



18 June 2014

Submission from Rainforest Foundation Norway to the Expert group on GPFG investments in coal and petroleum companies

The mandate of the Expert Group is inadequate

In the opinion of Rainforest Foundation Norway (RFN), the mandate of the Expert Group is not construed so as to allow an open discussion about the issue of how Norges Bank Investment Management (NBIM) as an investor can and should address the issue of climate change. The mandate is both narrow and ambiguous. While the Expert Group is not at liberty to change its mandate, RFN encourages the group to take a broad perspective in its deliberations.

The mandate reads: "The Expert Group shall evaluate whether the exclusion of coal and petroleum companies is a more effective strategy for addressing climate issues and promoting future change than the exercise of ownership and exertion of influence. The Group shall also advise on possible criteria for the potential exclusion of these types of companies."

It is unclear what is meant by "addressing climate issues", whether reducing global emissions or reducing the financial risk of the Government Pension Fund Global (GPFG) associated with climate change, or both.

By limiting the discussion to whether exclusion of companies is more or less effective than ownership activities and exertion of influence, relevant and important considerations are left out. The decision to exclude companies that produce tobacco or nuclear weapons was not taken on the basis of whether exclusion would be more effective than ownership activities in promoting change. While there are obvious differences between those issues and the question of investment in oil and coal, there seems to be no good reason to preclude a broader discussion of whether it is in the financial, moral or environmental interest of the Norwegian people that the GPFG should continue to invest heavily in industries that by their very nature cause climate change.

The tools must fit the purpose

RFN believes that NBIM needs to employ a range of tools to address the issue of climate change, including both exclusion and ownership activities. The appropriate tool to use in a given situation must be determined by the purpose one is trying to achieve. In this case, the overarching purpose should be to align GPFG's investments with a 2 degree

scenario for global warming, and to that end to stop GPFG investments in companies that contribute significantly to climate change. That can be achieved by inducing the companies to reduce their GHG emissions, or, if companies are unable or unwilling to do so within a reasonable amount of time, to exclude them from the investment portfolio. Using this model, exclusion would be the last resort in a chain of tools. However, it could also be the other way around. In cases where the release of greenhouse gases is so intrinsic to a company's business model that major changes are needed to reduce its emissions to an acceptable level, it would be more appropriate to exclude it, while making clear that NBIM would consider reinvesting if the necessary changes are made. RFN holds the view that exclusion of companies does not necessarily end all possibility of influencing them. Exclusion may be a wake-up call for companies, making them take investor demands more seriously and take steps to be readmitted. The important thing is to coordinate the approaches to maximize effectiveness.

NBIM's ownership strategy needs improvement

With regards to ownership activities, RFN wishes to state that NBIM's current investor expectations document for climate change risk management is far from sufficient, irrespective of whether its purpose is to promote positive change or to reduce the financial risk to the GPFG. Ownership activities like shareholder resolutions, voting guidelines, expectation documents and company dialogue can be very effective in inducing positive change, but only if they are tied to specific, time-limited goals and established principles, and if the investor is willing to divest if the goals are not reached. NBIM's expectations document does not give any indications that there is an adequate strategy in place for ownership activities in the field of climate change. This should be taken into account by the Expert Group when considering the effectiveness of ownership influence.

Emissions from forest destruction

Finally, it is important to also consider other industries that cause significant climate damage. In the GPFG's most recent list of holdings, RFN has identified investments of 130 billion NOK in companies with a high likelihood of causing destruction of tropical forests. Forest destruction causes between 10 and 15 percent of global emissions, as well as other serious environmental damage like biodiversity loss and pollution of soil and waterways. The oil and coal industries are among the worst offenders, which highlights the double responsibility of these industries for climate change, both through emissions from forest destruction and the burning of fossil fuels. Other industries where forest destruction is widespread are mining, meat production, industrial agriculture like palm oil and soy, logging and large hydropower dams. NBIM should include all these sectors in a strategy for reducing its climate impact. However, the differences between these industries, and indeed between many companies within each sector, mean that the most effective tools may not be the same for all of them, and that a combination of approaches is necessary.