Recommendation to exclude G4S PLC

NOVEMBER 2019

Introduction

It is recommended that KLP and the KLP Funds (KLP) exclude G4S PLC (G4S) from its investment portfolios due to an unacceptable risk that the company is contributing to systematic human rights violations. The recommendation is based on Norges Bank's decision,[1] published 14 November 2019, to exclude G4S from investment by the Government Pension Fund Global (GPFG) at the recommendation of the GPFG's Council on Ethics.

G4S is a British company that provides security services worldwide. The company operates in 90 countries, including Qatar and the United Arab Emirates (UAE). It is in these countries that the company has been linked to violations of internationally recognised norms by the International Labour Organization (ILO).

KLP has investments in G4S shares worth NOK 10.7 million and in company bonds worth NOK 20.7 million.

Guidelines

In its recommendation, the Council on Ethics has considered whether *"… there is an unacceptable risk that G4S is contributing to or is itself responsible for serious or systematic violations of internationally recognised human rights.*"[2]

The Council rests its assessment on labour rights standards adopted by the ILO, and the ILO's General Principles and Operational Guidelines for Fair Recruitment.

There must be a tangible link between the company's operations and the norm violation for there to be an unacceptable risk that the company is contributing to the violation of labour rights. In other words, the company must have contributed to any such violation or known about it without seeking to prevent it.[3]

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[1] https://www.norges-bank.no/en/news-events/news-publications/News-items/2019/2019-11-14-spu/
[2] https://etikkradet.no/files/2019/11/G4S-Plc-ENG.pdf
[3] http://etikkradet.no/files/2017/04/Etikkraadet_Guidelines-_eng_2017_web.pdf

Incident

G4S has 18,000 migrant workers employed in Qatar and the UAE. The migrant workers come from India, Pakistan and Nepal. The workers are recruited with the assistance of recruitment agents and must pay a recruitment fee. The company does not itself pay for these recruitment services. In Qatar and the UAE, the rules are such that an individual's work permit is linked to a specific employer, and workers must obtain their employer's consent to change to a new employer during the contract period.

The Council on Ethics' investigations have disclosed that workers in both Qatar and the UAE pay a significantly higher recruitment fee than the amount permitted in the countries from which they have been recruited. The recruitment fees can amount to several months' salary, and the workers generally take out loans in order to pay the fee. It also emerged that the workers receive significantly poorer salaries and working conditions than they were promised in their home countries. Workers in Qatar tell of working 12 hours a day, seven days a week. Since the migrant workers have often borrowed money in their home countries to pay the recruitment fee, they have little opportunity to leave their jobs or protest that the working conditions were not what they were promised. Combined with government regulations and employers' practices that give workers little opportunity to terminate the employment relationship before the contract period expires, this constitutes a restriction on workers' freedom. The company has confirmed that it does not grant workers' requests to change employers during the contract period, which can often last for two or more years. This means that the workers can hand in their notice, but cannot go and work for another employer.

A more detailed description of the case can be found in the Council on Ethics' recommendation.

Council on Ethics' assessment:

The Council on Ethics considers that the prevailing recruitment practices and restrictions on workers' freedom of movement, seen in light of the migrant workers' particular vulnerability, is a violation of human rights as expressed in ILO labour rights conventions. Although the Council has not taken a position on whether individual workers have been subject to forced labour in this case, it notes that the practices recorded in the studies correspond to the ILO's indicators for forced labour. The Council also notes other norm violations identified as indicators of forced labour, including long working days, a lack of overtime payment and cases of harassment and threats.

In this case, the Council finds that systematic human rights violations have taken place. Various types of norm violations were found to have occurred at different times and in different parts of the company's operations. The Council finds that the company has behaved in a manner which is at the limit of- or outside accepted norms, and that the norm violations constitute a pattern of behaviour. The Council attaches importance to the fact that the various norm violations also have a cumulative effect. For example, the money workers borrow is made more difficult to repay because their wages are lower than the sum agreed in their home countries. This, in turn, further restricts the workers' freedom of action.

Some of the norm violations in this case were not carried out by G4S, but by recruitment agencies which the company makes use of. The Council attaches no weight to this. The workers are employed by the company, and the company is actively involved in the recruitment process. As a result, there is a direct link between the company's operations and the norm violations, to which the Council considers the company itself has contributed.

When assessing the risk of future norm violations, the Council on Ethics attaches importance to the fact that the company has assessed the risk and implemented individual measures to improve the situation for its workers. For example, it no longer confiscates their passports in Qatar. The company will probably also change this practice in the Emirates with effect from March 2019. The company has also created a complaints mechanism that workers can use. However, the Council attaches more weight to the fact that the company does not seem to have followed up its own risk assessments and guidelines to improve the workers' situation. The company's knowledge of the recruitment fees workers must pay is poor, and it has not investigated the extent to which workers' actual wages and working conditions conform with what they were promised in their home countries. The fact that just two complaints were received in Qatar in 2017 seems to indicate that the company's complaints mechanism is not well known by or accessible to the workers, particularly given the challenges identified in the company's operations. Nor is internal control by means of the company's self-assessment form an appropriate method for uncovering labour rights violations. Although the company has decided to create a temporary Migrant Workers Coordinator position, it will hardly be sufficient to address the systematic and deep-rooted challenges in the company's operations in the Gulf.

G4S has around 18,000 migrant workers in Qatar and the Emirates. Norm violations could therefore affect a great many people. To this must be added the 11,100 migrant workers employed by G4S in Saudi Arabia, which has a similar regulatory framework as Qatar and the Emirates. The Council on Ethics therefore finds that there is still a major risk of norm violations leading to substantial restrictions on workers' ability to leave G4S's employ or change to a new employer. The Council attaches importance to the company's widespread and accepted practice of charging recruitment fees and to the fact that the company does not seem to have a system capable of preventing human rights violations in the recruitment of migrant workers. The Council therefore concludes that there is still an unacceptable risk that the company will contribute to systematic human rights violations.[4]

Dialogue with the company

G4S was excluded from investment by KLP from 2008 to 2010 due to human rights violations. At that time, the company was linked to repeated labour rights violations in various parts of the world. The allegations related, among other things, to a ban on unionisation, harassment of union representatives, unlawful termination of employment, labour law violations and violations of collective bargaining agreements. During the period of exclusion, in which KLP continued to follow up the company, G4S made significant improvements in its handling of labour relations. Among other things, the company signed a global agreement with the international federation of trade unions UNI Global Union, and established procedures for handling labour relations in a responsible fashion, through training programmes and mechanism to monitor compliance with company policy.

Norges Bank's Executive Board has a duty to assess whether other measures, including the exercise of shareholder influence, may be more appropriate than exclusion or observation. The Executive Board's assessment is that the use of other measures would not be appropriate in this case.[5] KLP supports this assessment and does not consider that the exercise of shareholder influence would be more appropriate for KLP in this case. The GPFG is the world's largest investor and, as such, has greater opportunities to exert influence than KLP.

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[4] https://etikkradet.no/files/2019/11/G4S-Plc-ENG.pdf
[5] https://www.norges-bank.no/en/news-events/news-publications/News-items/2019/2019-11-14-spu/

KLPs guidelines and analysis

Section 6.3 of the document Guidelines for KLP as a Responsible Investor[6] states that:

"*KLP should exclude companies from its investments where there is an unacceptable risk that they could contribute to or be responsible for: … serious or systematic violations of labour rights.*"

KLP's guidelines are in line with those of the GPFG. The Council on Ethics' recommendation is well reasoned and rests on a wealth of source material. KLP therefore sees no reason to deviate from the Council's conclusion.

Decision

It is recommended that KLP and the KLP Funds exclude G4S from their investment portfolios due to an unacceptable risk that the company is contributing to the violation of human rights, including labour rights.

[6] https://www.klp.no/en/english-pdf/Guidelines%20for%20KLP%20as%20a%20responsible%20investor.pdf