

**Council on Ethics,
Norwegian Government Pension Fund - Global**

To the Ministry of Finance

April 18, 2008

**Council on Ethics' assessment on investments in Israel
Electric Corporation**

We hereby refer to the letter from the Ministry of Finance, dated March 3, 2008, requesting an assessment of whether investments made by the Government Pension Fund – Global in Israel Electric Corporation (“IEC”) may constitute a breach of the fund’s Ethical Guidelines.

The NGO Norwegian People’s Aid has written to the Council, requesting that the Council recommend exclusion of the company. A local group of “*Palestinavenner*” (“*Friends of Palestine*”) from the municipality of Hamar has done the same. These requests are based on, i.a., the allegation that IEC has reduced the supply of electricity to Gaza and that this amounts to a form of collective punishment of the civilian population in Gaza.

In connection with this case, the Council on Ethics has held meetings with Norwegian People’s Aid and with the Israeli ambassador to Norway. Information has also been gathered from Palestinian energy officials through the Norwegian Ministry of Foreign Affairs. In its assessments, the Council has also referred to a report by the UN Office for the Coordination of Humanitarian Affairs (OCHA): “*Electricity Shortages in the Gaza Strip: Situation Report*”, dated February 8, 2008, and also to a ruling by the Supreme Court of Israel, dated February 27, 2008.

Background

The Council bases its assessment on the fact that the Fund holds bonds issued by IEC, which is 99.9% owned by the State of Israel. The company produces and distributes electricity to all of Israel and to areas under Palestinian government.

To the Council's knowledge, there are three sources of electricity supply to Gaza: Approximately 10% of the electricity is supplied from Egypt, 30% is generated in Gaza's own power plant, and the remainder, approximately 60%, is supplied by IEC via ten main power lines from Israel. In Gaza, the electricity is distributed by the Gaza Electricity Distribution Company ("GEDCO").

Gaza's own generation of electricity has been reduced following the Israeli bombing of the power plant in 2006, which destroyed half of the plant's production capacity. There have also been restrictions imposed by Israel on the supply of fuel to the power plant.

In the autumn of 2007, the Israeli Defence Ministry instructed IEC to reduce its supply of electricity to Gaza. The reduction was part of an economic blockade of Gaza in response to, i.a., rocket attacks from Gaza on Israel.

It is not disputed that living conditions for the population of Gaza are very difficult, and that the reduction in electricity supply comes in addition to other restrictions on transport of goods and border crossings for the population.

Report from OCHA

The UN body OCHA made public a report on February 8, 2008, in which the consequences of electricity shortages in Gaza are outlined. In the report, it is described how water supply and sewage treatment are dependant on electrical pumps, and the operation of these is hindered by electricity shortages. It is also described how hospitals in Gaza are affected by electricity shortages. Also, the OCHA report describes that limitations in the distribution system in Gaza make it difficult for GEDCO to make priorities in the distribution of electricity in order to meet humanitarian needs.

With regard to the reduction in electricity supply to Gaza, the following is stated:

"On October 28 2007, the Israeli Ministry of Defense declared it would start cutting electricity to Gaza in response to the continued and indiscriminant firing of rockets from Gaza to Israel. It proposed cutting power by a total of 1.5 megawattes, but it appears that it now plans to introduce a cut of 0.5 megawattes per week..."

"On Thursday, 7 February, the Israel Electricity Corporation reduced its supply to Gaza by around 0.5 megawattes under the instruction on the Ministry of Defense. The cut was less than the 1.5 megawattes proposed but still adds to the existing shortfall of 60 mgw."

The report assumes that there has been a plan to reduce the electricity supply to Gaza as a response to rocket attacks on Israel, and that a reduction by 0.5 MW has been implemented. The report is also understood to suggest that there is an escalation plan which involves further, weekly reductions by 0.5 MW per week.

Ruling by the Supreme Court of Israel

The question of legality of IEC's reduction in electricity supply to Gaza has been the subject of a petition for temporary injunction brought before the Supreme Court of Israel. The petition is brought on by a group of private individuals and NGOs in Israel. In the Supreme Court ruling, dated January 27, 2008, it was found that the reduction in electricity supply is not unlawful. This, however, has no direct bearing on the Council's assessment.