



Decision to exclude Genting Berhad and Genting Plantations Berhad from investment

8 December 2015

Introduction

KLP Kapitalforvaltning has decided to exclude the companies Genting Berhad (Genting) and Genting Plantations Berhad (Genting Plantations) from investment by KLP and the KLP Funds (KLP) at the latest on 8 December 2015. The background to this recommendation is that the Norwegian Government Pension Fund Global (GPF) has excluded these two companies under the exclusion criterion covering severe environmental damage. The GPF's decision was published on 17 August 2015.

Genting is a Malaysian conglomerate, with operations in palm oil production, construction and electricity generation.¹ Genting's palm oil activities are operated by the subsidiary Genting Plantations, in which Genting has a 53.4 per cent shareholding.² According to the company's website, Genting Plantations owns more than 246,000 hectares of oil palm plantations in Malaysia and Indonesia.³

KLP and the KLP Funds had holdings worth around NOK 9.5 million in Genting Berhad as of 31 December 2014. On the same date, KLP and the KLP Fund had holdings worth approx. NOK 1.3 million in Genting Plantations Berhad.

Incident and the company's involvement

The companies were excluded from the GPF on the grounds that there was "an unacceptable risk of Genting being responsible for severe environmental damage in connection with Genting Plantations' conversion of rainforest into oil palm plantations in Indonesia".⁴ The Council on Ethics explains its recommendation as follows:

¹ Genting, "Group Profile: Genting Berhad". URL: <http://www.genting.com/groupprofile/gent.htm>.

² Ibid. Genting, "Group Profile: Genting Plantations Berhad". URL: <http://www.genting.com/groupprofile/genp.htm> (last visited 30 October 2015).

³ Ibid.

⁴ Council on Ethics, *Recommendation to exclude Genting Berhad from the GPF's investment universe*, 27 March 2014, p. 1. URL: <http://etikkradet.no/files/2015/08/Recommendation-Genting-27-March-2014.pdf>.



The Council finds that the company's lack of transparency, the fact that the concessions are located in regions with exceptionally rich and unique biodiversity, and that the company appears to be clearing forest in good condition and peatlands, entail an unacceptable risk that the conversion of forest to plantations will lead to severe and irreversible impacts on biodiversity and ecosystems in the region. The company does not provide information on conservation values within the concession and appears to have cleared ecologically important habitats. In the Council's view, the mitigation measures which the company states that it is implementing appear to be insufficient to reduce the risk of severe environmental damage associated with current and future conversion of forest into oil palm plantations.⁵

In a follow-up letter to Norges Bank's governing board, sent in June this year, the Council on Ethics writes that the company has not responded to its enquiries.⁶ In addition, the scale of the conversion of forest to oil palm plantations has been substantially greater than the level anticipated by the Council on Ethics in its recommendation.⁷ Since the report was written, Genting has published summaries of its conservation assessments for the concessions concerned. These are characterised by significant weaknesses, and several of the assessments were conducted after deforestation had already begun.⁸ The requirements and the significance of the high conservation value (HCV) assessment process for the protection of forest areas worthy of conservation are described in more detail in KLP's decision to exclude Noble Group Ltd.⁹

Analysis

Like the GPF, KLP excludes companies that cause severe environmental damage. The information in the Council on Ethics' recommendation indicates that the company has not implemented adequate measures to prevent permanent damage to an extremely vulnerable area. The risk that the companies' ongoing conversion of rainforest to oil palm plantations will cause a loss of biodiversity seems unacceptably high. Nor do the mitigating measures that the company has announced so far seem sufficient to lessen the risk of severe environmental damage. The Council on Ethics' recommendation and associated letter are thorough in their assessment and confirm that deforestation continues to take place. KLP therefore finds no grounds to diverge from the conclusion that there is an unacceptable risk that Genting and Genting Plantations are causing severe environmental damage.

⁵ Ibid., p. 12.

⁶ Council on Ethics, *Letter to NBIM regarding the Council on Ethics' recommendation to exclude Genting Berhad from the GPF* (dated 8 June 2015), p. 1. URL: <http://etikkradet.no/files/2015/08/Letter-reg-update-Genting-230615.pdf>.

⁷ Ibid, p. 2.

⁸ Ibid.

⁹ KLP, *Decision to exclude from investment* (1 June 2015). URL: http://english.klp.no/polopoly_fs/1.31196.1434009821!/menu/standard/file/Noble%20Group%20Ltd%20%20beslutning%20om%20uttrekk%2001062015%20ENG.pdf.



Decision

The companies Genting Berhad and Genting Plantations Berhad are excluded from investment by KLP and the KLP Funds at the latest on 8 December 2015.