

# Ethical Risk Assessment of Microsoft Corporation for the Government Pension Fund Global

## Executive Summary & Final Risk Categorization

This report provides a comprehensive ethical risk assessment of Microsoft Corporation ("Microsoft" or "the company") based on the "Guidelines for observation and exclusion of companies from the Government Pension Fund Global" (FOR-2014-12-18-1793). The analysis focuses on product-based criteria (§ 3), conduct-based criteria (§ 4), and the company's exposure to geopolitical conflicts, with the objective of assigning a final risk category for the Fund's investment.

The assessment finds that Microsoft does not engage in activities that would trigger automatic exclusion under the product-based criteria of § 3. The company does not produce prohibited weapons, tobacco, or cannabis for recreational use, nor does it have operations in thermal coal that meet the specified thresholds. Its involvement with the tobacco and cannabis industries is limited to providing general-purpose enterprise software and cloud services, which falls outside the guidelines' narrow definition of "production."

The primary risks associated with Microsoft are identified under the conduct-based criteria of § 4. The most severe of these relates to the company's deep entanglement with military and security services in active conflict zones, particularly in Israel. Credible and detailed allegations suggest that Microsoft's Azure cloud platform may be used by Israeli military intelligence for mass surveillance of Palestinians, potentially contributing to "serious violations of individual rights in war or conflict situations" (§ 4.b) and "grave or systematic violations of human rights" (§ 4.a). While Microsoft has denied knowledge of such use and has launched a formal, external investigation into the matter, the allegations represent a significant and unresolved ethical risk.

Further conduct-based risks are identified in two other key areas. First, the company's environmental footprint presents a complex challenge. While Microsoft is a global leader in climate mitigation strategies, including massive investments in renewable energy and carbon

removal, its absolute greenhouse gas emissions have risen significantly since 2020. This increase is a direct consequence of the energy-intensive growth of its AI and cloud computing businesses, creating a substantial risk of contributing to an "unacceptable degree" of greenhouse gas emissions (§ 4.f). Second, persistent issues regarding labor rights have been identified, both within its hardware supply chain and through the actions of its contractors, pointing to a gap between its comprehensive human rights policies and their effective implementation on the ground (§ 4.a).

Historical issues related to gross economic crime, including major antitrust fines from the European Commission and a large-scale corruption scandal in Romania, are noted but are considered a lower risk for future recurrence given improvements in the company's governance and compliance frameworks.

In line with the Fund's mandate to apply a generous assessment and to favor engagement where appropriate (§ 6.5), the company's significant mitigating factors are given substantial weight. These include its robust corporate governance structure, its responsiveness to shareholder pressure, its leadership in climate innovation, and its stated commitment to the UN Guiding Principles on Business and Human Rights.

However, the gravity of the unresolved allegations concerning the use of its technology in the Israel-Palestine conflict, combined with the systemic risks posed by its rising emissions and labor practices, precludes an "Acceptable Risk" rating. Conversely, the lack of definitive proof of violations and the company's ongoing remedial actions (such as the external investigation) mean that the high threshold for an "Exclusion Candidate" or "High Risk" rating has not been met at this time.

Summary Risk Assessment Table

Risk Area	Relevant Guideline	Key Findings Summary	Assessed Risk Level (Issue-Specific)
Product-Based Risks			
Prohibited Weapons	§ 3.a	Development of IVAS for U.S. Army; product is an information system, not a weapon	Low

		violating humanitarian principles.	
Tobacco & Cannabis	§ 3.b, § 3.c	Provides enterprise software to tobacco/cannabis firms; does not "produce" these products per guideline definition.	Low
Thermal Coal	§ 3(2)	No direct operations; actively involved in projects to repurpose coal plants to nuclear power.	Low
<b>Conduct-Based Risks</b>			
Human Rights in Conflict	§ 4.b, § 4.a	Serious, credible allegations of Azure cloud use for mass surveillance by Israeli military in a conflict zone.	High
Labor & Supply Chain	§ 4.a	Persistent reports of poor labor conditions in supply chain and union-busting by contractors, indicating a policy-practice gap.	Moderate
GHG Emissions	§ 4.f	Absolute emissions	Moderate

		are rising significantly due to AI/cloud growth, despite massive investments in renewables and carbon removal.	
Privacy & Surveillance	§ 4.a	Provision of technology to states with poor human rights records (e.g., Saudi Arabia) creates risk of misuse.	Moderate
Corruption & Antitrust	§ 4.g	History of major antitrust violations and involvement in a corruption scandal; recent governance appears more robust.	Low

## Final Risk Categorization and Rationale

Based on the comprehensive analysis, Microsoft Corporation is assigned a final risk category of:

### 3 - Moderate Risk

This categorization reflects a balance between the severe, unresolved allegations related to conduct in a conflict zone and the company's extensive mitigating actions and robust governance frameworks. The risks identified are significant and warrant continuous monitoring, but do not currently meet the high threshold for a "High Risk" or "Exclusion Candidate" rating, particularly when applying the principle of a generous assessment. The final determination of the company's complicity in the alleged human rights violations in the

Israel-Palestine conflict, pending the outcome of its external investigation, will be a critical factor in any future reassessment.

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## I. Introduction: Corporate Profile and Operational Scope

Microsoft Corporation is a multinational technology corporation that develops, manufactures, licenses, supports, and sells computer software, consumer electronics, personal computers, and related services. Its business is organized into three primary segments, each presenting a distinct risk profile relevant to this assessment.

1. **Productivity and Business Processes:** This segment primarily consists of the Office 365 suite of products, the Dynamics 365 enterprise resource planning (ERP) and customer relationship management (CRM) software, and LinkedIn. Risks from this segment are generally lower but can arise from how enterprise clients, including those in controversial industries, use these tools to enhance their operations.
2. **Intelligent Cloud:** This is Microsoft's fastest-growing and most strategic segment, centered on the Microsoft Azure cloud computing platform. It provides a vast range of services, including computing, storage, networking, and artificial intelligence (AI). This segment is the source of the most significant geopolitical and human rights risks, as it involves large-scale contracts with government, military, and intelligence agencies worldwide. It is also the primary driver of the company's increasing environmental footprint due to the energy and water consumption of its global network of datacenters.
3. **More Personal Computing:** This segment includes the Windows operating system, Surface devices, Xbox gaming consoles and content, and search advertising. The hardware components of this segment (Surface, Xbox) are the source of significant supply chain risks related to labor practices and the responsible sourcing of raw materials.

Understanding this structure is essential, as it demonstrates that the most salient ethical risks facing Microsoft are not peripheral to its business but are deeply embedded in its core growth strategies—namely, the expansion of its global cloud infrastructure and the manufacturing of consumer hardware.

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## II. Assessment Against Product-Based Criteria (§ 3)

This section evaluates Microsoft's products and services against the specific exclusion criteria outlined in § 3 of the Fund's guidelines. The analysis determines whether the company is directly involved in the production of prohibited weapons, tobacco, recreational cannabis, or exceeds specified thresholds for thermal coal activities.<sup>1</sup>

## **A. Involvement in Prohibited Weapons Systems (§ 3.a)**

Guideline § 3.a prohibits investment in companies that develop or produce weapons which, "by normal application, violate fundamental humanitarian principles".<sup>1</sup> This includes specific categories such as cluster munitions, nuclear weapons, and blinding lasers.<sup>1</sup> Microsoft's primary involvement in the defense sector is through software, cloud services, and specialized hardware projects.

The most relevant product for this assessment is the Integrated Visual Augmentation System (IVAS), an augmented reality (AR) headset developed for the U.S. Army based on Microsoft's HoloLens technology.<sup>2</sup> In 2021, Microsoft was awarded a contract worth up to \$21.9 billion over ten years to produce more than 120,000 IVAS units.<sup>4</sup> The system is designed to enhance soldiers' situational awareness by integrating night vision, thermal imaging, and other sensor data into a unified heads-up display, which can be used for fighting, rehearsal, and training.<sup>4</sup>

The critical question is whether IVAS qualifies as a weapon that violates humanitarian principles through its normal use. The evidence suggests it does not. IVAS is an information delivery and situational awareness tool, not a direct kinetic weapon system designed to inflict harm. While it is intended to make soldiers more effective in combat, its function is analogous to advanced night-vision goggles or command-and-control software rather than to the types of inherently indiscriminate or cruel weapons listed in the guidelines, such as anti-personnel mines or chemical weapons.<sup>1</sup> Therefore, its production does not appear to breach the specific criteria of § 3.a.

This assessment is further supported by a strategic shift in Microsoft's role in the program. The IVAS project has been beset by technical challenges and delays, with soldiers reporting physical ailments like headaches and nausea during testing.<sup>3</sup> Amid these difficulties and significant internal protest from employees who objected to the company becoming "war profiteers" <sup>3</sup>, Microsoft announced in February 2025 that it would partner with Anduril Industries, a specialized defense technology firm.<sup>2</sup> Under this new arrangement, pending approval from the Department of Defense, Anduril will take over the production and future development of the IVAS hardware and software.<sup>7</sup> Microsoft's role will transition to being the preferred provider of the underlying Azure cloud services for the project.<sup>8</sup> This move can be interpreted as a strategic de-risking by the company. By offloading the direct development

and manufacturing of the military hardware to a dedicated defense contractor, Microsoft distances itself from the most controversial aspects of the program and the associated ethical scrutiny, while retaining the highly profitable and less contentious cloud computing component. This action effectively reduces its direct link to the production of military equipment, further weakening any potential claim under § 3.a.

## **B. Association with Tobacco and Cannabis Industries (§ 3.b, § 3.c)**

The guidelines explicitly prohibit investment in companies that "produce" tobacco or tobacco products (§ 3.b) or "produce cannabis for recreational purposes" (§ 3.c).<sup>1</sup> Microsoft is not a producer in either of these industries. Its involvement is as a technology provider, supplying general-purpose software and cloud services that these industries use to run their operations.

For the tobacco industry, Microsoft provides enterprise solutions to major producers. For example, British American Tobacco uses the Microsoft Power Platform for a global asset management solution, replacing less reliable tools like shared spreadsheets.<sup>9</sup> Similarly, Philip Morris utilizes Microsoft's AI and machine learning technology in a "smart factory" in Bologna, Italy, to optimize its production and distribution processes.<sup>10</sup> While these services enhance the efficiency and profitability of tobacco companies, they do not constitute "production" of tobacco. Microsoft's own advertising policies explicitly prohibit the promotion of tobacco and vaping products on its platforms, indicating a degree of corporate separation from the end product.<sup>11</sup>

Regarding the cannabis industry, Microsoft's involvement is also in a supporting technology role. The company has partnered with KIND Financial, a startup that provides "seed-to-sale" tracking software for the legal cannabis industry.<sup>12</sup> This software runs on Microsoft's Azure Government cloud platform and is designed to help state governments monitor and regulate the industry to ensure compliance and prevent diversion to black markets.<sup>14</sup> Additionally, the Microsoft AppSource marketplace features applications like "365 Cannabis," a complete enterprise resource planning (ERP) system for cannabis operators that manages everything from cultivation to sales and compliance.<sup>16</sup>

This distinction between "enabling" an industry and directly "producing" its controversial product is critical. The Fund's guidelines, in their current form, are narrow and precise, focusing solely on the act of production. Microsoft's activities as a technology supplier clearly fall outside this definition. However, this relationship presents a latent reputational and potential future compliance risk. Ethical standards and investor expectations are dynamic. There is a growing discourse in the ESG field about the responsibility of companies that "enable" harmful or controversial industries, even if they are not direct participants. Should

the Fund's guidelines ever be broadened to include criteria related to "significant contribution to" or "material support for" these industries, Microsoft's deep and integral role in providing core operational technology would require immediate and serious re-evaluation. For now, based on the letter of the current guidelines, the risk is low.

## **C. Exposure to Thermal Coal Activities (§ 3(2))**

Guideline § 3(2) allows for the observation or exclusion of mining companies and power producers that derive a significant portion of their business from thermal coal, based on specific revenue, operational, or output thresholds.<sup>1</sup>

Microsoft has no direct operations in coal mining or coal-fired power generation. Its activities are, in fact, diametrically opposed to the conduct targeted by this guideline. The company is actively engaged in initiatives aimed at decarbonizing the energy sector. A notable example is its strategic collaboration with the non-profit organization TerraPraxis. Together, they are developing a digital platform to automate the design and regulatory approval process for retrofitting the world's 2,400 coal-fired power plants to run on carbon-free energy, specifically small modular nuclear reactors (SMRs).<sup>17</sup> This initiative aims to transition one of the world's largest sources of carbon emissions to a zero-emission alternative while preserving existing infrastructure and local employment.<sup>18</sup>

Furthermore, Microsoft is a major procurer of renewable energy to power its own operations, particularly its energy-intensive datacenters. It is investing heavily in geothermal, solar, and wind power to meet its ambitious climate goals.<sup>19</sup> Consequently, Microsoft presents no risk under the thermal coal criteria. Its actions in this area are a significant mitigating factor in its overall environmental profile.

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## **III. Assessment Against Conduct-Based Criteria (§ 4)**

This section evaluates Microsoft's conduct against the criteria in § 4, which address the unacceptable risk that a company may contribute to or be responsible for severe ethical norm violations. This analysis requires a nuanced assessment of the company's global operations, supply chains, environmental impact, and governance practices.



## **A. Human Rights and Labor Practices (§ 4.a)**

Guideline § 4.a concerns "grave or systematic violations of human rights".<sup>1</sup> For a company of Microsoft's scale, these risks manifest in its global supply chain, its internal labor relations, and through the use of its products for surveillance.

### **Supply Chain Labor Standards**

Microsoft maintains a comprehensive set of policies designed to protect human rights in its supply chain. These include a detailed Supplier Code of Conduct (SCoC), a Supply Chain Human Rights Policy Statement, and a public commitment to the UN Guiding Principles on Business and Human Rights (UNGPs).<sup>22</sup> The company is a founding member of the Responsible Business Alliance (RBA) and participates in the Responsible Minerals Initiative (RMI) to address conflict minerals.<sup>22</sup> It also publishes an annual Supply Chain Integrity Statement to comply with modern slavery legislation in the UK, Australia, and Canada.<sup>25</sup>

Despite this extensive policy framework, there is a persistent gap between stated commitments and the reality on the ground. A 2010 report from the National Labor Committee, while dated, provided photographic evidence of severe labor abuses at a KYE factory in China that produced hardware for Microsoft and other major brands. The report alleged that the factory employed teenagers as "work-study" students who were forced to work 15-hour shifts, six or seven days a week, for as little as 52 cents an hour after deductions.<sup>27</sup> More recent research from China Labor Watch (2019-2023) indicates that such issues are systemic in China's consumer electronics sector, where Microsoft sources many of its hardware components. This broader industry research highlights ongoing problems including excessive and often illegal overtime, the precarious use of dispatch workers who lack benefits and job security, high labor intensity, and workplace bullying.<sup>28</sup> This pattern suggests that while Microsoft has robust policies, their effective enforcement across a vast and complex supply chain remains a significant challenge.

### **Internal Labor Relations**

Microsoft's direct labor practices have also faced scrutiny. The company, like many in the tech sector, has historically resisted unionization.<sup>29</sup> A significant shift occurred with its acquisition of Activision Blizzard, when Microsoft signed a labor neutrality agreement with the

Communications Workers of America (CWA) to smooth the approval process. This agreement guarantees the company will not interfere with union organizing efforts at its video game subsidiaries.<sup>29</sup>

However, this commitment to neutrality does not appear to extend to its contractors. In June 2024, the CWA filed an unfair labor practice charge against Lionbridge Technologies, a QA testing firm subcontracted by Microsoft's Activision. The charge alleges that Lionbridge illegally terminated its entire Boise, Idaho, workforce of approximately 160 employees in retaliation for their union organizing activities.<sup>29</sup> This incident raises serious questions about Microsoft's oversight of labor practices within its wider operational ecosystem. Additionally, the company has faced public criticism for conducting mass layoffs of thousands of American workers in 2025, the same year it filed paperwork to hire over 14,000 foreign workers on H1B visas, a move characterized by critics as cheating American workers.<sup>31</sup>

## Privacy, Surveillance, and Freedom of Expression

As a leading provider of cloud and AI technologies, Microsoft faces inherent risks related to privacy and surveillance. Human rights organizations have repeatedly raised concerns about the potential for these technologies to be misused by governments.

- **Facial Recognition:** Human Rights Watch and a coalition of civil liberties groups have called on Microsoft not to sell its Face API surveillance product to governments, warning that it could lead to a surveillance society, exacerbate discrimination, and eviscerate democratic freedoms.<sup>32</sup>
- **Data Centers in Repressive Regimes:** In 2023, Human Rights Watch urged Microsoft to suspend plans to build a cloud data center in Saudi Arabia. The concern is that the Saudi government, with its extensive record of spying on dissidents and a legal framework that allows broad state access to data for ill-defined "security reasons," could gain access to user data stored in the facility, posing a direct threat to human rights.<sup>33</sup>
- **Complicity in Censorship:** Amnesty International has criticized Microsoft for its historical role in internet censorship in China, where its MSN search engine blocked terms like "democracy" and "human rights".<sup>35</sup> The organization also raised alarms about a repressive cybersecurity law in Vietnam, urging Microsoft to oppose any government directives that would violate fundamental human rights.<sup>37</sup>

The consistent theme across these areas is a significant "policy-practice gap." Microsoft possesses a sophisticated and well-articulated human rights framework that aligns with international best practices. However, the scale and complexity of its global operations—spanning thousands of suppliers, contractors, and government clients in nearly every country—make the effective implementation of these policies a monumental challenge.

The recurring issues in the supply chain, with contractors, and in its dealings with authoritarian governments suggest that the company's due diligence and enforcement mechanisms are not consistently effective in preventing human rights harms. This constitutes a moderate, systemic risk under § 4.a.

**B. Environmental Impact and Greenhouse Gas Emissions (§ 4.e, § 4.f)**

Guideline § 4.e addresses "severe environmental damage," while § 4.f targets actions that lead to an "unacceptable degree of greenhouse gas emissions".<sup>1</sup> Microsoft's environmental impact is overwhelmingly driven by the energy consumption of its global datacenter network, which powers its Intelligent Cloud segment.

In its 2025 Environmental Sustainability Report, Microsoft disclosed that its total greenhouse gas (GHG) emissions (Scope 1, 2, and 3) have increased by 23.4% since its 2020 baseline year.<sup>38</sup> This increase is almost entirely attributable to a 26% rise in its Scope 3 emissions, which account for over 97% of its total footprint and are linked to the construction of new datacenters, the manufacturing of servers and hardware, and other value chain activities.<sup>38</sup> This growth in emissions is a direct result of the explosive demand for AI and cloud computing services.<sup>38</sup>

Greenhouse Gas Emissions (in metric tons CO2e)	FY20	FY21	FY22	FY23	FY24
<b>Scope 1</b> (Direct Emissions)	118,100	123,704	139,413	144,960	143,510
<b>Scope 2</b> (Indirect - Market-b	456,119	429,405	288,029	393,134	259,090

ased)						
<b>Scope 3</b> (Indirect - Value Chain)	11,748,00 0	13,095,0 00	14,476,0 00	16,796,0 00	15,524,0 00	
<b>Total Emission s</b>	12,322,21 9	13,648,10 9	14,903,44 2	17,334,09 4	15,926,60 0	
Data derived from Microsoft 's 2025 Environm ental Data Fact Sheet. <sup>41</sup> Note: FY24 Scope 3 emission s saw a decrease from FY23, but the overall trend since FY20 is a significan t increase.						

This upward emissions trajectory presents a clear risk under § 4.f. However, it must be assessed in the context of Microsoft's massive and industry-leading mitigation efforts. The company has made an ambitious commitment to be carbon negative by 2030 and to remove all its historical emissions by 2050.<sup>40</sup> To this end, it is undertaking several key initiatives:

- **Renewable Energy:** Microsoft has contracted for a total of 34 GW of carbon-free electricity across 24 countries, an eighteenfold increase since 2020. In FY24 alone, it signed agreements for 19 GW of new renewable energy and is on track to power its datacenters with 100% renewable energy by 2025.<sup>38</sup>
- **Carbon Removal:** The company is a pioneer in the carbon dioxide removal (CDR) market, having signed long-term agreements to procure nearly 30 million metric tons of removal credits. It is actively working to build the market for high-quality CDR solutions and co-founded the Symbiosis Coalition to advance this goal.<sup>38</sup>
- **Datacenter Innovation:** Microsoft is a leader in datacenter efficiency, as measured by Power Usage Effectiveness (PUE) and Water Usage Effectiveness (WUE).<sup>44</sup> It is developing innovative solutions like zero-water cooling for AI workloads, using lower-carbon building materials like mass timber, and transitioning to chip-level liquid cooling to reduce energy consumption.<sup>40</sup>
- **Supplier Engagement:** To tackle its dominant Scope 3 emissions, Microsoft has updated its Supplier Code of Conduct to require its largest suppliers to transition to 100% carbon-free electricity for the goods and services they provide to Microsoft by 2030.<sup>39</sup>

This situation creates what can be termed the "AI Sustainability Paradox." Microsoft's core business growth is now inextricably linked to the expansion of energy-intensive AI and cloud services, which is the direct cause of its rising emissions footprint. Simultaneously, the company argues that AI is a critical tool for solving the climate crisis and is a cornerstone of its own and its customers' sustainability strategies.<sup>20</sup> The risk under § 4.f is not that Microsoft is negligent or inactive; on the contrary, its efforts are substantial. The risk is that the sheer pace of its business growth may outstrip its ability to mitigate the environmental consequences, making its 2030 "carbon negative" goal increasingly challenging. This represents a significant bet on the future success of nascent technologies (like CDR) and the compliance of its entire value chain to offset the impact of its current success. This tension places the company at a moderate risk of contributing to an unacceptable level of GHG emissions.

## C. Governance: Corruption, Sanctions, and Anti-Competitive Practices (§ 4.g)

Guideline § 4.g covers "gross corruption or other gross economic crime".<sup>1</sup> Microsoft's history includes significant incidents that fall under this category, alongside more recent evidence of improved compliance.

- **Gross Economic Crime (Antitrust):** Microsoft has a well-documented history of anti-competitive practices. The landmark case brought by the European Commission,

which began in 1998, concluded in 2004 with a finding that Microsoft had abused its dominant market position in PC operating systems. The company was fined a record €497 million and ordered to offer a version of Windows without Windows Media Player and to disclose interoperability information to rivals. Failure to comply with these remedies led to further fines, with the total penalty exceeding €1.6 billion by 2008.<sup>46</sup> This represents a clear historical instance of gross economic crime.

- **Gross Corruption:** The "Microsoft licensing corruption scandal" in Romania was described as the country's "biggest ever" corruption case. The investigation revealed that large bribes, estimated at over \$50 million, were paid to Romanian government officials between 2004 and 2012 in exchange for approving inflated software license contracts. The scandal led to the charging of nine former government ministers and the conviction of several high-profile businessmen.<sup>48</sup> While Microsoft itself was not convicted, the fact that this extensive bribery scheme centered on the sale of its products indicates a severe failure of oversight and due diligence in a high-risk market at the time.
- **Sanctions Violations:** More recently, in April 2023, Microsoft agreed to pay a combined civil penalty of over \$3.3 million to the U.S. Departments of Commerce and Treasury. This was to resolve apparent violations of U.S. export controls and sanctions related to Russia/Ukraine, Cuba, Iran, and Syria that occurred between 2012 and 2019.<sup>49</sup> The violations involved a Russian subsidiary selling software licenses to sanctioned entities, including one responsible for building the Russian Navy's warships.<sup>49</sup>

While this pattern of conduct is concerning, the guidelines emphasize the "probability of future norm violations" [§ 6.4]. The most severe cases of antitrust behavior and corruption are historical, dating back over a decade. The company's handling of the more recent sanctions issue suggests a more mature compliance posture. Crucially, Microsoft voluntarily self-disclosed the violations to the authorities, cooperated fully with the investigation, and took remedial measures.<sup>49</sup> This proactive approach contrasts sharply with the adversarial stance it took during the EU antitrust battles and indicates a stronger contemporary governance framework. Therefore, while the historical record is poor, the risk of a future violation on a similar scale is assessed as low. The primary ongoing risk is one of compliance failures inherent in any massive multinational, but the company's response to the sanctions case serves as a significant mitigating factor.

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## IV. Geopolitical Risk Exposure & Conduct in Conflict Zones (§ 4.b, § 4.c)

This section addresses the most acute and severe risks identified, focusing on Microsoft's

deep relationships with military and security services and the potential for its technology to be used in ways that violate international humanitarian law. The relevant guidelines are § 4.b, concerning "serious violations of individual rights in war or conflict situations," and § 4.c, regarding the "sale of weapons to states in armed conflicts" that use them in violation of international law.<sup>1</sup>

## **A. Engagement with Israeli Military and Security Services**

Microsoft's relationship with the Israeli government and military has come under intense scrutiny, particularly since the escalation of the Israel-Palestine conflict in October 2023. Multiple, detailed investigative reports from outlets including *The Guardian*, *+972 Magazine*, and the *Associated Press* have raised serious allegations about the company's role.

The central allegation is that Microsoft provides its Azure cloud computing platform and AI services to the Israeli military, including its elite signals intelligence branch, Unit 8200.<sup>50</sup> These reports, citing sources and leaked documents, claim that Unit 8200 has established a customized and segregated area within Azure to store and process a massive repository of surveillance data, including recordings of millions of phone calls made by Palestinians in Gaza and the West Bank.<sup>51</sup> The scale of this operation is reportedly so vast that it exceeds the storage capacity of the military's own servers.<sup>52</sup> Furthermore, data on the Israeli military's usage of Microsoft and OpenAI's AI and machine learning tools reportedly spiked dramatically—in some cases by factors of 64 to 200—in the months following October 2023.<sup>50</sup>

These allegations, if substantiated, place Microsoft at high risk of contributing to conduct that could fall under § 4.a ("grave or systematic violations of human rights," specifically the right to privacy) and § 4.b ("serious violations of individual rights in war or conflict situations"). Providing the core technological infrastructure for a mass surveillance program targeting a civilian population in a conflict zone establishes a direct link to potential norm violations. The risk is further compounded by concerns that this surveillance data could be used to inform military targeting decisions.<sup>53</sup>

The company's response to these allegations has evolved. Initially, after conducting an internal review in early 2025, Microsoft stated it had "found no evidence to date that Microsoft's Azure and AI technologies have been used to target or harm people in the conflict in Gaza".<sup>54</sup> However, following the publication of more detailed reports in August 2025, the company acknowledged that these constituted "additional and precise allegations that merit a full and urgent review".<sup>54</sup> It subsequently announced the launch of a formal, external investigation led by the U.S. law firm Covington & Burling.<sup>51</sup> Microsoft also stated that the use of Azure for "broad or mass surveillance of civilians" would be a violation of its terms of

service.<sup>54</sup>

This issue has generated significant pressure on the company from multiple fronts. Internally, there have been public protests by employees, firings of staff who organized these actions, and the formation of a worker-led group called "No Azure for Apartheid" demanding the company sever all ties with the Israeli military.<sup>50</sup> Externally, a coalition of over 60 shareholders, representing more than \$80 million in shares, has filed a resolution calling for a report on the effectiveness of Microsoft's human rights due diligence (HRDD) processes, citing the risk of complicity in international crimes.<sup>56</sup> This pressure is compounded by Microsoft's admission in a May 2025 blog post that it "does not have visibility into how customers use our software on their own servers or other devices," an admission that critics argue highlights a critical gap in its due diligence capabilities.<sup>56</sup>

Allegation / Issue	Source(s)	Microsoft's Stated Position / Action
Provision of Azure cloud to Unit 8200 for mass surveillance of Palestinian phone calls.	The Guardian, +972 Magazine <sup>51</sup>	Launched external investigation by Covington & Burling; stated mass surveillance of civilians violates its Terms of Service. <sup>53</sup>
Spike in AI/ML tool usage by Israeli military post-Oct 2023.	BDS Movement, The Guardian <sup>50</sup>	Initial internal review found "no evidence" of use to harm people; has not specifically addressed usage data. <sup>54</sup>
Employee protests and firings of organizers.	The Guardian, No Azure for Apartheid <sup>51</sup>	Microsoft has not commented publicly on the specific firings but has acknowledged employee concerns. <sup>54</sup>
Shareholder resolution filed demanding HRDD report.	American Friends Service Committee <sup>56</sup>	The company has acknowledged shareholder engagement and previously agreed to a third-party HRIA in 2021 in response to a similar resolution. <sup>58</sup>



Admitted lack of visibility into customer use on their own servers.	Microsoft Blog, Shareholder Resolution <sup>54</sup>	This statement was part of a broader blog post defending its processes while acknowledging limitations.
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This situation highlights a fundamental "Due Diligence Paradox" for Microsoft. The company is publicly committed to robust Human Rights Due Diligence (HRDD) in line with the UNGPs.<sup>23</sup> However, the very nature of its business with a military intelligence agency operating in a highly classified, active conflict zone makes the meaningful execution of that commitment a near-impossibility. The client, a state security agency, will not grant a foreign corporation full visibility into its operations. This means Microsoft is structurally incapable of definitively knowing or preventing the misuse of its powerful, general-purpose technologies. The risk is therefore not just that a specific violation might occur, but that the company's business model for this client segment has a systemic flaw that makes effective oversight unattainable. This elevates the risk from a specific incident to a fundamental and ongoing concern.

## B. Engagement with the U.S. Department of Defense (DoD)

Microsoft has a deep, strategic, and long-standing relationship with the U.S. Department of Defense, spanning over 40 years.<sup>60</sup> The company has publicly stated its pride in supporting U.S. national security and its desire to ensure that the U.S. military has access to the nation's best technology.<sup>4</sup> This stance contrasts with some of its competitors, such as Google, which withdrew from bidding for a major defense contract after significant employee protest.<sup>61</sup>

This commitment was prominently displayed during the competition for the Joint Enterprise Defense Infrastructure (JEDI) contract, a potential \$10 billion enterprise cloud project for the Pentagon. After a contentious process, Microsoft was awarded the contract in October 2019.<sup>61</sup> The award was immediately challenged in court by the losing bidder, Amazon Web Services, which alleged that the process was tainted by political interference from the Trump administration.<sup>62</sup> After years of legal delays, the Pentagon canceled the JEDI contract in July 2021, stating that it no longer met the department's evolving needs.<sup>64</sup>

JEDI was replaced by a new multi-cloud program, the Joint Warfighting Cloud Capability (JWCC), with a ceiling of \$9 billion.<sup>66</sup> In December 2022, Microsoft was selected as one of four providers for the JWCC, alongside Amazon, Google, and Oracle.<sup>62</sup> Microsoft's work under this contract is extensive, providing cloud capabilities at all classification levels, from the strategic level to the "tactical edge," and supporting key initiatives like Joint All-Domain Command and

Control (JADC2) and the DoD's Zero Trust cybersecurity strategy.<sup>60</sup>

This deep integration with the U.S. military does not, in itself, constitute a norm violation under the Fund's guidelines. However, it represents a significant structural factor that elevates the company's overall geopolitical risk profile. This strategic alignment means that Microsoft's technology is a core component of the operational infrastructure of the world's most powerful military. This creates a heightened and persistent potential for the company's products and services to be directly linked to future U.S. military engagements that could involve conduct falling under § 4.b or § 4.c. It is a fundamental element of Microsoft's business model that carries an inherent, long-term ethical risk.

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## V. Mitigating Factors and Forward-Looking Assessment

In accordance with Guideline § 6(4), this assessment must consider the breadth of a company's activities and what can be expected of it to reduce the risk of future norm violations. The principle of a "generous assessment" requires giving due weight to a company's governance, policies, and remedial actions. Microsoft presents a strong case in this regard, with several significant mitigating factors that must be balanced against the risks identified above.

- **Robust Governance and Policy Frameworks:** Microsoft has developed one of the most extensive and sophisticated corporate responsibility and ESG infrastructures in the world. Its public commitments are detailed and comprehensive, including its Global Human Rights Statement, Supplier Code of Conduct, and policies on responsible AI.<sup>23</sup> The company explicitly commits to respecting the UN Guiding Principles on Business and Human Rights (UNGPs) and the OECD Guidelines for Multinational Enterprises.<sup>23</sup> It regularly conducts and reports on Human Rights Impact Assessments (HRIAs) to identify and prioritize salient risks, such as privacy, freedom of expression, and responsible sourcing.<sup>23</sup> This demonstrates a formal, board-level commitment to embedding ethical considerations into its operations.
- **Responsiveness to Stakeholder Pressure:** The company has demonstrated a capacity to respond to external pressure from investors and civil society, even if the response is sometimes delayed. In 2021, a shareholder resolution led by faith-based investors prompted the company to commission an independent, third-party assessment of the human rights impacts of its contracts with U.S. law enforcement and immigration agencies.<sup>58</sup> The current decision to launch an external investigation, led by a reputable law firm, into the allegations surrounding its contracts with the Israeli military is another significant example of this responsiveness.<sup>54</sup> This willingness to engage and subject its

practices to external scrutiny is a crucial mitigating factor, as it provides a mechanism for accountability and potential course correction.

- **Leadership in Climate Action:** Despite the challenge of its rising absolute emissions, Microsoft's commitment to climate action is substantial and sets a high bar for the corporate world. Its billion-dollar Climate Innovation Fund, massive procurement of renewable energy, and pioneering investments in the nascent carbon removal market demonstrate a serious financial and strategic commitment to its "carbon negative" goal.<sup>40</sup> The company is not merely purchasing offsets but is actively working to build and scale the markets for the very technologies needed for global decarbonization. This proactive and innovative approach suggests a deep-seated commitment to addressing its environmental impact, which weighs heavily against the risks posed by its growing emissions.
- **Improved Compliance Culture:** The company's handling of the 2023 U.S. sanctions violations indicates an improved compliance culture compared to its past. The decision to voluntarily self-disclose the violations, cooperate with authorities, and implement remedial measures stands in contrast to the more combative legal strategy it employed during the EU antitrust cases of the 2000s.<sup>47</sup> This suggests that its internal governance and legal compliance mechanisms, while not infallible, are functioning more in line with contemporary expectations for responsible corporate conduct.

The central challenge in assessing Microsoft is weighing the efficacy of these impressive governance structures against the sheer scale of the risks generated by its business model. The company's risks are not the result of a lack of policy but are inherent to its primary activities: managing complex global hardware supply chains, operating an energy-intensive global cloud infrastructure driven by AI, and pursuing a strategic focus on selling powerful, dual-use technology to government and military clients. Microsoft's governance acts as a strong mitigating factor for many of these risks. However, its effectiveness is most severely tested in the geopolitical domain, where the realities of military conflict and the secrecy of national security agencies may render even the most sophisticated due diligence processes inadequate.

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## VI. Conclusion and Detailed Risk Recommendation

This assessment has analyzed Microsoft Corporation's operations and conduct against the ethical guidelines of the Government Pension Fund Global. The analysis concludes that while the company faces significant ethical risks in several areas, its extensive mitigating actions and the specific wording of the guidelines lead to a final recommendation of "Moderate Risk."

The company does not meet the criteria for product-based exclusion under § 3. Its military

product, IVAS, is not a weapon that violates fundamental humanitarian principles by its normal use, and its involvement in the tobacco and cannabis industries is as a technology provider, not a producer. Its activities related to thermal coal are focused on decarbonization, not production.

The most substantial risks are found under the conduct-based criteria of § 4. The allegations that Microsoft's Azure cloud platform is being used for mass surveillance of civilians in the Israeli-Palestinian conflict represent a severe and acute risk of contributing to serious violations of human rights in a war situation (§ 4.b). This is the single most concerning issue identified. Concurrently, the company faces moderate, systemic risks from the significant increase in its greenhouse gas emissions driven by its AI and cloud business (§ 4.f), and from persistent labor rights issues within its vast supply chain and contractor network (§ 4.a). Historical instances of gross economic crime (§ 4.g) are noted but are considered a low risk of future recurrence at a similar scale.

The Fund's mandate to apply a "generous assessment" requires a careful balancing of these risks against the company's considerable mitigating factors. Microsoft's world-class corporate governance, its leadership in climate innovation, its public commitment to human rights principles, and its demonstrated responsiveness to shareholder engagement are all given significant weight. The high threshold for assigning a "High Risk" or "Exclusion Candidate" rating means that ongoing, unresolved allegations—while extremely serious—do not automatically trigger such a classification, particularly when a formal remedial process like an external investigation is underway.

Based on this synthesis, the final risk category is justified as follows:

- **A rating of 4 (Acceptable Risk) is inappropriate.** The gravity, credibility, and systemic nature of the allegations concerning conduct in a conflict zone, combined with the material risks from rising GHG emissions and supply chain labor issues, are too significant to be deemed "acceptable."
- **A rating of 1 (Exclusion Candidate) is not currently warranted.** There is no definitive, proven violation of the guidelines. The company has not been found guilty of complicity in the alleged human rights violations, and it has initiated a formal process to investigate the claims. Exclusion is a measure of last resort, and the conditions for it are not met based on the available information.
- **The choice between 2 (High Risk) and 3 (Moderate Risk) is the central judgment.** A "High Risk" rating would be justified if the company were demonstrably ignoring the allegations or if its complicity were already established. However, the "generous assessment" principle, combined with Microsoft's active investigation and its powerful mitigating frameworks in other ESG areas, pushes the assessment towards "Moderate." This rating acknowledges the severity of the risks without preempting the outcome of the ongoing due diligence process.

Therefore, the final recommendation is **Category 3 (Moderate Risk)**. This rating reflects the

profound ethical challenges embedded in Microsoft's business model but also recognizes its significant capacity and stated intent to manage them. It is recommended that the Fund place this investment under close observation, with a particular focus on the findings of the Covington & Burling investigation into the use of its technology in the Israel-Palestine conflict. The outcome of that report, and Microsoft's subsequent actions, should be the primary trigger for any future reassessment of this risk rating.

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