



# Decision to exclude ZTE Corp from investments

June 2016

## Introduction

ZTE Corporation (ZTE) is a Chinese producer of telecommunications equipment and network solutions.<sup>1</sup> The company is listed on stock exchanges in Hong Kong and China, and has operations in more than 160 countries.<sup>2</sup> ZTE endorses the UN Global Compact.<sup>3</sup>

As of 31 December 2015, KLP and the KLP Funds held shares in ZTE worth approx. NOK 3,600,000.

## The incident and the company's involvement

KLP has decided to exclude ZTE on the basis of the Council on Ethics' *Recommendation to exclude ZTE Corp from the Government Pension Fund Global*,<sup>4</sup> published on 7 January 2016.<sup>5</sup> The Council on Ethics recommended that ZTE be excluded from the Government Pension Fund Global (GPF) "due to an unacceptable risk of gross corruption",<sup>6</sup> and summarised its position as follows:

*In its assessment, the Council has emphasised the company's involvement in corruption allegations in 18 countries, as well as the fact that it is currently or has previously been under investigation in a total of 10 of these. Weight has also been given to the fact that the company has been convicted of corruption in one instance, that a corporate penalty*

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<sup>1</sup> ZTE Corporation, *About ZTE*, [http://wwwen.zte.com.cn/en/about/corporate\\_information/](http://wwwen.zte.com.cn/en/about/corporate_information/) (last visited 25 January 2016).

<sup>2</sup> Ibid.

<sup>3</sup> Ibid.

<sup>4</sup> Council on Ethics (24 June 2015), *Recommendation to exclude ZTE Corp. from the Government Pension Fund Global*. URL: <http://etikkradet.no/files/2016/01/ENG-Tilrådning-ZTE-24.-juni-2015-ENGELSK.pdf>.

<sup>5</sup> Norges Bank Investment Management, *Observation and exclusion of companies*. URL: <https://www.nbim.no/en/responsibility/exclusion-of-companies/> (last visited 25 January 2016).

<sup>6</sup> Council on Ethics (24 June 2015), *Recommendation to exclude ZTE Corp. from the Government Pension Fund Global*, p. 1.



*was imposed and that the company has been temporarily barred from public competitive tenders. The Council has concluded that the company has failed to demonstrate satisfactorily that internal anticorruption procedures are being effectively implemented in its business. In conjunction with previous corruption cases and the fact that the company operates in a sector and in many countries associated with a high risk of corruption, this finding indicates that there is an unacceptable risk that the company may once again become involved in gross corruption.*<sup>7</sup>

The Council on Ethics' recommendation contains a detailed description of its assessment.<sup>8</sup> The incidents of corruption described in the recommendation stretch from 1997 until as recently as 2014, and involve the following countries, among others: Algeria, Philippines, Kenya, Liberia, Malaysia, Nigeria, Papua New Guinea and Zambia.<sup>9</sup> Although the Council on Ethics obtained its information primarily from articles in the international press, sources also included court documents, where available.<sup>10</sup> In sum, this substantiates the conclusion that there exists an unacceptable risk of corruption taking place in the future.

## **Dialogue**

The Council on Ethics writes that it has been in contact with ZTE, but that the company has made no comment with regard to the recommendation.<sup>11</sup> Since October 2014, KLP's service provider has attempted to open a dialogue with ZTE regarding the allegations of corruption, but has received no comment thereon.<sup>12</sup>

## **Guidelines and assessment**

According to KLP's guidelines for responsible investment, the existence of an "*unacceptable risk that the company is complicit in or is itself responsible for... gross corruption*" constitutes grounds for exclusion.<sup>13</sup> Furthermore, KLP follows exclusions undertaken GPFG based on the the

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<sup>7</sup> Ibid.

<sup>8</sup> Ibid.

<sup>9</sup> Ibid.

<sup>10</sup> Ibid., p. 6.

<sup>11</sup> Ibid.

<sup>12</sup> Correspondence archived at KLP.

<sup>13</sup> KLP's guidelines for responsible investment (last updated 4 November 2014). URL:

[http://english.klp.no/polopoly\\_fs/1.33317.1459346158!/menu/standard/file/KLP%20guidelines%20for%20responsible%20investment%20-.pdf](http://english.klp.no/polopoly_fs/1.33317.1459346158!/menu/standard/file/KLP%20guidelines%20for%20responsible%20investment%20-.pdf).



Council on Ethics' recommendation. In the case of ZTE, KLP considers that the Council on Ethics' analysis and conclusion are well founded, and therefore sees no reason to deviate from its recommendation. The fact that the alleged corrupt practices stretch over a 17-year period and encompass close to 20 countries, and the fact that the company has been the subject of 10 different corruption investigations, reinforces the assessment that ZTE has engaged in gross and systematic corruption. Since some of the alleged incidents occurred as recently as 2014, even after the company was supposed to have implemented preventive measures, the risk still seems to be unacceptably high.

For the above-mentioned reasons, therefore, we are of the opinion that there exists an unacceptable risk that ZTE has been involved in gross corruption and that the company has not implemented adequate corruption-prevention measures to reduce the risk of recurrence.

## **Decision**

ZTE Corp is excluded from investment by KLP and the KLP Funds as of June 2016.