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Aegon

Overview of controversial business practices in 2009

SOMO

April 2010

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Introduction

This brief company profile is a joint initiative of SOMO (Centre for Research on Multinational Corporations) and the VBDO (Vereniging van Beleggers voor Duurzame Ontwikkeling). It provides an overview of business practices that may be considered unsustainable, irresponsible, or controversial and that took place or were addressed in 2009. In the context of the upcoming annual general meetings (AGMs) of shareholders of Dutch corporations, the overview aims to provide additional information to Aegon's shareholders and other stakeholders on potentially controversial issues that may or may not be detected or reported by the company itself. By highlighting such issues, the overview can be used to identify areas of the company's corporate responsibility policies and practices that need improvement and to formulate a more informed assessment of a company's corporate responsibility performance.

The range of sustainability and corporate responsibility issues eligible for inclusion in this overview is broadly based on the issues and principles identified in the OECD Guidelines for Multinational Enterprises, which is one of the leading global normative standards for responsible business behaviour and which is applicable to all Netherlands-based companies by virtue of the Dutch government's membership in the OECD. Rather than an exhaustive analysis of Aegon's corporate responsibility policies, operational aspects of corporate responsibility management, implementation systems, reporting and transparency, or total performance on any issue, the overview provides a descriptive depiction of a limited number of corporate responsibility-related issues and cases that might merit further attention or reflection. Aegon's positive sustainability achievements in 2009 are not addressed here.

The research methodology for this overview involved primarily desk research methods, relying on information from SOMO's global network of civil society organisations, the company's own website and publications, media reports, and company information databases. All sources are cited in footnotes in the text. As per SOMO's standard research methodology, Aegon was informed about the research in advance and was given two weeks to review a draft report and provide comments and corrections of any factual errors in the draft version prior to publication.

The overview has been researched and drafted by SOMO. SOMO is an independent research organisation that was founded in 1973 to provide civil society organizations with knowledge on the structure and organisation of multinationals.

Controversial Business Practices in 2009

1. Shareholdings in controversial companies

Summary

AEGON is one of the world's largest providers of life insurance, pensions, long-term savings and investment products. Aegon serves more than 40 million customers across the globe.[1] 82% of Aegon's total assets are assets under management, which can be defined as investments in shares, bonds and other securities.[2]

Below, part of Aegon's investments in shares are examined in order to determine of which companies Aegon holds shares. This reveals the financial linkages between Aegon and controversial companies, defined as weapons manufacturers, environmentally damaging companies, and companies linked to human rights abuses.

2% of the examined Aegon shares are invested in weapons manufacturers, 2.3% in companies that have been linked to human rights abuses, and 5% in environmentally damaging companies.

Context

Asset management companies buy, sell and manage portfolios of shares of various companies. When a financial institution owns shares of a company, they finance the operations of this company by way of those shares. Therefore, shareholdings in weapons manufacturers, environmentally damaging companies, and companies linked to human rights abuses, imply that the financial institution facilitates the continuation of these controversial activities.

In this case, an investor is defined as someone financially involved in a company. Any financial link is considered to be an investment, regardless of the investor's importance for the controversial company, the investment's importance for the investor's portfolio, or the contribution of controversial operations to the company's total turnover. This assumption is legitimate because it is impossible for a financial institution to be sure that the financial services provided to a company will not be used for controversial practices.[3]

Role of Aegon

Aegon has a strong presence in asset management in the United States, the United Kingdom and the Netherlands. Worldwide, Aegon managed EUR 260 billion worth of assets in 2009.[4]

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1 Aegon website, "About", no date, http://www.aegon.com/en/Home/About/ (22-03-2010).
2 Total assets: EUR 287 billion (Aegon Annual Report 2008, p. 84), Total Assets under Management: EUR 236 billion, (Aegon CR report 2008, Economic, social and environmental indicators).
3 Netwerk Vlaanderen, Worldwide investments in cluster munitions, a shared responsibility, October 2009, http://www.netwerkvlaanderen.be/nl/files/documenten/campagnes/bankenenwapens/Het%20hele%20rapport.pdf (22-03-2010).
4 Aegon CR Report 2009, Economic, social and environmental indicators, http://sustainability-report.aegon.com/economic-social-and-environmental-indicators (23-04-2010).

Aegon's assets in the United States, the United Kingdom and the Netherlands are managed by various subsidiaries. Three of these wholly owned subsidiaries of the parent company Aegon N.V are examined here:

- Aegon Investment Management B.V.
  Aegon Investment Management B.V. is an asset management company for professional clients that also manages assets for Aegon Netherlands N.V. In addition, it manages institutional funds, insurance funds and investment funds. The fund managed EUR 44 billion in 2009.[5]
- Aegon Asset Management UK
  Aegon Asset Management UK manages assets for individuals, institutions and insurance companies in the United Kingdom. Aegon Asset Management UK managed total assets of EUR 46 billion in 2009.[6]
- Transamerica Investment Management LLC
  Transamerica Investment Management is a leading U.S. asset management firm serving both retail and institutional clients. In 2009, the company managed approximately EUR 12 billion in mutual funds, funds of funds, retirement plans, separately managed accounts, institutional accounts, pension funds and variable insurance accounts.[7]

Together, these three subsidiaries manage approximately 40% of the total assets under management of Aegon. A scan of these Aegon subsidiaries' shareholdings[8] reveals that the company invests in a number of companies considered to be controversial by renowned research institutes, government divisions, NGOs and specialist journals. For the purposes of this research, controversial companies are narrowed down to weapon manufacturers, environmentally damaging mining companies, and companies that can be linked to human rights violations.[9]

In Tables 1, 2, and 3, the value of the shareholdings of Aegon Investment Management BV, Aegon Asset Management UK and Transamerica Investment Management LLC in controversial companies are depicted, as well the value of the shareholdings in controversial companies as a percentage of Aegon's total shareholdings.

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5 Aegon Investment Management, Halfjaarbericht 2009, 28 August 2009, http://ww.aegon.nl/?view=Save&download=1305997 (17-03-2010).

6 Aegon Asset Management UK website, "Who we are", no date, http://www.aegonam.co.uk/whoweare.aspx (17-03-2010). The amount of £42 billion was converted to euro's with the exchange rate of March 16 2010 of 1,1067.

7 Transamerica Investment Management website, Media room, News releases, "TIM Senior Management Announcement", 7 January 2010, http://www.timllc.com/about/news_events.aspx?content=b990b423-6495-4a84-a37f-9ca5cb8c3e64 (17-03-2010). The amount of $16,5 billion was converted to euro's with the exchange rate of March 16 2010 of 0,7265.

8 The shareholdings of Aegon Investment Management BV and Aegon Asset Management UK are acquired from reports of the Thomson ONE Database, as for March 2009. The shareholdings of Transamerica Investment Management LLC are obtained from the SEC Form 13F ("SEC Form 13 F" Transamerica Investment Management LLC, 31 December 2009, http://www.sec.gov/Archives/edgar/data/99201/000009920110000001/holdings.txt (16-03-2010).). These information sources contained shares worth of $1,040,750,000 for Aegon Investment Management BV, $12,633,360,000 for Aegon Asset Management UK, and $8,993,144,000 for Transamerica Investment Management LLC.

9 For a complete list of controversial companies that was compared with Aegon shares, please contact SOMO (info@somo.nl).

Table 1: Aegon Shareholdings in Weapons Manufacturers

Company	Aegon Division	Value 2009 (US$ x 1000)	Controversial issues
BAE Systems Plc.	Aegon Asset Management UK	24,830	Production of nuclear weapons. Weapon deliveries to China, Saudi Arabia and Lybia.[10]
	Aegon Investment Management BV	56,940	
Boeing Co.	Transamerica Investment Management LLC	3,964	Production of nuclear weapons. Weapon deliveries to Israel and Saudi Arabia.[11]
General Dynamics Corp.	Transamerica Investment Management LLC	324	Production of nuclear weapons and key components for cluster bombs and landmines. Weapon deliveries to Israel and Saudi Arabia.[12]
Honeywell International Inc.	Transamerica Investment Management LLC	368	Production of nuclear weapons.[13]
	Aegon Asset Management UK	450	
Jacobs Engineering GRP	Transamerica Investment Management LLC	120,701	Production of nuclear weapons.[14]
Lockheed Martin Corp.	Transamerica Investment Management LLC	1,317	Production of nuclear weapons and key components for cluster bombs. Weapon deliveries to Israel and Pakistan.[15]
Northrop Grumman Corp.	Transamerica Investment Management LLC	647	Production of nuclear weapons.[16]
Raytheon Co.	Transamerica Investment Management LLC	2,206	Production of nuclear weapons and key components for cluster bombs. Weapon deliveries to Israel and Saudi Arabia.[17]
Rolls Royce Group Plc.	Aegon Asset Management UK	140,660	Production of nuclear weapons.[18]
	Aegon Investment Management BV	6,270	
Serco Group Plc.	Aegon Asset Management UK	93,320	Production of nuclear weapons.[19]

[10] Ministry of Finance Norway website, the Government Pension Fund, "Companies excluded from the investment universe", no date, http://www.regjeringen.no/en/dep/fin/Selected-topics/the-government-pension-fund/responsible-investments/companies-excluded-from-the-investment-u.html?id=447122 & Profundo, *Banken en wapens: de praktijk*, http://www.eerlijkebankwijzer.nl/site/praktijkonderzoek_wapens.pdf (20-03-2010).
[11] Ibid.
[12] Ibid.
[13] Ibid.
[14] Profundo, *Banken en wapens: de praktijk*, http://www.eerlijkebankwijzer.nl/site/praktijkonderzoek_wapens.pdf (20-03-2010).
[15] Ministry of Finance Norway website, the Government Pension Fund, "Companies excluded from the investment universe", no date, http://www.regjeringen.no/en/dep/fin/Selected-topics/the-government-pension-fund/responsible-investments/companies-excluded-from-the-investment-u.html?id=447122 & Profundo, *Banken en wapens: de praktijk*, http://www.eerlijkebankwijzer.nl/site/praktijkonderzoek_wapens.pdf (20-03-2010).
[16] Ibid.
[17] Ibid.
[18] Profundo, *Banken en wapens: de praktijk*, http://www.eerlijkebankwijzer.nl/site/praktijkonderzoek_wapens.pdf (20-03-2010).
[19] Ministry of Finance Norway website, the Government Pension Fund, "Companies excluded from the investment universe", no date, http://www.regjeringen.no/en/dep/fin/Selected-topics/the-government-pension-fund/responsible-investments/companies-excluded-from-the-investment-u.html?id=447122 & Profundo, *Banken en wapens: de praktijk*, http://www.eerlijkebankwijzer.nl/site/praktijkonderzoek_wapens.pdf (20-03-2010).

ThyssenKrupp	Aegon Asset Management UK	460	Weapon deliveries to Colombia and Israel.[20]
United Technologies Corp.	Transamerica Investment Management LLC	3,970	Production of nuclear weapons and fighter aircrafts. Weapon deliveries to Colombia, Chad and Saudi Arabia.[21]
Total value of shareholdings in weapons manufacturers		**456,427**	
% of total shareholdings[22]		**2%**	

Table 2: Aegon Shareholdings in Companies Linked to Human Rights Abuses

Company	Aegon Division	Value 2009 (US$ x 1000)	Controversial issues
Baker Hughes	Transamerica Investment Management LLC	272	Involvement oil and gas sector Burma.[23]
Chevron Corp.	Transamerica Investment Management LLC	6,994	Involvement oil and gas sector Burma.[24]
China National Offshore Oil Corp (CNOOC LTD-ADR)	Transamerica Investment Management LLC	2,015	Involvement oil and gas sector Burma.[25]
CRH Plc.	Aegon Asset Management UK	550	Cement delivery for Israeli wall.[26]
Nestlé SA	Transamerica Investment Management LLC	3,134	Systematic violations of human rights.[27]
Petrofac	Aegon Asset Management UK	152,730	Involvement oil and gas sector Sudan.[28]
Tesco Plc.	Aegon Asset Management UK	244,750	Child labour in supply chain.[29]
	Aegon Investment Management BV	24,570	
Total SA	Aegon Asset Management UK	74	Involvement oil and gas sector Burma.[30]
Wal-Mart Stores	Transamerica Investment Management LLC	97,103	Serious or systematic violations of human rights.[31]
	Aegon Asset Management UK	340	
Total value of shareholdings in companies linked to human rights abuses		**532,532**	

20 Profundo, *Banken en wapens: de praktijk*, http://www.eerlijkebankwijzer.nl/site/praktijkonderzoek_wapens.pdf (20-03-2010).
21 Ibid.
22 Percentage of the total shareholdings value mentioned in Footnote 8.
23 The Burma Campaign UK website, Campaigns, Company campaigns, “The dirty list”, http://www.burmacampaign.org.uk/index.php/burma/dirty-and-clean-list/dirty-list/contact-details (20-03-2010).
24 Ibid.
25 Ibid.
26 Nomination Public Eye Award 2005, http://www.evb.ch/cm_data/public/CementRoadeng1.pdf (20-03-2010).
27 Investment & Pensions Europe, *Unions want Norway-Global to review Nestlé*, 15 September 2009, http://www.ipe.com/news/unions-want-norway-global-to-review-nestl_32690.php (20-03-2010).
28 Ethical consumer, UK companies in Sudan, no date, http://www.ethicalconsumer.org/CommentAnalysis/CorporateWatch/GenocideinSudan.aspx (22-03-2010).
29 IUF, Tesco’s finest tea- produced in far from finest conditions?, 2 July 2009, http://cms.iuf.org/?q=node/40 (22-03-2010).
30 Netwerk Vlaanderen, *Bankgeheimen*, November 2007, http://www.bankgeheimen.be/dossier/bankgeheimen.pdf (20-03-2010).
31 Ministry of Finance Norway website, the Government Pension Fund, “Companies excluded from the investment universe”, no date, http://www.regjeringen.no/en/dep/fin/Selected-topics/the-government-pension-fund/responsible-investments/companies-excluded-from-the-investment-u.html?id=447122 (20-03-2010).

% of total shareholdings[32]	**2.3%**	

Table 3: Aegon Shareholdings in Polluting Mining Companies

Company	Aegon Division	Value 2009 (US$ x 1000)	Controversial issues
Alcoa Inc.	Transamerica Investment Management LLC	193	Polluted mines[33]
	Aegon Asset Management UK	320	
Barrick Gold Corp.	Aegon Asset Management UK	400	Severe environmental damage[34]
BHP Billiton	Aegon Asset Management UK	219,620	Pollution harming local population. Nr. 10 on list most controversial companies 2009.[35]
	Aegon Investment Management BV	31,280	
Exxon Mobil Corp.	Transamerica Investment Management LLC	14,294	Violation health, environmental and human rights issues. Nr. 8 on list most controversial companies 2009.[36]
Freeport Mc Moran C&G	Transamerica Investment Management LLC	425	Severe environmental damage[37]
	Aegon Asset Management UK	860	
Newmont Mining Corp.	Transamerica Investment Management LLC	286	Pollution harming local population. Nr 3 on list most controversial companies 2009.[38]
Petroleo Brasileiro SA	Transamerica Investment Management LLC	6,648	Oil production in the Amazon of Ecuador.[39]
	Aegon Asset Management UK	250	
Rio Tinto	Aegon Asset Management UK	479,340	Severe environmental damage. Nr. 4 on list most controversial companies 2009.[40]
	Aegon Investment Management BV	26,820	
Vedanta Resources Plc.	Aegon Investment Management BV	1,900	Severe environmental damage and systematic human rights violations. Nr. 2 on list most

32 Percentage of the total shareholdings value mentioned in Footnote 8.

33 Profundo, *Beleggingen in controversiele bedrijven van enkele goede doelen*, 9 June 2007, http://zembla.vara.nl/fileadmin/uploads/VARA/be_users/documents/tv/pip/zembla/Goede_doelen_Zembla_070609.pdf & North Carolina Conservation Network, *Alcoa worldwide pollution map*, 5 February 2009, http://www.ncconservationnetwork.org/mainblog/alcoa-worldwide-pollution-map (20-03-2010).

34 Ministry of Finance Norway website, the Government Pension Fund, "Companies excluded from the investment universe", no date, http://www.regjeringen.no/en/dep/fin/Selected-topics/the-government-pension-fund/responsible-investments/companies-excluded-from-the-investment-u.html?id=447122 (20-03-2010).

35 MO Mondiaal Nieuws, *Meest onethische bedrijven van 2009*, 26 January 2010, http://www.mo.be/index.php?id=63&tx_uwnews_pi2%5Bart_id%5D=27329&cHash=42898c8924 (20-03-2010).

36 Ibid.

37 Ministry of Finance Norway website, the Government Pension Fund, "Companies excluded from the investment universe", no date, http://www.regjeringen.no/en/dep/fin/Selected-topics/the-government-pension-fund/responsible-investments/companies-excluded-from-the-investment-u.html?id=447122 (20-03-2010).

38 MO Mondiaal Nieuws, *Meest onethische bedrijven van 2009*, 26 January 2010, http://www.mo.be/index.php?id=63&tx_uwnews_pi2%5Bart_id%5D=27329&cHash=42898c8924 (20-03-2010).

39 Profundo, *Beleggingen in controversiele bedrijven van enkele goede doelen*, 9 June 2007, http://zembla.vara.nl/fileadmin/uploads/VARA/be_users/documents/tv/pip/zembla/Goede_doelen_Zembla_070609.pdf (20-03-2010).

40 Ministry of Finance Norway website, the Government Pension Fund, "Companies excluded from the investment universe", no date, http://www.regjeringen.no/en/dep/fin/Selected-topics/the-government-pension-fund/responsible-investments/companies-excluded-from-the-investment-u.html?id=447122 (20-03-2010) & MO Mondiaal Nieuws, *Meest onethische bedrijven van 2009*, 26 January 2010, http://www.mo.be/index.php?id=63&tx_uwnews_pi2%5Bart_id%5D=27329&cHash=42898c8924 (20-03-2010).

41 Ibid.

			controversial companies 2009.[41]
Xstrata	Aegon Asset Management UK	328,250	Polluted mines[42]
	Aegon Investment Management BV	16,280	
Total value of shareholdings in polluting mining companies		**1,127,166**	
% of total shareholdings[43]		**5%**	

Relevant Aegon CSR policies

Aegon upholds a number of different international agreements that set out guidelines or minimum standards for responsible business behaviour, by which all Aegon business activities are guided:[44]

- The United Nations' Universal Declaration of Human Rights
- The core standards of the International Labour Organization
- The principles on human rights and labour standards contained in the UN Global Compact.
- The 2008 Carbon Disclosure Project

With respect to human rights, AEGON pledges that it will actively promote the human rights principles contained in its human rights policy with regard to both its wholly-owned companies and, wherever possible, to its business dealings with third parties.[45]

In this respect, Aegon's "Business Principles" also contain several relevant statements, including:[46]

- "Aegon strives to deal with business partners who share our core values…
- Aegon actively supports and respect the protection of internationally proclaimed human rights and ensures not to be complicit in human rights abuses…
- Aegon invests prudently and responsibly...
- Aegon strives to respect the environment and undertake initiatives to promote greater environmental responsibility."

In addition to the policies that apply to all divisions of Aegon, Aegon Asset Management UK is a signatory to and member of:[47]

- the UN Principles for Responsible Investment
- the Extractive Industries Transparency Initiative

42 Profundo, *Beleggingen in controversiele bedrijven van enkele goede doelen*, 9 June 2007, http://zembla.vara.nl/fileadmin/uploads/VARA/be_users/documents/tv/pip/zembla/Goede_doelen_Zembla_070609.pdf (20-03-2010).

43 Percentage of the total shareholdings value mentioned in Footnote 8.

44 Aegon website, Sustainability, Investing responsibly, "Our international commitments", 23 February 2010, http://www.aegon.com/en/Home/Sustainability/Investing-responsibly/Our-international-commitments/ (17-03-2010).

45 Aegon Policy on Human Rights: Aegon website, Sustainability, Investing responsibly, Our international commitments. http://www.aegon.com/Documents/AEGON/Corporate%20responsibility/AEGON%20Human%20Rights%20Policy.pdf (17-03-2010).

46 Aegon website, Sustainability, Code of conduct, Business principles, 11 February 2010, http://www.aegon.com/en/Home/Sustainability/Code-of-Conduct/Business-Principles/ (17-03-2010).

47 Aegon website, Sustainability, Investing responsibly, "Our international commitments", 23 February 2010, http://www.aegon.com/en/Home/Sustainability/Investing-responsibly/Our-international-commitments/ (17-03-2010).

Aegon Investment Management BV has developed a Corporate Social Investment policy, specifically describing its exclusion policies with regard to weapons, human rights and the environment.[48]

This policy entails:

1. Exclusion of all companies that have a substantial involvement in the following weapons, munitions and mines:
   - Nuclear weapons
   - Chemical weapons
   - Biological weapons
   - Anti-personeel mines
   - Cluster bombs
   - Munitions with depleted uranium

2. Exclusion of companies that have been determined to consistently violate human rights as described in the UN Global Compact and the UN Universal Declaration of Human Rights, and labour rights as stated in the International Labour Organisation (ILO).

3. Exclusion of companies that violate environmental principles as referenced in the Global Compact, the Carbon Disclosure Project, the Rio Declaration on Environment and Development and the UN Climate Change Conference in Bali, Indonesia 3-14 December 2007.

Aegon claims that if it discovers a violation, but not a *structural/systematic* violation, of one of these exclusion policies, it will start an engagement process rather than immediately excluding a company. If this dialogue, after frequent and repeated engagement, does not lead to the desired result, the company will be excluded after all.

Transamerica Investment Management LLC does not have a specific Corporate Social Investment policy.

In response to a draft of this report, Aegon noted that in 2009 it adopted a long-term plan with regard to responsible investments. As part of this plan, Aegon has already taken a number of initial measures, such as identifying rules and guidelines already in place within individual operating units, strengthening overall coordination, and providing detailed briefings to senior executives. In addition, Aegon is currently developing a framework that sets out the company's general approach to responsible investments, which is focused on integrating ESG factors into investment management decision-making and on engagement. In parallel, Aegon is developing separate issue and sector guidelines that will set out Aegon's approach to specific areas of concern. This framework and the specific guidelines will be phased in over the next two years.[49]

Conclusion

Through its CSR policies, Aegon makes reference to an extensive framework of international normative standards for responsible corporate behaviour. Nevertheless, Aegon holds shares[50] in companies that are accused of being involved in the production or trade of controversial weapons, in serious or systematic violations of human rights, or severe

[48] Aegon Investment Management BV, Beleid Maatschappelijk Verantwoord Beleggen, december 2008, http://www.aegon.nl/downloads/877179 (17-03-2010).
[49] Aegon response to draft report, 19 April 2010.
[50] Both Aegon's own share and shares Aegon manages for clients are included here.

environmental damage. Publications by governments, NGOs, the media and renowned research institutions have demonstrated these violations and shown the undesirability of having business relations with these controversial companies.

Aegon holds shares in controversial weapons such as cluster munitions, which are highly debated worldwide. For example, in December 2008, 94 countries signed the Cluster Munition Treaty, prohibiting the use, trade and storage of cluster munitions. The investments of Aegon in companies that have a long history of high-profile labour rights violations, as shown in Table 2, are difficult to reconcile with Aegon's business principles and human rights policy that specifically ensure that Aegon is not complicit in human rights abuses. For example, Aegon invests in companies that directly contribute to the military regime of Burma by way of oil activities that yield money for the military regime. The problematic situation in Burma is acknowledged internationally, and business activities in these countries are discouraged by, among others, the Dutch Ministry of Economic Affairs, the UN and the ILO[51] Concerning the investments of Aegon in companies that cause severe environmental damage, it is striking that Aegon holds shares in 5 out of the 10 most controversial companies in 2009 as ranked by Ecofact.[52]

Aegon is implementing a long-term plan with regard to responsible investments. Within this plan, Aegon should define concrete exclusion criteria with the following characteristics:

- The criteria should allow Aegon to *completely* exclude all controversial companies whose activities conflict with Aegon's standards.
- The criteria should be applicable to *all activities* of Aegon, including all its asset management activities, both for the company's own expense and risk as well as for the expense and risk of its clients.
- The criteria should be accompanied by an accurate monitoring process to make sure that *compliance* with the CSR standards that Aegon upholds are being observed.

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[51] MinEZ website, Onderwerpen, Beleid, Birma-ontmoedigingsbeleid, no date, http://www.ez.nl/Onderwerpen/Ruimte_voor_ondernemers/Maatschappelijk_Verantwoord_Ondernemen/Beleid/Birma_ontmoedigingsbeleid. Burma Campaign UK, *UN Burma Human Rights Expert Backs UN Commission of Inquiry Into Abuses*, 11 March 2010, http://www.burmacampaign.org.uk/index.php/news-and-reports/news-stories/un-burma-human-rights-expert-backs-un-commission-of-inquiry-into-abuses/13. ILO, Resolution on the widespread use of forced labour in Myanmar, June 1999, http://www.ilo.org/public/english/standards/relm/ilc/ilc87/com-myan.htm (18-03-2010).

[52] Ecofact, *Most Environmentally and Socially Controversial Companies of 2009*, 1 February 2010, http://www.ecofact.com/downloads/100201%20Most_Environmentally_and_Socially_Controversial_Companies_of_2009.pdf (18-03-2010).

2. Investments of Aegon's Ethical Equity Fund in Tullow Oil, part II

Summary

In the context of Aegon's 2009 Annual General Meeting of Shareholders, SOMO compiled an overview of controversial business practices of Aegon in 2008. [53] One of the cases described was the investment of the Aegon Ethical Equity Fund in Tullow Oil, a company that operates in countries with a poor human rights record. In 2009, several governments and civil society organisations expressed concerns about Tullow Oil's activities in these countries. These developments, together with Aegon's criteria for screening companies for its ethical funds, raise questions as to whether Tullow Oil should be one of the top 10 holdings in the Aegon Ethical Equity Fund.

Context: summary of the case in 2008

Aegon Asset Managament is a UK-based fully-owned subsidiary of Aegon that manages around £42 billion of assets in the UK. It offers private investors the opportunity to invest in the Ethical Equity Fund.[54] The Aegon Ethical Equity Fund is a fund of which the primary investment objective is to maximise total return by investment in equities and equity-type securities in companies based in the UK, principally conducting business in the UK or listed on the UK stock market that meet the fund's predefined ethical criteria.[55] The ethical criteria comprise 12 subjects: animal welfare, military, nuclear power, environment, political donations, genetic engineering, gambling, alcohol, tobacco, pornography, banks and oppressive regimes. The criterion with regard to oppressive regimes consists of two aspects, explaining that Aegon's ethical funds do not invest in companies that:

1. operate in countries with poor human rights records, and
2. have no established management policies on human rights issues.[56]

Research reveals that the Aegon Ethical Equity Fund does invest in a company that operates in countries with poor human rights records. This company is Tullow Oil plc., and it is present in the top 10 holdings of the Aegon Ethical Equity Fund. On 31 December 2008, 2.4% of the total holdings of the fund were invested in this company.

Tullow Oil is one of the largest independent oil and gas exploration and production companies in Europe. The Group has 90 licences in 22 countries, with operations in Africa, Europe, South Asia and South America. The largest core area is Africa, which represents over 50% of Tullow Oil's production and sales revenue and more than 80% of the Group's reserves and resources.[57] Tullow Oil is a company that operates in countries with poor human rights records, of which Equatorial Guinea and the Democratic Republic of the Congo (DRC) are the most evident examples. Other examples of countries with severe human rights problems in

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[53] SOMO, Aegon: Overview of Controversial Business Practices in 2008, April 2009, http://somo.nl/publications-nl/Publication_3044-nl/at_download/fullfile (22-03-2010).

[54] Aegon Asset Management website, private investors, Ethical funds, http://www.aegonam.co.uk/private_investors/funds/ethical_funds/index.html (March 2009)

[55] Aegon Asset Management website, private investors, Ethical funds, http://www.aegonam.co.uk/private_investors/funds/ethical_funds/index.html (March 2009)

[56] Aegon Asset Management website, Private Investors, Ethical Screening Process, http://www.aegonam.co.uk/pdf/pdf_privatei/general/ethical_screening_pi.pdf (March 2009).

[57] Tullow Oil Annual Report 2007, http://annualreport2007.tullowoil.com/overview/where_we_operate.html (April 2009).

which Tullow Oil operates are Angola, Cote d'Ivoire, Pakistan, Uganda, Bangladesh, Congo (Brazzaville), Liberia, and Mauritania.

In 2009, Tullow Oil developed a human rights policy describing how Tullow Oil deals with human rights. This policy consists of principles addressing the rights of Tullow Oil's employees and principles with respect to communities surrounding Tullow Oil's operations. On community rights, Tullow Oil states the following:[58]

- Tullow Oil conducts Environmental and Social Impact Assessments and community consultation processes to: identify potential human rights concerns within the company's areas of influence, and examine ways to proactively address them.
- Tullow Oil respects the cultures of indigenous peoples and recognises their rights as distinct peoples to practice their traditions and customs.
- Tullow Oil actively promotes community empowerment and improvement to quality of life through our 'Working with Communities' initiatives.

In spite of this human rights policy, serious concerns continue to be raised about Tullow Oil's activities in conjunction with human rights (see below).

Role of Aegon: Update 2009

In 2009, the stake of Tullow Oil in the Aegon Ethical Equity Fund rose from 2.4% to 3.0%.[59]

Aegon's reaction to the report in 2008 contained the following information about Tullow Oil's presence in the DRC:

- "Democratic Republic of Congo
  Tullow Oil has a 48.50% interest in two exploration blocks located in the north-east of the DRC. However, operations have not yet started. Indeed, for the moment, the status of Tullow Oil's project remains unclear. The company openly recognizes the potential difficulties of operating in the DRC. As an investor, AEGON is monitoring the situation carefully and will review its position if and when Tullow Oil decides to begin operations." [60]

As Aegon explains, Tullow Oil's activities in DRC are, at the moment, limited to exploration. Production operations do not yet take place since Tullow Oil awaits ratification from the President of the licenses for Block 1 and 2 in DRC, which they need before they can start operations. However, chances are increasing that Tullow Oil will be able to start operations in DRC soon. This is because DRC appointed a new Oil Minister in the beginning of 2010 that said he will review exploration contracts yet to be approved by the President, and wants a new oil code passed into law by the end of March 2010. In 2007, Tullow's deal for Blocks 1 and 2 was cancelled. In 2009, however, a mining minister announced Tullow had been given back its concession.[61]

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[58] Tullow Oil Code of Conduct, 2009, http://www.tullowoil.com/corporate-social-responsibility/managing-our-responsibilities/_/media/Files/T/Tullow-Oil/Attachments/contentpdf/Code_of_Business_Conduct_2009_Rev_2.pdf (23-04-2010).

[59] Aegon Asset Management UK, Ethical Equity Fund monthly factsheet, http://www.aegonam.co.uk/WorkArea/linkit.aspx?LinkIdentifier=id&ItemID=208 (18-03-2010).

[60] Business & Human Rights website, Aegon statement on SOMO report, July 2009, http://www.reports-and-materials.org/AEGON-statement-re-SOMO-report-Jul-2009.doc (18-03-2010).

[61] Africa Review, DRC braces for expansion of oil sector, no date, http://www.africareview.com/News/DRC%20to%20go%20big%20on%20oil/-/825442/877578/-/item/0/-/71ho8r/-/index.html (19-03-2010) & Reuters Africa, Total eyes Congo JV with Tullow Oil, 16 March 2010, http://af.reuters.com/article/investingNews/idAFJOE62F0DE20100316?pageNumber=3&virtualBrandChannel=0 (19-03-2010).

At the other side of the border, in Uganda, Tullow Oil did start drilling in 2005. In this country, Tullow Oil has a 100% stake in Block 2, and recently received a 100% stake in Blocks 1 and 3a as well. This happened after a buyout of a 50% stake of its oil-production partner, Heritage Oil, in Block 1 and 3a.[62]

This border area between DRC and Uganda is exactly the area where the conflict is taking place, and where more than 5 million people have been killed since 1998.[63]

In 2009 and early 2010, several governments and civil society organisations (CSOs) have expressed concerns about Tullow Oil's activities in DRC and Uganda. Government officials and CSOs are pressurising the Ugandan government to make public details of the oil production-sharing agreements (PSAs) it signed with Tullow Oil with respect to Block 1 and 3a. They doubt the fairness of the deal after details emerged that President Yoweri Museveni held direct talks with oil investors without including government agencies.[64] In addition, civil society organisations in Uganda continue to bring legal challenges to ensure that the full PSAs are disclosed. There are currently three suits outstanding against the government, from the African Institute for Energy Governance, Greenwatch and the Daily Monitor newspaper, all using the Access to Information Act.[65]

Despite the secrecy about the content of the oil production-sharing agreements, the English organisation Platform obtained and released draft copies of Heritage's 2004 Block 3A PSA and a draft of the Tullow Block 2 PSA. They analysed the agreements and, in particular, raised questions about: [66]

- How the structure of the deals guarantees huge profits for the companies while placing risks and responsibilities on the Ugandan government (p.6). [67]
- The lack of transparency over bonus payments to the Ugandan government (p.7)
- The complete absence of penalties for environmental damage caused by the companies (p.22), two confidential audit reports carried out by Ernst &Young in 2009 share these concerns.
- The legal rights granted to the companies to flare natural gas (p.19)

Tullow has repeatedly stated that they are committed to ensuring they operate according to "good international and industry practice", but Platform's report reveals this is meaningless when there is no such agreed standard and no contractual enforcement mechanisms for the host country.

In April 2009, RBS was attacked in the media in the United Kingdom for its business relations with Tullow Oil, accusing RBS of pumping money into conflict zones. The following was said about Tullow Oil by NGO People and Planet:[68]

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[62] IPS News, Uganda: Pressure Mounts to make public oil agreements, 4 March 2010, http://ipsnews.net/news.asp?idnews=50548 (19-03-2010).

[63] IRC, Special Report Congo, January 2008, http://www.theirc.org/special-report/congo-forgotten-crisis.html (March 2009).

[64] Ibid.

[65] Platform, Uganda's oil agreements place proft before people, February 2010, http://www.platformlondon.org/carbonweb/documents/uganda/Cursed_Contracts_Uganda_PLATFORM_CSCO_Tullow_Heritage_2010_February.pdf (19-03-2010).

[66] Ibid.

[67] Irish Times, *Tullow rejects claim it will take excessive Uganda profit,* 18 February 2010, http://www.irishtimes.com/newspaper/finance/2010/0218/1224264713258.html (19-03-2010).

[68] People & Planet, *Tullow Oil: Conflict in Uganda and DRC*, April 2009, http://peopleandplanet.org/ditchdirtydevelopment/tullowoil (19-03-2010).

Tullow Oil fuels conflict by exploring for and drilling oil in highly unstable parts of Central Africa and South Asia. It has recently been expanding its operations along the border between Uganda and the Democratic Republic of Congo (DRC)(…)which continues to be torn by strife after more than a decade of resource-driven civil war. The region holds 1.4 million internally displaced people, whilst it is the boarder area which has witnessed some of the fiercest fighting between rival armies and militias. (…) Both the Ugandan and Congolese armies were deployed heavily around Lake Albert following the discovery of oil beneath the lake, whilst renewed fighting and militia attacks around the lake was sparked during late summer and autumn of 2007. The discovery of oil within an area of contested land has only exacerbated conflict.(…) Tullow also owns a significant stake in offshore oilfields on the Bangladeshi-Burmese border, which have led to recent naval escalation over maritime boundaries. The company has further been criticised for re-using single-hull tankers (which are widely phased out under environmental safety regulations) as floating production and storage vessels in its Ghana offshore operations.

Conclusion

With reference to Aegon's investments in Tullow Oil in 2008, Mr. Wynaendts explained during the last AGM that Aegon deemed Tullow Oil to be a respectable company observing human rights. He noted that part of Tullow Oil's funding comes from the International Finance Corporation (IFC), the private sector lending arm of the World Bank.[69] It should be noted that the IFC has also been heavily criticised for this decision[70], and that the IFC funding for Tullow Oil is for a project in Ghana and not for operations in Uganda, DRC or Equatorial Guinea.[71]

Nevertheless, although the above-mentioned governmental and CSO sources seem to contradict Mr. Wynaendts assertion that Tullow Oil is a company observing human rights, this report does not purport to prove that Tullow Oil has violated human rights. However, the concerns raised by governments and civil society organisations reveal the challenges with regard to human rights that Tullow Oil faces in the areas it operates. The discovery or presence of oil in developing countries can foster development, but it can lead to conflicts that do harm to the local population as well, as is shown by the given examples in which Tullow Oil is involved. Having Tullow Oil in the top 10 of holdings in the Aegon Ethical Equity Fund does not contribute to the ethical focus this fund aims to have.

In response to a draft of this report, Aegon stated that it believes that Tullow Oil has sufficient systems and policies in place to protect human rights at its operations. As far as Aegon is aware, no human rights violations have been identified at Tullow Oil facilities in Uganda, the DRC or elsewhere. Aegon claims that it will continue to monitor its investments in Tullow Oil, and will review its position if and when there is reason to do so.[72]

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69 Minutes AGM Aegon, 17 Juy 2010, http://www.aegon.com/Documents/aegon-com/Sitewide/Publications/AGM/2009/2009-AGM-minutes-Dutch.pdf (19-03-2010).

70 Bank Information Center, CSOs demand reform of World Bank Group lending to private corporations, 12 March 2010, http://www.bicusa.org/en/Article.11802.aspx (19-03-2010).

71 IFC website, Tullow Oil Summary of Proposed Investment, no date, http://www.ifc.org/ifcext/spiwebsite1.nsf/2bc34f011b50ff6e85256a550073ff1c/777b2527689712c7852576ba000e2cfd?opendocument&Highlight=0,tullow (19-03-2010).

72 Aegon response to draft report, 19 April 2010.