

To the Ministry of Finance

31 August 2012

UNOFFICIAL ENGLISH TRANSLATION

Recommendation on the Exclusion of the companies The Babcock & Wilcox Co. and Jacobs Engineering Group Inc. from the investment universe of the Government Pension Fund Global

1 Introduction

The Council on Ethics recommends excluding the companies The Babcock & Wilcox Co.¹ (Babcock & Wilcox) and Jacobs Engineering Group Inc.² (Jacobs Engineering) from the investment universe of the Government Pension Fund Global (GPF) due to the companies' production of key components of nuclear weapons.

2 Background

Paragraph 2, first section letter a of the ethical guidelines for the Government Pension Fund Global states that: *"The Fund's assets shall not be invested in companies that themselves or through entities controlled by them: a) produce weapons that violate fundamental humanitarian principles in their normal use"*³

In the Government White Paper (NOU:22 2003) and through the subsequent discussion of the guidelines in the Storting (Parliament), the production of key components of nuclear weapons was considered as falling within this category of weapons.

On 19 September 2005, the Council on Ethics made its first recommendation on the exclusion from the fund of companies that produce key components of nuclear weapons.⁴ In this recommendation, the Council on Ethics outlined what is included in the nuclear weapon criterion in further detail. Subsequent recommendations in 2007 provided additional explanations of the criterion. Among other things, the Council considers the development, production and maintenance of nuclear warheads as being covered by the guidelines.

At the end of 2011, the GPF owned shares in Babcock & Wilcox valued at NOK 188 million, corresponding to a holding of 1.1 per cent of the shares in the company. Also, at the end of 2011, the GPF owned shares in Jacobs Engineering valued at NOK 208 million, corresponding to a holding of 0.67 per cent of the shares in the company.

3 Information from the companies

3.1 Babcock & Wilcox

The Council on Ethics has written to the company and asked it to account for any part of its business that relates to the production of nuclear weapons.⁵ The company has not responded to the Council on Ethics' inquiry.

¹ Issuer ID: 970993

² Issuer ID: 100820

³ Guidelines for the observation and exclusion of companies from the Government Pension Fund Global's investment universe, <http://www.regjeringen.no/nb/sub/styrer-rad-utvalg/etikkradet/etiske-retningslinjer.html?id=425277>

⁴ Council on Ethics, 2005, Recommendation on the exclusion of producers of nuclear weapons: <http://www.regjeringen.no/nb/sub/Styrer-rad-utvalg/etikkradet/Tilradninger/Tilradninger/Tilradning-om-uttrekk-.html?id=423836>

⁵ Letter from the Council on Ethics to Babcock & Wilcox, dated 28 June 2012

On its homepage, the company states that it owns and operates the largest facility in the USA for the manufacture of high-enriched uranium, and that it is the manager and operator of the Y-12 National Security Complex and Pantex facilities:

*“As the owner and operator of the nation's largest commercial high-enriched uranium (HEU) processing facility and as manager and operator of the Y-12 National Security Complex and Pantex Plant, B&W safeguards more HEU than any other company in the U.S.”*⁶

The Y-12 facility produces fissile material for use in nuclear weapons and maintains and upgrades warheads for nuclear weapons.⁷

Pantex is a facility for the storage, upgrade and maintenance of American nuclear warheads. An important part of its activity consists of extending the lifespan of the warheads.⁸

3.2 Jacobs Engineering

The Council on Ethics has written to the company and asked it to account for any part of its business that relates to the production of nuclear weapons.⁹ The company has not responded to the Council on Ethics' request.

On its homepage, Jacobs Engineering states that it through a joint venture owns one third of the company AWE Management Limited (AWE ML), which is the operating company for the state-owned British company AWE (Atomic Weapons Establishment):

*“Jacobs Engineering Group Inc. (NYSE:JEC) announced today that AWE Management Limited (AWE ML), in which it has a one third share, has concluded the arrangements for the next pricing period regarding the contract to Manage and Operate the Atomic Weapons Establishment (AWE) plc in the United Kingdom. Formed in 2000, AWE ML is a joint venture between Jacobs, Lockheed Martin and Serco to manage AWE plc on behalf of the UK Ministry of Defence (MOD).”*¹⁰

AWE is responsible for all phases of the development, production and maintenance of Britain's nuclear warheads. The British Ministry of Defence owns AWE, but AWE ML, in which Jacobs Engineering owns a one-third share, operates the business.¹¹ The other partners in the joint venture are the companies Lockheed Martin and Serco.

⁶ The company's website: http://www.babcock.com/services/nuclear_operations_management/

⁷ Y-12's homepage: “Y-12's main mission is to ensure the U.S. nuclear arsenal is safe, secure, and reliable. Portions of every weapon in the U.S. nuclear stockpile were manufactured at Y-12, and we employ only the most advanced and failsafe technologies to protect the stockpile.”, <http://www.y12.doe.gov/about/>

⁸ Pantex's homepage: “Pantex has a long-term mission to safely and securely maintain the nation's nuclear weapons stockpile and dismantle weapons retired by the military. Much of Pantex's future workload includes life extension programs designed to increase the longevity of weapons in the stockpile.”, <http://www.pantex.com/about/index.htm>

⁹ Letter from the Council on Ethics to Jacobs Engineering, dated 28 June 2012

¹⁰ Press release on Jacobs Engineering's homepage, dated 15 May 2012: <http://www.jacobs.com/news.aspx?id=6978>

¹¹ AWE's homepage: “AWE has been central to the defence of the United Kingdom for more than 50 years. We provide and maintain the warheads for the country's nuclear deterrent, Trident. Trident is a submarine-launched, inter-continental ballistic nuclear missile weapons system, carried by Royal Navy Vanguard-class submarines. Our role at AWE is to manufacture and sustain the warheads for the Trident system, ensuring optimum safety and performance, but also to maintain a capability to produce a successor system should the Government require one in the future. Our work at AWE covers the entire life cycle of nuclear warheads; from initial concept, assessment and design, through to component manufacture and assembly, in-service support, and finally decommissioning and disposal. AWE is managed for the Ministry of Defence (MOD) through a contractor-operated arrangement. While our sites and facilities remain in government ownership, their

4 The Council on Ethics' assessment

The most key component of a nuclear weapon is its warhead. In 2005, when the Council on Ethics made its first recommendation on the exclusion of companies that produce key components for nuclear weapons, the Council assumed that the manufacture of fissile material that can be used in nuclear weapons, and the production of nuclear warheads themselves, only took place in governmental facilities. There has subsequently been a development in which listed companies have assumed the operating responsibility for and are the operators of some of these state-owned facilities.

4.1 Babcock & Wilcox

The company states that it is the manager and operator of state facilities that produce fissile materials for nuclear warheads, and that it provides maintenance and upgrades for these. A significant part of its activities consists of extending the lifespan of nuclear weapons. Such upgrades are a prerequisite for keeping the nuclear weapons operational, and the Council has previously considered this form of maintenance and upgrades as a continuous production process that should be considered equivalent to the initial manufacture of key components.¹² It is the Councils' view that the activities at the Y-12 and Pantex facilities are covered by the nuclear weapon criterion in the GPFG's Ethical Guidelines.

The company also states that it owns and operates the largest facility in the USA for the production of high-enriched uranium. The Council assumes that this may also be covered by the nuclear weapon criterion, but as no details have been provided regarding the use of the fissile material, this cannot be fully determined. In any case, Babcock & Wilcox' activities at the Y-12 and Pantex facilities form a sufficient basis by themselves for a recommendation to exclude the company from GPFG.

4.2 Jacobs Engineering

The company states that it is a joint venture partner that owns one third of AWE ML, which is AWE's operating company.

AWE's business is to develop, produce, test and maintain nuclear warheads and it is thus covered by the nuclear weapon criteria in GPFG's Ethical Guidelines. In 2007, the company Serco Group plc. was excluded from GPFG on the basis of its participation (with the same ownership share) in the same joint venture.¹³ Since then, Jacobs Engineering has also become a joint venture partner in AWE after acquiring the ownership of the former state-owned company British Nuclear Fuels Ltd. (BNFL).

management, day-to-day operations and the maintenance of Britain's nuclear stockpile is contracted to a private company: AWE Management Limited (AWE ML). AWE ML is formed of three equal shareholders – Serco, Lockheed Martin and Jacobs Engineering Group.”

http://www.awe.co.uk/aboutus/what_we_do_27815.html

¹² See footnote 4

¹³ Recommendation on the exclusion of the Serco Group plc, <http://www.regjeringen.no/nb/sub/styrer-rad-utvalg/etikkradet/Tilradninger/tilradninger/kjernevapen/Tilradning-15-november-2007-om-uttrekka.html?id=496179>

5 Recommendation

The Council on Ethics recommends that the companies The Babcock & Wilcox Co. and Jacobs Engineering Group Inc. be excluded from the investment universe of the Government Pension Fund because the companies produce key components of nuclear weapons.

Ola Mestad
Chair

(sign.)

Dag Olav Hessen

(sign.)

Ylva Lindberg

(sign.)

Gro Nystuen

(sign.)

Bente Rathe

(sign.)