

UNOFFICIAL ENGLISH TRANSLATION

To Norges Bank

Date: December 19, 2023

**Recommendation to exclude
Weichai Power Co Ltd from
investment by the
Norwegian Government Pension
Fund Global (GPFG)**

Summary

The Council on Ethics recommends that Weichai Power Co Ltd (WP) be excluded from investment by the Norwegian Government Pension Fund Global (GPF) due to an unacceptable risk that the company is contributing to the sale of weapons or military materiel to states that are subject to investment restrictions on government bonds as described in section 2-1(2)(c) of the Management Mandate for the Government Pension Fund Global.

WP is a Chinese company producing, among other things, engines for use in heavy vehicles.

WP is listed in Beijing. At the close of 2022, the GPF owned 0.46 per cent of the company's shares, worth NOK 553 million.

This recommendation is inter alia based on information from Chinese and Belarusian authorities, as well as from companies with which WP has formed joint ventures. Although the Council has contacted WP to obtain additional information, the company has not replied to the Council's queries.

The Council considers that there is an unacceptable risk that WP is contributing to the sale of military materiel to the authorities in Russia and Belarus. This constitutes grounds for recommending that WP be excluded from investment by the GPF.

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1 Introduction

The Council on Ethics for the Norwegian Government Pension Fund Global (GPF) has assessed the Fund's investments in Weichai Power Co Ltd¹ (WP) against the Guidelines for Observation and Exclusion of Companies from the Government Pension Fund Global (the ethical guidelines).²

WP is a Chinese company producing, among other things, engines for use in heavy vehicles.³

At the close of 2022, the GPF owned 0.46 per cent of the company's shares, worth NOK 553 million.

The Council has assessed whether there is an unacceptable risk that, pursuant to Section 4(d) of the ethical guidelines, WP is contributing to the sale of weapons or military materiel to states that are subject to investment restrictions on government bonds as described in section 2-1(2)(c) of the Management Mandate for the Government Pension Fund Global. The assessment was prompted by WP's participation in joint ventures, for the production of engines, with companies that sell military vehicles to the authorities in Russia and Belarus.

1.1 Matters considered by the Council

The Council has considered whether there are grounds for recommending that WP be excluded from investment by the GPF under Section 4(d) of the ethical guidelines, which applies to companies that are themselves responsible for or contribute to the sale of weapons or military materiel to certain states. In this case, it is WP's contribution to such sales that has been assessed.

2 Sources

This recommendation is based on open sources as referenced in footnotes, including information from Chinese and Belarusian authorities, as well as from companies with which WP has formed joint ventures. Although the Council has

¹ Issuer ID: 8677772.

² Guidelines for Observation or Exclusion of Companies from the Government Pension Fund Global (GPF):
https://www.regjeringen.no/contentassets/9d68c55c272c41e99f0bf45d24397d8c/2022.09.05_gpfg_guidelines_observation_exclusion.pdf.

³ The company's website:
https://en.weichai.com/product_business/powertrain/engine/truck/index.html.

contacted WP to obtain additional information, the company has not replied to the Council's queries.

3 Background

3.1 Restrictions on investment in government bonds and Section 4 (d) of the ethical guidelines

The Management Mandate for the GPFG contains a provision that, under certain circumstances, precludes investment in government bonds issued by states that are subject to wide-ranging sanctions endorsed by Norway.⁴ In the spring of 2022, the Norwegian Ministry of Finance decided that this provision should be applied to government bonds issued by Russia and Belarus.⁵

Section 4 of the GPFG's ethical guidelines states that:

Companies may be excluded or placed under observation if there is an unacceptable risk that the company contributes to or is responsible for:

[...]

d) the sale of weapons or military materiel to states that are subject to investment restrictions on government bonds as described in section 2-1(2)(c) of the Management Mandate for the Government Pension Fund Global.

Since Russia and Belarus are covered by the government bond investment restrictions, there are grounds to recommend the exclusion of companies which either sell directly or contribute to other companies' sales of military materiel to the authorities in these states.

3.2 Weichai Power's business

WP produces engines and power trains for heavy vehicles. The company also produces heavy vehicles such as trucks and HGV tractor units. WP is part of Weichai group, which also produces agricultural and construction machinery.⁶

⁴ Management Mandate for the GPFG, Section 2-1(2):

https://www.regjeringen.no/contentassets/9d68c55c272c41e99f0bf45d24397d8c/2023.02.27_gf_pg_management_mandate.pdf.

⁵ Announcement by the Norwegian Ministry of Finance, 25 March 2022:

<https://www.regjeringen.no/no/aktuelt/endringer-i-statsobligasjonsunntaket-for-statens-pensjonsfond-utland/id2905819/#:~:text=SPU%20er%20ikke%20et%20utenrikspolitisk%20instrument.%20Stat%20obligasjonsunntaket%20benyttes.land%20og%20Norge%20har%20sluttet%20opp%20om%20titakene>.

⁶ The company's website: <https://en.weichaipower.com/> .

3.3 Weichai Power's joint ventures

3.3.1 MAZ-Weichai

In 2017, the authorities in Belarus announced that the company MAZ-Weichai had been established as a joint venture between WP and the Belarusian vehicle manufacturer MAZ. The joint venture's purpose was to produce diesel engines for heavy vehicles.⁷ In 2019, the authorities in China announced that MAZ-Weichai had started producing vehicle engines in Belarus.⁸

3.3.2 KAMAZ Weichai LLC / Volzhskiye Industrial Engines LLC

On its website, the Russian vehicle manufacturer KAMAZ informs that the company formed the joint venture KAMAZ Weichai LLC in 2019. The purpose of the joint venture with WP was to produce diesel engines. In the same year, Russian media reported that KAMAZ Weichai aimed to start manufacturing diesel engines in 2020.⁹ It was further reported that the joint venture changed its name to Volzhskiye Industrial Engines LLC in 2022.¹⁰

3.4 The companies MAZ and KAMAZ

3.4.1 MAZ

The state-owned Belarusian company MAZ produces different types of heavy vehicles for civilian and military purposes.¹¹ Since the 1940s, the company has produced various types of military vehicles, first for the Soviet army and later for Russia and Belarus. Today, the company produces, among other things, the military truck MAZ-5316, large numbers of which are used by Belarus and Russia. The website of MAZ's Russian importer (MazRus) features both civilian and military versions of the MAZ-5316.¹²

⁷ Official Website of the Republic of Belarus: <https://www.belarus.by/en/business/business-news/belarus-maz-chinas-weichai-power-to-build-engine-factory-in-great-stone-industrial-park-i-0000064036.html>.

⁸ The Information Office of Shandong Provincial People's Government: http://shandong.chinadaily.com.cn/2019-10/18/c_417257.htm.

⁹ Interfax: KAMAZ, Weichai JV to begin producing diesel engines in Q1 2020, <https://interfax.com/newsroom/top-stories/18813/>.

¹⁰ Carnegie Endowment for International Peace: *How Sanctions have Changed the Face of Chinese Companies in Russia*, 18.05.2023: <https://carnegieendowment.org/politika/89785>

¹¹ The company's website: <https://maz.by/en>.

¹² MazRus: http://www.mazrus.ru/bort/maz_5316x5_411_051/bort.

3.4.2 KAMAZ

KAMAZ is Russia's largest manufacturer of heavy vehicles. It produces vehicles for both civilian and military purposes. The company is part of the Russian Rostec Group, which is a conglomerate of state-owned enterprises.

KAMAZ's website makes mention of the company's participation in an exhibition of military materiel that was held in Moscow in August 2023. Here, the report says, the company demonstrated a variety of military vehicles that it produces, including the armoured personnel carrier KAMAZ-4385, an armoured transport vehicle, designated the KAMAZ-5485P3, and the military trucks KAMAZ-5350 and KAMAZ-6350.¹³

4 Information from the company

The Council has written to WP requesting information on the company's involvement in the production of military vehicles in Belarus and Russia.¹⁴ The Company has not replied to the Council's queries.

A draft of this recommendation has been presented to WP, and the company has been invited to submit any comments it may have.¹⁵ Nor did the company respond to this.

5 The Council's assessment

On the basis of the information available, the Council has considered whether, pursuant to Section 4(d) of the GPFG's ethical guidelines, there is an unacceptable risk that WP is contributing to the sale of military materiel to the authorities in Belarus and Russia.

It is clear that the companies MAZ and KAMAZ manufacture military vehicles that are mainly sold to the authorities in Belarus and Russia. These are vehicles built especially for military purposes and must therefore be considered to constitute *military materiel*.

It is equally clear that WP has entered into joint venture partnerships with the Belarusian company MAZ and the Russian company KAMAZ. The purpose of these joint ventures is to produce diesel engines for heavy vehicles.

¹³ KAMAZ's website: https://kamaz.ru/en/press/releases/kamaz_at_army_2023_forum/.

¹⁴ Letter from the Council on Ethics to Weichai Power Co Ltd, dated 4 October 2023.

¹⁵ Letter from the Council on Ethics to Weichai Power Co Ltd, dated 15 November 2023.

The question left to the Council on Ethics is whether there is an unacceptable risk that WP is contributing to MAZ and KAMAZ's sales of military materiel to the authorities in Belarus and Russia.

The Council considers that the engine constitutes a critical part of such vehicles and that manufacture of the engine is part and parcel of the vehicle's overall production.

Pursuant to the ethical guidelines, the provision concerned applies to any company that *contributes to or is responsible for* the sale of military materiel to affected states. In this context, the Council equates production with sale. If the engines produced by the joint ventures MAZ-Weichai or KAMAZ Weichai / Volzhskiye Industrial Engines LLC are used in military vehicles, the Council considers that WP is also *contributing to the sale* of these vehicles.

The Council does not have full overview of all the types of military vehicles that MAZ and KAMAZ produce. Nor can the Council determine unequivocally that engines manufactured by the joint ventures in which WP is involved are used in the military vehicles that MAZ and KAMAZ produce and sell to the authorities in Belarus and Russia. The Council has asked WP for information concerning this, but has received no response. In the absence of any such clarification, the Council considers there to be an unacceptable risk that WP is contributing to the sale of these vehicles.

On the basis of the above, the Council considers that there is an unacceptable risk that WP is contributing to the sale of military materiel to the authorities in Belarus. Equally, the Council considers that there is an unacceptable risk that WP is contributing to the sale of military materiel to the authorities in Russia. Each of these conditions separately constitutes grounds for recommending that Weichai Power Co Ltd be excluded from investment by the GPF under Section 4 (d) of the ethical guidelines.

6 Recommendation

The Council on Ethics recommends that Weichai Power Co Ltd be excluded from the Government Pension Fund Global due to an unacceptable risk that the company is contributing to the sale of military materiel to states that are subject to investment restrictions on government bonds.

*

Svein Richard
Brandtzæg
Leder

(Sign.)

Siv Helen Rygh
Torstensen

(Sign.)

Cecilie
Hellestveit

(Sign.)

Vigdis Vandvik

(Sign.)

Egil Matsen

(Sign.)