DEAD IN THE WATER

Ethical ownership and water management in the Norwegian Government Pension Fund Global

FIVAS
FORENINGEN FOR INTERNASJONALE VANNSTUDIER

Coverphoto: Photography of 'Thirsty' poster by Sharad Haksar, Chennai, 2004.

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Content

Introduction

The world is facing a serious water crisis with increasing water scarcity and overuse globally. The demand for water resources is growing rapidly mainly due to industrial use[1], and beverage companies are one of the major industrial consumers[2]. Giant corporations such as Coca-Cola and Nestlé are currently expanding its production and sale of soft drinks and bottled water, especially in the Asian market due to a rapidly growing middle class[3]. The commercial over-extraction and depletion of local water resources by these companies have led to considerable grievances and conflicts with affected communities fueled by the hardship caused by water shortage[4]. The poor are the first to suffer under water scarcity. A lack of safe and sufficient water affects both their ability to secure a livelihood and their health. This raises important questions regarding unethical corporate water management, severe environmental damage and the human right to water.

The Norwegian Government Pension Fund Global is the largest sovereign wealth fund in the world and has vast sums invested in The Coca-Cola Company and Nestlé. The Fund strives to be a responsible investor and regards sound management of water resources as a core priority. Sustainable water management is one of the Fund management's six strategic focus areas and the Expectation document on water management sets out their priority to all investee companies. The Fund also has ethical guidelines covering human rights and serious environmental harm. The Fund was an early mover in the field of ethical investments and has as such been a leading star. However, as far as we can see, there have been few, or none, external and critical analyses of the strategy on water management and the ethical guidelines in relation to the practice of water-intensive companies included in the investment portfolio. The main objective of this report is therefore to critically investigate and analyse the Fund's guidelines and practises on water management.

In order to do so the report will first address and explore the global water crisis, before mapping out the Fund's governance structure and strategy on responsible investment. This is followed by a set of case studies representing companies where the Fund holds an ownership interest. These are primarily concerned with three different Coca-Cola bottling operations and plants in India and have been selected due to their significant problems with commercial over-extraction of water. The cases display similar social and environmental problems, longstanding unethical practises and unresolved social conflicts - across different locations in India. In addition, the report will briefly touch upon Nestlé's operations in Pakistan, which have encountered similar criticism to that of Coca-Cola in India. Both Coca-Cola and Nestlé' are part of the group of the so-called "big 10" - the 10 most powerful food and beverage companies in the world, which together have a revenue of more than 1.1 billion USD a day. The industry as a whole represents 10 percent of the world's economy[5]. Finally, the last section draws out and discusses the main findings from the different case studies on corporate water management practices against the Fund's standards on water management and ethics.

[1] UNDP 2006, UN Water 2014

[2] Hall & Lobina 2012

[3] Rosemann 2005, Rodwan 2011

[4] e.g. Hills & Welford 2005, Hall & Lobina 2012, Karnani 2012

[5] Oxfam 2013

The global water crisis

The World Health Organisation estimated in 2014 that 784 million people do not have access to safe drinking water and that nearly half of them live in Sub-Saharan Africa[6]. On a positive note, 1.3 billion people have gained access to improved drinking water since 1990. Nevertheless, these figures are widely disputed due to the way "access" to drinking water is defined and measured. It neglects important factors such as affordability and the quality of water, which often results in insufficient access to water for poor people. One important measure employed is the number of pipes installed in a country. However, as Barlow points out: "Just because there is a pipe does not mean clean water is coming out of it, and if there is, it may be far from where people actually live. Further, if tariffs on the water are too high and cannot be paid, new pipes are immaterial"[7]. Thus, the water source should be located within a convenient distance from the household – in extent no more than 1 kilometre. The amount of water received, regardless of the ability to pay, is also crucial. The minimum amount of water required to meet basic human needs is contested. The United Nations' Deveopment Programme, UNDP, consider 20 liters per person the amount necessary to meet basic needs[8]. While 20 litres may be the minimum for decent living it is widely stated that higher volumes are required for daily household needs, Peter Gleick presented a convincing argument for 50 litres as a more appropriate volume to be able to have enough drinking water for survival, water for sanitation services, human hygiene and household needs[9].

Access to water is unequal within different regions and countries. Those without sufficient access to water are normally poor and often live in rural areas. Progress and improvement towards greater access is mainly benefitting wealthier people and leads to increased inequalities[6]. Moreover, women and girls often spend several hours a day fetching water. Hence the girls miss the chance to go to school. 3.6 million people die every year from water-related diseases and 1.5 millions of these are children[7]. These diseases kill more people worldwide than all wars and conflicts in the world. Many also suffer from chronic diarrhoea. Poor people often use disproportionately much of their total disposable household income on water. Because water is a basic need and impossible to go without, paying for water may go at the expense of other needs and leave little money for other important necessities such as food, health services, medicines, etc. In the Human Development Report 2006 UNDP states that "Clean water and sanitation are among the most powerful drivers for human development. They extend opportunity, enhance dignity and help create a virtuous cycle of improving health and rising wealth."[10]

The largest corporate water users are beverage and food companies, such as Coca-Cola, Nestle, PepsiCo, Unilever and beer companies. Especially the production of soft drinks and beer require a lot of water.[11] The fast-expanding consumption of, and market for, bottled water also contribute to the increased extraction of water in several places[7]. The overuse of water for commercial production

The fast-expanding consumption of, and market for, bottled water also contribute to the increased extraction of water in several places. The overuse of water for commercial production of beverages has lead to insufficient access

of beverages has lead to insufficient access to water for poor people, women, lower castes and certain ethnical groups in different rural areas in India and Pakistan, an issue we will return to in the cases. This is because the local communities are left with little access as large volumes of water are appropriated, sold and allocated to wealthier people through the production of beverages.

Less than 1 % of the world's water is accessible freshwater[12], and the groundwater supplies are decreasing. 20 % of the aquifers are over- exploited and some are in critical conditions. The growing demand for water globally will reinforce the current pressure on limited natural water resources and ecosystems (See textbox and map).

[6] WHO 2014

[7] Barlow 2013 7A: Barlow 2013, pp 21-22

[8] UNDP 2006

[9] Gleick 1996

[10] UNDP 2006, p 13

[11] Hall & Lobina 2012

[12] Lambooy 2011, Norge Bank 2009

[13] FAO 2014

[14] Karnani 2012

[15] Upadhyaya 2013

The biggest challenges will be in countries experiencing rapid economic growth, as this normally requires increased water use. In total, 40 % of the global population is estimated to live in areas with severe water stress in 2050. The main reason for increased water use is the growing demand of industry and manufacturing which is set to become the largest user of water, while agriculture will have to feed and create livelihoods for 2.7 billion more people (UNDP 2006, UN Water 2014). Currently, agriculture accounts for 70 % of water withdrawal while industry only accounts for 19 %[13].

In Asia, industrial water use is predicted to increase by 65 % between 2000 and 2030. The case studies in this report are mainly from India. Here 53 % of the population, approximately 660 million people, live in water scarce areas[14]. The availability of freshwater resources is rapidly declining mainly due to population growth and the changing life-style associated with improved material standard of living for some groups[15]. In India, farmers use as much as 80 % of the water resources. In 2050, it is projected that water sources supplying 1.2 billion people will be exhausted[14].

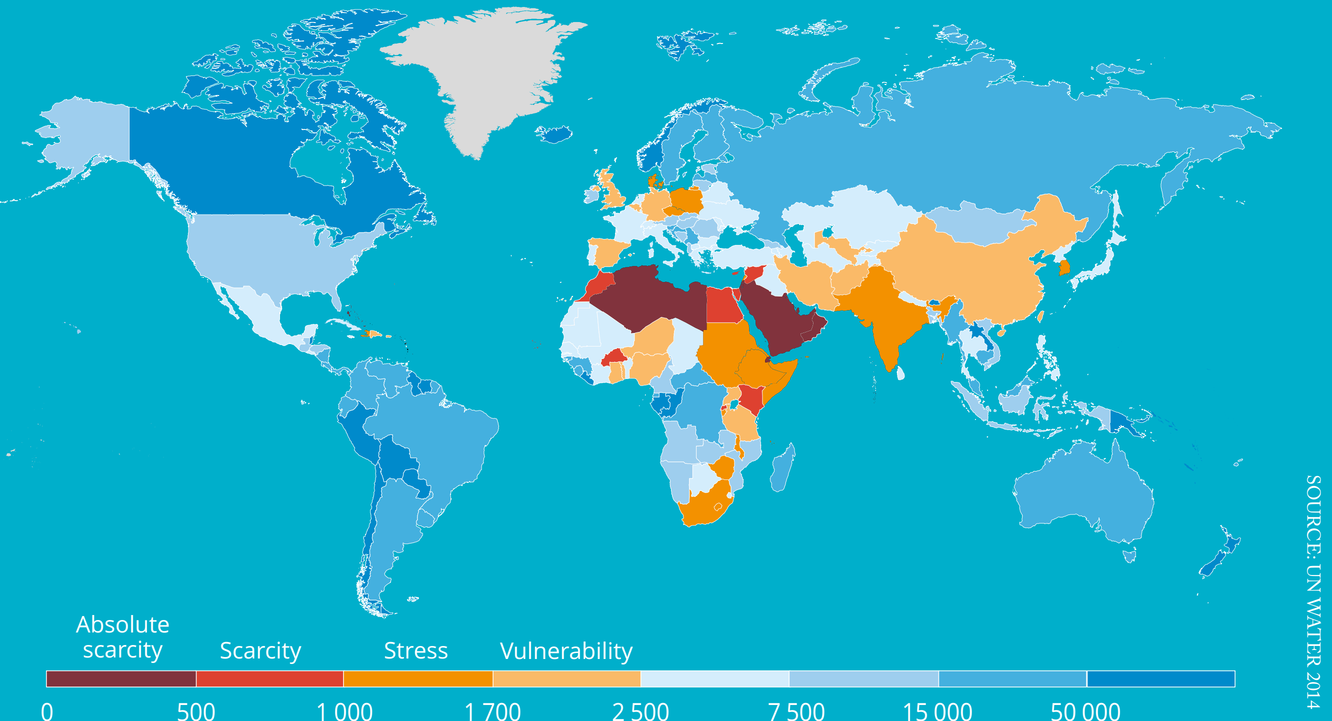
Box 1

GLOBAL WATER AVAILABILITY AND SCARCITY

Another international measure for water access is concerned with so called "water stress" and "scarcity", based on the total amount available per person per year in an area. While the "water stress" category starts at 1,700 cubic meters per person annually, from 1000–500 cubic meters per person per year is defined as water scarcity. The international standard is 2,000 cubic meters per person annually.

Figure 1

Total renewable water resources, 2011 (m3 per capita per year)



Source: WWAP, prepared with data from FAO AQUASTAT (aggregate data for all countries except Andorra and Serbia, external data) (website accessed Oct 2013), and using UN-Water category thresholds.

NBIM's regional offices Shanghai. Photo: NBIM.

The Government Pension Fund Global

The Government Pension Fund Global's market value passed 6000 billion Norwegian kroner in the fall of 2014, or 870 billion USD, by the second half of 2014, and invested funds are increasing[16]. The Government Pension Fund Global, or The Oil Fund, was established by the Norwegian Parliament in 1990. The purpose of the Fund was to invest and safeguard state revenues generated from taxation of the petroleum operations in Norway. The investments are made outside Norway to avoid inflating the Norwegian economy. The stated goal is that future generations will benefit from the wealth brought by oil, turning temporally high petroleum incomes into a permanant increase in welfare also when the income from the petroleum activity declines[17].

The Fund is the world's largest sovereign wealth fund and has ownership through shares in more than 8,000 companies based in 82 countries globally[18]. The mandate of the Fund is to achieve the greatest possible return on long-term investments, through moderate risk. Consequently, the Fund diversifies investments and risks across a broad range of sectors, different companies and regions. Investments in listed shares are by far the biggest part of the portfolio, but the Fund is also invested in property and government bonds. While there are provisions for management of the Fund in the mandate set by the Ministry of Finance the Ethical guidelines are traditionally seen as the mainstay of environmentally and socially responsible investment. For the sake of ease, the Government Pension Fund Global will be referred to as the Fund throughout this report. Similarly, the Bank refers to Norges Bank, the Norwegian central bank.

Governance structure

The Fund was established by law by the Norwegian Parliament and is owned by the Ministry of Finance. The Ministry of Finance has mandated Norges Bank to manage the Fund. A specialized section called Norges Bank investment management, NBIM, is established to manage the Fund. Norges Bank is governed by the Executive Board, appointed by the Council of state. A secondary body, The Supervisory Council – Representantskapet – is elected by parliament. The Council on Ethics have from its establishment in 2004 until 2014 been an independent body tasked with asserting compliance with The Ethical guidelines by the Fund, and reporting to the Ministry of Finance. As of 2015 the Council will advise the bank directly, and not the Ministry of Finance[19].

"Norges Bank Investment Management seeks to safeguard investments in more than 7,000 companies worldwide by promoting good corporate governance standards and encouraging businesses to improve social and environmental standards" – NBIM[21]

[16] Check www.nbim.no/en for a live update on the market value of the Fund

[17] Norwegian Ministry of Finance 2010

[18] www.NBIM.no / Holdings (lenke: http://www.nbim.no/en/the-fund/holdings-/)

[19] Norwegian Ministry of Finance 2014

[20] www.NBIM.no / Water management

[21] www.NBIM.no / Responsible investments

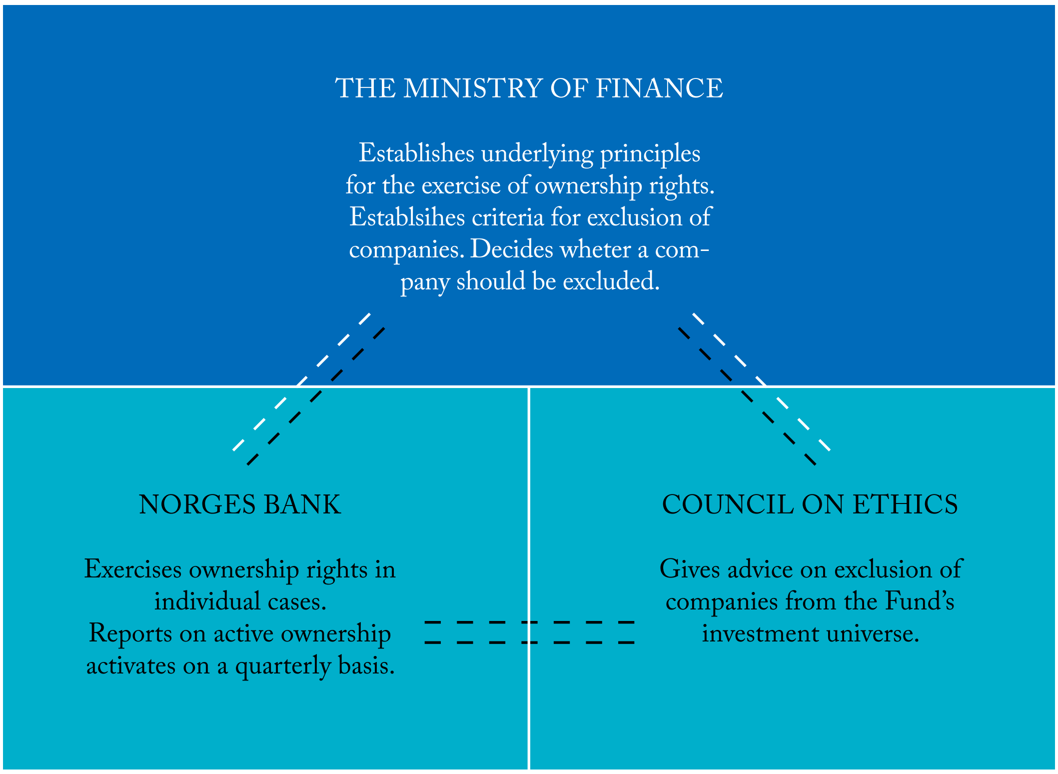
A brief history of the ethical managment

The notion that the investment by The Oil Fund should be curtailed by ethical guidelines was controversial, and the establishment of a Council on Ethics was deemed impossible rather than improbable by many. In the debate early in the 2000s the lines were drawn between economic return and ethics. By 2002 the Christian Democrats-led government ordered a public report on ethical guidelines for investments, written by The Graver Committee. In 2004 Parliament adopted ethical guidelines for the Fund's investment in companies, by that being the first publicly owned fund with ethical guidelines. The guidelines laid down three instruments: Active ownership, negative screening and divestment. International frameworks such as the UN Global compact and the OECD guidelines for multinational enterprises were set as the basis for the active ownership, while the Council on Ethics was tasked with advising on the two latter. Contrary to the political debate before the ethical guidelines the Bank today is eager to emphasize how sustainable management of the Fund is in alignment with the aim of economic returns. The guidelines have been revised upon several occasions and divided into guidelines for observation and exclusion pertaining to the work of the Council on Ethics and guidelines for Norges Bank's work on responsible management and active ownership. The guidelines on responsible management and ownership directing the work in NBIM has later been included in the general guidelines for the management of the Fund. In the Management mandate of 2011, paragraph 2 on active ownership carried on the reference to the UN Global compact and the OECD guidelines. In the mandate for 2015 the paragraph has changed name to 'Responsible management operations' and the Bank is tasked with elaborating principles for responsible management operations. Our report will focus on the enforcement of the guidelines and mandate expectations up to 2014, however we will consider the announced changes looking forward.

The review of the ethical guidelines in 2009 retained much of the previous content and introduced new measures. The strategy was presented in 2010 and redubbed 'Guidelines for observation and exclusion from the Government Pension Fund Global'. The new guidelines introduced observation of companies as a new measure, as a first step before exclusion. Active ownership has been included since the adoption of the ethical guidelines in 2004. The Bank's main instruments for the active ownership are communication through investor expectation documents, shareholder voting, dialogue with the companies and with other shareholders[20].

Figure 2

The institutional division of roles



SOURCE: NMF (2010)

NBIM has designated six strategic focus areas for its active ownership. These areas are equal treatment of shareholders, shareholder influence and board accountability, well-functioning, legitimate and efficient markets, children's rights, climate change risk management and water management. The Bank has published investor expectation documents on the three latter to communicate to investees and contribute to best practice. The expectation documents form the basis for the Bank's ownership dialogue with investee companies. NBIM publishes its shareholder voting and shareholder proposals on their web pages. However there is no information available on what topics are discussed in the dialogue with companies or which companies the Bank is engaging in dialogue with. The Supervisory Board which is tasked with ensuring that the rules governing the Bank's activities are observed receives reports on the active ownership. Reportedly this has only been given on an aggregate level and has not contained details on specific companies.

The Council on Ethics is tasked with monitoring the Fund's portfolio and detect companies in violation of the existing ethical guidelines. The biggest proportion of companies is excluded on the background of sector specific or product specific bans. The second category is companies deemed to cause or contribute to serious damaging practices in one of five categories. The non-investment or exclusion of companies could be seen as echoing the recommendation from the Graver Committee report:

(...) owning shares or bonds in a company that can be expected to commit gross unethical actions can be regarded as complicity in these actions. The reason for this is that such investments are directly aimed at achieving a return from the company, which establishes a permanent connection between the Petroleum Fund and the company, and that the question of whether to invest in a company is a voluntary matter.[22]

For the companies in the portfolio the Council advises the Ministry on observation or exclusion of the companies based on their own investigations and input from the Bank and others. Companies can be set under observation if there is doubt about violations of the ethical guidelines or about the development in the future. If a company is excluded the Bank will be given two months to sell its shares and is prompted by the Ministry to inform the company about the event. Publication of both decisions is done by the Ministry. As such there is little transparency in what the Council does until the Ministry of Finance decides to act upon the advice or dismiss it. The Ministry has been criticized for increasing the time from a recommendation is given from the Council on Ethics until a decision on exclusion or observation is publicized, in this way reducing the relevance of the tool[23].

The changes proposed for the management of the Fund in 2014 include reporting of active ownership on company level. However, it is still unclear to whom it will be reported and whether the information will be publicized. It is also suggested to incorporate the Council on Ethics into the Bank. This mirrors the development in other major investment funds that over time have developed capacity on ethical management in-house. From 2015 the Council on Ethics will advise the Bank directly and not the Ministry, however the Council is still appointed by the ministry[24].

Box 2

The Fund's instruments - as a responsible investor

- International collaboration and contribution to the development of best practice
- Targeted investment programmes
- Research and investigation
- Active ownership

Source: The Norwegian Ministry of Finance

Box 3

Ownership instruments:

- Voting at annual general meetings
- Shareholder proposals
- Dialogue with companies
- Legal steps
- Contact with regulatory authorities
- Collaboration between investors

Source: The Norwegian Ministry of Finance (2010)

[22] The Norwegian Ministry of Finance 2003, NOU 2003: 22, p:14 FIVAS translation

[23] Forum for utvikling og miljø 2013

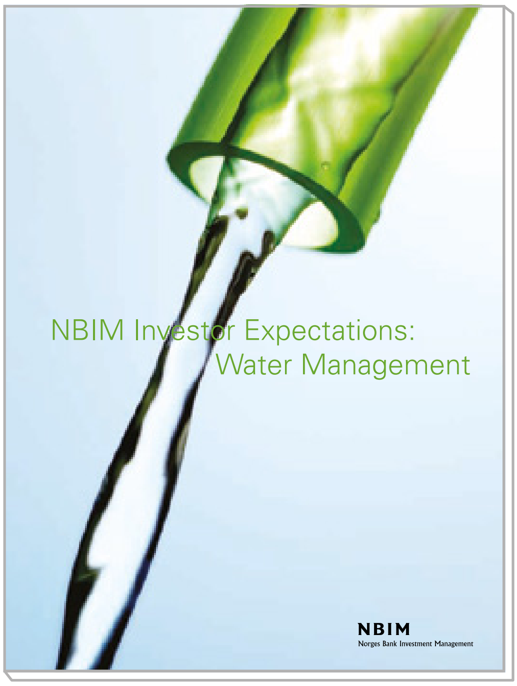
[24] The Norwegian Ministry of Finance 2014

[25] www.NBIM.no / Responsibility

[26] Norges Bank 2009

[27] NBIM 2009

[28] NBIM 2009, 2011, 2012



The Fund and responsible water management

Norges Bank has several instruments at its disposal to pursue its role as a responsible investor (see box 2). Active ownership is perhaps the most important instrument, relating directly to the issues of water scarcity and corporate water management. Enhancing the use of international standards is an other important instrument, the Bank's support for international reporting initiatives could be seen as a positive step going outside a minimalist approach to responsible ownership[25].

First, NBIM is engaged in international collaboration by supporting initiatives to increase the reporting and transparency of companies, as a way to promote international best practice. Among the initiatives is a global water disclosure programme named "CDP - Water Disclosure". NBIM has played a leading role in setting up the CDP Water disclosure program with other financial institutions in 2009 and has continued to be a lead sponsor of the programme. The intention of the program is to improve the understanding of business risks and opportunities concerning water scarcity and other water-related issues that affect companies' operations. The program collects data from companies in water-intensive industries trough questionnaires and makes the information available. The Bank links such initiatives to corporate risk management:

"As water becomes an increasingly constrained resource, it also becomes an investment issue. It is vital that institutional investors have access to high quality information on how water-related risks threaten corporations, both directly and within their supply chains, in order to make better informed decisions and direct the flow of capital away from risks and towards solutions"

– Norges Bank, press release on CDP launch[26]

The information is believed to be a resource providing valuable insight into the strategies of the largest companies in the world, which will be used to drive investments towards sustainable water use. One such effect is enabling informed decisions and the exercise of responsible and active ownership by investors, such as the Fund.

Secondly, *active ownership* could be seen as the most important instrument for NBIM to achieve sound water management in its investment portfolio. The position as an investor and shareholder gives NBIM the right to vote in shareholder meetings, as well as the opportunity to advance shareholder proposals and keep an active dialogue with the company board or executive (see box 2). Steps such as legal action and contact with regulative authorities that are listed by the Ministry of Finance are seldom referred to by the Bank and appears to be used less than other instruments. According to NBIM, the aim of the active ownership is to accomplish higher ethical, social and environmental standards in the companies[27]. As the Fund holds shares in a large number of companies NBIM have defined several strategic focus areas and within these, specific focus industries. In 2009, NBIM expanded the strategic focus to include responsible water management and turned the issue of increasingly scarce water resources into a new core priority along with the two other new social and environmental policies[28]. A separate policy document lays out the approach taken by the Fund, specifying investor expectations for corporate performance in terms of water management. The document is aimed at communicating expectations to investee companies as well as forming the basis for NBIM's ownership interaction with investee companies. NBIM points to the food and beverage industry as one of the main sectors that are vulnerable to water scarcity and asks of all companies in the specifically identified sectors to manage risk caused by scarce water resources.

"We have identified number of industries [..] food, agriculture, pulp and paper, pharmaceuticals, mining, water supply and electricity production. We expect companies in these industries to manage risk from scarce water supplies."
– NBIM.NO/ Water management

The document defines global water scarcity as a risk related to the economic and financial sustainability of the Fund as a long-term investor with investments in companies highly dependent on water (water intensive industries and sectors). The arguments put forward by the Fund concur with the theoretical framework in a study by Dr. Tineke Lambooy at Utrecht University[29], which can provide an overview and give more light to the analysis underpinning the Fund's policy[30]. Lambooy assesses strategies and practices for water management of 20 Dutch multinational companies. Her framework discerns various general incentives and drivers explaining why companies develop policies on sustainable water use and corporate social responsibility - all in which rests upon the self-interest of companies in terms of profit, economic and political risk. Firstly, freshwater becomes scarce and water prices increases, a reduction in water use will improve the company's bottom-line and economic efficiency. Secondly, it supposedly serves the interests of companies with operations constantly depending on available water resources to alert and report water shortages as well as engaging proactively in order to reduce these risks. Thirdly, a critical driver is the company's desire to uphold a good reputation and public image. Thereby, avoiding damaging confrontations between business and the local communities caused by over-extraction of groundwater and pollution[29]. The latter is particularly important given the scope of this report. NBIM views corporate conduct causing social and environmental harm to places as a threat to the legitimacy of companies and markets. The importance of legitimacy reflects the investor perspective and mandate to safeguard the long-term returns of the Fund[30]. A number of cases has demonstrated that the danger of triggering public outcry, discontent and resistance is very real in developing countries due to water scarcity[31]. Finally, increased exposure and pressure by communities due to adverse social and ecological impacts may result in local authorities withdrawing or suspending regulatory licenses. Authorities can also impose new and stricter regulation containing requirements that prove costly for companies[29]. Furthermore, access to water may be suspended or discontinued by policy shifts and legal rulings. In line with this, the Fund explicitly points out the "(…) risks associated with regulation and opposition from local communities and activist groups to companies' water use. Poor water management can lead to liability for damages or the loss of licences and permits"[32].

Following this analysis, the expectations-document operationalises a set of more specific normative requirements for the companies. One important demand is to have a water management strategy that analyses risks and establishes monitoring systems. The strategy should assess the environmental and social impacts of activities to ensure sustainable water management. Another requirement is that companies implement on-the-ground programmes to ensure that the surrounding communities retain necessary access to water. Companies are supposed to engage in consultation and/or collaboration with stakeholders such as concerned communities and NGOs to collect information, undertake research and build on-the-ground programs and measures.

The sustainable water management expectations laid down by the Fund thereby combine economic financial sustainability with another set of principles, namely *social* and *environmental sustainability*. The underlying analysis and normative strategy of expectations represents a perspective that foregrounds the mutual dependence and a win-win relationship between the two set of concepts. The Bank states that these expectations are premised on a long terms investment perspective, going beyond short-term investor considerations based on profit maximisation.

Changes in the Council on Ethics in 2015

From January 2015 the Council of Ethics reports to Norges Bank instead of the ministry of Finance and delivers recommendations about exclusion and observation directly to the Bank. The Bank is also given the power to suggest members for the Council, however they are still appointed by the Ministry of Finance. This change in structure is supposed to strengthen the integration of all means of responsible ownership. As this report is mainly written in 2014 the effect of these changes are yet to be seen.

The Norwegian Government proposed to terminate the Council on Ethics and include theie function into Norges Bank. Norwegian Civil Society fought the proposed change and a political compromise was reached.

Water in the Fund's Ethical guidelines

The ethical guidelines the Council can act upon are an exercise in brevity and leaves much for interpretation. The guidelines[33] task the Council on Ethics with advising the Ministry on whether companies cause or contribute to severe human rights abuses, serious environmental damage or other especially severe violations of fundamental ethical norms. The ethical guidelines could therefore be seen as including the human right to water enshrined in the United Nations resolution 64/292, although not explicitly mentioned by the guidelines. Moreover, the guidelines contain few specific references to human rights. By the resolution the UN General Assembly did not only acknowledge that clean drinking water is a human right, it simultaneously stated that water is essential to the realisation of all human rights[34].

Actions that run counter to and violate the human right to water and sanitation could also be said to sort under the criterion called "other particularly serious violations of fundamental ethical norms" in the guidelines. Yet another relevant criterion for exclusion is "severe environmental damage". Pollution, over-exploitation and depletion of groundwater resources are long lasting and have severe consequences for the biotopes they are part of, and as such constitutes severe enviromental damage. Companies in water dependent industries and especially with operations in water stressed regions have a higthened risk of negative impact unless they have sound water managment. The Council on Ethics notes that "severe" means extensive and long-term environmental damage, along with the types of harm that has major negative consequences for human life and health.

Exclusion is considered to be a measure of last resort. Before this takes place, the Council on Ethics assesses the company's will and ability to improve its practises when investors or others try to influence. The Council can, for example, have a direct dialogue with a company in order to achieve improvements. An alternative may also be to place a company under observation if there is doubt to whether the criteria for exclusion is sufficiently fulfilled, uncertainties to how the situation and practices will develop in the future, etc. Then, regular assessments of whether a company should remain under observation are conducted[35].

We find that there is ample opportunity to leverage the ethical guidelines towards the unsustainable use of water. However the guidelines are vague and assessing the relevance to our cases will similarly be cursory. In this respect the active ownership strategic focus on water management gives us more to work with.

[29] Lambooy 2011

[30] Cf. Norwegian Ministry of Finance 2010

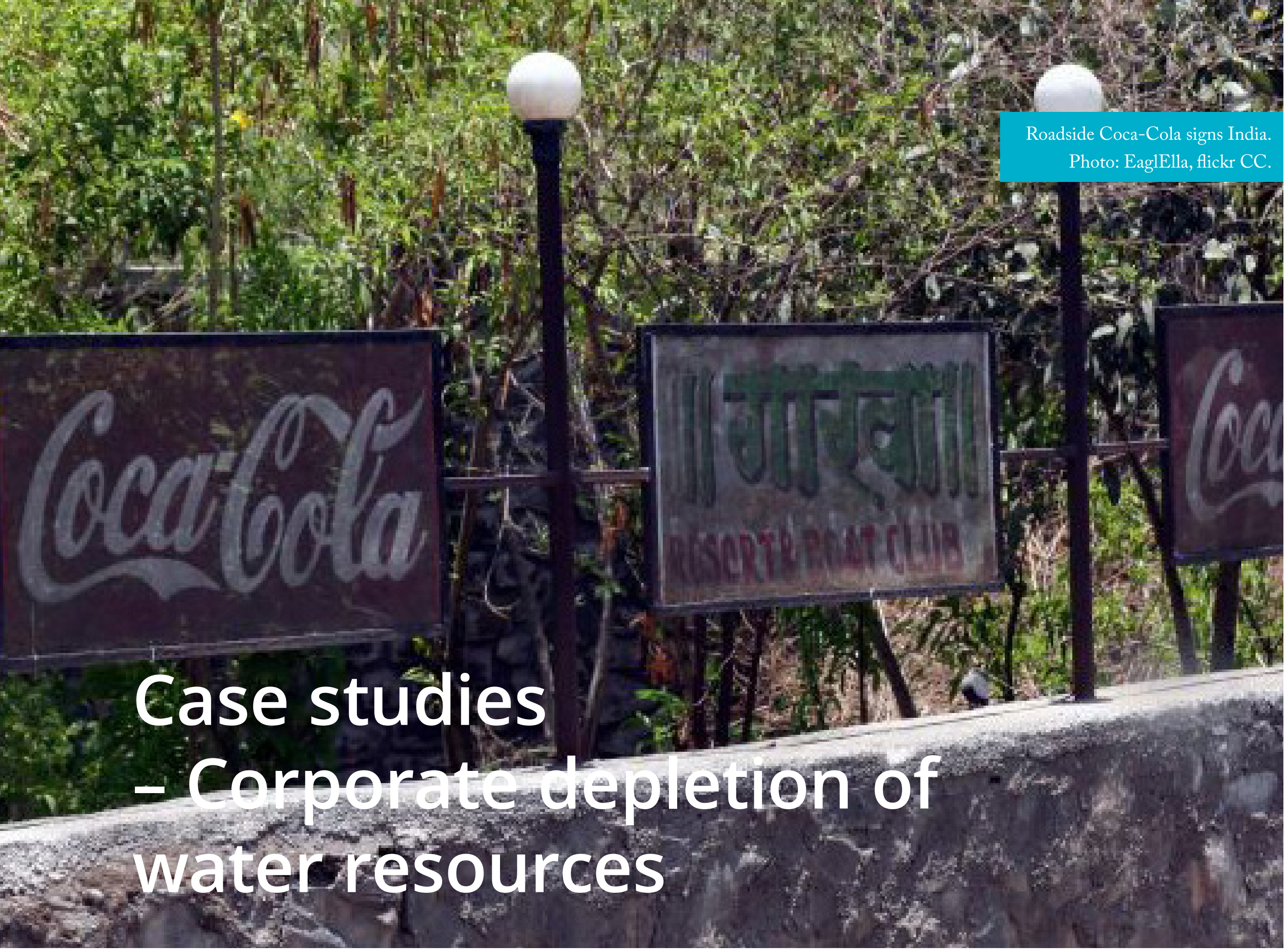
[31] Eg. Raman 2007, Lambooy 2011, Hall & Lobina 2012

[32] NBIM 2009

[33] Council on Ethics 2010

[34] UNDESA 2014

[35] The Norwegian Ministry of Finance. 2010



Roadside Coca-Cola signs India. Photo: EaglElla, flickr CC.

Case studies – Corporate depletion of water resources

Coca-Cola in India

The Fund is an owner in The Coca-Cola Company and holds shares for more than 7.8 billion NOK. In addition, the Fund has shares in various daughter companies of Coca-Cola (see box 4)[36]. Coca-Cola is also a member of the UN initiative for CSR Global Compact, and has been awarded status as Notable reporter. In 2007 the CEO of Coca-Cola and five other major companies launched the CEO Water Mandate at the Global Compact Leader's Summit. The CEO Water mandate aims at "help[ing] companies better manage water use in their direct operations and throughout their supply chains"[37].

The US based Coca-Cola Company re-entered India in 1993, after suspending its business in the 1970s and going into exile due the postcolonial socialist state's regulation. In the 1990s Coca-Cola returned as India underwent economic liberalisation and adopted free market policies. Coca-Cola considers India to be one of the most promising and rapidly expanding markets in the world. The company is one of the biggest investors in the country and have an ambitious plan to grow[38]. Among the planned expansions is a new bottling plant in the water stressed area Yadgir in Karnataka state[39]. Approximately 2 billion USD were invested in India between 1993 and 2011 by the company[40]. In 2013, Coca-Cola announced that it would invest 5 billion USD until the year 2020[41]. In comparison, the extensive investments in India by the Norwegian company Telenor was about 3 billion USD from 2002-2014[42].

The Coca-Cola Company has a fully owned subsidiary in India, Coca-Cola India Private Limited. Across India Coca-Cola sells well-known brands and beverages such as Coca-Cola, Fanta Orange, Sprite, Burn, Minute Maid, Georgia, bottled water, teas and coffees[41]. Instead of relying on independent bottlers, Coca-Cola has chosen to exercise direct control of production through another subsidiary called Hindustan Coca-Cola Beverages Pvt. Besides using authorised bottlers, Coca-Cola owns and manages about half the bottling operations, including the controversial plants and operations brought to view by the case studies presented in this section[38].

The case studies of different Coca-Cola bottling plants have been selected given that they are highly controversial and criticised for causing water shortage and pollution. Here, Coca-Cola's operations have also led to deep conflicts with local communities. This review will start with the case of Mehdiganj before moving on to Plachimada and Kala Dera.

[36] NBIM 2013

[37] UN Global Compact 2007

[38] Ciafone 2012

[39] Business Line 2014

[40] The Hindu 2013

[41] www.coca-colaindia.com/ Company history

[42] Teknisk Ukeblad 2014

Box 4

The Fund's holding in various Coca-Cola Companies

	MARKET VALUE (NOK)	VOTING	OWNERSHIP
The Coca-Cola Company (United States)	7 822 975 227,35	0,71%	0,71%
Coca-Cola Amatil Ltd (Australia)	66 302 847,35	0,43%	0,43%
Coca-Cola West Co Ltd (Japan)	94 623 044,11	0,43%	0,43%
Coca-Cola Femsa SAB de CV (Mexico)	281 738 428,04	0,00%	0,19%
Coca-Cola Icecek AS (Turkey)	102 240 465,06	0,28%	0,28%
Coca-Cola HBC AG (United Kingdom)	579 365 030,83	0,90%	0,90%
Coca-Cola East Japan Co Ltd (Japan)	66 302 847,35	0,43%	0,43%
Coca-Cola Enterprises Inc (United States)	504 899 594,36	0,73%	0,73%

Source: NBIM (2013)

The location of Coca-Cola case studies – in India

Protest march to Coca-Cola plant in Mehdingaj, March 2008. Photo: India Resource Center

Mehdiganj, Uttar Pradesh

Uttar Pradesh is situated northeast in India on the border to Nepal and is one of the poorest states in India. The climate is humid subtropical, and most of the rainfall comes in the four months of the monsoon period. The state relies heavily on the agricultural sector, consisting of a high level of small and marginal farmers depending on water. The poverty level is relatively high compared to the rest of the country with one-third of the state's population living in poverty[43]. There are considerable social divides between different social and religious groups, and particularly the lower casts and agricultural workers are poor[44]. In Uttar Pradesh, unregulated extraction of water has led to an increased groundwater crisis and water scarcity. The situation has changed significantly over the last two decades and become critical in various places, in terms of the quantity and quality of water[45]. The rising demand for water is driven by the rapid growth in population, the extension of irrigated agriculture and industrial development. In Uttar Pradesh irrigated agriculture is a large user of water together with certain industries such as soft drink producers[46]. Although agriculture extracts a lot of water in Mehdiganj, the establishment of highly water intensive industries like Coca-Cola has had very negative consequences for an already insecure system[47].

Mehdiganj is located close to the holy city of Varanasi in eastern Uttar Pradesh. The bottling plant was set up in 1999, with a capacity to produce 600 bottles of various types of Coca-Cola beverages per minute and is estimated to use 500.000 litres of water per day[48]. In the 11 following years the groundwater has fallen nearly eight meters, according to figures provided by the state regulator and oversight body - the Central Ground Water Authority (See figure 1)[49]. From 1999 until 2009 the groundwater situation went from the category "safe" to "critical"[50]. In 2014, the government decared the groundwater in Mehdiganj to be over-exploited, the most stressed category of groundwater in India[51]. An independent assessment and research project, agreed to by Coca-Cola, foresaw this development in 2006-2007[52]. In 2012, following mounting pressure, the state regulatory authority carried out a study describing the Coca-Cola water use as "excess" and established that the location of the plant had the lowest groundwater level in the area.[50]

Shortly after the production facility started to operate, the local communities experienced hardship, in the form of depleted water sources such as empty wells, hand pumps and ponds. Farming is the main occupation in this rural area where most people are poor or landless agricultural workers in a highly difficult economic and environmental situation. The water sources had previously been used to cover water for drinking, in addition to important tasks within the household including cooking and cleaning as well as providing water for livestock and agriculture. A study done by Amanda Ciafone published in the Cambridge journal International Labor and Working-Class History in 2012 provides more insight into the consequences of the insufficient access to water in Mehdiganj. Marginalised groups were most

[43] UNICEF web 2014

[44] Govt. of Uttar Pradesh 2006

[45] Sinha 2010

[46] Cullet 2010

[47] Ciafone 2012

[48] Drew 2008, Upadhyaya 2013

[49] Hall & Lobina 2012

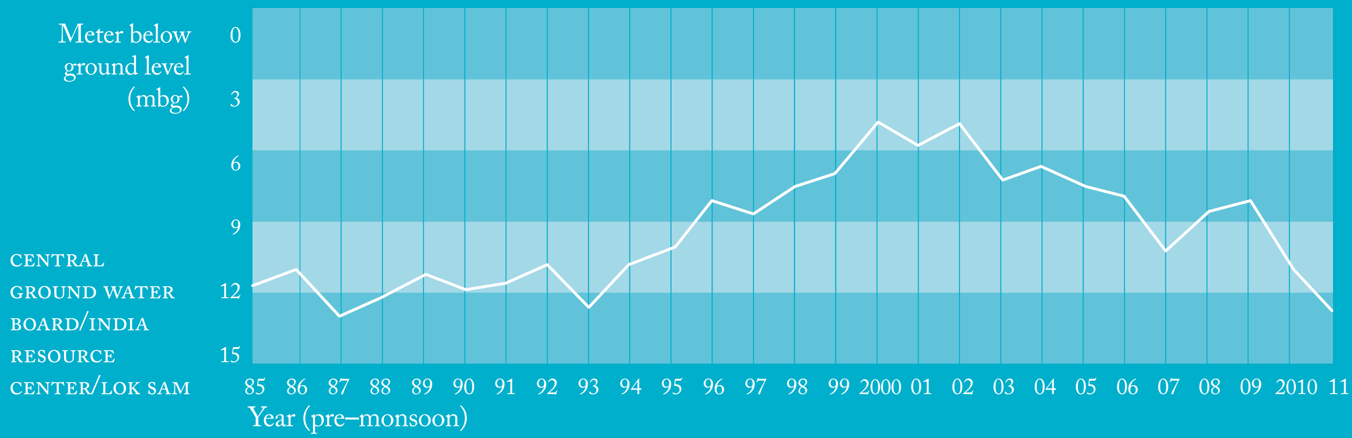
[50] India Resource Center 2014:1, Centre for Research on Globalization 2014

[51] India Resource Center 2014:4, Central Ground Water Board 2014

[52] TERI 2008

Figure 3

Groundwater levels in Mehdiganj before and after Coca-Cola began operations in 1999



affected by the water shortage and their situation deteriorated even further. For example poor rural women have had to travel longer distances and spend more time, carrying, fetching and standing in line waiting for water in front of wells and pumps. A humiliating factor was added when the water scarcity was so severe that women could not bath or wash and they would have to ask neighbours with private boring wells for water. Besides the gender aspect, the result is widened class divisions.

While Coca-Cola is accused of mining groundwater through boreholes reaching deep into the aquifer extracting extensive volumes of water, the communities and small farmers are far from capable of digging wells that deep[53]. Not only do poor farmers need to rent time on electric pumps in deeper wells from larger landowners, but landless workers are the first to become redundant due to failed crops[54]. The Coca-Cola plant brought few new jobs as the company mainly hired workers from areas outside Mehdiganj. In addition much of the staff was short-term seasonal contract workers with a meager salary (approximately US$ 1.65 a day)[55]. In addition to the abovementioned shortage of water, there has also been an issue of pollution. The production process at Coca-Cola plants uses chemicals that creates wastewater. Instead of necessary treatment, the effluent was discharged into the sacred Ganges River, as well as leaking into the groundwater. This have contaminated both water and soil used for farming[56].

Residents have fought against the Coca-Cola factory since 2002, regarding it as a struggle for the right to water and livelihood[57]. They organised a sit-in, a hunger strike, a number of non-violent marches, demonstrations and gatherings staged outside the gates of the Coca-Cola factory. The protests were confronted by mass arrests and beatings by the police, also private security guards shall have injured people and then leaving people injured[58]. In a stunt, activists dumped the by-product sludge originating from the production facility in the district offices of the pollution regulator. They were demanding that Coca-Cola's licence to operate was cancelled and payment of compensation to affected farmers and community members[59]. As well as Coca-Cola, the local campaign and resistance has targeted state authorities responsible for regulation and monitoring, widely considered to be particularly weak in India. The resistance represents an environmentalism of the poor and dispossessed as victims of extraction and degradation, using slogans such as "Coca-Cola steals water"[60].

During the years of protests, Coca-Cola has showed little will to engage in dialogue or consultations regarding the health and environmental issues raised by the community in Mehdiganj[60], nor has the company improved the excessive water extraction practice. On the contrary, the regulation authority recently determined that the production output and water use have increased and is now well over the limit set by the licence. The company has also built and intend to operate a new facility in the district[61].

Following prolonged criticism and international publicity, Coca-Cola decided to introduce rainwater- harvesting schemes as a measure of so-called corporate social responsibility. Nevertheless, most of the harvesting units were installed in villages outside the 30 km water-depleted zone surrounding the bottling plant. Thus, this has had a limited impact on the conditions of the local population and water availability near the plant where the problem is. In a statement the government also confirmed that Coca-Cola's rainwater harvesting projects do not have any impact[62]. Criticism is also raised claiming that the harvesting units do not work, are not well built and are ill maintained. Either way they do not offset the unsustainable over-use and systematic environmental destruction caused by Coca-Cola, and

[53] Upadhyaya 2013

[54] Ciafone 2012

[55] Drew 2008, Ciafone 2012

[56] (fn 50) India Resource Center 2014:1

[57] Drew 2008, Rohit & Belk 2009

[58] Shiva 2006, Drew 2008, Ciafone 2012

[59] Hills & Welford 2005, Ciafone 2012

[60] Drew 2008

[61] Uttar Pradesh Pollution Control Board 2014

[62] Central Ground Water Board 2013

more importantly, the groundwater level continues to drop year by year. In light of this, the CSR-measures seem to be more of a public relations exercise in order to deflect the bad publicity away from the fundamental problem; that the damaging practices remains unchanged. Many residents in Mehdiganj view the CSR-measures as cosmetic[63]. Instead of listening to the residents and the regulation authorities, Coca-Cola's strategy has been to reject any wrongdoing.

The state authorities recently ordered the Coca-Cola bottling plant to close. In June 2014, the Pollution Control Board found that the company had violated the terms of the license to operate, as already touched upon. The company had not obtained a required clearance to abstract groundwater from the agency that performs oversight of groundwater use in water-stressed areas (the Central Ground Water Authority). The Board went on to point out that a near doubling of the production capacity had taken place - from the 20,000 cases per day approved by the permit from 1996 to 36,000 today without an additional permission. It suggested that Coca-Cola had mislead the Board. The company was also required to undertake measures to recharge the depleting groundwater level by twice the amount extracted[64]. In addition, an official from the pollution board stated "Also, the effluents released by the plant contain pollutants beyond the permissible limits"[65].

Later the same month, Coca-Cola was allowed to reopen the factory after getting an interim stay on the closing order when appealing to the National Green Tribunal – one condition being that the company did not exceed the water extraction limit set in the initial permit. Whether the plant can continue to operate is likely to be determined by an upcoming legal case and the battle therefore carries on[66]. Regardless of the outcome, the Beverage daily, which is an industry news publisher for decision makers in the beverage sector, observes that: *"The ongoing story is a blow to Coca-Cola's wider prestige since it prides itself on smart water management (…)".* Here, negative PR and a possible plant closure is said to have potential economic losses[67]. Coca-Cola suffered another loss in august 2014, when forced to abandon a newly constructed production facility in Mehdiganj, a 25 million USD investment. In the wake of protests, the application for operating the plant, which had been built prior to obtaining permission, was turned down. Two days before the government was to publicly announce the decision rejecting Coke's application, the company officially withdrew the application to avoid risking further negative publicity[68]. Fifteen village councils had appealed to the government to reject the application, as it would deteriorate the situation even more[69].

Government also confirmed that Coca-Cola's rainwater harvesting projects do not have any impact[62]

In brief, the current situation is that Coca-Cola has not been allowed to open a new production factory in Mehdiganj while the faith of the old plant and concerned residents will be decided in court. In the meanwhile and if the court rule in favor of the company, the depletion of water will continue to worsen. If the situation is not resolved, this might further highlight the role for, and responsibility of, investors to pressure Coca-Cola to change its conduct.

[62] Central Ground Water Board 2013

[63] Ciafone 2012, Upadhyaya 2013

[64] Uttar Pradesh Pollution Control Board 2014, India Resource Center 2014:1

[65] The Guardian 2014

[66] The News Minute 2014

[67] Beverage Daily 2014

[68] India Resource Center 2014:2

[69] India Resource Center. 2014:3

[70] Panicker 2013, Haseena 2014:1

[71] Bijoy 2006

[72] Haseena 2014:2

[73] The Hindu 2014

[74] Centre for Water Resources Management 2012

[75] Bijoy 2006, Raman 2007

Roadsign in Plachimada, photographed April 2006.
Photo: Kasuga Sho

Plachimada, Kerala

Plachimada, in Kerala state, is located in southern India and has a somewhat different sosio-economic context than the rest of the country. Kerala has the lowest poverty rate in India following a sharp decline in the 1990s. The state has also achieved important advancements in human development for many of its citizens concerning health, nutritional, infant mortality rates, education, etc. This has often been attributed to the celebrated "Kerala-model", which is an egalitarian state model where public policies are set to create social and economic equality based on a vision of people-centred development. Despite progress, some particular groups have largely remained poor, such as the Dalits and Adivasis[70]. Dalits are oppressed and lower castes, landless and small farmers. The Adivasis are an indigenous group[71]. Consequently, the "Kerala-model" has been criticised for not being sufficiently inclusive when it comes to these groups[72]. Despite a wet climate with ample rainfall Kerala is facing a water crisis and will in a few years be categorised as a water scarce state[73]. This is considered to be a threat to previous sosio-economic achievements as well as further progress, especially because the availability of drinking water does not match the increasing demand[74]. The groundwater situation in the state is alarming and one of the worst in India, with well levels having dropped as much as 71 % during the last decade[73]. Important reasons for the widening gap between water supply and demand are population increase and domestic consumption, irrigated agriculture and industry use. But also climate variations in rainfall, deforestation and sand mining resulting in water draining to the sea are contributing to the situation[74].

Plachimada is another high profile case where protests emerged, as a response to severe water shortages, dry wells and contaminated water after a Coca-Cola bottling plant was built there in 2000. Some of the most marginalised and impoverished communities in the country, the Dalits and Adivasis, live close to the plant. The loss of water has led to an increase in grievances, because agriculture is the main source of income for the local population and women have to travel long distances to fetch water. Due to contamination, the water became unfit to drink, neither could it be used for other domestic purposes such as bathing and washing or for irrigation[75]. According to concerned residents, the harvest of agricultural goods such as rice and coconuts dropped significantly.

Coca-Cola disposed waste by presenting it as a "fertiliser" to farmers. Test conducted by the BBC in 2003 proved that it was useless as fertiliser and containing a number of toxic metals such as cadmium and lead[76]. Coca-Cola stopped the practise only after being order to do so by the state authorities[77]. The dumping of waste and pollution resulted in skin and respiratory problems among local residents[78].

The Kerala Government stopped the plant from drawing water for commercial purposes on 17th February 2004[79]. This came after a Kerala High Court ruling on illegal over-extraction of water and environmental damage. The judge stressed that the government had no power to allow a private actor to undertake gross water-use, as water ought to be a common resource and shared:

"It can be safely concluded that the under-groundwater belongs to the public. The state and its instrumentalities should act as trustees of this great wealth. The state has got a duty to protect groundwater against excessive exploitation and inaction of the state in this regard will be tantamount to infringement of the right to life of the people guaranteed in the Article 21 of the Constitution."[80]

The statement resonates with a notion of water as a common and public good as opposed to a management practice where water in effect becomes a private good trough corporate dispossession.

A recent study by the United Nations Special Rapporteur on water, which identifies good examples in realising the right to water and correcting violations, recognises that the court ruling is important:

"(...) it held that the constitutional provision enshrining the right to life, along with international norms related to environmental sustainability, imposed outer limits on the extraction of groundwater. Moreover, the Court ruled that State entities who fail to protect water resources from excessive exploitation have violated the right to life." - Albuquerque & Roaf[81]

The accomplishment of keeping the bottling plant closed since 2005 and the enforcement of the right to water in Plachimada, is attributed to a combined strategy of litigation and local community advocacy[81]. The resistance carried out by the poor and marginalised groups gain wider traction and support from local village councils, the panchayats, after the court ruling[82]. The council cancelled the operation license and denied the plant to reopen. Coca-Cola, on the other hand, did not accept this. Similar to the Mehdiganj case, the company's strategy was to

[76] BBC news 2003, India Resource Center 2014:1

[77] Hills & Welford 2005

[78] Business Standard 2011

[79] Infochange 2005

[80] Kerala High Court judgment cited by Infochange 2005

[81] Albuquerque & Roaf 2012, p 197

[82] Bijoy 2006

[83] Lambooy 2011, Bywater 2014, The Centre for Science and the environment 2010

[84] BBC 2010, Coke Justice 2010

[85] Bywater 2012

[86] India Resource Center 2010

[87] Bywater 2012

[88] Down to Earth 2011

dispute the verdict and appeal the closing of the factory in the legal system. In 2010, a high-level committee was set up by the Kerala Minister of Water to examine the accusations made by the local community and the damages made by the bottling plant. The committee proposed that Coca-Cola should be held liable for causing damages for 48 million USD in Plachimada according to the "polluter pays" principle as several laws related to water pollution and environmental protection had been violated[83]. Again, Coca-Cola refused to take responsibility and stated that the findings had to be proved in court[84]. In 2011, the Kerala state government initiated a compensation process and tribunal, which would be legally binding for Coca-Cola[85]. The company responded by calling it a populist measure and expressed disappointment. India Resource Centre, an international campaign organisation, contends that the company has not fulfilled its duties to disclose sufficient information to shareholders about the financial liabilities resulting from poor water management in India. The organisation emphasised that: "Coca-Cola shareholders need to pay attention because the company continues to have an atrocious record in India and communities and even governments are not just going to sit back and take Coca-Cola's abuses. This should serve as a wake-up call". India Resource Centre, therefore, suggests that Coca-Cola and its shareholders should end the damaging behaviour in Mehdiganj and Kala Dera, where protests also have been rife[86].

The struggle in Plachimada and the village councils have certainly had some success as they managed to shut down the Coca-Cola factory. Nevertheless, there is still a problem of water shortage in the communities in and around Plachimada. Women have to line up and depend on external sources for water including governmental trucks, as the people in the era have no domestic piped water supply[87]. It is also highly uncertain whether the residents will receive any compensation. This decision currently resides with the national government. Several years have passed, and the government has demonstrated little political will to solve the issue[88]. A reason might be that a compensation could be perceived as a negative signal to investors, taken the national government's liberal economic policy with business friendly values.

A bore well in Kala Dera.
Photo: India Water Portal.

Kala Dera, Rajasthan

Kala Dera is a rural community located in the northern state of Rajasthan. This is one of the states in India with the lowest levels of socio-economic development, according to several indicators such as standard of living, spending power, life expectancy, education[89]. Despite a low per capita income, the level of poverty is lower than in many other Indian states – about 24 % of the population are currently living in poverty[90]. However, this also means that many people are just above the poverty line, are still quite poor and highly vulnerable to any changes disrupting their livelihood. In Kala Dera agriculture is the predominant occupation and largest water user, followed by industry and domestic consumption[91]. In most places in Rajasthan the water resources are very low, and the state is the most water deficient in the country. This puts many people in danger as irrigated agriculture depends heavily on groundwater. The lack of water undermines argicultural production, income, livelihoods and food security[92].

In 2000, Coca-Cola established a bottling plant in the dessert area Kala Dera after obtaining a license, ignoring that the groundwater reserves had been declared as "over-exploited" two years earlier. In 2004, the Central Ground Water Board discovered that the huge amounts of water extracted by the plant lead to an ecological imbalance trough bore wells reaching into deep aquifers. Some aquifers dried up as early as 2004 and the groundwater level fell significantly – approximately 26 meters in ten year, from 2000 to 2011. During this period, the rate of reduction has also picked up pace (see figure 4). There has been adverse impacts on the livelihood of the local community and farmers in Kala Dera. Important factors are increased costs from the digging of deeper wells and purchasing powerful pumps as well as losses attributed to more land not being cultivated due to insufficient irrigation and farmers expressing a reduction in crop harvests. Women spend more time to secure water, and there is less water for drinking and domestic purposes[93]. The water shortages have affected more than 50 villages resulting in 34 villages forming resistance committees. Local groups argue that their right to water is denied, and demand that the production facility cease its operations[94].

In 2008, the Indian research institute TERI published the 500 page report "Independent, Third Party Assessment of Coca-Cola Facilities in India", a report comissioned by Coca-Cola. In the report they recommended that the company should shut down the facility or relocate it to a water-surplus area[95].

"From the detailed assessment undertaken in the Kaladera watershed, it is obvious that the area is overexploited and it is highly unlikely that the water situation would improve to a level as to make its availability a non-issue. (…) What emerges, however, is that the plant's operations in this area would continue to be one of the contributors to a worsening water situation and a source of stress to the communities around." – TERI (2008).

[89] The Times of India 2012:2

[90] Amarnath & Das 2009, The Times of India 2012:1

[91] Karnani 2014

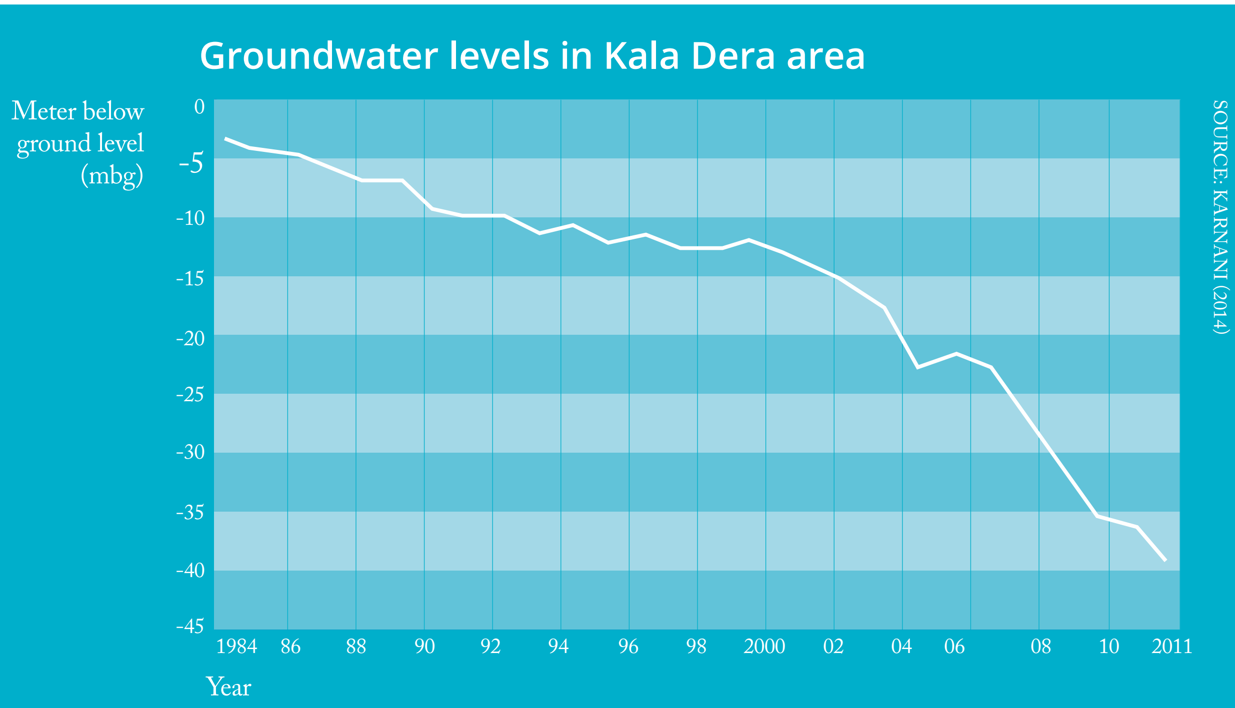
[92] Amarnath & Das 2009

[93] Karnani 2014, India Resource Center 2011:1

[94] India Resource Center 2011:2., India Resource Center 2009

[95] TERI 2008

Figure 4



Coca-Cola rejected the recommendations and continued the operations in Kala Dera[96]. This decision can be characterised as highly irresponsible given the gravity of the situation described by the TERI-study. The TERI analysis also established that the stakeholder opposition and perceptions was well founded, as they largely correspond with the actual findings obtained through detailed technical assessment of groundwater resources. Stakeholders expressed concerns over the lacking regulation of water extraction by the Coca-Cola plant. Furthermore they stated that the "community perceives that Coca-Cola has deep bore wells that continuously withdraw water from groundwater aquifers unlike bore wells used for irrigation that are relatively shallow and do not get regular supply of electricity."

While Coca-Cola India's environmental report for 2007-08 titled "Toward a Sustainable Future" refers extensively to the mandate of the TERI-study, it leaves out findings that could be damaging for the company. Instead, Coca-Cola gives the impression that the study is largely positive. Firstly, the Coca-Cola report misrepresents the study by not mentioning, and thereby masking, important criticism related to crucial considerations and recommendations – for example plant closure in Kala Dera and the move towards a critical water situation and depletion in Mehdiganj. Secondly, when looking at the measures proposed in Coca-Cola's environmental report, the rejection of recommendations and lack of action in the six years which have passed since the study was completed, it appears that the company has not taken important recommendations and objections put forward in the TERI-study seriously.

COCA COLA'S RESPONSE TO CRITICISM

Coca-Cola's environmental report claimed in 2008 that the TERI-assessment would be used to learn and continually improve its practices: "We have also gained greater insight and perspective on our water resources management practices (..) taking a broader view as we continue to better understand our role in society and evolve our business to reflect that understanding"[97]. However, Coca-Cola exploits the TERI-study in order to present itself as an active, engaged and committed actor by having agreed to an independent study which moves beyond "its own rigorous environmental management system"[97]. Regarding Kala Dera more specifically, the Coca-Cola environmental report portrays its plant as having a positive effect contrary to what emerged in the TERI-study: "However, as a business that depends on water and has deep expertise in water resource management, we believe we can continue to be a net positive contributor to water resource management in the area"[98]. This provides insights into the discrepancy between Coca-Cola's rhetoric and what they actually do in practice, and how the opening for outside scrutiny is used to build a positive image rather than to grapple with water managment. The consumer market and shareholders may respond negatively, which is important to the business and value of the company. Thirdly, while maintaining the same unsustainable economic business model and practices in India, Coca-Cola announced that Corporate Social Responsibility measures as a response to the TERI-study. The aforementioned argument where Coca-Cola presents itself as a net positive contributor to water management in Kala Dera, is to a large extend based upon these CSR-measures entailing rainwater harvesting structures. However, in a newly published academic study, Karnani (2014) provides an in-depth analysis of Coca Cola's operation and CSR-measures, documenting that the claim put forward is completely unfounded. According to the analysis, the company continues to contribute to water depletion and the tragedy in Kala Dera. There is neither any evidence to support that the company's rainwater harvesting structures make a difference replenishing the groundwater nor the company having significantly restrained its extraction of groundwater.

HEADING FOR DISASTER

Under the prevailing conditions, the absolute water scarcity category of 500 cubic meters of water per person per year will be reached in only a few years. This is when experience shows that migration starts. While the international standard is 2,000 cubic meters per person annually, and that life could carry on with just 1000, the figure in Kala Dera is currently 650 cubic meters. In other words, the situation is alarming and urgent measures needs to be taken. This case highlights that it may be unrealistic to rely on companies adopting voluntary CSR-measures, governing its own behaviour and act in the public interest[99]. Lambooy (2011) reminds us that corporations should take a greater moral responsibility for ensuring sustainable water management where state regulation is weak and water supply limited. Nevertheless, in Kala Dera Coca-Cola has taken advantage of, and profited from, negligent regulation. Karnani (2012) brings to light that Coca-Cola blames the lack of regulation for building the plant in an area where the groundwater was declared overexploited. Another key factor for the company was a considerable tax incentive from the state government in Rajasthan to attract investments and production facilities. The amount the company have spent on financing CSR-measures is also very small, in contrast to the company's huge annual earnings in India[99].

[96] Karnani 2012

[97] Coca-Cola India 2008, p 16

[98] Coca-Cola India 2008, pp 17-18

[99] Karnani 2012

Box 5

Nestlé

The Switzerland-based company Nestlé is the Fund's largest investment among more than 8000 companies. The Fund's shares in Nestlé is worth over NOK 39,2 billion, representing a 2,73 % ownership and voting share[100]. In 2010, the company had larger revenues than the total economy (GDP) of Yemen or Guatemala. Along with Coca-Cola it is part of the group of so-called "big 10" - the 10 most powerful food and beverage companies in the world, which together have a revenue of more than USD 1,1 billion a day. The industry as a whole represent 10 percent of the world's economy[101].

Nestlé is criticised for being a proponent of private control of water, which runs counter to the human right to water[102]. A highly controversial statement made by Nestlé's chairman and former CEO Peter Brabeck in a widely distributed and published video from 2005 is seen as explicitly promoting this stand. The response of the company, on the other hand, have been that the statements are taken out of context. Thereafter, Nestlé have come out as being in favour of the human right to water and set up a "Shared Value" program, claiming to be wedded to the principle of conserving water[102]. Still, in several places Nestlé's practised and bottled water operations appear to be in contrast to this CSR-policy.

In Pakistan and the community of Bhati Dilwan Nestlé is accused of extracting excessive amounts of water for the production of bottled water. The production facility is located in the Sheikhupura region, a part of Pakistan where the access to safe and sufficient water often is inadequate. The groundwater level have fallen significantly, and the deteriorating water quality have become a health risk. According to local sources, communities situated close to the production facility has to pay more to be able to pump, and in this way, access water. The local community depends on the water for survival and livelihoods[101]. Nestlé's bottled water label "Pure life" is big business in Pakistan where insufficient drinking water is a considerable problem, and the company have a 50 percent market share. Maude Barlow, previously a senior advisor on water to the president of the UNs General Assembly, argue against Nestlé's conduct in Bhati Dilwan: "When a company like Nestlé comes along and says, Pure Life is the answer, we're selling you your own groundwater while nothing comes out of your faucets anymore or if it does it's undrinkable – that's more than irresponsible, that's practically a criminal act". In other developing countries, such as Nigeria, Nestlè are making huge profits on the water crisis by selling the "pure life" bottled water brand, which is expensive for poor people to buy[102]. Elsewhere, Nestlé's have also met opposition. Several places across the USA Nestlé's operations have taken the water from local communities and result in environmental problems[103].

Nestle Headquarters, Vevey, Switzerland. Photo: Nestlé, CC.

[100] NBIM 2013

[101] Oxfam 2013

[102] Barlow 2013

[103] See Food and Water Watch 2009

Discussion

Active and responsible ownership?

In India, the operations of Coca-Cola have resulted in a number of longstanding conflicts with local communities and state institutions over extensive damages and problems related to water scarcity. The cases discussed in this report show how this was related both to water shortage and pollution. Put together, the cases display similarities across different places and time. We observed that Coca-Cola's commercial use of water has created or exacerbated local water scarcity in Mehdiganj, Plachimada and Kala Dera. This is in conflict with the Norwegian Government Pension Fund's investor expectations and active ownership strategy on responsible water management in several aspects. The corporate conduct captured by the case studies clearly undermines the investor demands for investees put forward in the expectations-strategy document. The investor expectations include requirements to: Ensure that the local population in surrounding communities retains necessary access to water, address the needs of ecosystems, assess risks beforehand and monitor the environmental as well as the social impacts of activities. Collaboration and consultation with local communities and the development of local programs are other priorities set forth by the Fund that are not observed[104]. Instead, the practice of Coca-Cola showed a rejection of community protests, conflicts and insufficient CSR-programs.

The corporate conduct captured by the case studies clearly undermines the investor demands for investees

Not only does the expectations-document devote particular attention to companies being socially and environmentally sustainable, but this is emphasised as an important condition to safeguarding financial sustainability and averting risks according to the Fund's long-term investment mandate. In the cases we have reviewed political and economic risks to the financial return were related to conflicts with communities over water use, the company's reputation and consumer perceptions are damaged, and a cancelling of licenses, movement for stricter regulations and so forth show the validity of the predictions in the Fund's expectations-document. In India, Coca-Cola suffered economic losses due to licenses that were withdrawn, not renewed (Plachimada) temporally suspended and not approved (Mehdiganj), either by the courts or various regulatory authorities after misconduct and community reactions. One plant was permanently shut down, another temporarily, a newly built production facility was abandoned, and the company was held liable for paying compensation to communities, not to mention expensive legal fees with court cases pending for years. Despite a weak regulatory regime and governance, protests forced various state agencies and the legal system to act in two of the three cases discussed. Common dynamics and corporate policies can be identified in the different cases. Coca-Cola maintained production ignoring the insufficient regulation and protests, until the authorities stopped the company after pressure. When this happened Coca-Cola fought the decision to halt the production. Hence, the company is demonstrating a narrow and irresponsible business approach.

In addition, the cases in India lead to widespread negative attention and triggered extensive international contestation and sustained actions against Coca-Coca. Besides broad campaign and advocacy networks, this has involved NGOs and a plethora of different groups ranging from consumer and student groups to environmental groups and corporate accountability groups. These groups have been engaged in "information politics" by transferring knowledge and testimonies, scaling-up and extending the protests and the mobilisation to the international level by employing networks spanning many places and countries. Particularly in North-American and Europe, various groups and several hundred universities and colleges have targeted the general sale of Coca-Cola products and managed to end many lucrative contracts for the provision of beverages to campuses[105]. Reports by the beverage industry say that Coca-Cola's international image of using water responsibly is negatively affected by the information and news about the ongoing controversies in India[106]. In short, the company's practice fundamentally contradicts the two principle tenets of the Fund's expectations on water management: increasing financial risk and damaging social and environmental sustainability.

The Bank's expectations on water management is set out as a key target for their active ownership. The ambition is to spearhead and contribute to a responsible water management approach, by creating international best practise among investors as well as companies. The Fund risks losing credibility if not living up to its strategy and operating with a double standard regarding active ownership dialogue, especially concidering the portrayed intentional lead role. Rather than to blacklist companies with a negative impact the Bank's strategy for active ownership aims at helping set the standard globally, inserting

[104] Cf. The Norwegian Ministry of Finance 2010

[105] Drew 2008, Ciafone 2012

[106] Becerage Daily 2014

the expectations document as an entry point for constructive dialogue between investors and companies. Nevertheless, when the Fund refers to investee companie's practice expectations are more pronounced and phrased in absolute terms: "We expect the Board to ensure that necessary policies and activities are implemented throughout the company, and will hold the Board accountable accordingly." (NBIM 2010:2). The strategy does not specify what the implications of this might be. It is not clear whether the Fund will present strict demands, simply voice their opinion or enter into informal dialogue with companies.

Above all, the Fund's actual exercise of active ownership in order to improve companies' water management, if any at all, remains obscure. The reason is that information about whether companies have been approached and dialogues held, is normally not disclosed. In effect, this conceals information about the efficacy of the Fund's chosen strategy, denying the Norwegian people as an owner any possibilities of holding the Fund accountable. The main arguemnts according to the Fund is that companys request that dialogues are confidential, information may decrease the value of a company and it can be difficult to interpret the results of specific dialogues[107]. In the annual reports only the votes on shareholder meetings and the number of dialogues are published, this provide little qualitative or substantive information. Besides voting being restricted to yes or no votes, the description of "dialogues" in the quarterly reporting is limited to cases where the Fund gets in contact with companies to comment their voting in advance[108]. This raises interesting questions about the Fund's ability to react on reports of unethical management and employ their own strategy on water stewardship. If the practice is confined to making comments on votes this means that the Fund is rather passive, do not have a say in formulating proposals nor actively shape the agenda.

The Fund should not exercise a narrow and simple approach, but have to employ the whole range of instruments made available in the strategy - dialogues with companies, developing constructive shareholder proposals, joining forces and network with other shareholders and so forth. Moreover, the criticism articulated by Hans Petter Graver on the Fund's lack of openness in 2006 is still relevant and leaves important questions unanswered:

"What and how many companies have been contacted? On what basis were they selected? Of what kind and how extensive was the contact? What ethical questions were raised? What kinds of questions were discussed? Was the response satisfactory?" - Hans Petter Graver[109]

CSR AND A NARROW ECONOMIC UNDERSTANDING

As we have seen, there seems to be shortcomings in the execution of the Fund's ownership strategy.

The discussion now moves on to point out criticism of and problems with the strategy itself. The case studies give emphasis to the conflicts and contradictions between the interests of communities and global corporations. The strategic and relentless expansion of capital accumulation to new places, markets and products, such as the bottled water and soft drink market, have created private disposition and depletion. Consequently, the practice is restricting local communities' access to water to the extent that it no longer is a common good.

this conceals information about the efficacy of the Fund's chosen strategy

The mobilisation of local water becomes important to global companies, stock markets and portfolio holding[110]. Nestlé has perceived the bottled water market as a rapid expanding and highly attractive market. While bottled water is the most promising beverage category with a remarkable annual global growth, Asia is the fastest growing and largest bottled water market[111]. The Coca-Cola Company is currently embarking on a highly ambitious and expansive business strategy in India. The Indian market is considered to be one of the most promising market opportunities due to a large population and a growing middle-class which can afford soft drinks and bottled water. According to Coca-Cola, the Indian market has an enormous growth potential[112]. However, the widespread water scarcity in India poses clear challenges and has led to constant conflicts over the company's intensive demand for water. Given the economic-environmental situation, commercial interests and possibilities come in conflict and lead to considerable unethical behaviour. Nestlé's commercial water extraction in Pakistan has been subjected to similar criticism. The poor pay a high price for an economic development they are not part of, since their water is captured by Coca-Cola and Nestlé and allocated towards higher value middle class consumers. Consequently, benefitting the profit of big corporation as well as investors such as the Fund.

The Fund's strategy for active ownership and its underlying analysis rely on the self-interest of companies and long-term profit as the driver for social and environmental sustainability. There is considered to be a win-win relationship between the interests of profit and people as well as the environment. The strategy selectively emphasises the arguments, the "positive" incentives, and risks-management pointing towards sound water management by companies, while downplaying

[107] Syse 2007

[108] NBIM 2014

[109] Dagens Næringsliv 2006

[110] Cf. Swyngedouw 2005

[111] Rosemann 2005, Rodwan 2011

[112] Beverage daily 2012

[113] Karnani 2012

[114] Raman 2007

[115] See Coca-Cola Company 2008, 2010, 2014

[116] Blue Planet Project et al 2013

[117] Visser 2013

[118] Norges Bank 2009

[119] Carbon Disclosure Project 2013

[120] NBIM 2012, See also Top 100 Fun 2012

systemic drivers for capital accumulation at the expense of social and environmental water issues. The cases have shown that economic risks and incentives such as preserving a good reputation or the loss of licences may have opposite effects rather than being drivers for good corporate water management. Instead, Coca-Cola responded to negative public attention and the high-profile closing of factories with denial of any wrongdoing and highly insufficient CSR-measures were used to present further production as responsible – although the company did not change the damaging and unsustainable operations. Coca-Cola even claims to be a net positive contributor to the groundwater level due to CSR-measures, while academic research concludes that the plant continues to contribute to water depletion[113].

The company's own publically available reporting on sustainability also misrepresents and excludes important critique made by an independent assessment – which serves the image and the value of the company. The researcher Ravi Raman[114] points out that Coca- Cola in India masked important objections made by a high-court verdict in order to justify its water extraction. This also pertains to the Coca-Cola Company's Global Sustainability Review and Report. In the same manner, the "review" seems to be avoiding the highly contentious and politicised issues related to water, despite the high profile given to this both in multinational's focus on sustainability and in civil society. The reports are mainly restricted to a proclamation of the corporate social responsibility work Coca-Cola is involved in[115]. Raman shows that the Coca-Cola Company engage in a double-movement and can be perceived as Janus-faced, due to the disparity between its global image of adopting CSR and the objective reality of excessive water use with adverse effects for communities in India.

Coca-Cola Company engage in a double-movement and can be perceived as Janus-faced

It seems the CSR-policy implemented is aimed at improving public relations, not at improving responsibility of core business practices. Corporations implement CSR due to strategic interests to be able to hold on to market shares without changing existing practices. In a joint statement labour and civil society organisations denounce Nestlé's new human rights assessment launched in 2014: "The analysis is fundamentally flawed because it is a selective examination of corporate policy rather than corporate practice". It promotes Nestlé's CSR "Creating Shared Value" program as a way to fulfil the needs of impacted communities. The organisations refer to cases where the company's pronounced values are in stark contrast to its actual practice and instances of human rights violations. In the light of this, it is argued that the policy mainly constitutes a public relations exercise[116]. Wayne Visser, a known academic and advisor on CSR-issues that worked for KPMG and Cap Gemini, examines the fundamental problem with CSR by looking at Coca-Cola as well as other corporations[117]. Despite adopting CSR-standards and activities, the company completely fails to change strategic direction and harmful practices due to the combination of a narrow corporate culture and set of economic pressures or incentives:

(…) a corporate culture—supported by a system of narrow institutional performance incentives, short-term market pressures and perverse economic measures of progress—that remains essentially in conflict with the objectives of sustainability and responsibility. When a trade-off has to be made between financial profitability and ethical standards, the choice is clear, irrespective of carefully crafted codes of practice on the boardroom wall. If there is a tug-of-war between economic growth and environmental impacts, the winner is clear, despite any number of ISO 14001 certificates
–Visser (2013, p 29).

Although companies could be perceived to wilfully provide deliberate misinformation, this is not necessarily the case as explanations also should draw attention to deeper issues of power such as the articulation of systemic economic pressures and the discursive business-culture. The independent TERI-study examined different Coca-Cola plants in India and underlines that the Coca-Cola water management and "bottling operation should be from a perspective that is wider than business continuity. Operating in India for Coca-Cola could mean operating in many water-stressed localities". The Indian context, which often has insufficient governmental regulations, warrants strong company self-discipline. Another related point on company policy put forward by TERI is Coca-Cola's obligation to respect existing riparian rights.

Problems related to selective information and knowledge create important challenges for investors that seek to understand the company's actually existing water management and associated risks. As touched upon, the Fund asserts that information about companies' water management is important to drive investment toward sustainable water management and thereby "international best practice". This explains why the Fund became the lead sponsor and cofounder of a global water disclosure project. The information provided by this initiative is presented as a highly important source in order to inform the decisions and ownership of investors[118]. However, this is an uncritical celebration of the initiative that neglects important inherent systematic biases in the way reporting is carried out. Data is solely collected from the companies via questionnaires[118] This method leads to problematic and potentially erroneous assumptions, exemplified by the CDP Global Water Rapport from 2013. The report credits Coca-Cola Company for demonstrating a mature understanding of a range of water-related risks. Nevertheless, this characteristic is simply based on the company's own ability to list various types of risks - including competitive use, regulatory limits and social acceptance[119]. Equally, in a survey conducted for the Fund's 2011 Sector Compliance Report on water management, Nestlé is emphasised as being one of the few companies that received top marks for their reporting on social and environmental risks. In the Sector Compliance Report the Fund seeks to assess companies' compliance with the water management strategy based upon self-reporting. Again, the understanding is restricted to what the companies report. Anne Kvam, which is the head of Ownership Strategies in the Fund, stated: "We are dependent on companies disclosing good relevant information so we can make good investment decisions and good calls"[120].

In the existing form, the method used and production of "knowledge" favour big corporations, at the cost of affected communities

Cloke et al. (2004) writes that a basic requirement when conducting document analysis is to ask who provides the information, what is the intention of the document and under what circumstances was it produced. As the two assessments referred to was either based upon publicly available information or published questionaries' this might, as previously discussed, influence the way companies want to be perceived by investors and consumers. For example the growing awareness, monitoring and evaluations of these issues by investors, could be regarded as a potential financial risk by companies. In sum, the exercise of ownership and the CDP - Water Disclosure project appear to have a significant problem of representation and should, therefore, do more to extend its scope by exploring credible criticism and studies. In the existing form, the method used and production of "knowledge" favour big corporations, at the cost of affected communities. The Fund should critically scrutinise companies known to be controversial in terms of water management, especially before cited as an example to follow.

the strategy and its underlying analysis are naive as well as reductionstic, when relying on the self-interest of companies and long-term profit as the driver for social and environmental sustainability

In conclusion, the Fund's strategy for active ownership can be said to contain a positive ambition to avoid unsustainable water management and enhance good practices, but it is based on a somewhat narrow and overly optimistic economical perspective, leaving it seemingly ineffective. As this section has illustrated, the strategy and its underlying analysis are naive as well as reductionstic, when relying on the self-interest of companies and long-term profit as the driver for social and environmental sustainability.

[119] Carbon Disclosure Project 2013

[120] NBIM 2012, See also Top 100 Fun 2012

Leveraging the Ethical guidelines on unsustainable water management

The shortcomings of the strategy on active ownership in its ability to hinder unsustainable water management leads us to a discussion of the Fund's Council on Ethics and employment of the ethical guidelines, exploring whether this can be complementary to the ownership strategy and investor expectations. The findings showed that Coca-Cola and Nestlé contribute to extensive social and environmental damages. Arguably, this qualifies for company exclusion according to the criterion regarding severe environmental damage in the Fund's ethical guidelines and implies that the Council on Ethics should investigate the cases and companies in question. As the cases show, the violations have been systematic because they persist over time and across several places, as well as continuously worsening the impact by sustaining the damaging bottling operations.

The mobilisation and environmentalism of the poor against the bottling plants were based on issues of survival, subsistence and livelihood

Systematic violations of human rights or other fundamental ethical norms are other sets of relevant criteria for exclusion that should be taken into consideration. The United Nations resolution 64/292 recognised water as a basic and fundamental human right and essential for the realisation of all human rights. As pointed out in the case study section, the human right to sufficient water for drinking and necessary tasks within the household was severely compromised. In the establishment of the right to water as a human right the importance of access to safe and sufficient water as a precondition to fulfilling other human rights were underlined. We saw in our cases that the water scarcity had considerable negative effects for the ability to secure a livelihood from agriculture, the main source of income in these rural communities, which further deteriorated the already difficult situation in poverty[121]. The lack of water for livestock and agriculture resulted in less land being cultivated, demising harvests and incomes, loss of jobs and increased expenses for the pumping of water.

The mobilisation and environmentalism of the poor against the bottling plants were based on issues of survival, subsistence and livelihood, unlike many environmental groups in Western countries[122]. The UNDP Development report 2006 stresses that the violation of the human right to water threatens life and destroys livelihoods, and that the human rights of the poor are subject to the gravest abuse. It is the most vulnerable people that faces these grievances and concerns which are precisely what the human right to water and water security address:

(…) ensuring that every person has reliable access to enough safe water at an affordable price to lead a healthy, dignified and productive life, while maintaining the ecological systems that provide water and also depend on water. When these conditions are not met, or when access to water is disrupted, people face acute human security risks transmitted through poor health and the disruption of livelihoods. (…) "Not having access" to water and sanitation is a polite euphemism for a form of deprivation that threatens life, destroys opportunity and undermines human dignity. UNDP – Human development report (2006, p 12).

[121] Cf. UNDP 2006

[122] See Drew 2008, Ciafone 2012

Solidarity march in Plachimada, April 2006.
Photo: Kasuga Sho

The human right to water is universal, provides equal rights and are supposed to protect people against discrimination[123]. Not only does water shortage discriminate poor people by depriving them of the human rights to water, but also reinforce gender inequalities linked to gender rights[124]. In India, poor women had to walk long distances and spend long hours to collect water. Adding to this, the lack of water lead to undignified practices and humiliation, as well as health problems. Following from this, UNDP identifies the underlying reasons of water scarcity and why the right to water is not realised as "(…) poverty, inequality and unequal power relationships, as well as flawed water management policies that exacerbate scarcity"[125].

The main rationale for the Council on Ethics' guidelines and mandate to exclude companies is that the Fund as a shareholder seeking a return from ownership in a company can be regarded as complicit in the continued unethical actions. The Graver report[126] establishes this link clearly. Human rights are not optional extras. Non-state actors such as companies have the duty to respect the human right to water[127]. For governments and state actors human rights "are binding obligations that reflect universal values and entail responsibilities on the part of governments"[128]. Hence, the advantage of the exclusion is that the Fund no longer contributes to unethical conduct.

The Council on Ethics has the option to place a company under observation if there is doubt to whether the conditions for exclusion are met. Both exclusion and the threat of using this sanction when a company is placed on the observation list might contribute to necessary improvements. Although the Fund might be a minority investor, it is often one of the biggest shareholders in the company. Another reason is that the Fund is regarded as a serious investor due to its requirements for thorough documentation and investigation before recommending exclusion. Many other state pension funds will

The Council on Ethics gives less weight to and do not prioritise companies in water-intensive sectors per se

therefore follow the lead of the Fund when the exclusion is made public. Exclusion is a signal that might be quickly picked up by the financial market, have spillover effects in the market and negatively affect the value of a company. In this manner, companies may be more sensitive to the investor concerns and ability to sanction than the voice of local communities.

The Council on Ethics monitors the portfolio to uncover behaviour by companies that are inconsistent with the guidelines and several consultants supply information. Since 2010, the Council has chosen to follow some particular sectors and types of companies more closely where the risk of serious environmental harm is considered the highest. In contrast to the priorities and considerations made by the Fund on ownership, the Council on Ethics gives less weight to and do not prioritise companies in water-intensive sectors per se. Rather than the problem of over-use and depletion of water resources, for example in the beverage industry, the lense seems mainly to be directed towards industries where pollution may be a problem. This includes extractive industries in the oil and mining sector, processing of minerals and metals and the chemical industry[129].

123 Rosemann 2005, UNDP 2006

124 UNDP 2006

125 UNDP 2006, p 5

126 NOU 2003

127 Rosemann 2005

128 UNDP 2006, p 13

129 Council on Ethics 2012, 2013

LOOKING FORWARD

Due to extensive criticism, documentation of persistent violations and widely published cases in academic studies[130] we find it prudent for the Council on Ethics to expand its focus to companies in the beverage industry. Secondly, this could make the overall strategy and approach on responsible investments more coherent and less fragmented. In terms of scope and priorities, there is currently a gap between the Fund's ownership strategy on water management and the Council on Ethics' monitoring and exclusion of companies. Considering that these institutions occupy different types of means, more overlap in focus can therefore supplement the work of both institutions – by including the instruments of active ownership as well as sanctions such as exclusion. These separate roles and functions, together with a mismatch in priorities constrain the commitment to monitor and avoid poor management of water resources on two fronts.

In terms of scope and priorities, there is currently a gap between the Fund's ownership strategy on water management and the Council on Ethics' monitoring and exclusion of companies

In this manner, the strategy on responsible investments and its screening of companies could become more coherent and complementary.

This need for coherence is further enunciated by the limitations pointed out in the discussion of the Fund's active ownerships strategy and instruments to ensure responsible water management. It may not be sufficient to rely on positive financial incentives, risks, the self-interest and discipline of companies due to narrow and powerful economic pressures and cultures. This highlights the importance of clear sanctions based on moral and altruistic principles. The main lesson in Karnani's study was that the failings of CSR-measures expresses the need for sanctions and regulation, which might be very weak and non-existing in some jurisdictions. Then, it remains few other possibilities than for investors to recognise their responsibility and international standards. Even though the screening process appears to be somewhat narrow, the Council on Ethics can and should still investigate other issues and types of industries related to water scarcity and damaging operations.

Regarding the overall governance structure and division of roles, increased cooperation between NBIM and the Council on Ethics would ensure a more holistic application of the ethical guidelines. In the Swedish AP Funds, Sweden's state pension fund, ethical work is organised in a slightly different way in which the implementation of the ethical guidelines involves both active ownership and the possibility of the exclusion of companies through the Ethical Council for the Fund. The inclusion of dedicated ethical competence in the management organisation is now a procedure also observed by large Norwegian funds such as KLP and Storebrand. With the changes announced for 2015 the Council on Ethics of the Norwegian Government Pension Fund will be stronger linked to the management of the Fund as it will advise the Bank and not the Ministry of Finance on observation and exclusion of companies. The stated intention behind this move is also to strengthen the cooperation between the two bodies. It is still too early to say whether this will work to strengthen coherence and efficiency of the active ownership. One point worth upholding is that dialogues with companies may prove more efficient in changing damaging corporate behaviour, with exclusion as an alternative. Arguabely the Council previously has had the possiblity to enter into dialogues, and the Fund is free to rid itself of companies it does not see fit. However, this work overall seems to lack consistency and resources, a situation hopefully improved by the new organisation.

130 E.g. Hills & Welford 2005, Rosemann 2005, Burnett & Welford 2007, TERI 2008, Raman 2007, Lambooy 2011, Hall & Lobina 2012, Ciafone 2012, Upadhyaya 2013, Karnani 2014

Recommendations

Based on the cases and the information reviewed in this report we see a large divergence between the outspoken prudence in water management and the lack of such in actual operations, both for the Norwegian Oil Fund and the two companies Coca-Cola and Nestlé. All parties, NBIM, Coca-Cola and Nestlé are proactive in labeling water as an important topic and a focus for sustainability. Nonetheless operations cause severe grievances and central policy tools does not seem to be able to minimize or avoid negative impact. Based on this we are summing up a short list of prudent recommendations for all actors.

Recommendations on management of the Norwegian Oil Fund

– NORGES BANK INVESTMENT MANAGEMENT

- The Fund's management should exclude companies with repeated breaches of water management expectations, given that means of active ownership do not give documented improvements. This is tantamount to upholding the credibility of the strategic focus areas for active ownership.
- The Fund's managment should employ the full range of instruments of active ownership to increase performance on water management in investee companies. Activities and development must be reported on company level.
- The Fund's managment should report on active ownership, documenting interaction on company level and assessment of development. The reports should be made available to the public, Parliament and the The Supervisory Council.
- When evaluating water management the Fund's management must include information from a broader range of sources such as media sources, academic journals and civil society,
- Work to support international best practice has to be based upon a broad range of stakeholders and rely on information sources complimentary to self-reporting.

THE COUNCIL ON ETHICS

- As a second stage accountability mechanism the Council on Ethics should consider the companies Coca-Cola and Nestlé for exclusion given that the Fund's management have not managed to improve their operations through other ownership instruments.
- The Council on Ethics should consider repeat offenses on sustainable water management and the human right to water as serious breaches with the ethical guidelines provision not to cause severe environmental damage and serious violation of human rights. Companies found to violate these provisions should be recommended for exclusion.
- Given the economic and human importance of water the Council on Ethics should increase its screening of water intensive industries such as the food and beverage industry.
- The Council on Ethics should dedicate appropriate resources to check companies central to CSR-initiatives supported by the Fund's managment, and advise whether the companies have serious shortfalls not addressed by the relevant initiative.

The Coca-Cola Company

WE ASK FOR BOTH REACTIVE AND PROACTIVE RECOMMENDATIONS AND MEASURES, DEMANDING THAT:

- Coca-Cola should at all times cooperate with and strengthen local environmental regulating bodies.
- Coca-Cola should adopt a global policy to not bottle commercial products in any water stressed areas using groundwater or surface water.
- Respecting this Coca-Cola should suspend its plans to build a new bottling plant in the water stressed area Yadgir in Karnataka state, India.
- Coca-Cola should work to improve international best practice by including reporting on social protest, reactions from environmental bodies of government and academic reports in their annual Global Compact reporting.
- Coca-Cola should actively work to include a broad range of stakeholders and ensure openness in reporting water sustainability initiatives such as the CEO Water Mandate.

REACTIVE:

COCA-COLA SHOULD:

- In Mehdiganj and Kala Dera, cease operations that withdraw groundwater - these are water stressed areas. The company should abide to the Public order to close the Mehdingaj plant.
- Abide to the demand by the Uttar Pradesh Pollution Control Board to recharge the Medhingaj groundwater.
- Clean up affected water and soil, under the "polluter pays" principle, in Plachimada and Mehdingaj.
- Cooperate with the Kerala compensation tribunal, and pay due compensation to people affected by the illegal over-extraction of water and dumping of waste – including to those who bought toxic waste as "fertilizer".
- Establish compensation schemes for farmers and communities who have lost livelihoods and access to safe water in Mehdingaj and Kala Dera.
- Proactively retrain or offer new employment to workers laid off from the reduction of bottling plant activity.

Nestlé

- Nestlé should undertake an investigation of the company's conduct in Bhati Dilwan in Pakistan, and ensure that necessary measures are taken to stop the depletion of groundwater resources and to pay compensation to the affected peoples and communities.
- Nestlé should commit to a global policy not to bottle commercial products in any water stressed areas using groundwater or surface water.

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