

# Decision to exclude company that contribute to or causes severe environmental damage

December 2021

## 1 Introduction

According to *Guidelines for KLP as a responsible investor*<sup>1</sup> KLP should exclude from its investments any companies that are associated with gross and/or systematic violations of generally accepted standards of business conduct.

The decision is largely based on the Council on Ethics' recommendation to exclude Yunnan Baiyao Group Co Ltd from the Government Pension Fund Global (SPU), which was published on December 21<sup>st</sup> 2021<sup>2</sup>.

## 2 KLP's Guidelines and practice

KLP looks to the same factors as the Council on Ethics for the Norwegian Government Pension Fund - Global in determining whether to categorize environmental damage as severe<sup>3</sup>:

- *The damage is significant.*
- *The damage causes irreversible or long-term effects.*
- *The damage has considerable negative consequences for human life and health.*
- *The damage is the result of violations of national law or international norms.*
- *The company has neglected to act in order to prevent damage.*
- *The company has not implemented adequate measures to rectify the damage.*
- *It is probable that the company's unacceptable practice will continue*

KLP makes exclusion decisions based on whether there is an unacceptable risk for ongoing or future violations, not on past violations alone. This approach highlights that KLP's goal is not to "punish" companies, but to ensure that KLP does not contribute to violations through its investments.

## 3 The Government Pension Fund Global (Council of Ethics) recommendations

The Council on Ethics recommends to Yunnan Baiyao Group Co Ltd (Yunnan Baiyao) due to an unacceptable risk of the company contributing to severe environmental damage.

The Council's assessment rests on the company's use of body parts from endangered animal species in the production and sale of ingredients for Traditional Chinese Medicine (TCM).

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<sup>1</sup> <https://www.klp.no/en/english-pdf/Guidelines%20for%20KLP%20as%20a%20responsible%20investor.pdf>

<sup>2</sup> <https://files.nettsteder.regjeringen.no/wpuploads01/sites/275/2021/12/Tilradning-Yunnan-engelsk.pdf>

<sup>3</sup> <https://www.klp.no/media/samfunnsansvar/Severe%20Environmental%20Damage.pdf>

The Council has assessed whether there is an unacceptable risk that the company thereby contributes to or is responsible for serious environmental damage pursuant to section 3(c) of the GPFG's ethical guidelines.

When assessing the risk that a company is contributing to severe environmental damage, the Council attaches importance to the scale of the environmental damage, whether it is irreversible, whether national laws or international norms have been breached and what the company is doing to prevent or mitigate its harmful impacts, and if it is probable that the company's practice will continue.

Yunnan Baiyao is a Chinese pharmaceutical company which produces, among other things, ingredients used in TCM products. The company is listed on the Shenzhen Stock Exchange. The Council's investigations show that in 2018, the company sold significant quantities of raw pangolin scales from its own stocks to another pharmaceutical company, and that the company also produced and sold processed pangolin scales. Yunnan Baiyao has declined to provide any information about its business to the Council.

The Council has emphasised that the company sells and uses a critically endangered species in its production and that the company has not been willing to clarify the case with respect to its use of body parts from threatened species, the traceability of purchases or whether it knows their provenance.

For more information about the Council's assessment, please refer to the recommendation<sup>4</sup>.

KLP and the KLP funds were invested in the company before the exclusion.

## 4 KLP's analysis

Like the Council on Ethics, KLP and the KLP funds exclude companies where there is an unacceptable risk that the company contributes to or causes severe environmental damage.

The justification from the Council on Ethics is comprehensive and thorough, and KLP therefore finds no reason to deviate from the conclusions that there is an unacceptable risk that the company contribute to or cause severe environmental damage.

## 5 Decision

KLP and the KLP funds exclude Yunnan Baiyao from its investments from December 2021 due to an unacceptable risk that the company contribute to or cause severe environmental damage.

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<sup>4</sup> <https://files.nettsteder.regjeringen.no/wpuploads01/sites/275/2021/12/Tilradning-Yunnan-engelsk.pdf>