

Decision to exclude companies that contribute to or causes severe environmental damage

November 2021

1 Introduction

According to *Guidelines for KLP as a responsible investor*¹ 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 the companies from the Government Pension Fund Global (SPU), which was published on September 29th 2021².

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 severe³:

- ***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.

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

² <https://etikkradet.no/tilradninger/alvorlig-miljoskade-2/>

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

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

The Council on Ethics recommends to exclude China Traditional Medicine Holdings Co Ltd (China TCM), Tong Ren Tang Technologies Co Ltd and its subsidiary Beijing Tong Ren Tang Chinese Medicine Co Ltd (Tong Ren Tang Chinese Medicine), and China Grand Pharmaceutical and Healthcare Holdings Ltd (China Grand Pharma) due to an unacceptable risk of these companies contributing to severe environmental damage.

The Council on Ethics' assessment concentrates on the companies' use of the body parts of threatened species in their production of Traditional Chinese Medicine (TCM). The Council has assessed whether there is an unacceptable risk that the companies thereby contribute to or are responsible for serious environmental damage pursuant to section 3 (c) of the Ethical Guidelines.

When assessing serious environmental damage, the Council on Ethics assigns importance to the scale of the environmental damage, whether this has irreversible or long-term effects, whether it is a result of a breach of national laws or international norms, what the company has done to prevent damage and the measures initiated to rectify any damage that has been caused. The Council also assesses the risk of the company continuing to engage in these practices.

3.1.1 China TCM

China TCM is a pharmaceutical company, listed on the Hong Kong Stock Exchange, that produces and markets TCM products. The Council's investigations show that the company produces several different products, the ingredients of which include the body parts of threatened species. These animal parts are horns from Saiga antelope, leopard bones and pangolin scales. China TCM has confirmed that the company uses the body parts of endangered animals and has informed about the company's inventory of such items.

The Council takes as a fact that biodiversity loss is a global threat to life on Earth and that the extinction of species is accelerating. The Council has focused on species listed on the IUCN Red List of Threatened Species, i.e., critically endangered, threatened or vulnerable species, as well as species listed in Annex 1 of the Convention on International Trade in Endangered and Vulnerable Species (CITES). The Council is of the view that companies, whose activities contribute to species becoming extinct, are depleting biodiversity. By producing medicines with ingredients that include the body parts of threatened species, there is a risk of the company contributing to irreversible and severe environmental damage.

For more information about the Council's assessment, please refer to the recommendation⁴.

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

3.1.2 Tong Ren Tang Chinese Medicine

Both companies are Chinese pharmaceutical companies that manufacture and market TCM products. Investigations conducted by the Council indicate that Tong Ren Tang Technologies manufactures 18 different products which include animal parts from threatened species. This pertains to horns from saiga antelope, leopard bones, pangolin scales and musk from musk

⁴ <https://files.nettsteder.regjeringen.no/wpuploads01/sites/275/2021/09/Tilradning-China-TCM-engelsk.pdf>

deer. Tong Ren Tang Technologies has confirmed that the company uses body parts from animal species that are threatened with extinction.

Tong Ren Tang Chinese Medicine manufactures a product which contains natural musk. The company's annual report confirms that threatened species are used in the company's production of medicines.

For more information about the Council's assessment, please refer to the recommendation⁵.

KLP and the KLP funds were *not* invested in the company or its subsidiary before the exclusion.

3.1.3 China Grand Pharma

China Grand Pharma is a pharmaceutical company, listed on the Hong Kong Stock Exchange, that produces and markets TCM products. The Council's investigations show that the company manufactures products, which include ingredients based on horns from Saiga antelope. The Saiga antelope is a globally threatened species.

For more information about the Council's assessment, please refer to the recommendation⁶.

KLP and the KLP funds were *not* invested in the company before the exclusion.

4 KLP's analysis

Like SPU, 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 companies contribute to or cause severe environmental damage.

5 Beslutning

KLP and the KLP funds exclude the following companies from its investments from November 2021 due to an unacceptable risk that the companies contribute to or cause severe environmental damage:

1. CHINA TRADITIONAL MEDICINE HOLDINGS CO LTD
2. TONG REN TANG TECHNOLOGIES CO LTD
3. BEIJING TONG REN TANG CHINESE MEDICINE CO LTD
4. CHINA GRAND PHARMACEUTICAL AND HEALTHCARE HOLDINGS LTD

⁵ <https://files.nettsteder.regjeringen.no/wpuploads01/sites/275/2021/09/Tilradning-TRT-engelsk.pdf>

⁶ <https://files.nettsteder.regjeringen.no/wpuploads01/sites/275/2021/09/Recommendation-China-Grand-Pharma-Eng.pdf>