



Mr Martin Skancke
 Director General
 Asset Management Department
 Norwegian Ministry of Finance
 P.O. Box 8008 Dep
 NO-0030 Oslo
 Norway

19th July 2010

RE: Government Pension Fund Global (GPF) Investments in Forestry and Plantations

Dear Mr Skancke

I am writing from the Environmental Investigation Agency (EIA), an international NGO, to raise concerns about a specific set of investments of the Norwegian Government Pension Fund – Global (GPF) in major forestry and plantations companies operating in the Asia Pacific region.

EIA has investigated and exposed illegal logging and deforestation in Indonesia and the Asia Pacific region for over a decade, and has consistently provided evidence-based information to decision makers, enforcement agencies, and other stakeholders in Indonesia and internationally. EIA's information has contributed to reform of global forest governance through measures such as the US Lacey Act, and the EU FLEGT initiative.

We are now concerned that Norway may be unaware that its array of holdings in forestry and plantation companies is contributing to significant deforestation and forest degradation in the Asia Pacific region, and the types of environmental damage that undermine Norway's goals and investments to promote an effective system to Reduce Emissions from Deforestation and Forest Degradation (REDD).

We seek clarification on how such holdings are assessed in relation to GPF's Ethical Guidelines and Environmental Investment Program, and importantly, Norway's welcome international leadership to help mitigate climate change by facilitating REDD.

A recent *at-a-glance survey*¹ of GPF's December 2009 portfolio revealed GPF share holdings totalling about US\$ 437 million (NOK 2.5 billion) in companies operating in the forestry and agriculture sectors in the Asia Pacific region, or companies trading in commodities produced by these or similar companies.

The attached list (see Annex) of share holdings in logging, oil palm and timber plantations, and in companies trading in related commodities, particularly in Indonesia, Malaysia, and Papua New Guinea, includes only those companies familiar to EIA. While EIA is not at this stage commenting on any specific activities of any individual companies or their subsidiaries, many have been named in published materials as being directly or indirectly responsible for large scale deforestation and other environmental damage in the region, and particularly in Indonesia.

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Some have also been named as suspects in criminal cases related to violations of forestry and trade laws, corruption, human rights and labour abuses, and significant tax fraud. Others have been connected to illegal logging and land clearance as well as timber smuggling cases.

EIA understands that the management of GPFG's investments by the Ministry of Finance and Norges Bank Investment Management (NBIM), including any decision to divest from or exclude a company from the GPFG investment universe, must take into consideration a portfolio company's compliance with the most recent GPFG *Ethical Guidelines*, adopted by the Ministry of Finance on 1 March 2010.ⁱⁱ

EIA believes that application of certain elements of the Ethical Guidelines are extremely pertinent to the many serious problems in the forestry and agricultural sectors in the Asia Pacific region, and in relation to some of the individual GPFG portfolio companies we have listed.

In particular, EIA notes that Paragraph 3 of the Ethical Guidelines mandates the Ministry of Finance, on the advice of the Council of Ethics, to exclude companies from the GPFG portfolio "*if there is an unacceptable risk that the company contributes to or is responsible for*" a range of negative moral, social and environmental outcomes, including "*severe environmental damage*".

Other than the most obvious category of "severe environmental damage", other potential areas where such investments could contravene paragraph 3 of GPFG's Ethical Guidelines include: gross violation of human rights (including the rights of indigenous peoples), the rights of individuals in situations of war or conflict, and gross corruption – all of which are commonly reported in these sectors in the region.

EIA understands, however, that the Council on Ethics for the GPFG is unable to assess all portfolio companies for compliance with the Ethical Guidelines. The Chair of the Council on Ethics, Gro Nystuen, has stated: "It is not reasonable to expect that the Council on Ethics or Norges Bank can develop capacity to address violations in all portfolio companies".ⁱⁱⁱ

EIA sees hope, however, in the fact that "when assessing companies, it is not unusual that the Council on Ethics looks at whole sectors in the portfolio".^{iv} Yet to date EIA is not aware of any sectoral approach to screening compliance by forestry or plantations companies within the Ethical Council's mandate.

EIA urges that the GPFG, through the partnership of the Ministry of Finance, the Council on Ethics, and Norges Bank, establish a sectoral approach to forestry and plantations investments, akin to that applied to the mining sector in 2005. We also recommend that as Norway seeks to develop a climate change friendly portfolio, (within the Environment Investment Program, for example), it explores not only investing in industries likely to benefit the environment, but also ensures that it does not invest in companies whose activities greatly exacerbate climate change.

EIA believes that establishing a sectoral "risk analysis" approach to the forestry and plantations sectors would enable the governance structures of the GPFG to screen investments for any potential or likely non-compliance with the relevant provisions of the Ethical Guidelines, particularly those detailed in paragraph 3, in a more proactive and targeted manner.

The body of evidence directly linking massive deforestation and environmental damage in the Asia Pacific region and the forestry and plantations sectors operating there cannot be ignored.

Indeed, it is widely acknowledged, including by the Norwegian Ministry of Environment and its International Climate and Forests Initiative, that the activities of companies active in these sectors - logging, oil palm and timber plantations - are the major drivers of deforestation in the Asia Pacific region, and worldwide.

Given Norway's notable initiative to lead the world in the design, financing, and implementation of REDD, including in Asia and the Pacific, it would seem contradictory to allow continued un-assessed GPFG share holdings in sectors likely to be actively driving deforestation and associated environmental damage in partner countries.

EIA notes, for example, that most of the forestry and plantations companies we identified in the GPFG portfolio have active operations or plans for expansion into the natural forests of Indonesia – a country with the world's highest rate of deforestation and associated emissions - and to which Norway has recently pledged US \$ 1 billion to reduce emissions from deforestation.

The contradictions are clear - currently Norway is both invested in REDD and in deforestation in Indonesia. We strongly urge Norway to evaluate and address inconsistencies in its broader investment portfolio in order to ensure the ongoing credibility of the country's otherwise extremely positive REDD focused climate strategy is not threatened.

We look forward to hearing from you regarding how these considerations will be addressed by GPFG partners at the Ministry of Finance, Norges bank, the Council of Ethics, and the Ministry of Environment, in ways that ensure Norway's wider goals are not undermined.

Yours sincerely,



Julian Newman
Campaigns Director
Environmental Investigation Agency (EIA)

Enclosed:

Annex: December 2009 Shareholdings of the Norwegian Government Pension Fund Global (GPFG) in Forestry, Plantations & related Commodities Companies with Operations in Asia & The Pacific

CC:

Sigbjørn Johnsen, Minister of Finance, Norway

Yngve Slyngstad, Chief Executive Officer, Norges Bank Investment Management (NBIM)

Stephen Hirsch, Deputy Chief Executive Officer, Norges Bank Investment Management (NBIM)

Gro Nystuen, Chair, Council on Ethics for the Government Pension Fund – Global

Lene Lyngby, Director General, Head of Department for Climate & Pollution Control, Norwegian Ministry of Environment

Leif-John Fosse, Senior Adviser on South East Asia, Government of Norway's International Climate and Forest Initiative, Department for Climate & Pollution Control, Norwegian Ministry of Environment

Tina Hageberg, Advisor, Civil Society Department, Norwegian Agency for Development

ⁱ EIA's examination of GPFG's shareholdings occurred only following EIA researchers' discovery of holdings in two companies seeking one million hectares of forest concessions in Papua province, Indonesia, for conversion to industrial timber plantations for pulp and biofuels production.

ⁱⁱ Guidelines for observation and exclusion from the Government Pension Fund Global's investment Universe: accessed online at: http://www.regjeringen.no/en/sub/styrer-rad-utvalg/ethics_council/ethical-guidelines.html?id=425277

ⁱⁱⁱ Consultation statement from the Council on Ethics concerning the evaluation of the Ethical Guidelines for the government Pension Fund – Global, Letter from Gro Nystuen to the Ministry of Finance, September 29th 2008, as reproduced in Council on Ethics for the Government Pension Fund – Global Annual Report 2008.

^{iv} Council on Ethics for the Government Pension Fund – Global Annual Report 2008, page 14.

ANNEX: December 2009 Shareholdings of the Norwegian Government Pension Fund Global (GPEC) in Forestry, Plantations & Related Commodities Companies with Operations in Asia & The Pacific

Company	NOK Value	US\$ Value	Sectors	Country	Landbank
Medco Energi International	619,194	106,866	Forestry, Oil Palm, Agriculture	Indonesia	190,000
Indonesia's biggest private oil and gas producer - diversifying into timber, agriculture, and oil palm plantations, largely in Papua, Indonesia. Currently clearing 18,000 hectares for a palm oil plantation in West Papua province, and recently acquired 170,000 hectare forest block for its new pulp and wood pellet mill in Merauke, Papua, part of a targeted 1 million hectares in Papua in total, including land in the controversial MIFEE project. Alternative energy is the focus of Medco's forestry and agriculture interests.					
LG International Corp.	7,414,765	1,279,785	Holdings, Trade, Forestry	South Korea	
Has a 25% stake in Medco Energi International's new 170,000 hectare plantation in Papua, and seeks a similar share in 1 million hectares in Papua with Medco Energi International. Also recently acquired oil palm plantations in Kalimantan, and is investing in coal in Indonesia.					
Golden Agri Resources (GAR)	103,310,013	17,831,263	Forestry, oil palm, Consumables	Singapore (Indonesia)	427,000
GAR claims to be "the world's second largest oil palm plantation, by planted hectareage, with the largest total land bank". As of February 25, 2010, GAR operated a total planted area of approximately 427,000 hectares, as well as 34 palm oil processing mills, 3 refineries, and 6 kernel crushing plants in Indonesia. GAR controls 95% of hectares in PT Smart (Sinar Mas Agro Resources & Technology), the group's main oil palm company, through its ownership of PT Purimas Sasmita					
Indah Kiat Pulp & Paper Corp Tbk Pt	1,148,294	198,195	Pulp Mill	Indonesia	1,400,000
A Subsidiary of Asia Pulp and Paper (APP), which is in turn part of the Sinar Mas Group. Indah Kiat operates one of Indonesia's biggest pulp mills, in Riau, Sumatra, and processes fibre exclusively from Sinar Mas Forestry concessions across the province. Sinar Mas Forestry and its partners control about 1.4 million hectares of forest concessions in Indonesia. APP is controlled by the same family that controls nearly half of GAR, above					
Unilever Indonesia	76,698,887	13,238,194	Consumables	Indonesia	
Significant buyer of Crude Palm Oil from Indonesia and Malaysia					
London Sumatra Indonesia Tbk Pt	18,275,363	3,154,320	Oil Palm		215,917
Controls 52 oil palm plantation estates in Sumatra, Java, Kalimantan and Sulawesi, in Indonesia. As of December 31, 2009, the company had a planted area of 100,296 hectares, and a total land bank of 215,917 hectares					
International Nickel Indonesia Tbk Pt	29,932,974	5,166,418	Mining	Indonesia	
International Nickel is one of the 13 companies exempted from the law prohibiting operations in protected forests in Indonesia, in this case for the company's Soroako nickel mine on Sulawesi island					
Astra Agro Lestari Tbk Pt	29,865,503	5,154,773	Oil Palm	Indonesia	264,036
One of the largest plantations companies on the Indonesian stock exchange, Astra manages 264,036 hectares of oil palm plantations in Sumatera, Kalimantan and Sulawesi, in Indonesia					
Astra International Tbk Pt	543,723,955	93,846,518	Agribusiness, Coal, Diversified	Indonesia	
Astra International is the parent company of Astra Agro Lestari, thereby controlling 264,035 hectares of oil palm plantations across Indonesia					
Bakrie Sumatera Plantations Tbk Pt	154,599	26,684	Oil Palm, Rubber	Indonesia	100,000
Controls approximately 100,000 hectares of plantations in Sumatra and Kalimantan, 80% of which are oil palm, and 20% of which are rubber estates					
Wilmar International	361,354,754	62,369,673	Agriculture, Oil Palm, Biofuels	Singapore	500,000
Claims to be Asia's biggest agribusiness group, the largest global processor and merchandiser of palm and lauric oils, one of the largest plantation companies in Indonesia/Malaysia, and the largest palm biodiesel manufacturer in the world. As of 31 December 2009, Wilmar had a total planted area of more than 235,000 hectares, out of a total land bank of over 500,000					

Company	NOK Value	US\$ Value	Sectors	Country	Landbank
Ta Anne Holdings	25,424,076	4,388,184	Forestry/Timber Oil Palm	Malaysia	500,000
Large logging and timber processing company with 440,389 hectares over 6 forest concessions in Sarawak, Malaysian Borneo. Also has licences for 307,834 hectares of industrial timber plantations, some of which will be converted from their forest concessions. Has a genetically modified timber research department. The group's timber processing sector produced over 30,000 M3 of sawn timber and veneers in 2008. The group's oil palm plantations cover 52,963 hectares, also in Sarawak.					
Sime Darby Berhad	329,094,156	56,801,508	Oil Palm	Malaysia	524,626
Subsidiary, Sime Darby Plantations, is the world's largest plantations company. In Malaysia it operates 146 oil palm estates spanning over 326,750 hectares in Peninsular Malaysia, Sarawak and Sabah and 8,649 ha of rubber plantations. In Indonesia Sime Darby operates 204,237 hectares of oil palm plantations in Kalimantan, Sumatera and Sulawesi. Total land bank of over 524,626 hectares					
United Plantations Bhd	77,581,648	13,390,559	Oil Palm	Malaysia	90,000
At the end of 2009, United Plantations and its subsidiaries controlled 40,000 hectares of oil palm plantations in Malaysia and 50,000 hectares in Indonesia.					
WTK Holdings Berhad	5,530,383	954,542	Forestry/Timber, Oil Palm	Malaysia	1,000,000
Core operations are in logging concessions. WTK Group controls 850,000 hectares of forests in Sarawak in Malaysia, and a further 400,000 hectares in Papua New Guinea. 5 sawmills and 3 plywood mills process logs from these concessions. Sawmills in Sarawak produce 10,000 M3 a month, and plywood mills in Sarawak produce 20,000 M3 a month. WTK Holdings Berhad has a 23,000 hectare oil palm landbank, with a further 60,000 hectares in the wider WTK group					
Kulim Malaysia Bhd	17,194,998	2,967,849	Oil Palm	Malaysia	83,000
As of May 2010, Kulim controlled 83,000 hectares of plantation land in Malaysia, PNG and Solomon Islands, and expects to double its hectareage in PNG and Solomon's in 10 years					
Lingui Development Bhd (Samling)	2,672,614	461,292	Forestry	Malaysia	1,435,000
Logging concessions covering 1.4 million hectares in Malaysia (principally Sarawak, Borneo), with annual production of 2.3 million cubic metres. Also controls 35,000 hectares timber plantation in New Zealand. Lingui Development Bhd is 59.69% owned by Samling Global Limited					
Samling Global	8,136,042	1,404,277	Logging, Oil Palm, Timber Industry	Hong Kong	1,655,723
Samling Global Limited subsidiary, Glenealy Plantations (Malaysia) Berhad, an oil palm plantations company, controls 21,123 hectares in Sarawak, Malaysia, and 34,600 hectares in East Kalimantan, Indonesia. The Samling Global group also controls 1.6 million hectares of forests concessions in Guyana, and associated timber industries, through the Group's subsidiary, Barama Company Limited. Samling Global also controls Lingui Developments Bhd, which controls 1.4 million hectares of of forest concessions in Malaysia					
Kuala Lumpur Kepong Bhd	60,258,064	10,400,516	Oil Palm, Rubber	Malaysia	269,000
Core business is oil palm plantations. Controls roughly 70,000 hectares in Peninsular Malaysia, 40,000 hectares in East Malaysia (Borneo), and 133,000 hectares across Sumatra and Kalimantan, Indonesia. Also controls 26,000 hectares of rubber plantations					
IJM Plantations Bhd	21,078,605	3,638,158	Oil Palm	Malaysia	30,000
Operates oil palm plantations. Controls 30,000 hectares in Sabah, Malaysia and entering Indonesian oil palm sector					
IJM Corporation Berhad	111,149,433	19,184,344	Oil Palm	Malaysia	
Controls 55% of shares in IJM Plantation Berhad, thereby controlling 30,000 hectares of oil palm concessions in Malaysia, and more to come in Indonesia					
Kim Loong Resources Bhd	11,313,198	1,952,653	Oil Palm	Malaysia	13,000
Controls 13,000 hectares of oil palm plantations in Sabah, and Peninsular Malaysia					
Sarawak Oil Palms Bhd	9,386,929	1,620,180	Oil Palm	Malaysia	65,000
Controls 65,000 hectare oil palm plantations landbank, with 35,000 hectares planted in Sarawak					

Company	NOK Value	US\$ Value	Sectors	Country	Landbank
TSH Resources	24,273,533	4,189,601	Oil Palm, Forestry	Malaysia	203,000
Controls 20,000 hectares of oil palm plantations in Sabah and Sarawak, Malaysia, and a further 60,000 hectares oil palm land bank in Kalimantan and Sumatra in Indonesia. It also controls 123,000 hectares of natural forest concession in Sabah, 11,000 hectares of which will be converted to industrial timber plantations. Also owns Malaysia's biggest wood flooring manufacturer					
United Malacca Berhad	16,358,602	2,823,488	Oil Palm	Malaysia	24,000
Controls about 24,000 hectares of oil palm plantations in Malaysia, following acquisition of 10,000 hectares in late 2009.					
Genting Plantations Berhad	39,382,443	6,797,392	Oil Palm	Malaysia	133,000
Controls about 133,000 hectares of oil palm plantations land bank, with 66,000 hectares in Malaysia, and a further 67,000 hectares through joint ventures in Indonesia. Wider Genting Group companies are invested in the development of biofuels from plantations in Indonesia and Malaysia. The Group tried to secure 1 million hectares in Papua in recent years					
Genting Berhad	119,777,406	20,673,528	Holdings	Malaysia	
Investment holding and management company of Genting Group, Genting Berhad controls 54.6% of share capital of Genting Plantations Berhad					
Ioi Corporation Berhad	234,365,050	40,451,305	Palm Oil, Diversified	Malaysia	250,000
Controls 250,000 hectares of oil palm plantations in Peninsular Malaysia (53,000 hectares), Sabah (107,000 hectares), Sarawak (9,000 hectares), and Indonesia (82,000 hectares)					
Indofood Agri Resources Ltd	22,242,295	3,839,010	Consumables	Singapore	
Controls London Sumatra Tbk PT, which in turn controls 52 oil palm plantations across Indonesia (see above)					
Noble Group	225,804,205	38,973,707	Industrials and commodities	Hong Kong	32,000
Recently purchased 52% of PT Henrison Inti Persada, a subsidiary of the Kayu Lapis Indonesia Group, with licences to convert 32,000 hectares of forests in Sorong, West Papua to oil palm plantations					
	NOK	US\$	Total Approximated Land Area Controlled by		
Total Investments	2,533,521,981	437,284,782	2,404,362		