

# **‘Worldwide investments in cluster munitions. A shared responsibility’**

## **KEY FINDINGS<sup>1</sup>**

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### **1. The report**

This publication by IKV Pax Christi and Netwerk Vlaanderen presents a state-of-the-art report on financial institutions' investment in companies that develop or produce cluster munitions (Hall of Shame), on financial institutions disinvesting from producers of cluster munitions (Hall of Fame and Runners-Up) and on legislative measures to prohibit investment in cluster munitions.

Cluster bombs have killed and injured thousands of civilians during the last 40 years and continue to do so today. They cause widespread harm on impact and yet remain dangerous, killing and injuring civilians long after a conflict has ended.

*‘Worldwide investments in cluster munitions; A shared responsibility’* highlights both the good practice of financial institutions and countries that disinvest, and the financial institutions that are still investing in cluster munitions. The report contains clear recommendations for states and financial institutions that all come down to one message: disinvest from producers of cluster munitions now!

### **2. The momentum**

In December 2008 the Convention on Cluster Munitions (CCM) opened for signature. The CCM will enter into force six months after 30 countries have ratified it. Until now, 23 countries have ratified the Convention. Although the Convention on Cluster Munitions does not explicitly prohibit investments in cluster munitions, prohibition on assistance that is included in art 1c of the convention<sup>2</sup> should prevent states from investments in cluster munitions producers according to the authors. Financing and investing are active choices, based on a clear assessment of a company and its plans. Investing in a cluster munitions producer therefore is a choice to support the production of weapons that cause unacceptable harm.

As this report shows, there seems to be a double standard in the majority of the countries that have signed the CCM. From the moment the CCM will enter into force, state parties of the Convention are legally prohibited from producing cluster munitions and from assisting the production of cluster munitions by any third party. To date Belgium, Ireland and Luxembourg have installed a ban on investments in cluster munitions producers under national law and can provide a model to both signatory and non signatory states. Until now however, banks and other financial institutions in or from many countries have been allowed to continue their investments in cluster munitions. This undermines the commitment 100 countries have made to ban cluster munitions and runs counter to the spirit of the CCM.

The case for financial institutions to disinvest in cluster munitions is both a legal and a moral argument. Since 2007 the human and economic cost arising from the use of cluster munitions have been widely acknowledged and documented. Thus, even before the CCM opened for signature financial institutions should have been aware of the controversy around cluster munitions and should have started disinvesting from producers of cluster munitions.

The responsibility to ban cluster munitions is a shared responsibility. It requires courage, and it requires an effort. An international humanitarian standard has been set, and we are only months away

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<sup>1</sup> This document presents the key findings of our research. These research findings are by no means exhaustive, they are limited by information available in the public domain, by our research guidelines, by the research period and by language (English/Dutch). Figures and tables in this document should therefore not be read as comprehensive.

<sup>2</sup> Article 1 of the Convention on Cluster Munitions: “Each State Party undertakes never under any circumstances to: (a) Use cluster munitions; (b) Develop, produce, otherwise acquire, stockpile, retain or transfer to anyone, directly or indirectly, cluster munitions; (c) Assist, encourage or induce anyone to engage in any activity prohibited to a State Party under this Convention.”

from the entry into force of the CCM. The time to act is now. For signatory states to the CCM, for non-signatory states and for financial institutions alike.

### 3. Financial institutions' investments in producers of cluster munitions: the Hall of Shame<sup>3</sup>

In the report "Worldwide investments in Cluster Munitions" 138 financial institutions are identified as investors in eight producers of cluster munitions since January 1st, 2007. These producers include: Alliant Techsystems ATK (USA), Hanwha (South Korea), L-3 Communications (USA), Lockheed Martin (USA) Poongsan (South Korea), Roketsan (Turkey), Singapore Technologies Engineering (Singapore) and Textron (USA).<sup>4</sup>

In the researched period, these 138 financial institutions provided the following services and investments to the eight selected producers of cluster munitions:

- provided loans amounting to at least US\$ 5097.51 million.
- provided investment banking services worth a total amount of at least US\$ 4204.85 million.
- owned or managed shares and bonds for at least US\$ 11 795.61 million.

When we look at which financial institutions provided the largest amount of money to the eight selected producers, these are the top 5 in the Hall of Shame, divided per kind of financial service:

#### Top 5 largest Investment Banking Services providers our the Hall of Shame

| Name of Financial Institution | Country of origin | Investment Banking Services in million US \$ |
|-------------------------------|-------------------|--|
| HSBC                          | UK                | 657.33                                       |
| Goldman Sachs                 | USA               | 588.82                                       |
| Merril Lynch                  | USA               | 485.33                                       |
| Deutsche Bank                 | Germany           | 392.65                                       |
| JP Morgan Chase               | USA               | 351.72                                       |
| <b>Total</b>                  |                   | <b>2475.85</b>                               |

#### Top 5 Largest loan providers in our Hall of Shame

| Name of Financial Institution | Country of origin | Loans in million US \$ |
|-------------------------------|-------------------|------------------------|
| Bank of America               | USA               | 586.25                 |
| Citigroup                     | USA               | 571.25                 |
| JP Morgan Chase               | USA               | 366.25                 |
| Barclays                      | UK                | 274.38                 |
| Goldman Sachs                 | USA               | 250.00                 |
| <b>Total</b>                  |                   | <b>2048.13</b>         |

- **INVESTMENT BANKING SERVICES:** HSBC, Goldman Sachs, Merrill Lynch, Deutsche Bank and JP Morgan Chase provided the largest amount of investment banking services since January 2007.
- **LOANS:** Bank of America, Citigroup, JP Morgan Chase, Barclays and Goldman Sachs provided the largest amount of loans since January 2007.

<sup>3</sup> The list in the Hall of Shame in this research is not an exhaustive list of financial links of financial institutions investing in producers of cluster munitions.

<sup>4</sup> One of the sectors that these companies is active in is the production of weapons and munitions, which include cluster bombs. We regard a company as a producer, regardless of the nature and size of any of it's other activities.

**Top 5 Largest Asset Management providers in our Hall of Shame**

| <b>Name of Financial Institution</b> | <b>Country of origin</b> | <b>Asset management in Million US \$</b> |
|--------------------------------------|--------------------------|--|
| <b>Fidelity</b>                      | USA                      | 1272.00                                  |
| <b>Vanguard Group</b>                | USA                      | 1215.80                                  |
| <b>AXA</b>                           | France                   | 1006.00                                  |
| <b>Blackrock</b>                     | USA                      | 745.00                                   |
| <b>T Rowe Price Group</b>            | USA                      | 636.00                                   |
| <b>Total</b>                         |                          | <b>4874.80</b>                           |

- **ASSET MANAGEMENT:** Fidelity, Vanguard Group, AXA, BlackRock and T Rowe Price Group provided the largest asset management services based on their portfolio by the summer of 2009.

Comparing the top 20 of largest banks worldwide<sup>5</sup>, ranked on total assets in US\$, with the banks in our Hall of Shame shows that most loans and investment banking services are provided by twelve of these largest banks: together they provide 58% of the loans to the eight producers of cluster munitions and 56% of the investment banking services to these producers of cluster munitions. This means that the largest banks worldwide provide the largest amount of loans and investment banking services to producers of cluster munitions.

**We call upon all 138 financial institutions in the Hall of Shame to develop policies that exclude all financial links and services with companies involved in the production of cluster munitions.**

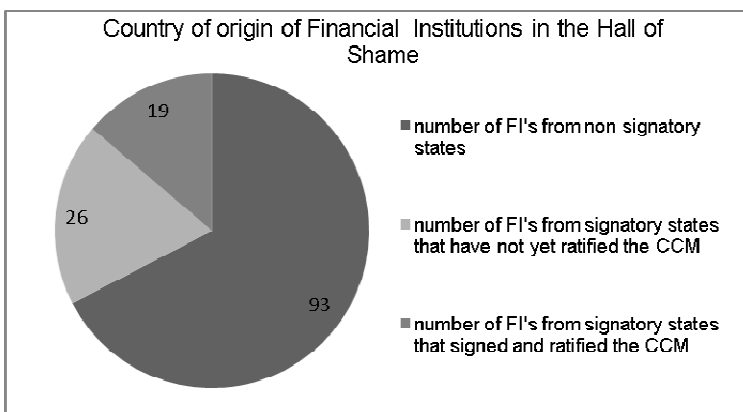
The Hall of Shame contains 138 financial institutions from 16 different countries. Of the 138 financial institutions, 93 financial institutions are from countries that have not (yet) signed the CCM. 45 financial institutions are from countries that have signed the CCM. 19 financial institutions are based in four countries that have signed and ratified the CCM. Of the 138 financial institutions 70 financial institutions from the United States were identified. US based financial institutions make up for more than 50% percent of the financial institutions included in the Hall of Shame, and 59% of the loans provided to the eight selected companies, 42% of the investment banking services and 81% of the managed or owned shares and bonds.

At the time of writing the report, 20 out of the 27 EU member countries had signed the CCM, and eight EU member countries had ratified the CCM, but 38 financial institutions investing in producers of cluster munitions are from European Union member countries. All of these 38 financial institutions, are from countries that have signed the CCM, 14 financial institutions are from EU countries that have already signed and ratified the CCM.

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<sup>5</sup> Available at <http://www.bankersalmanac.com/addcon/infobank/bank-rankings.aspx>. The twelve largest banks in the Hall of Shame are Royal Banks of Scotland, Deutsche Bank, Barclays, BNP Paribas, UBS, JP Morgan Chase & co, Société Générale, Bank of America Corp, HSBC Bank, Citigroup and Crédit Suisse Group.

| Country of origin of FIs listed in the Hall of Shame <sup>6</sup> | Number of FIs per country |
|---|---------------------------|
| Australia   | 2                         |
| Belgium   | 1                         |
| Canada  | 5                         |
| France  | 5                         |
| Germany   | 8                         |
| Italy   | 1                         |
| Japan   | 5                         |
| Saudi Arabia  | 1                         |
| Singapore   | 4                         |
| South Korea   | 16                        |
| Spain   | 1                         |
| Switzerland   | 2                         |
| Taiwan  | 1                         |
| Turkey  | 1                         |
| The United Kingdom  | 15                        |
| The United States of America                                      | 70                        |
| <b>Total</b>  | <b>138</b>                |



Based upon these research findings one may conclude that many financial institutions from countries that have signed the CCM are still investing in cluster munitions producers.

**We call upon signatory states to stay true to the convention and to draw up legislation to ban investments in cluster munitions or to provide clear guidelines for financial institutions.**

#### **4. Financial Institutions disinvesting from cluster munitions producers: Hall of Fame<sup>7</sup>**

Some countries acted according to their disapproval of cluster munitions by not investing government-managed pension money in producers of cluster munitions.

Five **government-managed pension funds** from four different countries are included in the Hall of Fame:

- The *Norwegian Pension Fund* has excluded producers of cluster munitions since 2004.
- The *Irish National Pensions Reserve Fund*<sup>8</sup> decided to end its investments in cluster munitions producers in March 2008.
- The *New Zealand Superannuation Fund*<sup>9</sup> decided in December 2008, as a direct result from New Zealand's signing of the Oslo Convention, to divest from producers of cluster munitions.

<sup>6</sup> Financial Institution (FI)

<sup>7</sup> The Hall of Fame and the Runners-up category are far from comprehensive. For this research it was impossible to research the policies of all the financial institutions worldwide. We have chosen to limit our research to policies available in the public domain, since we believe that financial institutions should be accountable for their policy. We limited ourselves to policies that were available in English and/or Dutch. The Hall of Fame can be seen as an invitation to financial institutions that have a comprehensive policy to ban investment in cluster munitions, to provide us with their policy and to publish it on their website in order for us to include them in either the Runners-up category or the Hall of Fame for our update in December 2009. The lists of financial institutions disinvesting from cluster munitions' producers presented in this report is a first attempt to provide an overview and we welcome additional information.

<sup>8</sup> The Irish National Pensions Reserve fund invested in 2007 for a total amount of almost € 10 million in 5 producers of cluster munitions, but withdrew all these investments in 2008 and 2009.

(<http://www.nprf.ie/Publications/AnnualReport2007.pdf>,  
<http://www.nprf.ie/Publications/AnnualReport2008.pdf>,  
<http://www.nprf.ie/Publications/AnnualReport2009.pdf>)

<sup>9</sup> Prior to the decision to divest on 30 June 2007, the New Zealand Superannuation Fund (NZSF) invested for more than EUR 10 million in companies that were identified by an external screening agency as being

- The *Swedish Pension Funds AP 7* has decided to disinvest from CM producers in June 2008, the *AP 1-4 funds* followed in December 2008 as a direct result from Sweden's signing of the CCM.

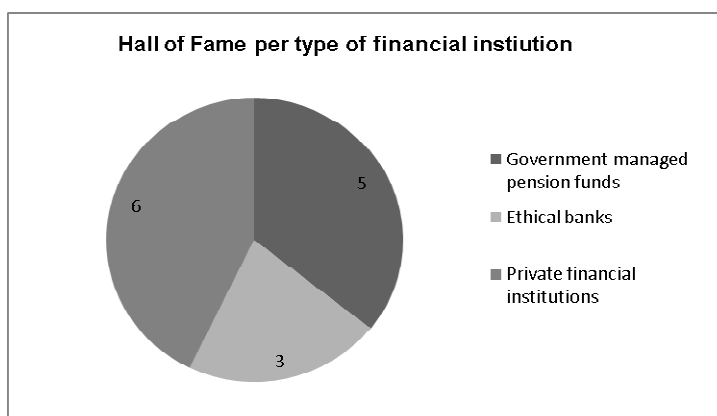
Another category of Financial Institutions that is well represented in the Hall of Fame are the **Ethical Banks**. By their nature, these banks do not get involved in arms production. A clear characteristic shared by all three of the ethical banks in the Hall of Fame is their transparency regarding their investments. By being transparent about the choices they make, they give public appreciation to the companies that meet their ethical criteria. By publishing the list of companies excluded from their investment portfolio, they make a public statement that these companies do not meet their ethical criteria.

What is clear however, is that more and **more private financial institutions** have acknowledged that producers of cluster munitions are not ethical or viable long term business partners. These financial institutions have a far-reaching policy which ends all involvement in cluster munitions producers. Four of the six private financial institutions listed in the Hall of Fame are Asset Managers, who only offer Asset Management as a financial service. They are not involved in investment banking, don't give out loans, etc. Two of the financial institutions in the Hall of Fame however, Ethias and Storebrand, do provide other banking services: these financial institutions prove that it is possible for a bank involved in a broad spectrum of financial services to exclude producers of cluster munitions from all its financial services.

Government and policy leadership helps. All 14 financial institutions identified in the Hall of Fame by the research, which have a comprehensive policy to disinvest from cluster munitions, are from countries that have signed the Convention on Cluster Munitions. Four financial institutions in the Hall of Fame are from countries that have signed and ratified the CCM. All the financial institutions but three (two from Norway and one from New Zealand) are from EU countries.

| Country of origin of FIs listed in the Hall of Fame | Number of FIs per country |
|---|---------------------------|
| Belgium   | 1                         |
| Ireland   | 1                         |
| Italy   | 1                         |
| New Zealand   | 1                         |
| Norway  | 2                         |
| Sweden  | 3                         |
| The Netherlands                                     | 5                         |
| <b>Total</b>  | <b>14</b>                 |

| Type of Financial Institution in the Hall of Fame | Number of FIs per type |
|---|------------------------|
| Government managed pension fund                   | 5                      |
| Ethical bank                                      | 3                      |
| Private financial institutions                    | 6                      |
| <b>Total</b>                                      | <b>14</b>              |



potentially involved in some way in the manufacture of cluster munitions. This was equivalent to 0.20% of the Fund's total assets. (NZSF in a response by email to Netwerk Vlaanderen on 28 July 2009).

## 5. Financial Institutions disinvesting from cluster munitions producers: Runners-Up

Many private financial institutions have installed a public policy to end investments. We commend these financial institutions for their efforts while pointing out ways they can strengthen their endeavour and thereby make it into our Hall of Fame.

The most common shortcomings are:

- Only taking the financial institutions' own involvement into account, not that of their clients
- Exempting project finance for civil purpose
- Exempting funds following an index
- Covering only project financing for cluster munitions

The runners-up have taken important steps, but combining the information from the Runners-up category and the Hall of Shame makes it clear that loopholes in a financial institution's policy can allow for investments in producers of cluster munitions producers.

All 13 financial institutions that met our policy criteria for the Runners-Up category are from countries that have signed the CCM. Four financial institutions in the Runners-Up category are from countries that have signed and ratified the CCM. All the financial institutions but one (from Canada), are from EU countries. All financial institutions listed as Runners-up are private financial institutions.

| Country of origin of FIs listed as Runners-Up | Number of FIs per country |
|---|---------------------------|
| Belgium                                       | 2                         |
| Canada  | 1                         |
| Denmark                                       | 1                         |
| France  | 3                         |
| Sweden  | 1                         |
| The Netherlands                               | 4                         |
| The United Kingdom                            | 1                         |
| <b>Total</b>                                  | <b>13</b>                 |

| Type of Financial Institution in the Runners-Up category | Number of FIs per type |
|--|------------------------|
| Private financial institutions                           | 13                     |
| <b>Total</b>   | <b>13</b>              |

The research shows the positive effect of a government signing the CCM, as a stimulus for financial institutions to implement a comprehensive policy to disinvest from cluster munitions producers. As we have seen in the Hall of Shame however, this is certainly not an automatic response by financial institutions operating in or from signatory states to the CCM. We therefore highly applaud the financial institutions in the Runners-Up for their steps to ban investments in cluster munitions producers, and encourage other financial institutions to do the same.

## 6. Legislation

Belgium, Ireland and Luxembourg have installed legislation to ban investments in producers of cluster munitions. Norway and Denmark have proposed legislation, and are discussing these proposals at this stage. Other states like Lebanon, Mexico and Rwanda have stated they consider investment to be among the prohibited forms of assistance described in the Convention on Cluster Munitions.

## **Recommendations**

- **States that have signed the CCM should make clear that as article 1c of the convention prohibits assistance, it prohibits investment in cluster munitions.**
- **States should provide clear guidelines for financial institutions. When states draft national legislation prohibiting investment in producers of cluster munitions, they act in the spirit of the CCM.**

**We call upon financial institutions to:**

- **Develop policies that exclude all financial links with companies involved in producing cluster munitions. Because any investment facilitates production, no exceptions should be made for third-party financial services, for funds that follow an index or for civilian project financing for a company also involved in cluster munitions. Policies should not be narrowed to refusing project financing for cluster munitions.**
- **Inform the producing company that it has decided to end investment because of the company's involvement with cluster munitions. The financial institution can set clear deadlines with a limited time frame within which the company must cease production of cluster munitions if it wishes the disinvestment decision to be reversed. When a company persists in producing cluster munitions after the set deadline, the financial institution will disinvest until the company terminates production of cluster munitions. New applications for investment will be declined until the company has halted all activities related to the production of cluster munitions.**
- **Apply the disinvestment policy to all activities: commercial banking, investment banking and asset management. All such activities aid and abet a company's production of cluster munitions. When this new course of action requires a change in investment fund management, investors should be notified of this and given a deadline for withdrawing from these funds. After this deadline, management strategy will change and shares and obligations in companies involved in cluster munitions will be sold.**