.org.za/downloads/131104__wwf_fact_sheet__the_carbon_bubble_and_swedish_pension_funds.pdf
27. UNEP FI, Demystifying materiality - Hardwiring biodiversity and ecosystem services into finance, 2010, http://www.unepfi.org/fileadmin/documents/CEO_DemystifyingMateriality.pdf

7. How do the AP funds manage biodiversity today?

7.1 FRAMEWORK FOR THE AP FUNDS' RESPONSIBLE INVESTMENTS STRATEGIES

AP1-4 and AP7 are regulated by the National Pension Funds Act (2000:192). In the preparatory work of the law, it is stated that:

“Environmental and ethical issues must be taken into account without compromising the overarching goal of best possible return.”

Another central aspect of the National Pension Funds Act is the investment rules. The rules determine to what extent the funds can invest in different types of assets. Therefore, the rules have important implications for the funds abilities to proactively allocate capital to more sustainable investment alternatives, such as companies that see business opportunities in protecting biodiversity and ecosystem services.

The current investment rules permit flexibility with regards to the number of companies in the

equity portfolios. For example, while AP3 hold shares in around 3500 companies, AP1's portfolio is significantly more limited with only around 1700 companies. This indicates that it is possible to maintain a low level of risk with a smaller portfolio, thereby increasing control over environmental impact. Larger positions in individual companies could also increase the shareholders leverage when exercising active ownership such as engagement dialogue.²⁸

There are no common guidelines for the funds for work with responsible investment. Instead, the funds have adopted individual “Ownership policies” which sets out principles for the funds' roles as shareholders on issues related to environmental, social and corporate governance. AP3 also has a separate policy for the funds management of environmental and social issues.²⁹ In the respective policies it is stated that the funds expect the companies in which they invest in to operate in accordance with the international conventions ratified by Sweden.³⁰

28. Strategy Council for the Norwegian Government Pension Fund Global, Responsible Investment and the Norwegian Government Pension Fund Global, 2013, http://www.regjeringen.no/pages/38525979/sc_mainreport.pdf

29. Only available in Swedish, http://www.ap3.se/SiteCollectionDocuments/AP3_som_agare/Riktlinjer_for_Etik-och_miljohansyn.pdf

30. See for example AP4's Ownership Policy, http://ap4.se/upload/FinansiellaRapporter/Engelska/AP4_Ownership_Policy_2013.pdf

FRAMEWORK FOR THE AP FUNDS' RESPONSIBLE INVESTMENTS STRATEGIES

Mandate from the Parliament - The National Pension Funds Act



Mandate from the fund board - Individual ownership policy



Tools and processes - Portfolio monitoring,
engagement with individual companies,
exclusions, voting and shareholder proposals



Investee companies

It is worth noting the stark difference between the requirements regarding environmental and social responsibility towards the AP funds and the requirements towards the Swedish state-owned companies. The state-owned companies are obligated to present measurable goals for their sustainability work and corresponding strategies for how to reach the goals. They are also required to present sustainability reporting according to the standard of the Global Reporting Initiative.³¹ In contrast, the AP funds are given significant room to individually decide how to work with sustainability.

However, the lack of requirements towards the AP funds is about to be addressed by the Parliament. In March 2014 the Parliament's pension group, made up of representatives of the four parties in government and the Social Democratic Party, proposed that guidelines be developed for the funds work with responsible investment.³² The group also recommended loosening the investment rules, opening up for more investments in infrastructure and non-listed companies. The proposals are part of a wider overhaul of the pension system.

7.2 PORTFOLIO MONITORING

Both AP1-4 and AP7 monitor their portfolios of listed equities for violations of international conventions signed by Sweden, one of them being the Convention on Biological Diversity. The monitoring is carried out with the help of external consultants who gather information from a large number of sources, including various UN sources, the media and reports from different organisations.³³ The monitoring is used to select companies for engagement (see below section 7.3) and forms the basis for exclusions (see below section 7.4). AP1-4 coordinates the portfolio monitoring through the joint Ethical Council.

The Ethical Council points to challenges in determining when international conventions for environmental protection are violated, as there are no courts in place for interpreting for example how severe an environmental impact should be in order to be deemed a violation of the Convention on Biological Diversity.³⁴ The Ethical Council states that it seeks to identify severe and systematic violations by using several conventions with regard to biodiversity and the protection of ecosystems (see Appendix 1), as well as the precautionary principle and the ecosystem approach in its portfolio monitoring.

31. Requirements on state-owned companies, <http://www.regeringen.se/sb/d/17698>. Please note that AP7 and AP3 already report according to the Global Reporting Initiative's standard.

32. Swedish government, "Pensionsgruppens förslag till förändringar av pensionsöverenskommelsen" [The pension group's proposals for changes to the pension agreement], 12 March 2014, <http://www.regeringen.se/sb/d/18062/a/235969>

33. Ethical Council, "A systematic process", <http://www.ap4.se/etikradet/Etikradet.aspx?id=598>, AP7 Equity Fund Sustainability profile, <http://hallbarhetsprofilen.se/fonder.aspx?id=SE0003299999>

34. Ethical Council, response to questionnaire, 26 March 2014

The precautionary principle requires companies to take action when there is a risk for serious or irreversible environmental damage, even if full scientific information is lacking.³⁵ According to the Secretariat of the Convention on Biological Diversity, the ecosystem approach is described as “a strategy for the integrated management of land, water and living resources that promotes conservation and sustainable use in an equitable way”³⁶. The Ethical Council refers to communication it has had with the Scientific Council for Biological Diversity of the Swedish Environmental Protection Agency, in which the Scientific Council explained that the precautionary principle and the ecosystem approach do not in detail state the level of impact that amounts to a violation of the Convention on Biological Diversity. The Ethical Council does not provide any further explanation of how the ecosystem approach is used to assess whether a certain type of corporate conduct breaches an international convention for environmental protection.

The Ethical Council also states that it is challenging to address situations where many companies contribute to a cumulative environmental impact. The council points to climate change as an example, and states that a single company can't be deemed to violate “international conventions on climate”, but that the accumulated effects of the emissions are large.³⁷

Neither the Ethical Council nor AP7 have detected any violations of conventions for environmental protection related to soy, despite the fact that soy production is one of the primary driving forces behind the loss of natural ecosystems in South America.³⁸ Accordingly, trade in soy from high-risk areas by for example Bunge and Archer Daniels Midlands (see section 6.1) without adequate supply chain due diligence mechanisms in place is not deemed a clear

violation of international conventions for environmental protection by the funds. Regardless of whether this is the correct interpretation of international law, it reveals a critical gap in the funds' portfolio monitoring approach. The funds need to be able to identify companies in high-risk sectors and regions that fail to take precautionary measures to avoid biodiversity loss and destruction of natural ecosystems. Focusing on preventative measures is in line with international environmental standards such as the International Finance Corporation's Performance Standard 6 concerning Biodiversity Conservation and Sustainable Management of Living Natural Resources.³⁹ The standard determines how companies should operate in order to avoid negative consequences on natural habitats and areas with high biodiversity value. This standard also includes considerations for indirect impact through companies' suppliers. The requirements in the standard have been guided by the Convention on Biological Diversity.

7.3 ENGAGEMENT

Shareholders can enter into dialogue with companies in which they invest in order to influence their behaviour. They can also engage with regulators, policy-makers and standard-setters, in order to promote stricter regulation or the introduction of new voluntary standards or certification schemes that affect the market as a whole.⁴⁰ With very few exceptions, the AP funds engagement activities fall under the first category and roughly includes between 6% and 13% of the companies in their equity portfolios.⁴¹ The funds present very little reporting on the results of the engagement work. The Ethical Council provides four examples of successful dialogues in its 2013 Annual Report.⁴² AP7 states that information on the dialogues can't be provided out of concern for the companies.⁴³

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35. See for example Rio Declaration on Environment and Development, Principle 15, <http://www.un.org/documents/ga/conf151/aconf15126-1annex1.htm>, and UN Global Compact, Principle 7, <http://unglobalcompact.org/AboutTheGC/TheTenPrinciples/principle7.html>
36. Secretariat of the Convention on Biological Diversity, The Ecosystem Approach, <https://www.cbd.int/doc/publications/ea-text-en.pdf>, p.6
37. Ethical Council, response to questionnaire, 26 March 2014
38. WWF, The growth of soy - Impacts and solutions, 2014, http://wwf.panda.org/what_we_do/footprint/agriculture/soy/soyreport/soy_controversies/
39. International Finance Corporation, Performance Standard 6 - Biodiversity Conservation and Sustainable Management of Living Natural Resources, 2012, http://www.ifc.org/wps/wcm/connect/bff0a28049a790d6b835faa8c6a8312a/PS6_English_2012.pdf?MOD=AJPERES
40. For an overview of possible engagement mechanisms, see UN PRI and UNEP FI, Universal Ownership - Why environmental externalities matter to institutional investors, 2011, http://www.unpri.org/viewer/?file=files/6728_ES_report_environmental_externalities.pdf, p.11
41. AP1-4 and AP7, responses to questionnaires.
42. Ethical Council 2013 Annual Report, http://www.ap4.se/upload/Etikr%C3%A5det/Etikr%C3%A5det%20ENG/Ethical%20Council%20AR%202013_finalWeb.pdf
43. AP7 2012-2013 Sustainability Report, http://www.ap7.se/Global/Policy%202014/AP7_H%C3%A5llbarhetsRedo_13_Final.pdf, p.10



A 2007 report by the United Nations Environment Programme found palm oil plantations to be the leading cause of rainforest destruction in Indonesia and Malaysia.

AP 1-4

AP1-4 coordinates their dialogue with non-Swedish companies through the joint Ethical Council. The Ethical Council selects companies to engage with among the companies which the funds' consultant GES Investment Services engages with on behalf of the Ethical Council and other clients. The Ethical Council does not have any set criteria for selecting companies to engage with. In the Ethical Council's 2012 Annual report the following statement is made regarding how engagement topics and companies are selected: "areas and companies are chosen on the basis of the Funds' brief and core values, but the Ethical Council's chances of making a difference are also taken into account. Areas in which a large number of other organisations are pushing for improvements may be rejected in favour of areas that have not yet attracted as much attention from the investment community."

The size of ownership shares in the companies is not factored into a decision to initiate a dialogue. As long as one of the funds is invested in a company the funds consider it a potential company to engage with.⁴⁴

Biodiversity management is not explicitly prioritized as a topic for engagement. However, the Ethical Council points out that the issue has been included in dialogues with mining companies that

were conducted between 2011 and 2013 together with AP7 and the Dutch pension fund PGGM. The project was based on the ten sustainable development principles of the industry association International Council of Mining and Metals (ICMM). The seventh principle requires members of the ICMM to "Contribute to conservation of biodiversity and integrated approaches to land use planning". The project encompassed a little over 20 company dialogues⁴⁵ and biodiversity was specifically brought up in seven of them. The names of the companies are not disclosed. Related issues such as water consumption and water quality were brought up in all the dialogues. As the results of the mining project will not be evaluated until late 2014 or early 2015, it is so far unclear what results the seven dialogues have led to.⁴⁶

The Ethical Council did not conduct any company dialogues in 2013 concerning corporate activities impacting threatened species or areas of high biodiversity value. Its consultant GES Investment Services did however engage in a number of dialogues related to destruction of rainforest, illegal logging, destruction of orangutan habitat and negative impacts on biodiversity. The dialogues are conducted on behalf of AP1-4 and other clients of the consultant. Information on the dialogues including company names, topics of the dialogues and goals

44. Interview with the Ethical Council, 5 March 2014.

45. Ethical Council, response to questionnaire, 26 March 2014.

46. Ethical Council, 2013 Annual Report, http://www.ap4.se/upload/Etikr%C3%A5det/Etikr%C3%A5det%20ENG/Ethical%20Council%20AR%202013_finalWeb.pdf, p.17

can be found in Appendix 2. Dialogue is conducted both to obtain information from the companies and in order to influence their behaviour. None of the dialogues concern the environmental risks linked to the expansion of soy production in South America. Only two of the dialogues aimed to influence companies concerned deforestation connected to palm oil plantations in Indonesia and Malaysia, Astra Agro Lestari and Walt Disney Company. With the palm oil company Wilmar International Ltd., dialogue was only conducted in order to obtain information.

In late 2013 the Ethical Council joined an initiative hosted by the United Nations Principles for Responsible Investment regarding palm oil.⁴⁷ The plans for the funds participation in the project have not yet been disclosed. It is worth noting that the decision to join the initiative comes after civil society campaigning in 2013 concerning investors and palm oil, primarily by Friends of the Earth.⁴⁸

The Ethical Council has not engaged with standard-setters in order to promote voluntary standards or certification schemes related to biodiversity.

AP7

AP7 conducts company dialogue with companies identified to act in breach of international conventions. AP7 participated in the dialogue project with mining companies mentioned above together with PGGM and the Ethical Council.

In 2013, AP7 conducted dialogue with approximately 70 companies concerning issues related to biodiversity.⁴⁹ None of the 70 dialogues concern the environmental risks linked to the expansion of soy production in South America. AP7 has not disclosed information on whether it has engaged in dialogue with palm oil companies concerning deforestation in Malaysia and Indonesia.

AP7 focuses on:

- Corporate activities impacting threatened species (such as activities affecting species on

the International Union for Conservation of Nature's Red List)

- Corporate activities impacting protected areas (such as areas within or close to UNESCO World Heritage Sites)
- Other impacts on biodiversity and ecosystem services (such as activities in breach of the standards of the Roundtable for Sustainable Palm Oil or the Forest Stewardship Council)
- Impacts on biodiversity that affect ecosystem services and human rights (for example business activities negatively impacting local communities access to land, water and forests)

AP7 provided information on 10 of the companies it had engaged with in 2013. The information including company names, topics of the dialogues and goals are listed in Appendix 3.

AP7 has not engaged with standard-setters in order to promote voluntary standards or certification schemes related to biodiversity.

7.4 EXCLUSIONS

Many investors exclude companies that manufacture particular products, such as certain weapons or tobacco, or if engagement dialogue fails to generate the desired change in behaviour. Investors also increasingly use divestment in order to decrease their contribution to climate change.⁵⁰

AP1-4

The Ethical Council states that the best way to influence companies that breach international conventions is to retain the investments and engage in dialogue. Exclusion is a last resort, and the Ethical Council only advises AP1-4 to sell their shares when change in the company's behaviour can't be achieved.⁵¹ The Ethical Council has a time limit of four years for dialogues concerning confirmed violations.

Of a total of 14 companies that have been excluded from AP1-4's investment universe⁵², only the Freeport McMoRan Copper & Gold Inc. exclusion

47. UN PRI, Sustainable Palm Oil Investor Working Group, http://www.unpri.org/viewer/?file=wp-content/uploads/IWGpositionpaper_v1.pdf

48. See for example Friends of the Earth, Sime Darby and land grabs in Liberia, 2013, <http://www.foei.org/en/media/resources-for-journalists/sime-darby-and-landgrabs-in-liberia/fact-sheet-sime-darby-and-land-grabs-in-liberia/view>, and Friends of the Earth, Commodity Crimes - Illicit land grabs, illegal palm oil, and endangered orangutans, 2013, http://www.foeurope.org/sites/default/files/press_releases/commodity_crimes_nov13_0.pdf

49. AP7 response to questionnaire, 19 February 2014

50. See for example, Clark, P., "FTSE joins Blackrock to help investors avoid fossil fuels", The Financial Times, 28 Apr. 2014, Swedish Church, "Policies and instructions for responsible investment", <http://svenskakyrkan.se/default.aspx?di=935612> and Storebrand, "21 nya exkluderigar" [21 new exclusions], 24 Jan. 2014, <http://www.mynewsdesk.com/se/spp-livfoersaekring/pressreleases/21-nya-exkluderigar-952882>

51. Ethical Council, "Q & A about the Ethical Council", <http://www.ap4.se/etikradet/Etikradet.aspx?id=918>.

52. Ethical Council, "Companies that have been recommended for exclusion", <http://www.ap4.se/etikradet/Etikradet.aspx?id=1187>

is based on a violation of international conventions concerning environmental protection. The company was excluded in September 2013 for violating the Convention on Biological Diversity. According to the Ethical Council's press release, Freeport's Grasberg mine in Indonesia releases large quantities of mining waste into a nearby river. The mine is located in an area of high biological diversity and is adjacent to Lorentz National Park, a UNESCO world heritage site. It is worth noting that AP1-4 has chosen to maintain its shares in the company Rio Tinto, a company that is also still involved in the mine (see section 6.1). Rio Tinto has even been highlighted by the Ethical Council as a case where engagement has proven to be successful.

The Ethical Council's press release regarding Freeport states that engagement had been ongoing since 2007, but "that further dialogue is likely to be ineffectual and that there remains a continued risk of further treaty violations due to the company's reluctance to exclude the possibility of deploying its controversial waste processing practices in future projects".⁵³ The basis for the exclusion is thus the risk of treaty violations in future projects, rather than the actual environmental damage and biodiversity loss caused at the Grasberg mine. The waste management practices employed at the Grasberg mine – so called riverine tailings disposal - is prohibited in all other countries in the world except for Indonesia and Papua New Guinea.⁵⁴ Freeport currently has no other mining projects in those two countries.⁵⁵ The likelihood that the company could use the same waste management practices in new projects is therefore minimal, as it would be illegal. However, the contradictory statement regarding the rationale behind the decision to divest leaves such questions regarding the Ethical Council's assessment unanswered.

AP7

AP7 excludes a company for five years when a violation of an international convention for environmental protection is substantiated by:

- A court ruling against the company
- Documentation linking the company to non-compliance published by a public body



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Shell's oil operations in Nigeria have polluted drinking water with hydrocarbons and destroyed fish habitat.

- monitoring an international convention
- The company's management admits responsibility

As a final point, a company can also be excluded when "AP7 decides exclusion is the right course of action".⁵⁶

The following companies have been excluded due to violations of international conventions for environmental protection⁵⁷:

- Barrick Gold – Violations of environmental norms in Chile and Argentina in connection with mining activities
- BP plc – Environmental crimes in the Gulf of Mexico
- Royal Dutch Shell – Violations of environmental norms in Nigeria in connection with oil exploitation
- Transocean – Environmental crimes in the Gulf of Mexico

No further motivation for the exclusions is provided.

53. Ethical Council, "Swedish AP Funds exclude four companies accused of contravening international conventions", 30 Sept. 2013, <http://www.ap4.se/etikradet/Etikradet.aspx?id=1094>

54. Council on Ethics, Recommendation to the Norwegian Ministry of Finance concerning Freeport McMoRan Copper & Gold Inc, 2006, http://www.regjeringen.no/upload/FIN/Statens%20pensjonsfond/Recommendation%20_15_February_2006.pdf

55. Freeport McMoRan Copper & Gold Inc., "Worldwide Operations Overview", <http://www.fcx.com/operations/overview.htm>

56. AP7, "Responsible Investment", <http://www.ap7.se/en/About-AP7/About-us/Our-approach/Responsible-investment/>

57. AP7, "List of excluded companies", http://www.ap7.se/Documents/PDF/ansvarsfulla_placeringar/Svartalistan_2013.pdf



SEK 1,3 billion, or 1% of the value of the AP7 Equity Fund, is invested in clean technology, such as companies providing renewable energy and energy efficient technologies.

7.5 VOTING AND SHAREHOLDER PROPOSALS

Owners are entitled to file shareholder proposals and vote at a company's annual general meeting. Pension funds and other institutional investors are increasingly making use of these rights as a tool for influencing companies.⁵⁸

Neither AP1-4 nor AP7 filed any shareholder proposals related to environmental matters in 2013. The funds did however vote for a number of proposals at annual general meetings concerning sustainability matters during the year. AP1, AP2, AP3 and AP4 each supported between 50 and 91 shareholder proposals concerning environmental and social issues.⁵⁹ AP7 supported 200 shareholder proposals regarding environmental issues.⁶⁰

Many of the proposals that the funds supported were requests for company boards to report to shareholders on social and environmental matters.⁶¹ In its public reporting, AP1, AP2, AP4 and AP7 do not provide detailed information about the subject matter of the shareholder proposals they supported. AP3, on the other hand, provides a number of examples of shareholder proposals it has backed, including requests for company

boards to present reports on environmental risks linked to hydraulic fracturing and emissions of methane gas.⁶² AP3 also states that prior to the next company meeting season, the fund will team up with AP1, AP2 and AP4 to conduct a review of the global voting procedures to see if they can be simplified and expanded.

In conclusion, the funds use of voting is likely to grow, and could be an important tool for increasing the funds influence over investee companies' environmental performance. The ownership right to file shareholder proposals is not being exercised regularly by the funds.

7.6 ADDITIONAL STRATEGIES

As a result of the growth and increased maturity of responsible investment in the financial sector, a wider range of investment strategies are being used.⁶³ Examples of such strategies are sustainability themed investments such as green or clean technologies, integration of risks and opportunities linked to sustainability into mainstream financial analysis, best-in-class investment selection, and so called "impact investments" in companies with

58. Strategy Council for the Norwegian Government Pension Fund Global, Responsible Investment and the Norwegian Government Pension Fund Global, 2013, http://www.regjeringen.no/pages/38525979/sc_mainreport.pdf, p.8

59. AP1, AP2, AP3 and AP4 responses to questionnaire, and AP3 Global voting report AGM season July 2011 to June 2012.

60. AP7, response to questionnaire, 19 February 2014.

61. AP1- AP4 and AP7 responses to questionnaire and the funds' ownership reports AP1, <http://ap1.se/upload/Rapporter/AP1%20Ownership%20Report%202013.pdf>, AP2 http://www.ap2.se/Global/Agarrapporter/Corporate%20governance%20report%202013%20GB_final.pdf, AP3 http://www.ap3.se/sites/english/SiteCollectionDocuments/AP3_as_owner/Stewardship%20Report%202013.pdf, AP4 http://ap4.se/upload/FinansiellaRapporter/Engelska/SustainabilityAndCorpGovRep2012_2013.pdf, AP7 <http://www.ap7.se/sv/Om-AP7/Om-oss/Hallbarhetsredovisning-2012-2013/Var-placeringsfilosofi/Ansvarsfulla-investeringar1/#643>

62. Accessible only in Swedish, AP3's corporate governance activities from July 2012 until June 2013, Appendix 1, http://www.ap3.se/SiteCollectionDocuments/AP3_som_agare/%C3%84garstyrningsrapport%202013.pdf, p.25

63. Eurosif, European SRI Study 2012, http://www.eurosif.org/images/stories/pdf/1/eurosif%20sri%20study_low-res%20v1.1.pdf

the intention to generate social and environmental impact alongside a financial return.⁶⁴

Some of the funds have begun investing to a small extent in clean technology⁶⁵, externally managed funds that integrate sustainability into financial analysis⁶⁶ and in green bonds that finance projects aimed primarily at combating climate

change⁶⁷. Best-in-class investment, where the companies with the best performance in relation to certain sustainability criteria within a given universe or sector are selected for investment, is not used at all by the funds.

LEADING THE WAY: THE CHURCH OF SWEDEN'S INVESTMENT IN ECOSYSTEM CONSERVATION

In February 2014 the company Wildlife Works Carbon LLC announced that it had signed a USD 10 million financing deal with the Althelia Climate Fund to launch the Taita Hills Conservation and Sustainable Land Use Project in south-eastern Kenya.⁶⁸ The Church of Sweden is one of the investors backing the Althelia fund.

The Taita Hills project is part of the United Nations scheme “Reducing Emissions from Deforestation and forest Degradation” (REDD) mechanism, which seeks to take a market-based approach to reducing destruction of forests in developing countries. The aim of the Taita Hills project is to reduce 30 million tons of greenhouse gas emissions through the prevention of deforestation and forest degradation of approximately 200,000 hectares of threatened natural forest and savannah grassland. In addition, the goal is to incentivize local landowners and the broader community to protect their forest by creating sustainable economic alternatives.



The Taita Hills are home to a number of endangered and endemic species.

64. Eurosif, see above, p.10

65. SEK 1,3 billion, or 1% of the value of the AP7 Equity Fund, is invested in clean technology, such as companies providing renewable energy and energy efficient technologies, AP7 Equity Fund Sustainability profile, <http://hallbarhetsprofilen.se/fonder.aspx?id=SE0003299999>

66. Generation Investment Management's Global Equity Fund, where AP2 has invested SEK 3 421 million, consists of public equities in only 30-60 companies. While the fund does not have an explicit focus on taking biodiversity into account, the investment approach is based on the idea that economic, environmental, social and governance criteria will drive a company's returns over the long term, and responsible investment work is not a parallel process, but rather included in the day-to-day work of the asset managers of the fund. AP2 2013 Annual Report, <http://www.ap2.se/PageFiles/132/sv/2013/C3%85rsredovisning/C3%85rsredovisning%202013.pdf>, p.64

67. AP2, AP3 and AP4 invest in green bonds.

68. Wildlife Works Carbon LLC, “Wildlife Works to Launch Taita Hills Conservation and Sustainable Land Use Project in Kenya with \$10M Investment from Althelia Climate Fund”, 18 Feb. 2014, <http://business.itbusinessnet.com/article/Wildlife-Works-to-Launch-Taita-Hills-Conservation-and-Sustainable-Land-Use-Project-in-Kenya-with-10M-Investment-from-Althelia-Climate-Fund-3068595>

8. Conclusions

8.1 FRAMEWORK FOR THE AP FUNDS' RESPONSIBLE INVESTMENTS STRATEGIES

The AP funds have demonstrated that their work with portfolio monitoring, engagement, exclusions and voting is not adequately guided by long-term strategies aimed at reducing the most important impacts on biodiversity and ecosystems. A large number of Swedish civil society organizations have over the past few years repeatedly pointed to the need to expand and improve the funds work with responsible investment.⁶⁹ Furthermore, a recent report commissioned by the Swedish Ministry of Finance points to several areas where the AP funds are lagging behind a comparison group of European investors in terms of integration of environmental, social and governance issues into the investment process.⁷⁰ It can therefore be argued that the lack of strategies concerning biodiversity

is symptomatic of the funds overall poor management of environmental and social impacts.

The root cause of the funds low ambitions for responsible investment is the absence of guidelines from its principal, the Parliament, and the Ministry of Finance as the governing arm. The funds are given significant room to independently decide on their responsible investment practices, which leads to incoherent working methods that fail to effectively minimize the funds contribution to biodiversity loss. The funds are currently not required to develop capital allocation and investment strategies that prevent contribution to the key drivers of biodiversity loss, including pollution, habitat change and climate change. Strategies for reducing exposure to fossil fuels in line with the goal of keeping global warming well below 2°C are not clearly defined or implemented. Furthermore, the funds

69. See for example Comments from eight civil society organizations to the Swedish Government's Official Report 2012:53, http://krf.se/wp-content/uploads/2013/10/Remissvar_AP-fondsutredning_20121130.pdf, the Fair Pensions campaign, <https://www.schysstapensioner.nu>, Swedwatch, Swedish Pensionfunds' investments in Latin American mines, 2011, http://www.swedwatch.org/sites/default/files/ap-report_english.pdf and the opinion piece in Göteborgsposten signed by 14 civil society organizations, "Pensionsinvesteringarna måste bli hållbara" [Pension investments must become sustainable], 12 Apr. 2014, <https://www.gp.se/nyheter/debatt/1.2339363-pensionsinvesteringarna-maste-bli-hallbara>.

70. McKinsey & Company (commissioned by the Swedish Ministry of Finance), Utvärdering av AP-fondernas verksamhet 2013 [Evaluation of the AP funds' operations 2013], 28 March 2014, <http://www.ap1.se/upload/M%C3%A5l%20och%20utv%C3%A4rdering/McKinseys%20Utv%C3%A4rdering%20av%20AP-fondernas%20verksamhet%202013.pdf>, p.89

are not required to be transparent, which has led to a lack of reporting on the results of active ownership activities and reasons for divestment decisions. For example, AP1-4 have not provided any detailed background information regarding its decision to divest from Freeport McMoRan Copper & Gold Inc involved in the Grasberg mine in Indonesia. AP7 has also failed to publicly report on the rationale for its exclusions of companies involved in violations of international norms for environmental protection: Barrick Gold, BP plc, Royal Dutch Shell and Transocean. Poor transparency impedes external scrutiny and the building of trust with the actual owners of the fund, the Swedish people. In terms of transparency, the government pension fund in Norway can serve as a role model. The detailed motivations for exclusions are made publicly available.⁷¹

Furthermore, the potential for increasing the funds use of more progressive responsible investment strategies – within acceptable levels of risk - has not been evaluated. Such strategies could include investment in green or clean technology, integration of risks and opportunities linked to sustainability into mainstream financial analysis, best-in-class investment selection, and so called “impact investments”. These types of investments and practices could be used to allocate capital to companies that proactively manage their environmental impact as well as companies that see business opportunities in protecting biodiversity and ecosystem services.

Finally, the requirements towards the AP funds concerning responsible investment have not been aligned with Sweden’s policy for global development.⁷² The strategy was adopted in 2003 and establishes that all policy decisions must take the effects on poor countries and people into account.

The current negotiations in the Parliament concerning a reform of the pension system present an opportunity to ensure that our pensions do not contribute to depleting and degrading earth’s biodiversity and ecosystems upon which we all depend.

8.2 THE AP FUNDS’ MANAGEMENT OF BIODIVERSITY IMPACTS

Engagement is the funds main tool for decreasing the environmental impact of their investments. Current engagement activities concerning en-

vironmental, social and governance issues range between 6% and 13% of the number of companies in the funds’ equity portfolios. Due to the lack of sufficient information available on the results of the dialogues concerning biodiversity, it is difficult to evaluate what results the funds achieve.

Except for the dialogue project with mining companies and the Ethical Council’s new palm oil initiative, the current basis for engagement is the funds’ portfolio monitoring which identifies companies that violate international norms for environmental protection. The funds do not present any additional criteria for how they select companies for engagement. The Ethical Council points out that breaches of international conventions are difficult to substantiate in the absence of clear guidance from courts. The limitations of using violations of international norms for environmental protection as the sole basis for selecting companies for engagement is also illustrated by the example of the agribusiness companies Bunge and Archer Daniels Midlands. The funds have not identified the companies to be violating international conventions. Nevertheless, Bunge and Archer Daniels Midlands are highly relevant for engagement due to their dominant position in a sector with severe negative impacts on biodiversity. Engagement with the most influential companies within an industry can contribute to raising the bar for the whole sector including the supply chain.⁷³

The above suggests that the lack of overall assessments of the links between the funds’ investments and impacts on biodiversity and ecosystem services prevents the funds from strategically selecting companies for engagement. Conducting assessments of risks and opportunities linked to impacts and dependencies on biodiversity and ecosystem services is also in line with the recommendations of the Natural Capital Declaration and the Natural Value Initiative, both backed by the UNEP FI. The assessments could analyse the actors in supply chains of high-risk sectors or be conducted with a thematic approach, focusing on for example deforestation. In light of the fact that deforestation accounts for 10-15% of global greenhouse gas emissions, developing a strategy for engaging companies in the primary deforestation sectors - palm oil, soy, forest products, and

71. Norwegian Ministry of Finance, Companies Excluded from the Investment Universe, <http://www.regjeringen.no/en/dep/fin/Selected-topics/the-government-pension-fund/responsible-investments/companies-excluded-from-the-investment-u.html?id=447122>

72. Sweden’s strategy for global development, <http://www.government.se/sb/d/14232/a/158646>

73. UN PRI and UNEP FI, Universal Ownership - Why environmental externalities matter to institutional investors, 2011, http://www.unpri.org/viewer/?file=files/6728_ES_report_environmental_externalities.pdf, p.10

cattle, would enable the funds to address key drivers of biodiversity loss and climate change at the same time.

With very few exceptions, the AP funds engagement activities consist of individual company dialogues. However, the Ethical Council highlights challenges in evaluating and addressing cumulative environmental impacts caused by a large number of companies, such as greenhouse gas emissions. Another example of a structural problem is the lack of standardized reporting by companies regarding biodiversity impacts, which hinders investors from conducting adequate risk assessments. An efficient way to address these types of systemic problems is to conduct engagement at the market level.⁷⁴ As large diversified owners with investments in thousands of companies, the AP funds should complement the dialogue with individual companies with engagement to generate wider change in entire sectors or regions. This could be achieved through engagement with standard-setters such as multi-stakeholder initiatives, in order to promote voluntary standards or certification aimed at safeguarding biodiversity and ecosystem services.

Only one company has been excluded by AP1-4 over violations of international conventions for environmental protection. The corresponding number for AP7 is four companies. Against this background it can be concluded that the funds

criteria for exclusions fail to set absolute limits for unsustainable business practices that pose a severe threat to biodiversity and ecosystems. The funds have not made any commitment to exclude companies for whom environmentally harmful practices that risk causing large-scale biodiversity loss, is an integral part of the business model.⁷⁵ By doing so, the funds would avoid wasting resources on engagement when the outlook for change is minimal. Given the significant impact of climate change on biodiversity and ecosystems, an integral part of such a commitment should also be to shift investments from coal, oil and gas companies to climate solutions.

While the funds routinely make use of their ownership right to vote at annual general meetings, they rarely file shareholder resolutions. This is a potential avenue for improving the funds' active ownership strategies, as filing of shareholder resolutions could complement the dialogue with companies. As a first step the funds should evaluate whether this tool could increase their influence over investee companies and publicly report on the findings.

74. UN PRI and UNEP FI, see above, p.10 and p.12, and Strategy Council for the Norwegian Government Pension Fund Global, see above, Recommendation 2, p.25-26.

75. See also Rainforest Foundation Norway and The Munden Project, Norway's Government Pension Fund Global: Proposed Path to a Forest Destruction-Free Portfolio, 2013, p.5. See also Rainforest Foundation Norway and The Munden Project, Norway's Government Pension Fund Global: Proposed Path to a Forest Destruction-Free Portfolio, 2013, p.5.

9. Recommendations

To the Swedish Parliament and the Pension Group

- Develop guidelines for the AP funds work with responsible investment, which ensure that the funds minimize their contribution to biodiversity loss. The guidelines should include provisions regarding transparency, including public reporting on the funds ecological footprint, exclusions and the results of active ownership activities.
- Review the implications of the investment rules for the AP funds' responsible investment strategies. Investigate whether the rules could enable investments in companies that proactively manage their environmental impacts as well as companies that see business opportunities in protecting biodiversity and ecosystem services.
- Ensure that the AP funds' mandates are consistent with Sweden's policy for global development⁷⁶, which establishes that all policy decisions must take the effects on poor countries and people into account.

To the AP Funds

- Conduct assessments of how the equity portfolios impact and depend on biodiversity and ecosystem services, in line with the recommendations of the UNEP FI. Publicly report on the findings.
- Use the assessments as a basis for adopting long-term strategies for exercising active ownership, including selection of individual company dialogues as well as engagement with standard-setters, in order to promote voluntary standards or certifications aimed at safeguarding biodiversity and ecosystem services.
- Make a commitment to exclude companies for whom environmentally harmful practices that risk causing large-scale biodiversity loss is an integral part of the business model.

To the Swedish public

- Voice your demand for sustainably managed pension funds to members of Parliament by signing the petition at www.schysstapensioner.nu.
- Raise awareness among your colleagues, friends and family about the need to ensure that the AP funds do not contribute to environmental damage and human rights violations. For example, you can help share the information from the Fair Pension campaign on Facebook <https://www.facebook.com/schysstapensioner> and discuss on Twitter by using #schysstapensioner or #apfonder
- Become a member of Fair Trade Center in order to support our research and campaigning, <http://www.fairtradecenter.se/bli-medlem-nu>.

76. Sweden's policy for global development, <http://www.government.se/sb/d/14232/a/158646>

Appendix 1

– Key conventions related to protection of biodiversity and ecosystems used for monitoring of AP1-4's portfolios

- The Convention on Biological Diversity
- The Cartagena Protocol on Biosafety
- The Rio Declaration on Environment and Development
- The Stockholm Convention on Persistent Organic Pollutants
- The United Nations Forest Principles
- The United Nations Convention on International Trade in Endangered Species of Wild Fauna and Flora
- The UNESCO Convention on the Protection of the World Cultural and Natural Heritage
- The United Nations Convention to Combat Desertification

Appendix 2

– AP1-4 engagement dialogues related to biodiversity during 2013

The dialogues are classified in three groups:

- 1) *Evaluate* – dialogue is conducted in order to obtain information from the company,
- 2) *Engage* – dialogue with the company is conducted in order to influence the company to change its behaviour, and
- 3) *Resolved* – the goal for the dialogue has been reached and the dialogue has been terminated.

Corporate activities impacting threatened species

Company	Issue	Location	Rec	Goal/Description
Exxon Mobil / Oil & Natural Gas Corporation/ Rosneft	Association to inadequate precaution in high risk environment	Russian Federation	Resolved (Confirmed Violation)	The case has been resolved. The companies have broadened its stakeholder base by including the IUCN, which is a key player in relation to western grey whale protection, which is pivotal for the continued Sakhalin shelf operation. Other gradual improvements in mitigation mechanisms are now also up and running such as better flow of scientific data as well as a more structured and transparent process within the relevant Russian authorities.
Lumber Liquidators	Association to illegal logging	Russian Federation	Evaluate	Lumber Liquidators has reportedly purchased lumber illegally harvested by its Chinese suppliers from protected forests in Russian Far East. Reportedly, the illegal logging destroys the Siberian tiger's habitat and threatens the livelihoods of more than 100,000 indigenous people

Company	Issue	Location	Rec	Goal/Description
Procter & Gamble Co	Association to rainforest destruction	Indonesia	Evaluate	Procter & Gamble Co. (P&G) has been associated to the destruction of rainforests in Indonesia. The company's subsidiaries have allegedly been complicit in peat lands degradation, as well as in depriving local communities of their land. It is also alleged that the activities within P&G's supply chain have undermined the biodiversity in the area by jeopardising the last remaining populations of Sumatran tigers and orang-utans.
Rakuten/ Yahoo Japan Corp	Association to diminishing populations of endangered species	Japan	Evaluate	Rakuten Ichiba, a Japanese subsidiary of Rakuten, has reportedly been profiting from the slaughter of endangered species through online sales of a wide range of whale meat and ivory products. The company has been helping to perpetuate illegal ivory flows and the poaching of African elephants, as well as selling products coming from internationally protected species, including fin, sei, minke and Bryde's whales.
VTB Bank	Association to a mining project with expected vast environmental impacts	Armenia	Engage	VTB Bank should strengthen its risk assessment process and monitoring process in large projects and should sign the Equator Principles. The company should also ensure that the operating company, Vallex Group, adopts a precautionary principle approach since the mining project is located in a sensitive biodiversity area.
Yum Brands	Association to rainforest destruction	Indonesia	Evaluate	Kentucky Fried Chicken (KFC), a subsidiary of Yum Brands, has been accused of the destruction of Indonesia's rainforests through its packaging sourcing practices. The forests are believed to be a key defence against climate change and are habitat for many protected species including the critically endangered Sumatran tiger.

Other impacts on terrestrial, marine and other aquatic biodiversity

Advanced Semiconductor Engineering	Association to water pollution	Taiwan	Evaluate	Advanced Semiconductor Engineering (ASE) has reportedly been refusing to clean up the ecosystem of Taiwan's Houjin River, allegedly polluted by the company's K7 plant, and denying compensation for losses to affected farmers. In December 2013, ASE was fined about USD 20,000 for the water pollution and the plant was ordered to partly suspend its operations. It has also been reported that between 2011 and 2013, the K7 plant was fined seven times for illegally discharging wastewater.
Alpha Natural Resources	Association to environmental harm and health impacts from mountain top removal	United States	Evaluate	There have been media reports on the environmental and health consequences of mountain top removal (MTR) carried out by Alpha Natural Resources. Alpha Natural Resources is the largest company carrying out this kind of operations in the US. After blasting has occurred, the waste from mining operations is systematically dumped into nearby valleys, burying streams. The waste releases toxic metals, killing life in streams and polluting ground water. The company rejects allegations that MTR is harmful to the environment.

Company	Issue	Location	Rec	Goal/Description
BP plc	Association to systematic oil spills in Alaska	United States	Engage	BP Exploration Alaska's North Slope operations have been impacted by repeated serious oil spills during the period 2006 to 2011. BP should demonstrate that it has achieved significant improvements in risk and safety management and culture within the company. The company should also demonstrate that it understands operational risks associated with its Alaskan infrastructure and has facility integrity and maintenance issues under control.
Chevron Corp	Association to environmental damage in the Amazon jungle	Ecuador	Engage	<p>Chevron's operations resulted in numerous crude oil spills and the storage of up to 80 billion litres of oily produced formation water in unlined pits. The resulting impacts on the local ecology and human health were severe.</p> <p>Chevron should reconsider its position on compensation and the remediation of environmental and health impacts in Lago Agrio, either through direct company involvement, or by paying its Ecuadorian fine such that local authorities and actors can implement a remediation and compensation programs.</p>
Eramet	Association to water pollution causing health problems	Gabon	Evaluate	A group of local residents lodged a complaint against Eramet's subsidiary, Ogooue Mining Company Division (COMILOG), and claimed USD 998 million in compensation for alleged water pollution caused by the company's mining activities in Moanda, Gabon. It is said that, COMILOG has had negative impact on the environment as well as people's health for over 40 years. According to the plaintiffs, the water sources in the area of Moanda have been polluted with mud and waste from the company's manganese mining operations, making it difficult for the population to find drinkable water. Also, due to the pollution local people have abandoned their traditional fishing haunts, and also have to walk long distances to hunt.
Glencore-Xstrata International	Association to lead contamination from mining and processing	Australia	Engage	GlencoreXstrata is the owner and operator of Mount Isa Mines in Queensland in north-eastern Australia. GlencoreXstrata should ensure adequate controls of emissions from its Mt Isa facilities, in line with leading Australian air emissions legislation. The company should also demonstrate that it has remediated contaminated land and waterways and can ensure that residential areas are safe from heavy metal contamination
Harmony Gold / Newcrest Mining Ltd	Association to river pollution	Papua New Guinea	Evaluate	Harmony Gold and Newcrest Mining Ltd (Newcrest Mining), which jointly own Morobe Mining Joint Venture (MMJV), have been accused of polluting Watut river in Morobe Province of Papua New Guinea. As reported by media, the hasty and negligent construction of waste dump facilities caused pollution of the river with material containing heavy metals and acid forming rock. This poisoned the river, killed fish, other aquatic life and vegetation, and caused nuisance to people using the water for drinking and other purposes. Initially, the companies admitted pollution and sedimentation problems and made voluntary nominal compensation payments to the affected families.

Company	Issue	Location	Rec	Goal/Description
Hon Hai Precision Industry / PT Timah TBK / Shenmao Technology	Association to tin mining damaging ecosystems and communities	Indonesia	Evaluate	Hon Hai Precision Industry, which supply their products to Apple Inc., are allegedly sourcing tin and tin solder from PT Timah TBK (PT Timah) and Shenmao Technology (Shenmao). Allegations state that the tin is obtained from the island Bangka, Indonesia, where the mining process causes damage to communities and ecosystems. Tin mining in the area is reported to destroy coral reefs, forest and farmland areas, and to deprive some places of clean water. Numerous cases of malaria in the region in the recent years might also be linked to the tin mining industry.
Itochu Corp. / Sojitz Corp.	Association to illegal logging on indigenous land	Malaysia	Evaluate	Sojitz Corp. (Sojitz) has reportedly been involved in purchasing large amounts of illegally-logged timber coming from the endangered rainforests in Sarawak, Malaysia. It is alleged that the timber has been supplied from the companies Samling Global and Shin Yang Group, both accused of illegal and extensive logging, participating in widespread corruption and human rights violations.
Kingboard Chemical	Association to discharge of hazardous effluent from factories	China	Resolved (Indication of Violation)	In 2009, Kingboard Chemical Holdings was criticised for discharging toxic wastewater from its factories located in Guangdong Province in China, thereby contributing to environmental degradation in the Pearl River Delta. The case has been resolved. The company has implemented new environmental management systems in its factories in China. The company also has made changes to its operational processes, which will ensure that personnel mistakes, which previously had resulted in chemicals being emitted directly into the Pearl River, would not be repeated.
Levi Strauss & Co.	Association to environmental pollution	Mexico	Evaluate	Two garment suppliers of Levi Strauss & Co. (Levi), INISA Lavamex and Kaltex, have been engaged in systematic wastewater discharges into Mexican rivers. According to the report, a wide range of hazardous substances has been discharged by two manufacturers including persistent environmental contaminant and hormone disruptor nonylphenol, as well as benzotriazole and highly toxic phosphate. Reportedly, the aggregation of these substances has harmful and long-lasting effects on aquatic environment and consequently may adversely affect human life
Metallurgical Corp of China	Association to negative environmental impact from improper waste management	Papua New Guinea	Engage	Metallurgical Corp of China should carry out an extensive risk-assessment study and make impact reduction commitments regarding the deep-sea tailings placement (DSTP).
Newcrest Mining Ltd	Association to marine environmental impacts from mine waste disposal	Papua New Guinea	Evaluate	Newcrest Mining Ltd (Newcrest Mining) is the operator of the Lihir gold mine on Niolam Island off Papua New Guinea (PNG) since 2010. The operation uses a controversial waste dumping method known as the Deep Sea Tailings Placement Process. The practise involves the discharging of heavy metal containing mineral process waste into the ocean, a short distance from the -->

Company	Issue	Location	Rec	Goal/Description
				shore, at 150 meters depth. Reportedly, the project had major impacts to seabed communities. In response to this, the company has cooperated with Commonwealth Scientific and Industrial Research Organisation to constantly monitor environmental impact from the controversial method used at the Lihir Mine. According to their findings, there has been no bioaccumulation of elevated concentration of metals in fish or in the human food chain.
PTT PCL / PTT Exploration & Production PCL	Association to major oil spill	Australia	Resolved (Confirmed Violation)	In August 2009, a crude oil and gas leak occurred at the Montara field in the East Timor Sea off Australia. The case has been resolved. The company has detailed the preventive and precautionary measures the company has taken that led to the Australian Government's approval of PTTEP's continued operations. The company has also described how it ensures that precautionary and preventive measures are implemented throughout all operations. Furthermore, the company is funding a long-term environmental monitoring program to determine the environmental impacts from the incident.
Turkiye Halk Bankasi/ Turkiye Garanti Bankasi/ Akbank/ Andritz AG/ ÅF AB	Association to hydro power project breaching World Bank environmental and social standards	Turkey	Exclude / Engage / Evaluate	The companies must ensure that impacts from the Ilisu dam project are in line with international environmental and social standards, e.g. World Bank Safeguard Policies, before continuing with the project. To prevent involvement in future similar projects the companies should adopt corporate policies that address environmental and social risks in infrastructure projects. The policies should advocate a precautionary approach and require that projects comply with internationally proclaimed environmental and social standards.
Walt Disney Company	Association to rainforest destruction	Indonesia	Engage	Walt Disney Company has been accused of sourcing their packaging materials from companies linked to large-scale destruction of Indonesia's rainforests. Disney should prevent environmental violations by collaborating with transparent suppliers and ascertain compliance with industry standards. The company should be more informative about the actions it takes towards companies linked to deforestation.

Corporate activities impacting protected areas

Compania de Minas Buenaventura	Association to controversial mine project	Peru	Evaluate	The mine was planned as an extension of the existing Yanacocha site, which had previously sparked controversies over causing negative impact on water accessibility and quality.
Grupo Ferrovial	Association to road project endangering protected wildlife habitats	Poland	Resolved (Confirmed Violation)	The case has been resolved. There have been a number of positive measures taken by the company, e.g. a further development of its risk management system, as well as improvements of the procedures on environmental and non-financial assessment. The company has provided information about its new environmental policy, as well as lessons learned from the Rospuda Valley incident. Ferrovial's environmental risk control and monitoring tool, which has been implemented in the Construction and Services area, has been validated by UNESCO's Environmental Chair.

Company	Issue	Location	Rec	Goal/Description
Rio Tinto/ Freeport McMoran	Association to environmental impact caused by mining activities	Indonesia	Engage	The mine has been subject to criticism due to the nature and scale of environmental impacts, in particular riverine tailings disposal. The practice is particularly inappropriate in such a highly biodiverse environment. The companies should demonstrate a strongly proactive approach in ensuring that the Grasberg operation implements the necessary measures to comply with internationally accepted standards for tailings management.
Soco International	Association to exploration plans in a protected area	Dem. Congo	Evaluate	SOCO International (SOCO) is reportedly planning to proceed with oil exploration in Virunga National Park, a UNESCO World Heritage site located in the Democratic Republic of Congo (DRC). UNESCO, World Heritage Centre and NGOs have repeatedly warned of the extremely harmful repercussions of the exploration activity for the park's ecosystem, protected wildlife species and the neighbouring area.
Vinci	Association to destruction of protected forest	Russian Federation	Evaluate	Vinci, a part of the North-West Concession Company LLC, has been accused of taking part in destroying protected Russian Khimki Forest Park in order to build the first section of the highway between Moscow and St. Petersburg.

Biodiversity connected to ecosystem services and human rights

Adani Enterprises / Adani Ports and Special Economic Zone Limited	Association to damaging ecosystem	India	Evaluate	Adani Enterprises was fined USD 30 million by the Indian Ministry of Environment and Forests (MoEF) for environmental violations of its subsidiary Adani Ports and Special Economic Zone Limited (APSEZ) at the Mundra project in Gujarat, India. Reportedly, a panel of experts appointed by MoEF has found that the company's port and power plant have caused the destruction of approximately 75 hectares of mangroves in Bocha Island, declared as a conservation zone, and deterioration and loss of creeks near the port.
AES Corp/ AES Gener SA/ Antofagasta plc	Association to controversial dam project	Chile	Evaluate	There is a risk that the project will lead to the desertification of an estimated 100,000 hectares of the river basin as a result of extracting water from the river basin's source and building a huge drainage system. It is alleged that the local authorities have identified many other negative impacts of the project in the areas supported by the river-bed including irrigation canals, drinking water collection points and construction zones.
Asia Pulp & Paper	Association to controversial mill construction	Indonesia	Evaluate	APP has reportedly pulped an estimated two million hectares of Sumatran tropical forest since it began production there. Additional deforestation in the region would threaten indigenous communities and endangered animals.
Barrick Gold Corporation	Association to environmental impact in mining project	Papua New Guinea	Engage	Barrick Gold Corporation is the majority owner and operator of the Porgera gold mine in Papua New Guinea. The mine is one of a few in the world that disposes of its process wastes (tailings) directly to a local river system; a practice which has an unacceptably high impact on the river and shoreline environments. -->

Company	Issue	Location	Rec	Goal/Description
				The discharge of tailings has led to high levels of toxic metals and depletion of wildlife in the Porgera River. It further poses an unnecessary risk to people dependent on the river, as well as Papua New Guinea's largest lake, Lake Murray. Barrick Gold should implement internationally accepted standards for tailings management at Porgera and commit to remediating the rivers and catchments impacted by riverine tailings deposition. The company should strengthen policy on mine wastes.
CH. Karnchang Public Co/ PTT PCL/ Poyry Oyj/ ÅF AB/ Andritz/ Bangkok Bank Public/ Kasikornbank /Krung Thai Bank Siam / Commercial Bank	Association to bio-diversity and food security impacts related to dam project on the Mekong River (XAYA-BURI DAM)	Laos	Engage/ Evaluate	The companies should halt the construction of the Xayaburi dam until a thorough EIA, which adequately addresses all significant potential impacts, is conducted. In this case, these include the impacts on fishery populations, fish migration and fish passage. In the existing EIA these impacts have not been addressed properly or not at all. The companies also need to adequately study the impacts on fish production in the basin, in order to be able to respect the human right to food of the river-dependent communities.
IJM Corporation Berhard	Association to food security and biodiversity impacts	Laos	Evaluate	A joint venture of Mega First Corporation Berhard and IJM Corporation Berhard has been engaged in the Don Sahong Hydropower Project located on the Mekong River at the Laos-Cambodia border. The project will allegedly threaten the food security and livelihoods of 60 million people living in the affected regions of Laos, Cambodia, Thailand, and Vietnam. It will also undermine the area's biodiversity by jeopardising the last remaining population of Irrawaddy dolphins, the Mekong Giant Catfish, as well as some migratory fish species.
PetroChina	Association to systematic health, safety and environment accidents	China	Resolved (Indication of Violation)	Since December 2009, PetroChina has experienced two major oil spills that caused pollution to Chinese waters, as well as a number of smaller scale explosions and fires at its facilities. The incidents include a December 2009 diesel oil spill in the Shaanxi province that contaminated a major tributary of the Yellow River, allegedly threatening water supplies for hundreds of thousands of people. The case has been resolved. PetroChina has taken a proactive and precautionary approach to improve its routines and prevent future similar violations. PetroChina has provided extensive information on the policies it has in place regarding environmental and health and safety issues.

Company	Issue	Location	Rec	Goal/Description
Sustainable production of palm oil – focus on human rights and environment				
Astra Agro Lestari / Astra International /Jardine Matheson	Association to destroying habitat of critically endangered orangutans	Indonesia	Engage	Astra Agro Lestari should adopt a sustainable and precautionary approach when operating in environmentally sensitive areas. The company’s management of environmental issues and operation of Oil Palm plantations should align with the Roundtable of Sustainable Palm Oil’s certification process and HCVF.
Bumitama Agri	Association to destruction of rainforests	Indonesia	Evaluate	Bumitama Agri (Bumitama) and its subsidiaries have reportedly been involved in destructive land clearance and fires on peat lands in Borneo and Sumatra. According to the report, the company’s operations have endangered Indonesian national parks and forest reserves, including the Tanjung Puting National Park in Borneo.
Kuala Lumpur Kepong	Association to improper land clearance	Indonesia	Evaluate	Kuala Lumpur Kepong’s (KLK) subsidiary PT Adei Plantation & Industry (PT Adei) has been investigated over improper land clearance in Sumatra, Indonesia. According to the source, the Indonesian National Environment Ministry stated that PT Adei’s activities could have resulted in degradation of rainforests and peat lands, consequently contributing to increased greenhouse gas emissions
Ta Ann Holdings/ WTK Holdings/ Sarawak Oil Palms	Association to indigenous land destruction	Malaysia	Evaluate	The companies have not only influenced Malaysian Borneo’s rainforests by clearing and draining it for palm oil plantations, but also deprived indigenous communities of native customary rights.
Wilmar International Limited	Association to destruction of Indonesian rainforests	Indonesia	Evaluate	Suppliers of Wilmar International Limited (Wilmar) have been involved in destructive land clearance, fires on peat lands, as well as running illegal palm oil plantations within the Tesso Nilo National Park in Sumatra, Indonesia.

Appendix 3

– Examples of AP7’s engagement dialogues related to biodiversity during 2013

During 2013 AP7 conducted dialogue with companies concerning issues related to biodiversity with around 70 companies.

AP7 focuses on:

- Corporate activities impacting threatened species (such as activities affecting species on the International Union for Conservation of Nature’s Red List)
- Corporate activities impacting protected areas (such as areas within or close to UNESCO World Heritage Sites)
- Other impacts on biodiversity and ecosystem services (such as activities in breach of the standards of the Roundtable for Sustainable Palm Oil or the Forest Stewardship Council)
- Impacts on biodiversity that affect ecosystem services and human rights (for example business activities negatively impacting local communities access to land, water and forests)

AP7 provided information on 10 of the companies it had engaged with in 2013. The information including company names, topics of the dialogues and goals are listed below.

Corporate activities impacting threatened species

Company	Issue	Goal
Exxon Mobil Corp and other companies in the Sakhalin I consortium	Alleged impacts on the Western Gray Whale	Demonstrate compliance with expert recommendations issued by the Western Gray Whale Advisory Panel
Akbank TAS and other banks financing the Ilisu-dam in Turkey	Alleged impacts on the Euphrates Soft shell Turtle	Demonstrate that environmental and social due diligence processes are carried out according to the requirements of the Equator principles. Demonstrate measures taken to influence the responsible parties for the Ilisu dam to adhere to international social and environmental standards for the project

Corporate activities impacting protected areas

Company	Issue	Goal
Gazprom OAO	Altai gas pipeline in Russia – UNESCO World Heritage site	Demonstrate that pipeline work has not been carried out within the World Heritage site Confirm that the pipeline route will not run through the World Heritage site
Kajima Corp and other companies within the COJAAL consortium	Highway in Algeria – El Kala National park – Ramsar site	Demonstrate verifiable measures to minimize environmental impacts of the highway construction (East – West). Elaborate and adopt guidelines and strategies for protecting wetlands among the key issues for the company

Other impacts on terrestrial, marine and other aquatic biodiversity including high conservation value areas and primary forests

JBS SA	Alleged illegal logging – Amazon rainforest, Brazil	Improve supply chain monitoring to prevent purchasing cattle from suppliers involved in deforestation of the Amazon
Fortis Inc	Alleged impacts on fish and ecosystems – Chalillo dam, Belize	Demonstrate compliance with court order from 2008 and 2009 from the Supreme court of Belize, including disclosure of water tests and information to communities downstream of the dam regarding risks for mercury poisoning Demonstrate that measures have been taken to protect the Macal river from further pollution, among other through preventative measures regarding mercury exposure to fish

Biodiversity connected to ecosystem services and human rights

PTT PCL	Xayaburi dam in Laos, alleged impacts on fish, sediments and regional food security	Disclose social and environmental impact assessments, include cumulative and trans boundary effects Demonstrate that measures have been taken to protect fish of the Mekong river and the food security along the river Disclose risk assessment before getting involved in the dam project and disclose revised processes for preventing future participation in similar projects with substandard environmental and social monitoring
Adani Ports & Special Economic Zone Ltd	Alleged impacts on ecosystems, fishery and livelihoods of local communities – India	Demonstrate compliance with recommendations from Ministry of Environment and Forests, including elaborating an action plan for protecting fish, restoring streams, water bodies and land to the state prior to when construction was initiated

Sustainable production of palm oil – focus on human rights

Company	Issue	Goal
Golden Agri Resources Ltd	Alleged violation of the right to property and forced evictions, Liberia	<p>Demonstrate that measures have been taken to address the impacts of its palm oil plantations in Sinoe County, Liberia, including alleged forced evictions, destruction of burial grounds and pollution of water resources.</p> <p>Improve processes for obtaining the free, prior and informed consent in connection with future land acquisitions</p>
Sime Darby Bhd	Alleged forced evictions and lack of free, prior and informed consent, Liberia	<p>Demonstrate that measures have been taken to address the impacts of its palm oil plantations in Grand Cape Mount County, Liberia, including alleged forced evictions, destruction of burial grounds and pollution of water resources.</p> <p>Improve processes for obtaining the free, prior and informed consent in connection with future land acquisitions</p>

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