

UNOFFICIAL ENGLISH TRANSLATION

To Norges Bank

27 May 2021

**Recommendation to exclude Yunnan Baiyao Group Co Ltd from the
Government Pension Fund Global**

Summary

The Council on Ethics recommends that Yunnan Baiyao Group Co Ltd (Yunnan Baiyao) be excluded from investment by the Government Pension Fund Global (GPF) due to an unacceptable risk that the company is contributing to severe environmental damage. The Council's assessment rests on the company's use of body parts from endangered animal species in the production and sale of ingredients for Traditional Chinese Medicine (TCM).

At the close of 2020, the GPF owned 0.11 per cent of the shares in Yunnan Baiyao, valued at USD 23.6 million.

Yunnan Baiyao is a Chinese pharmaceutical company which produces, among other things, ingredients used in TCM products. The company is listed on the Shenzhen Stock Exchange. The Council's investigations show that in 2018, the company sold significant quantities of raw pangolin scales from its own stocks to another pharmaceutical company, and that the company also produced and sold processed pangolin scales. Yunnan Baiyao has declined to provide any information about its business to the Council.

The Council considers that loss of biodiversity is a global threat to life on Earth, and that the eradication of species is accelerating. The Council has focused on animal species that are included on the IUCN Red List of Threatened Species, i.e. critically endangered, endangered or vulnerable species, as well as species listed in Appendix 1 to the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES). The Council considers that companies whose operations contribute to the extinction of species impoverish biodiversity. By producing medicines containing body parts from endangered species, there is a risk that the company is contributing to severe and irreversible environmental harm.

In this case, the Council has emphasised that the company sells and uses a critically endangered species in its production and that the company has not been willing to clarify the case with respect to its use of body parts from threatened species, the traceability of purchases or whether it knows their provenance.

The lack of information makes it impossible for the Council to quantify the individual company's contribution to the environmental damage caused. When nothing is known of the extent to which a company uses endangered species, where the animal parts originate from, what stocks of animal parts exist or how they are replenished, the Council considers that the question of the company's contribution must be determined by whether or not endangered animal species are included in its production. When the activities themselves constitute a risk of species becoming extinct, there is also a risk that the company contributes to the depletion of biodiversity and serious environmental damage.

As there is no information available which indicates that Yunnan Baiyao's business has changed, the Council assumes that the company is continuing to sell and use the body parts of threatened animals in its production. Until the company publishes a specific goal to stop using endangered species in its production and a timetable for when its use of such species will cease, the Council considers that there is an unacceptable risk of the company contributing to severe environmental damage.

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1 Introduction

The Council on Ethics for Norway's Government Pension Fund Global (GPF) has assessed the GPF's investments in Yunnan Baiyao Group Co Ltd ¹ (Yunnan Baiyao) against the Guidelines for Observation and Exclusion of Companies from the Government Pension Fund Global (the ethical guidelines).²

At the close of 2020, the GPF owned 0.11 per cent of the shares in Yunnan Baiyao, valued at approximately USD 23.6 million. The company is listed on the Shenzhen Stock Exchange.

1.1 Matters considered by the Council

The Council on Ethics' assessment rests on Yunnan Baiyao's use of body parts from endangered wildlife in its production and sale of ingredients for Traditional Chinese Medicine (TCM). The Council has assessed whether there is an unacceptable risk that the company thereby contributes to or is responsible for serious environmental damage pursuant to section 3(c) of the GPF's ethical guidelines.

When assessing the risk that a company is contributing to severe environmental damage, the Council attaches importance to the scale of the environmental damage, whether it is irreversible, whether national laws or international norms have been breached and what the company is doing to prevent or mitigate its harmful impacts, and if it is probable that the company's practice will continue.

In this case, the Council's assessment concerns loss of biodiversity. The global assessment report from the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) detailed an alarming decline in biodiversity. The IPBES considers the loss of biodiversity to be a global threat at the same level as climate change. The IPBES estimates that, of the eight million species of plants and animals living on the planet today, one million are threatened with extinction.³ The International Union for Conservation of Nature (IUCN) reports that around 25 per cent of all species they have assessed are endangered, and that the risk of species becoming extinct is accelerating.⁴ In this context, the Council has assessed the use of threatened animals in the production of TCM. The term "threatened" refers to species assessed as being *Critically Endangered*, *Endangered* and *Vulnerable* in the IUCN Red List of Threatened Species.⁵ These categories of species are considered to be threatened with global extinction. The Council also bases its assessment on the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), particularly Appendix I of the Convention, which lists species determined to be threatened with extinction and for which international commercial trade is prohibited.

¹ Issuer Id 130940

² Guidelines for Observation and Exclusion of Companies from the Government Pension Fund Global. Adopted by the Ministry of Finance on 18 December 2014: <http://etikkradet.no/mandat/>.

³ UN Intergovernmental Science Policy Platform on Biodiversity and Ecosystem Services (IPBES) Global Assessment Report on Biodiversity and Ecosystem Services of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services, 29 May 2019, https://www.ipbes.net/system/tdf/ipbes_7_10_add.1_en_1.pdf?file=1&type=node&id=35329

⁴ See footnote 3.

⁵ IUCN 2020. The IUCN Red List of Threatened Species. Version 2020-2. <https://www.iucnredlist.org>.

The Council takes no position on the extent to which states are responsible for any violations of international conventions. It is sufficient to establish that the company in question acts in a way that contributes to serious environmental damage.

1.2 Sources

The Council on Ethics has commissioned consultants to research which threatened species are used in the production of TCM. The objective was to identify which products contain these ingredients and which companies manufacture them.

When determining the species used in TCM, the sources consulted include various editions of the Pharmacopoeia of the People's Republic of China,⁶ which lists officially recognised TCM ingredients and formulations, and a list of species which are regarded as medicinal and which are protected in China, published in 2004 by the State Forestry Administration.

In this case, the Council has based its assessment on information published on regional authorities' websites.

2 Background

2.1 About the company

Yunnan Baiyao researches, develops, manufactures and markets pharmaceutical products. The company states that it operates in four segments: traditional Chinese medicine resources, Chinese and western raw medicine materials and preparations, personal care products and raw materials and distribution.⁷ The company is headquartered in Kunming and has 55 subsidiaries. In 2019, the company had about 8,100 employees.⁸

2.2 The demand for and trade in wildlife body parts for use in TCM

TCM covers a broad range of treatments, including acupuncture, massage, herbal medicines and medicines which contain ingredients based on the body parts of wild animals. The demand for TCM is growing and it is estimated that the TCM market will be worth USD 123 billion in 2023.⁹ Medicines make up around 30–40 per cent of the TCM market.¹⁰ Although the use of animal parts constitutes a small portion of the ingredients used in TCM, the growing overall demand for TCM is expected to contribute to biodiversity loss.¹¹ For some

⁶ In this document, “formulations” refers to processed TCM treatments which combine standardised quantities of specific ingredients, as defined by government-issued standards. A section of the Pharmacopoeia of the People's Republic of China provides such standards for a large number of TCM formulations, some of which include body parts from threatened species

⁷ Company website: <http://www.yunnanbaiyao.com.cn/list/ynbyPc/1/10/auto/20/0.html>

⁸ https://www.dnb.com/business-directory/company-profiles/yunnan_baiyao_group_co_ltd.37f87806818d02d8fc5d4d30a03bf171.html#related-companies

⁹ Buchholz, K., TCM and Wildlife Trade in Focus after Coronavirus Outbreak, 20.1.2020, <https://www.statista.com/chart/20669/growth-traditional-chinese-medicine-market/>

¹⁰ Daxue Consulting, Traditional Chinese medicine takes 30-40% of China's pharmaceutical market, 15.6.2020, <https://daxueconsulting.com/traditional-chinese-medicine-market/>

¹¹ J. Still, Use of animal products in traditional Chinese medicine: Environmental impact and health hazards, *Complementary Therapies in Medicine*, Volume 11, Issue 2, 2003, Pages 118-122, ISSN 0965-2299, [https://doi.org/10.1016/S0965-2299\(03\)00055-4](https://doi.org/10.1016/S0965-2299(03)00055-4). See also, EIA, Traffic

species, this is the primary reason for these animals being threatened with extinction.¹² A number of these animals, including pangolins, leopards, and tigers, are listed as endangered by the IUCN.

Due to increasing demand, TCM is also considered to be a contributing factor in the growing illegal wildlife trade.¹³ Many of the species used in TCM products are listed in CITES Appendix I, meaning that trade in these species is prohibited. However, according to the UN Office on Drugs and Crime (UNODC), the poaching of protected species as well as trafficking in body parts and live animals continues. Animal parts are sold to TCM producers, TCM practitioners, pharmacies and other market players.¹⁴

The provisions of the Wildlife Protection Law (WPL) permit commercial use of endangered species endemic to China.¹⁵ The law establishes various protection categories for wild native species. The highest category is “special state protection”. Species not found in China, but included in CITES Appendix 1 and Appendix 2, fall under the category “special state protection”. Section 27 of the WPL permits the sale, purchase and use of protected species where this is necessary for “scientific research, captive breeding, public exhibition or performances, heritage conservation or other special purposes”. In practice, this includes TCM.

On 24 February 2020, the Standing Committee of China’s National People’s Congress prohibited the trade in wild animals. This resulted in a ban on commercial breeding of and trade in the majority of wild animals for food purposes. However, the ban did not cover TCM.¹⁶

In 2003, the Chinese authorities established a certification and labelling system that regulates the use and consumption of nationally protected species by commercial manufacturers, including pharmaceutical companies. The system is administered by The China Wildlife Mark

¹² The Global Environmental Reporting Collective, The Pangolin Reports. <https://globalstory.pangolinreports.com/#lede>. Nowell, K. Implementation of Cites Decision 17.228: Review of Implementation of Resolution Conf. 12.5 (Rev. Cop17) on Conservation of and Trade in Tigers and other Appendix I Asian Big Cats. Report by Kristin Nowell, CAT and IUCN SSC Cat Specialist Group. With additional support from WWF, <https://cites.org/sites/default/files/eng/com/sc/70/E-SC70-51-A03.pdf> and EIA 2020, Smoke and Mirrors; China's complicity in the global illegal pangolin trade, <https://eia-international.org/wp-content/uploads/EIA-Report-Smoke-and-Mirrors-Spreads.pdf>

¹³ ADM Capital Foundation 2018, Trading in Extinction: The Dark Side of Hong Kong’s Wildlife Trade. Hong Kong, <https://www.admcf.org/wp-content/uploads/2019/11/Trading-in-Extinction-The-Dark-Side-of-HKs-Wildlife-Trade-Report-EN.pdf> and Byard, R.W. Traditional medicines and species extinction: another side to forensic wildlife investigation. *Forensic Sci Med Pathol* **12**, 125–127 (2016). <https://doi.org/10.1007/s12024-016-9742-8>; C4Ads: <https://www.c4reports.org/tipping-the-scales> og UNODC World Wildlife Crime Report 2020, United Nations Office on Drugs and Crime, 2020, https://www.unodc.org/documents/data-and-analysis/wildlife/2020/World_Wildlife_Report_2020_9July.pdf

¹⁴ See footnote **Feil! Bokmerke er ikke definert.** and Standaert, M. 'This makes Chinese medicine look bad': TCM supporters condemn illegal wildlife trade, 26.5.2020, <https://www.theguardian.com/environment/2020/may/26/its-against-nature-illegal-wildlife-trade-casts-shadow-over-traditional-chinese-medicine-aoe>.

¹⁵ An English translation of the Wildlife Protection Law and other relevant regulations may be found on the website of The Environmental Investigation Agency (EIA), <https://eia-international.org/wildlife/saving-tigers/tiger-farming/chinas-wildlife-protection-law>.

¹⁶ Decisions of the Standing Committee of the National People’s Congress relating to a total prohibition on illegal wildlife trade, eliminating the bad habit of excessive eating of wildlife, and effectively safeguarding the lives and health of the public. An English-language version may be found at: <https://eia-international.org/wp-content/uploads/Decisions-of-the-Standing-Committee-of-the-National-People%E2%80%99s-Congress-24-February-2020.pdf>.

Centre and is known as “special marking”.¹⁷ The system was established to ensure that the use of wild animals is legal and traceable, and entails, among other things, that each product containing these types of ingredients is assigned a unique identification code with which the product must be labelled. Abuse of the system has been reported. Examples of such abuse include a single special mark being used for multiple products and that the labelling has been used to launder illegally sourced products.¹⁸

The Chinese authorities have also established approved stockpiles of body parts from certain endangered animal species. The National Forestry and Grasslands Administration and its regional bodies issue permits to pharmaceutical companies to purchase and use animal parts from these stockpiles. Pharmaceutical companies may also have private stockpiles that they can, with permission from the government authorities, offer to other companies. No up-to-date information has been published on the size of the government stockpiles, the quantities sold to the pharmaceutical companies or the size of the pharmaceutical companies’ own stockpiles.¹⁹ Similarly, there is no information available on the quantities of endangered wildlife used by the industry or individual companies in the production of medicines. There is thus no basis on which to assess the individual company’s consumption of specific animal species.

2.3 The species used by Yunnan Baiyao in the production of TCM ingredients

This recommendation concerns Yunnan Baiyao's use and sale of pangolin scales.

The native Chinese Pangolin (*Manis pentadactyla*) has been protected in China since 1989 (“second class state protection”). In 2020, it was afforded stronger protection when it was added to the list of wildlife under “first class special state protection” along with the Sunda pangolin (*Manis javanica*) and Indian pangolin (*Manis crassicaudata*).²⁰ According to the IUCN, the first two species are critically endangered, while the Indian pangolin is endangered. One African species is classified as endangered (*Phataginus tricuspis*), while the others are considered vulnerable. International trade in pangolins has been prohibited since 2017, when all eight species were listed in CITES Appendix I.

Nevertheless, there is a widespread illegal trade in pangolins. According to the United Nations Office on Drugs and Crime (UNODC), there has been a ten-fold increase in global seizures of pangolin since 2014, and practically all seizures since 2016 have involved pangolin scales.²¹ Estimates indicate that 128 tonnes²² of scales were seized in 2019, which is a 200 per cent increase from five years earlier.²³ Asian demand, principally in the Chinese TCM market, is

¹⁷ EIA 2020, Smoke and Mirrors. China's complicity in the global illegal pangolin trade.

¹⁸ EIA 2013, Hidden in Plain Sight. China's clandestine Tiger Trade, <https://eia-international.org/wp-content/uploads/EIA-Hidden-in-Plain-Sight-med-res1.pdf>

¹⁹ See footnote 17.

²⁰ National Forestry and Grasslands Administration. 2020, <http://www.forestry.gov.cn/main/3095/20200608/170847961137579.html>.

²¹ https://www.unodc.org/documents/data-and-analysis/wildlife/2020/World_Wildlife_Report_2020_9July.pdf

²² I gjennomsnitt veier skjellene fra én pangolin rundt 500 g, men kan komme opp i rundt 3 kg. Se Zhou, Z., Zhao, H., Zhang, Z., Wang, Z., & Wang, H. 2012. Allometry of scales in Chinese pangolins (*Manis pentadactyla*) and Malayan pangolins (*Manis javanica*) and application in judicial expertise. *Zoological Research*, **33**, 271–275. <https://doi.org/10.3724/SP.J.1141.2012.03271> og fotnote **Feil! Bokmerke er ikke definert.**

²³ C4ADS 2020, Tipping the scales. Exposing the Growing Trade of African Pangolins into China's Traditional Medicine Industry, <https://www.c4reports.org/tipping-the-scales>.

now being met by illegal imports from Africa. UNODC also states that “Before the Appendix I listing [reference to CITES in 2017], the amount of pangolins seized was much larger than the legal trade, implying that the industries where pangolins are used have long drawn on illegal sources.”²⁴

In 2020, Chinese authorities removed pangolin scales (from Chinese pangolin) from the list of important ingredients in TCM in the most recent edition of the Pharmacopoeia. However, it is still permitted to use pangolin scales in the production of so-called patent medicines, which are medicines approved for commercial production by the Chinese authorities.²⁵

In 2007, the government authorities announced that the use of pangolin scales by pharmaceutical companies would be regulated through the “special marking” certification and labelling system (see section 2.2).²⁶ This means that approved hospitals and pharmaceutical companies are permitted to purchase pangolin scales from government stockpiles. Furthermore, the pharmaceutical companies can manufacture and sell TCM products containing pangolin scales which have been registered and labelled in accordance with the special marking system. It has been reported that uncertified and unlabelled scales are being sold illegally in China.²⁷

It is estimated that, between 2009 and 2016, the government authorities released an average of 26 tonnes of pangolin scales per year.²⁸ The size of the government stockpiles and the origin of the pangolins are unknown. No information regarding withdrawals from the stockpiles has been published since 2015. The system permits the sale of pangolin scales between private companies, but has no proper traceability.

3 The Council’s findings

The Council's investigations indicate that Yunnan Baiyao has kept stockpiles of pangolin scales which it has sold to other pharmaceutical companies.

Two permits issued by the Anhui Provincial Forestry Bureau in October 2018 permitted the company Anhui Jialin Chinese Medicine Yinpian Technology Co Ltd to use and purchase pangolin scales from Yunnan Baiyao. The permits show that Yunnan Baiyao sold a total of 1.4 tonnes of raw pangolin scales; 13,333 bags of roasted pangolin scales; and 20,000 bags of vinegar-processed pangolin scales to this company. The Council is not aware of the quantity a bag contains.

²⁴ See footnote **Feil! Bokmerke er ikke definert.**, p. 66.

²⁵ EIA 2020, Smoke and Mirrors. Eight formulations for patent medicines prescribe pangolin scales as an ingredient in the 2020 edition of Pharmacopoeia of the People's Republic of China.

²⁶ State Forestry Administration, Ministry of Health, SAIC, China Food and Drug Administration and the National Administration of Traditional Chinese Medicine. 2007. 关于加强赛加羚羊、穿山甲、稀有蛇类资源保护和规范其产品入药管理的通知:
<http://www.trafficchina.org/node/66>

²⁷ Challender, D. and Waterman, C., Implementation of CITES Decisions 17.239b) and 17.240 on pangolins (*Manis spp.*), IUCN, 2017, [E-SC69-57-A.pdf \(cites.org\)](#) and EIA 2020, Smoke and Mirrors.

²⁸ See footnote 27.

安徽省林业厅准予行政许可决定书 (林审准〔2018〕304号)

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林审准〔2018〕304号

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安徽省林业厅

2018年10月31日

Figure 1: Permit for the purchase of pangolin scales. The title of the document (the text in the black square) can be translated as, “Anhui Provincial Forestry Bureau decision relating to granting of administration permit”. The text in the green square states the company to which the permit applies “Anhui Jialin Chinese Medicine Yinpian Technology Co. Ltd”. The text in the red box means, “permits your company to use 1,300kg of pangolin scales (*Manis pentadactyla*), 13,333 bags of roasted pangolin scales and 20,000 bags of vinegar-processed pangolin scales purchased from Yunnan Baiyao Pharmaceutical Group Chinese Medicine Resources Company Limited”. The text in the blue box means, “Anhui Province Forestry Bureau, 31 October 2018” The permit was found at <http://lyj.ah.gov.cn/public/9913203/39127154.html>, but this page is no longer available.

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请凭此件于2019年4月12日前依法运输, 逾期无效。

安徽省林业厅

2018年10月12日

Figure 2: Permit for the purchase of pangolin scales. The title of the document (the text in the black square) can be translated as, “Anhui Provincial Forestry Bureau decision relating to granting of administration permit”. The text in the green square states the company to which the permit applies “Anhui Jialin Chinese Medicine Yinpian Technology Co. Ltd”. The text in

the red box means, “permits your company to purchase 100kg of pangolin scales (Manis pentadactyla) from Yunnan Baiyao Pharmaceutical Group Chinese Medicine Resources Company Limited”. The text in the blue box means, “Anhui Province Forestry Bureau, 12 October 2018” The permit was found at <http://lyj.ah.gov.cn/public/9913203/39127138.html>, but this page is no longer available.

4 Information from the company

The Council contacted Yunnan Baiyao in October 2020 to request information about its use of body parts from endangered species in its products. The company did not respond to the Council, nor did the company reply to the draft recommendation for exclusion which was sent to the company in February 2021.

Yunnan Baiyao has not published any information regarding its use or sales of body parts from endangered wildlife.

5 The Council on Ethics’ assessment

Based on the available information, the Council on Ethics has assessed whether there is an unacceptable risk that Yunnan Baiyao contributes to serious environmental damage through its sales and production of ingredients containing body parts from endangered animal species for use in traditional Chinese medicine.

The starting point for the Council’s assessment is that loss of species and biodiversity represents one of the greatest threats to life on Earth. The loss of species is irreversible and can have far-reaching impacts on other species, ecosystems and the livelihoods of local communities. The risk of species loss has played a key part in other recommendations by the Council concerning biodiversity and serious environmental damage.

In this case, the Council attaches importance to the reports from UN organisations and other recognised international organisations that shed light on how the use of threatened wildlife in TCM products increases the risk of these species becoming extinct, and that the increasing demand for TCM is considered to be a contributing factor in the illegal international trade in some of these animals, including pangolin.

The Council finds it substantiated that Yunnan Baiyao has sold pangolin scales from its own stocks to other pharmaceutical companies, and that its activities also appear to include the production and sale of processed pangolin scales. The Council emphasises that the company's activities concern a critically endangered animal species, and that the sales volumes were significant.

Yunnan Baiyao appears to have sold pangolin scales legally. However, this does not carry decisive weight in the Council’s assessment. Yunnan Baiyao has been unwilling to provide any information on its own use or stocks of pangolin body parts and their provenance . Nor is any information available on whether the company can trace its purchases or whether it knows where the animal parts originate from.

The lack of information has prevented the Council from being able to quantify the company’s contribution to the environmental damage being caused. When there is no information about the quantity of body parts of threatened species that a company uses, where the animal parts originate from, what stockpiles of these exist and how these are replenished, the Council finds

that the question of a company's contribution comes down to whether the body parts of endangered animal species are used in its pharmaceutical production or not. When the activities themselves constitute a risk of species becoming extinct, there is also a risk that the company is contributing to the depletion of biodiversity and serious environmental damage.

As there is no information available which indicates that the company's business has changed, the Council assumes that the company continues to use and sell body parts from endangered wildlife. Until the company announces a specific goal to stop using endangered species in its production and a timetable for when the use of such species will cease, the Council considers there to be an unacceptable risk of the company contributing to severe environmental damage.

6 Recommendation

The Council on Ethics recommends that Yunnan Baiyao Group Co Ltd be excluded from investment by the Government Pension Fund Global due to an unacceptable risk that the company is contributing to severe environmental damage.

Johan H. Andresen
Chair

(Sign.)

Hans Chr. Bugge

(Sign.)

Cecilie Hellestveit

(Sign.)

Trude Myklebust

(Sign.)

Brit K. S. Rugland

(Sign.)