

**To Norges Bank**

02.02.2023

UNOFFICIAL ENGLISH TRANSLATION

**Recommendation to terminate observation of Kirin Holdings Co Ltd**

## Summary

In March 2021, Kirin Holdings Co Ltd (Kirin) was placed under observation pursuant to the criterion concerning serious violations of the rights of individuals in situations of war and conflict, due to the company's business partnership with the military conglomerate Myanmar Economic Holdings Public Company (MEHPCL) in Myanmar.

Kirin is a Japanese holding company with several subsidiaries operating primarily in the beverage and pharmaceutical production sectors. The company was a partner in two joint ventures with MEHPCL. The armed forces in Myanmar have committed acts of extreme brutality against the country's civilian population, including the Rohingya community, a religious minority in Myanmar. The Council on Ethics considered that a business partnership with MEHPCL represented a high risk of contributing to serious abuses by the country's armed forces. Before the Council issued its recommendation, Kirin disclosed that it was considering making changes to its business operations in Myanmar. The Council recommended that the company be placed under observation due to developments forward in time.

Kirin has now terminated its partnership with MEHPCL and no longer operates in Myanmar. The Council therefore considers that the grounds for observing the company have ceased to exist and recommends that observation be terminated.

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# 1 Introduction

In March 2021, Kirin Holdings Co Ltd (Kirin) was placed under observation pursuant to the criterion concerning serious violation of the rights of individuals in situations of war and conflict set out in the Guidelines for Observation and Exclusion of Companies from the Government Pension Fund Global.

Kirin is a Japanese holding companies with several subsidiaries operating primarily in the beverage and pharmaceutical production sectors. In Myanmar, the business is operated through the subsidiary Kirin Holdings Singapore Pte Ltd. This subsidiary is a partner in two joint ventures with the military conglomerate Myanmar Economic Holdings Public Company Limited (MEHPCL or MEHPCL (Myanmar Economic Holdings Limited)).

At the close of 2022, the Government Pension Fund Global (GPF) owned 1.22 per cent of the Kirin's shares, worth approx. USD 170,2 million.

## 1.1 Grounds for the Council's deliberations

Pursuant to section 5(7) of the Guidelines for Observation and Exclusion from the Government Pension Fund Global, the Council on Ethics may, on the basis of new information received, recommend that Norges Bank revoke decisions concerning observation or exclusion.<sup>1</sup>

# 2 Background

### *The Council's recommendation from 2020*

In its June 2020 recommendation, the Council on Ethics attached importance to the fact that Kirin, together with Myanmar Economic Holdings Ltd (MEHPCL), was a partner in two joint ventures: Myanmar Brewery and Mandalay Brewery. Kirin held a 51 per cent shareholding in both companies, while MEHPCL owned the remaining 49 per cent. MEHPCL is a conglomerate owned and operated by the Myanmar armed forces (Tatmadaw), and generates substantial revenues for them.

For years, the armed forces in Myanmar have committed acts of extreme brutality against the country's civilian population. In August 2017, the situation escalated when the military initiated so-called 'clearance operations' targeting the Rohingya community, a religious minority in Myanmar.

The Council emphasised that companies which operate in areas of conflict must exercise heightened due diligence, and that any business partnership with MEHPCL brought with it a high risk of contributing to serious norm violations. The Council considered that Kirin had not demonstrated sufficient prudence in its choice of business partner. Before the Council issued its recommendation, the company disclosed that it was considering making changes to its business operations in Myanmar, but that this could take time. Due to the uncertainty surrounding the future development of Kirin's operations in Myanmar, the Council recommended that the company be placed under observation.

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<sup>1</sup> Guidelines for Observation and Exclusion of Companies from the Government Pension Fund Global: [https://www.regjeringen.no/contentassets/9d68c55c272c41e99f0bf45d24397d8c/2022.09.05\\_gpfg\\_guidelines\\_observation\\_exclusion.pdf](https://www.regjeringen.no/contentassets/9d68c55c272c41e99f0bf45d24397d8c/2022.09.05_gpfg_guidelines_observation_exclusion.pdf)

### 3 The Council’s observations

Since Norges Bank’s decision to place the company under observation, the Council on Ethics has held regular meetings with Kirin. The company disclosed early on that it wished to withdraw from its partnership with MEHPCL but not necessarily pull out of Myanmar entirely. Kirin endeavoured to achieve such a solution for some considerable time.

Nevertheless, in February 2022, the company announced that it was pulling out of Myanmar. In the process of terminating its partnership with MEHCPL, the company would give weight to the wellbeing of its employees and their families.<sup>2</sup>

In June 2022, Kirin disclosed that it had assessed several alternatives. The company concluded that the best solution was to transfer its share of the joint venture to Myanmar Brewery in the form of a share buyback transaction. In this way, the joint venture could be quickly wound up, while the workforce could retain their jobs with the business. Agreement for this solution was reached with MEHPCL. The company also disclosed that the sale of Mandalay Brewery would be undertaken in a similar fashion.<sup>3</sup>

Throughout the process, it was important for Kirin to ensure the best possible treatment of local employees. In the agreement with MEHCPL, the parties agreed to ensure employees’ freedom of choice regarding further employment, to prohibit disadvantageous changes in salary and other treatment for one year, and provision equivalent to three months’ salary and other treatment for one year.<sup>4</sup>

On 23 January 2023, Kirin informed the Council that the company no longer had any business operations in Myanmar, and that it had completed the share transfer to Myanmar Brewery and Mandalay Brewery.<sup>5</sup>

### 4 The Council’s assessment

Since Kirin is no longer engaged in a business partnership with MEHCPL and no longer has any business operations in Myanmar, the Council considers that the grounds for observing Kirin have ceased to exist.

### 5 Recommendation

The Council on Ethics recommends to terminate the observation of Kirin Holdings Co Ltd.

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<sup>2</sup> Kirin Holdings, Withdrawal from the Myanmar Business, 14 February 2022, <https://pdf.irpocket.com/C2503/OMfg/VvCP/LpVE.pdf>

<sup>3</sup> Kirin Holdings, (Progress of disclosed matters) Basic Agreement on Myanmar Brewery Limited Share Transfer, 30 June 2022, <https://pdf.irpocket.com/C2503/efCi/kzVe/oCjp.pdf>

<sup>4</sup> Kirin Holdings, (Progress of disclosed matters) Completion of Myanmar Brewery Limited Share Transfer, 23 January 2023, <https://pdf.irpocket.com/C2503/fhjD/SQwA/Rcqj.pdf>

<sup>5</sup> See footnote 4.