

Decision to exclude Shapir Engineering and Industry Ltd.

June 2021

Summary

KLP and the KLP Funds (hereafter, "KLP") have decided to exclude the company Shapir Engineering and Industry Ltd. (hereafter, "Shapir") from their investments due to unacceptable risk that the company is contributing to serious violations of the rights of individuals in situations of war or conflict. The decision is mainly based on the Council on Ethics' recommendation to the Government Pension Fund Global (GPFG), published on May 19, 2021¹, when Norges Bank excluded the company.

Shapir is an Israeli construction company listed on the stock exchange in Tel Aviv. At the close of 2019, GPFG owned the equivalent of 0.1 per cent of the company's shares, to the value of NOK 19 million.

KLP was invested in Shapir at the time the exclusion decision was made.

Recommendation from the Council on Ethics

The Council on Ethics recommendation has considered that there is "...an unacceptable risk that the company is contributing to serious violations of the rights of individuals in situations of war or conflict". The Council on Ethics' position is that "the Israeli settlements in the West Bank have been built in violation of international law and that their existence and constant expansion causes significant harm and disadvantage to the area's Palestinian population".

The Council on Ethics recommendation states that:

In line with its previous practice, the Council on Ethics considers that Shapir, through its engagement in the construction of Israeli settlements in the West Bank, is contributing to the violation of international law in a way that constitutes grounds for recommending that the company be excluded from investment by the GPFG.

On its website, the company informs that it is engaged in ongoing construction work in the West Bank, and that it has recently completed a major project involving the construction of dwellings in a settlement there. Lacking any further specification from the company it is difficult for the Council to obtain a full overview of the company's activities in the area. On the basis of the information available, the Council considers that there is an unacceptable risk that Shapir will in future build Israeli settlements in the West Bank and thereby contribute to serious violations of the rights of individuals in situations of war or conflict. In the Council's view, this risk will be present until the company gives notice that it no longer engages in this type of activity.

The Council remarks that the company has not replied to the Council's enquiries but provides details of its operations on its website.

¹ <https://etikkradet.no/honeys-holding-co-2/>

A more detailed analysis of the case is available in the publicly disclosed recommendation.²

KLPs guidelines and analysis

KLP defines human rights as a separate exclusion criterion, consistent with its status as a separate pillar under the UN Global Compact.³ This approach is in accordance with the Ethical Guidelines for the GPFG.

On 12 February 2020, the UN High Commissioner for Human Rights published a list of companies with activities associated with the Israeli settlements in the Occupied Palestinian Territory⁴. This report in the form of a database has been prepared due to a request from the UN Human Rights Council based on a resolution of 31/36 March 2016. The UN High Commissioner for Human Rights has, on the basis of information gathered, reasonable grounds to conclude that the 112 companies this listing is involved in one or more of the specific activities that may contribute to human rights violations - civil, political, economic, social and cultural rights.

Shapir was one of the companies on this list. Based on this, KLP contacted the company to start a dialogue where several inquiries were sent during 2020, but the company has not responded to KLP's inquiries.

Paragraph 6.3 of KLPs *guidelines for KLP as a responsible investor* state that: "*KLP should exclude companies from its investments where there is an unacceptable risk that they could contribute to or be responsible for... serious violations of the rights of individuals in situations of war or conflict.*"⁵

The reasoning behind the Council of Ethics recommendation to exclude Shapir is well grounded and based on extensive sources. Therefore, KLP see no reason to deviate from their recommendation.

Recommendation

KLP and the KLP Funds exclude the company Shapir Engineering and Industry Ltd from their investments due to an unacceptable risk of the company contributing to serious violations of the rights of individuals in situations of war or conflict.

² <https://files.nettsteder.regjeringen.no/wpuploads01/blogs.dir/275/files/2021/05/Shapir-rec-ENG.pdf>

³ [Un Global Compact principles](#)

⁴ <https://www.ohchr.org/EN/NewsEvents/Pages/DisplayNews.aspx?NewsID=25542&LangID=E#main>

⁵ [KLPs guidelines for KLP as a responsible investor](#)