



# Decision to exclude companies that produce cannabis for recreational use

June 2021

## Introduction

KLP and the KLP Funds (KLP) have decided to exclude Hexo Corp. and Village Farms Intl. from the investments due to an unacceptable risk that the companies' activities constitute a serious violation of fundamental ethical norms.

The companies produce and sell products containing cannabis for recreational use. UN conventions classify cannabis as a narcotic substance and prohibit its production, sale, etc.<sup>1</sup>

## Background

International control of narcotic substances, including cannabis, is regulated through a series of UN conventions. These include the Single Convention on Narcotic Drugs (1961), the Convention on Psychotropic Substances (1971) and the Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (1988).

Norway is a party to these conventions and is therefore bound by them under international law. The conventions ban the production and sale of cannabis, and set out strict limits on the use of cannabis for medical and scientific purposes.

Canada legalised cannabis for non-medical purposes in 2018. Canada thereby permits adults to buy, possess and grow cannabis for their own use. Commercial distribution and sale require a government licence.

The UN's International Narcotics Control Board (INCB), which monitors states' implementation of the narcotics conventions, condemned Canada's legalisation<sup>23</sup>: *"The legalisation by Canada of cannabis for non-medical purposes is incompatible with the legal obligations incumbent on States Parties under the international drug control framework and is a violation*

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<sup>1</sup> <https://lovdata.no/dokument/TRAKTAT/traktat/1988-12-20-1?q=narkotika>

<sup>2</sup> <https://www.incb.org/incb/en/news/press-releases/2018/statement-by-the-international-narcotics-control-board-on-the-entry-into-force-of-bill-c-45-legalising-cannabis-for-non-medical-purposes-incanada.html>

<sup>3</sup> Sensitivitet: Begrenset

*of fundamental provisions of the 1961 Single Convention on Narcotic Drugs, as amended by the 1972 Protocol, according to which State Parties have undertaken to limit the production, manufacture, export, import, distribution of, trade in, use and possession of drugs exclusively to medical and scientific purposes.”*

## KLP's guidelines

The statutory regulation in Norway prohibits use of cannabis. It can however, open for exceptions where cannabis-related content is required for medical or scientific purposes.<sup>4</sup> KLP therefore considers that companies that operate within this legal framework do not violate international norms such as the UN's conventions on narcotic substances.

KLP's decisions with respect to responsible investment rest on internationally recognized principles for which there is broad agreement. The legalization of cannabis in Canada contravenes the UN's narcotics conventions. The production and sale of cannabis for recreational use is therefore deemed to be a serious violation of fundamental ethical norms under KLP's guidelines for responsible investment.

## Information about the companies

- Hexo Corp. is a cannabis company for consumer packages and aims to become a global industry leader within cannabis with one of the highest market shares in Canada. The company receives 98 percent of total revenues from cannabis for recreational purposes, and only 2 percent from medical cannabis<sup>5</sup>.
- Village Farms (the parent company) and its subsidiaries are one of the largest greenhouse growers in North America. In November 2020, the company increased its ownership in Pure Sunfarms Corp. to 100 percent ownership, making them the owners of one of the largest cannabis companies in the world. Pure Sunfarms sells cannabis for recreational purposes. Through its ownership, the company receives around 10 percent of its total revenue<sup>6</sup>.

## Decision

Hexo Corp. and Village Farms Intl. are excluded from investment by KLP and the KLP Funds due to an unacceptable risk that the companies' activities constitute a serious violation of fundamental ethical norms.

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<sup>4</sup> <https://lovdata.no/dokument/SF/forskrift/2013-02-14-199/%C2%A75#%C2%A75>

<sup>5</sup> <https://staticproduction.s3.amazonaws.com/financial-statements/2020/Q4/FY20+ANNUAL+REPORT+FINAL.pdf>

<sup>6</sup> [https://villagefarms.com/wp-content/uploads/2021/04/VFF\\_10K\\_Master-FINAL-EDGAR-in-PDF.pdf](https://villagefarms.com/wp-content/uploads/2021/04/VFF_10K_Master-FINAL-EDGAR-in-PDF.pdf)