

## **Decision to include Dongfeng Motor Group Co. Ltd.**

1 June 2015

### **Introduction**

The exclusion of Dongfeng Motor Group Co. Ltd. from KLP and the KLP Funds' investment portfolios is rescinded with effect from 1 June 2015.

Dongfeng Motor Group Co. Ltd. (Dongfeng) was excluded in December 2008 after the Norwegian Ministry of Finance announced the divestment of shares in the company by the Norwegian Government Pension Fund Global (GPF), based on the Council on Ethics' recommendation.<sup>1</sup> Divestment was recommended pursuant to the following article in the GPF's ethical guidelines, which at that time required exclusion of companies that sold military equipment to Myanmar:

*Section 2. Criteria for product-based exclusion of companies*

*The Fund shall not be invested in companies which themselves or through entities they control:*

*[...]*

*3. sell weapons or military materiel to states that are subject to investment restrictions on government bonds as described in the management mandate for the Fund section 3-1(2)(c).*

Until 2014, only Myanmar was subject to the bar on investment in government bonds.

The Council on Ethics' recommendation states that Dongfeng, through a subsidiary, sold military trucks to the government of Myanmar – which the company also confirmed.<sup>2</sup> Dongfeng is a Chinese company and was thus not covered by the US or EU weapons embargoes with respect to Myanmar in place at that time.

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<sup>1</sup> Council on Ethics (14 November 2008), *Recommendation to exclude Dongfeng Motor Group Co. Ltd.*  
URL: <http://etikkradet.no/files/2014/12/Tilrådning-Dongfeng.pdf>

<sup>2</sup> Ibid. p. 2.

## **Legal basis for divestment no longer applicable**

In December 2014, the Norwegian Ministry of Finance announced that the exclusion of Dongfeng by the GPFG had been revoked.<sup>3</sup> In a letter to the Council on Ethics dated 28 January 2014, the Ministry of Finance wrote that the restrictions on investment in government bonds no longer applied to Myanmar.<sup>4</sup> Since the grounds on which exclusion of the company was based no longer existed, the Council on Ethics recommended that its exclusion be rescinded.<sup>5</sup>

## **Assessments for KLP**

The exclusion of Dongfeng from KLP and the KLP Funds' investment portfolios was undertaken on the basis of the requirement in KLP's guidelines for responsible investment to follow the GPFG's lead when it excludes companies on the basis of a recommendation by the Council on Ethics.

The Ministry of Finance's decision to remove Myanmar from the list of states covered by the restrictions on investment in government bonds is the result of democratic developments in the country over the past few years. The trade embargo instituted by the US and the EU against Myanmar has been terminated, and the country is experiencing substantial interest from foreign investors and western companies – including Norwegian enterprises.

Since 2007, KLP has had a specific engagement directed towards companies that operate in Myanmar, led by the service provider GES-Invest. Conditions in the country have improved substantially since then, even though the democratisation process remains at a critical stage. KLP visited Myanmar for the first time in November 2014 and this impression was confirmed through meetings with representatives of civil society and the business community. Thus, the changes in the GPFG's practice are in line with KLP's own assessment of the current situation, and the basis for continued exclusion of Dongfeng no longer exists.

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<sup>3</sup> Ministry of Finance (10 December 2014), *Decisions about completed observation and reinclusion of companies in the GPFG*. URL: <https://www.regjeringen.no/nb/aktuelt/Beslutninger-om-avsluttet-observasjon-og-gjeninkludering-av-selskap-i-SPU/id2344678/>.

<sup>4</sup> This is mentioned under 'Changes to the exemption on government bonds' on the following website: Ministry of Finance (30 January 2014), *New decisions about the Government Pension Fund Global*, <https://www.regjeringen.no/nb/aktuelt/utelukkelse-av-selskaper-fra-spu-og-endr/id750091/>.

<sup>5</sup> Council on Ethics (31 January 2014), *Recommendation to revoke the exclusion of the company Dongfeng Motor Group Co. Ltd. from the investment universe of the Government Pension Fund Global*. URL: [https://www.regjeringen.no/contentassets/46a5ab896b494107b4821a65af146a48/tilrad\\_dongfeng\\_2014.pdf](https://www.regjeringen.no/contentassets/46a5ab896b494107b4821a65af146a48/tilrad_dongfeng_2014.pdf)

### **Conclusion and recommendation**

The exclusion of Dongfeng from KLP and the KLP Funds' investment portfolios is rescinded with effect from 1 June 2015.