

UNOFFICIAL ENGLISH TRANSLATION

To the Ministry of Finance

**Recommendation on the exclusion of companies from the Government
Pension Fund Global (GPF)**

24 January 2013

1 Background

Section 2, paragraph 1(b) of the ethical guidelines for the Government Pension Fund Global (GPGF) states that *'The Fund's assets shall not be invested in companies that themselves or through entities controlled by them: [...] produce tobacco'*.¹

The Council on Ethics continuously monitors the Fund's portfolio in order to identify companies engaged in activities that breach the ethical guidelines. The monitoring has shown that two companies in the Fund's portfolio, **Schweitzer-Mauduit International Inc.**² and **Huabao International Holdings Limited**³, are engaged in the production of reconstituted tobacco leaf (RTL).

The Ministry of Finance proposed excluding tobacco producers from the GPGF in the Government Whitepaper no. 20 (2008) on the Management of the Government Pension Fund. The tobacco criterion was further defined in the National Budget for 2010, section 5.4.4, which states that producers of products that contain tobacco shall be excluded from the GPGF.

RTL is made from remnants, dust and other by-products of the processing of tobacco leaves and from parts of the tobacco plant that cannot otherwise be used (stems, etc.).⁴ These are processed through various techniques into a product that is used in the manufacture of cigarettes. RTL can constitute up to 10–15 per cent of the tobacco content of cigarettes.

2 Information provided by the companies

2.1 Schweitzer-Mauduit International Inc.

In its investor report for the third quarter of 2012, the company states that it produces some 75,000 tonnes of RTL a year. This amounts to approximately half of the global production of RTL. The company also describes its plans for further expansion, with an annual production of 30,000 tonnes of RTL to begin in China in 2014.⁵

The Council on Ethics has written to the company asking whether it is involved in the production of tobacco but has not received a response.⁶

2.2 Huabao International Holdings Limited

In its annual report for 2011–2012, the company states that it is one of the largest producers of RTL in China and is in the process of further expanding its production capacity by building a production line with an annual production of 20,000 tonnes.⁷

¹ Guidelines for the Observation and Exclusion of Companies From the Government Pension Fund Global's Investment Universe: <http://www.regjeringen.no/nb/sub/styret-rad-utvalg/etikkradet/etiske-retningslinjer.html?id=425277>.

² ISIN, Schweitzer-Mauduit International Inc.: US8085411069.

³ ISIN, Huabao International Holdings Limited: BMG4639H1227.

⁴ Note the comments on the Norwegian Customs Tariffs, chapter 24, paragraph 6, item 6: <http://www.toll.no/upload/tolltariffen/kommentarer/Kommentarer2012/kom24-2012.pdf>.

⁵ Schweitzer-Mauduit International, Investor Presentation, 5 November 2012: <http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9MTYwMzc3fENoaWxkSUQ9LTF8VHIwZT0z&t=1>.

⁶ Letter from the Council on Ethics to Schweitzer-Mauduit International Inc., dated 17 December 2012.

The Council on Ethics has written to the company, asking whether it is involved in the production of tobacco but has not received a response.⁸

3 The Council's assessment

RTL is primarily made from the tobacco plant and must thus be regarded as a tobacco product. The production of RTL therefore constitutes grounds for exclusion from the GPFG.

The two companies in this recommendation state in their annual reports and investor presentations that they produce RTL. The Council on Ethics has based its recommendation on this information.

4 Recommendation

In light of the above, the Council on Ethics recommends that the companies Schweitzer-Mauduit International Inc. and Huabao International Holdings Limited be excluded from the investment universe of the Government Pension Fund Global.

Ola Mestad
Chair

(sign.)

Bente Rathe

(sign.)

Dag Olav Hessen

(sign.)

Marianne Olsson

(sign.)

Ylva Lindberg

(sign.)

⁷ Huabao International Holdings Limited, Annual Report 2011-2012,
http://huabao.todayir.com/attachment/20120629170201001454998_en.pdf.

⁸ Letter from the Council on Ethics to Huabao International Holdings Limited, dated 17 December 2012.