



Decision to exclude BAE Systems from investment

8 December 2015

Introduction

BAE Systems is a UK-based, global corporation that supplies products and services to the defence and aerospace sectors.¹ The company has operations in the UK, USA, Australia, Saudi Arabia and India,² and is a major supplier to the armed forces of numerous countries. BAE Systems' ambition is to be "the world's most advanced, technology-led defence, aerospace and security solutions" company.³

As of 31 December 2014, KLP and the KLP Funds held shares and bonds in the company worth approximately NOK 137,2 million.

The incident and the company's involvement

KLP excluded BAE Systems from its investment from 2006 to 2013 due to the company's production of key components for nuclear weapons. The reason for exclusion at that time was that BAE Systems, through a joint venture, had a controlling interest in the company MBDA, which manufactured the ASMP-A nuclear missile for the French armed forces. The exclusion was rescinded based on information supplied by the Council on Ethics of the Norwegian Government Pension Fund Global (GPF). BAE Systems confirmed to the Council on Ethics that MBDA had stopped manufacturing ASMP-A missiles.⁴

However, in August 2013 BAE Systems won a contract with the US Air Force for the maintenance and upgrading of the USA's Minuteman III intercontinental ballistic missile (ICBM)

¹ BAE Systems, "About Us". URL: <http://www.baesystems.com/en/our-company/about-us>.

² BAE Systems, "Where We Operate". URL: <http://www.baesystems.com/en/our-company/about-us/where-we-operate>.

³ BAE Systems, "Group Strategic Framework." URL: <http://investors.baesystems.com/our-investment-proposition/our-strategy>.

⁴ Council on Ethics, *Recommendation to revoke the exclusion of the companies BAE Systems plc. and Finmeccanica S.p.A. from the investment universe of the Government Pension Fund Global* (31 August 2012), p. 1. URL: https://www.regjeringen.no/globalassets/upload/fin/etikk/2013/bae_finmec_eng.pdf.



system, which runs until 2021.⁵ In its magazine, BAE Systems writes that the contract covers “systems engineering, integration testing, logistics, and other services to support the missile, ground and launch systems for 450 deployed Minuteman III missiles”.⁶ BAE Systems replaced Northrop Grumman as the main supplier of these services.⁷ The contract is part of the US Air Force’s *Future ICBM Sustainment and Acquisition Concept (FISAC)*.⁸

Dialogue

In its dialogue with KLP, BAE Systems pointed out that the company’s contract with the US military covers delivery platforms and not the actual missiles.⁹

Assessment

According to KLP’s guidelines for responsible investment, companies that produce weapons whose deployment in normal circumstances violates fundamental humanitarian principles shall be excluded. This includes, among other things, manufacturers of nuclear weapons.

Through its contract with the US Air Force, BAE Systems maintains the ICBM missile system. This is deemed to constitute production of nuclear weapons, since components must be upgraded and replaced on a regular basis to keep an, in this case, several decades old weapons system technologically updated.¹⁰ KLP has previously excluded companies on this basis, e.g. Northrop Grumman and Boeing.

KLP excluded Northrop Grumman based on the GPF’s exclusion of this company. In its recommendation, the Council on Ethics describes Northrop Grumman as the leading contractor for the maintenance of the Minuteman system, e.g. the same role BAE Systems has had since the summer of 2013.¹¹ The recommendation highlights specifically that this contract includes

⁵ BAE Systems, "Blindsided! BAE Systems upsets Northrop Grumman to win Minuteman missile contract", *BAE Systems Support Solutions* (Fall 2013), p. 5. URL: <http://gdiconnect.com/clients/BAESYSTEMS/files/assets/common/downloads/publication.pdf>.

⁶ BAE Systems, "Blindsided! BAE Systems upsets Northrop Grumman to win Minuteman missile contract", *BAE Systems Support Solutions* (Fall 2013), p. 5. URL: <http://gdiconnect.com/clients/BAESYSTEMS/files/assets/common/downloads/publication.pdf>.

⁷ Ibid.

⁸ Host, Pat, "BAE Systems Wins \$535 Million Air Force Minuteman III Sustainment Contract", *Defense Daily* (5 August 2013). URL: <http://www.defensedaily.com/baesystems-wins-535-million-air-force-minuteman-iiisustainment-contract/>.

⁹ Email from BAE Systems to KLP (6 August 2015), archived at KLP.

¹⁰ See, for example, Thompson, Lauren, "BAE Systems Growing Steadily in Defense Services by Beating Incumbents", *Forbes* (12 August 2013). URL: <http://www.forbes.com/sites/lorenthompson/2013/08/12/bae-systems-growing-steadily-in-defense-services-by-beating-incumbents/>.

¹¹ GPF Council on Ethics’ *Recommendation to exclude* (19 September 2005), p. 7-8. URL: .



responsibility for 10 different ICBM modernisation programmes, including the Propulsion Renewal Program (PRP) for the replacement/upgrade of the Minuteman III's rocket motors."¹² The Council on Ethics further states that this type of replacement of rocket components may be considered comparable with initial production.¹³ It is not entirely clear whether it was the work on the actual missiles that determined the Council on Ethics' decision, or whether this was merely highlighted as an example of the company's activities under the contract.

The contract which BAE Systems has taken over relates to the delivery platforms. However, it is not clear whether the contract still entails the upgrading of the actual missiles, as Northrop Grumman has previously done. Nevertheless, the platforms are tailor-made to deliver the Minuteman missiles.¹⁴ Therefore, they are not comparable to a fighter plane or submarine, which can deploy many different types of weapon, including nuclear missiles. KLP's exemption for "dual-use" products does not therefore apply in this case.

It must be pointed out that Northrop Grumman is still involved in the Minuteman III programme, though no longer as the lead contractor, and that the company manufactures the delivery platforms for Britain's Trident missiles.¹⁵ The issue here is thus the delivery system, not the manufacture of the actual submarines. As such, the exclusion of Northrop Grumman remains justified.

Decision

BAE Systems is to be excluded from investment by KLP and the KLP Funds at the latest from 8 December 2015.

¹² Ibid, p. 8.

¹³ Ibid.

¹⁴ See, for example, Air-ForceTechnology.com, "BAE to Lead USAF's Minuteman III ICBM Contract." URL: <http://www.airforce-technology.com/news/newsbae-to-lead-usafs-minuteman-iii-icbm-contract-4344808>.

¹⁵ Dialogue between Northrop Grumman and GES (2014), archived at KLP.