Oslo, 15.09.2008

Høring fra Greenpeace angående etiske retningslinjer for Statens Pensjonsfond Utland (Oljefondet)

Greenpeace takker for anledningen til å presentere vårt syn på forvaltningen av de norske oljepengene. Selv om det er en rekke perspektiver man kan ta opp i tilknytningen til Oljefondet, har vår høring denne gangen konsentrert seg om klimaperspektivet ved forvaltningen.

Greenpeace mener det er positivt at Fondet ser på klimarisiko som en viktig del av samfunnsansvaret, men oppfordrer Fondet til å sette større ressurser inn på å sikre at Fondet bidrar i riktig retning, blant annet ved også å utelukke selskaper dersom de ikke demonstrerer tilstrekkelig forståelse for klimaproblemet og behovet for langsiktig posisjonering.

Selskaper som bygger nye kullkraftverk, investerer i nye fossile brensler som oljesand eller oljeskifer, bør ikke kunne forbli i en klimabevisst portefølje.

Greenpeace mener det bør etableres en øremerket del til fornybar energi og energieffektivisering, som over tid bør ha som ambisjon å utgjøre hoveddelen av fondet.

Selve høringsuttalelsen foreligger på engelsk. Vi håper det ikke utgjør problemer.

Til høringsnotatet følger også en uavhengig rapport som ble utført for Greenpeace av analysebyrået Truecost i London i anledning denne høringen. Høringsnotatet viser i flere tilfeller til denne rapporten, som også blant annet inneholder en oversikt over klimapolitikk og praksis i andre sammenliknbare fond.

Mvh Truls Gulowsen, Greenpeace

Bredgade 20, Bagh 4	Stora Robertsgatan 20-22 A	PB 6803, St Olavspl	Box 151 64
1260 København	00171 Helsinki	0130 Oslo	104 65 Stockholm
Tlf 33-93 53 44	Puh 09-698 63 17	tlf 22 20 83 79	Tel 08-702 70 70
www.greenpeace.dk	www.greenpeace.fi	www.greenpeace.no	www.greenpeace.se

info@nordic.greenpeace.org

EXECUTIVE SUMMARY

In this paper Greenpeace sets out its response to the public consultation process of the Norwegian Ministry of Finance on the evaluation process of the ethical guidelines for the Government Pension Fund – Global[1]. Greenpeace is encouraged by the focus of Norges Bank (NBIM) on climate change and corporate governance and would endorse the Albright and Chesterman recommendation that NBIM should expand its strategy on climate change.

Greenpeace's main view is that money earned from depleting fossil fuel resources and polluting the global climate, should be spent on climate mitigation and renewable energy, without other purpose than maximum long term global climate mitigation result for the money. Norway should also reduce its oil extraction rate, and set aside large vulnerable areas as petroleum free zones, as the world has already discovered too much fossil fuel.

However, as this is not yet the scope of the hearing, we will put forward a few ideas and recommendations on how to improve the Norwegian Government Pension Fund – Global on climate mitigation results *within* the current framework. The following is a summary of the recommendations made within the context of investing for climate change:

[1] http://www.regjeringen.no/en/dep/fin/News/news/2008/public-hearing-on-ethical-guidelines.html?id=517308

Summary of recommendations

The Exclusion Mechanism:

- Greenpeace advocates the exclusion of companies based on unacceptable climate risk and financial risk criteria to strongly signal that business as usual in emissions intensive, high risk sectors is not acceptable.
- Greenpeace urges the Fund to adopt a policy of disinvestment from at least companies that plan new investment in unabated coal fired power stations, oil-sands, shale oil or coal to liquid projects..

Ownership and engagement:

- Norges Bank should develop more active and transparent engagement guidelines on climate change for all sectors. These guidelines should address current and potential future financial liabilities associated with corporate greenhouse gas emissions.
- The Greenpeace Corporate Governance framework on climate change is offered to the Fund as a specific set of criteria to be used in ownership engagement with corporate boards and executive management to urgently address the risks and opportunities of climate change in both strategy and operations.
- Norges Bank should strengthen guidance proxy voting activities to incorporate investment-relevant climate change criteria.
- Norges Bank should identify carbon liabilities and opportunities in portfolios to target companies for engagement and evaluate the outcome of ownership activities.
- Norges Bank should require fund managers to identify their approach to addressing climate change over specified timeframes and require fund managers to understand the exposure of their portfolios to carbon liabilities.
- Portfolios in the Norwegian Government Pension Fund could be carbon optimised to reduce exposure to carbon liabilities and reward carbon efficiency.

Establishment of an observation list

- Greenpeace supports an observation list that is made public. This list should focus specifically on the strategic priority areas of the fund including climate change risk.

Earmarking:

- Greenpeace advocates that the Ministry of Finance reserve a large and growing part of the Fund for dedicated investment in renewable energy and energy efficiency. This is consistent with best practice investment of other large European and US pension funds.

Best practice investing on climate:

- Greenpeace advocates that the signalled increased investment in real estate (up to 5%), is focused on energy conservation and absolute reductions in Co2 emissions from the real estate investment portfolio.
- Greenpeace encourages NBIM to collaborate with other institutional investor groups to address urgent and complex questions, in terms of best practice governance and investing for mitigation and adaptation in emerging markets.

CONTEXT

Greenpeace wishes to respond to the discussions and evaluation process of the ethical guidelines for the Government Pension Fund – Global. The Greenpeace response takes place within a specific context**:** this is the increase in focus of the Fund, since 2007, on corporate governance and climate change. The climate change focus is welcomed by Greenpeace. When wealth of this magnitude is accumulated almost entirely from extracting petroleum, which then contributes to global carbon emissions and the depletion of a non-renewable resource, it would seem particularly appropriate and just, to ensure that investing for the mitigation of climate change is a strategic priority for the Fund. Greenpeace would argue that investment today, for wealth creation for future generations, where the portfolio of investments contributes to dangerous climate change is a deeply incongruent and disturbing state of affairs.

In this paper we will provide our views and recommendations on the following main themes for discussion:

1) Corporate governance for climate change and ownership engagement
2) Criteria for exclusion in the context of climate change
3) Responsible investing for climate change, including earmarking

Greenpeace has also commissioned a separate, independent report by Trucost – an environmental research and advisory firm in London, to research and advise on current best practice investing for climate change. The Trucost report is added to this paper as an addendum. References to the Trucost recommendations and research will be made throughout this paper.

INTRODUCTION

Greenpeace is deeply concerned about the current threats to our planet and feel that we need to act with a greater sense of urgency to address the severe environmental damage that is taking place, to a large degree due to the lack of recognition by the market of economic externalities. We have to do more, collectively, both at the public and political level, as well as individually at the private and individual level, to become cognisant of the true cost of natural resources in present production and consumption processes. This is vital in order to slow down and reverse the depletion of our natural resources and to avoid dangerous climate change. We have an obligation to future generations to restore eco-systems, so that they may enjoy and have the use of the natural resources that we have previously had the benefit of.

Some of the issues of grave concern that Greenpeace is currently focusing on are climate change and de-forestation, loss of biological diversity, scarcity of water, and the gaps in environmental governance. With the latter, we are concerned that the political systems, national and international have been unable to produce and enforce decisions that actually limit the ecological destruction that we are witnessing, even when the magnitude and likelihood of potential catastrophes should prompt coherent, urgent and strong political action.

It is within this urgent environmental context that we seek to encourage powerful and influential investors to recognise the true cost of natural resource depletion in their investment strategies and to advocate, in their corporate governance, the responsibility of corporate management to urgently address issues such as climate change.

The challenge for investors, such as the Fund, who invest for the long term, is to convince corporate leaders to overcome the tendency towards short term thinking and to implement climate strategies for the business to shift to a low-carbon economy long after the typical corporate CEO has completed tenure with the company. The emphasis on rewarding leadership on long term climate commitment and action must be encouraged by responsible investors.

We note that there are several groups of large institutional investor groups, such as the UK-based Institutional Investor Group on Climate Change (IIGCC), the initiative of H.R.H. Prince Charles through the P8 group, the Enhanced Analytics Initiative (EAI) and the US-based Investor Network on Climate Risk (INCR) that are leading the way in encouraging investor action on Climate Change. Greenpeace is encouraged by recommendation 9 of the Albright and Chesterman report that "Collaboration with other investors….will be the

Bredgade 20, Bagh 4
1260 København
Tlf 33-93 53 44
www.greenpeace.dk

Stora Robertsgatan 20-22 A
00171 Helsinki
Puh 09-698 63 17
www.greenpeace.fi

PB 6803, St Olavspl
0130 Oslo
tlf 22 20 83 79
www.greenpeace.no

Box 151 64
104 65 Stockholm
Tel 08-702 70 70
www.greenpeace.se

info@nordic.greenpeace.org

quickest way to establish a leadership profile. NBIM could do more to leverage activities of other investors on these and other issues; this may enhance NBIM's ability to promote a sustainable global market over the long term by magnifying its efforts on child labour and climate change'. Equally, we agree with the statement of the IIGCC that '…institutional investors have a critical role to play in supporting the move to a low carbon economy through using their influence as major shareholders and bondholders in the world's companies and as substantial investors in other assets such as property as well as through using their influence with policymakers.' We urge the Norwegian Fund to follow the best practices of these groups and other leading Institutional investors and to set the leadership benchmark for responsible investment in the face of dangerous climate change.

1. FRAMEWORK OF CORPORATE GOVERNANCE FOR CLIMATE CHANGE

Greenpeace welcomes the decision by The Norges Bank (NBIM) to give priority to long-term environmental problems including climate change. We also endorse recommendation 4 of the Albright Group and Professor Chesterman that NBIM *'should expand its strategy on climate change to include (i) advocacy for information disclosure about climate change impacts and risks and (ii) engagement on managing those regulatory and physical risks, and (iii) involvement in investor consortia on the issue of climate change.'*

Greenpeace strongly believes that we need to act now in order to limit the impact of climate change. Scientific research recommends that we must keep temperature rise as far below 2℃ as possible[2]. Limiting warming to levels around 2℃ above pre-industrial temperatures requires very substantial emission reductions. As a consequence, Industrial output of emissions will need to be reduced dramatically. Greenpeace believes that global emissions need to peak before 2015 and be reduced to 50 to 85 percent below 2000 levels by 2050.

[2] IPCC "**Climate Change 2007 – Summary for Policy makers**", the Fourth IPCC Assessment Report., Spain, November 2007. http://www.ipcc.ch/ipccreports/ar4-syr.htm also
Hare, Bill. Potsdam Institute for Climate Impact Research, **The Science of Climate Change**
http://www.theclimategroup.org/index.php/special_projects/breaking_the_climate_deadlock/briefing_papers/

What this means for industry is that there is the utmost urgency to reduce emissions from their business activities. Carbon emissions from business operations will need to start trending downwards. Absolute rather than relative emission targets need to be set and met in all sectors. Given that 2015 is but seven years away, Greenpeace would urge the corporate sector not to wait for the international policy framework to take shape, but to act out of a sense of responsibility to the wider world. Therefore the responsible course of action for the owners of Capital, such as institutional investors, is to encourage urgent action from senior corporate management through advocacy and engagement.

Within the context of advocacy and engagement, it would seem reasonable for NBIM to develop climate change criteria to be considered in investment decision making and active ownership practices. The bank has set out "expectations for corporate performance with regard to preventing child labour and promoting children's rights" in *Investor expectations on Children's rights*. A similar set of expectations on Climate change would serve to add clarity and consistency to the bank's approach.

.Greenpeace has drafted a framework of Corporate Governance for Climate Change which is detailed below. It is noted that the Fund currently uses the advocacy and engagement frameworks of the UN Global Compact, the OECD Principles of Corporate Governance and the OECD Guidelines for Multinational Enterprises. However, in our view, these do not focus sufficiently on the issue of climate change and are therefore inadequate to guide the Fund's ownership activities on this urgent issue. We recommend that NBIM adopt the Greenpeace Corporate Governance framework in its advocacy and governance as well as with external managers or joint ventures in private equity, infrastructure or real estate investments. This view is consistent with recommendations 1 and 2 of the Albright and Chesterman report.

The Greenpeace governance framework emphasises the need for corporate commitment and action on emissions reductions, throughout the operations of the entity. It stipulates the accountability of management and the incentivisation of all staff to develop a way of working that is cognisant of the need to produce goods and services which maximise the use of energy efficiencies and renewable energy. The expectations on public accountability and transparency, in terms of investor risk and consumer disclosure, is also brought to the attention of senior management.

CORPORATE COMMITMENT

- Corporate mission and business principles statements explain the business commitment to taking action towards mitigating the business' effect on climate change.
- The CEO statement must be clear and proactive on the company's commitment to urgently lower levels of carbon emissions.
- A corporate commitment to a thorough assessment of the risks and opportunities presented by climate change, including the risks and opportunities presented by current and likely future regulation and by the physical effects of climate change.
- A corporate statement on the financial significance of these risks and opportunities and the actions that the board intend to take.
- A corporate statement making explicit the investment goals for shifting from fossil fuels to renewable energy and energy efficient alternatives even in the face of regulatory and market uncertainties.

MANAGEMENT ACCOUNTABILITY

- Management to assign responsibility at board level, through a named board member to provide direction, policy development and communication on climate change mitigation.
- Management to make absolute reductions in carbon emissions an explicit factor in employee and director compensation.

INVESTOR AND PUBLIC ACOUNTABILITY

- In stock-exchange filings and initial public offerings, discuss and analyse material climate change risks including regulatory and physical risks as well as their implications for business competitiveness.
- Engage in effective consumer-disclosure practices regarding the level of emissions in products and services and the potential development of more energy-efficient products and services.
- Contribute constructively to public policy debates on climate change.

INTERNAL CAPACITY BUILDING (TO SHIFT TO RENEWABLE ENERGY AND ENERGY EFFICIENCY)

- Develop effective environmental management systems, processes and measures that are integrated into the firms operating processes
- Create staff information training and incentive programmes to identify research and implement energy efficiencies and renewable energy alternatives in all business processes.
- Add absolute emissions reduction as a criterion for product formulation and procurement, including a commitment to seek greater energy efficiencies and to use and produce renewable energy.
- Develop collaborative activities including research and financial risk sharing to develop renewable-energy alternatives.

We note that the Norges Bank has a stated policy of encouraging companies to work constructively with policy makers on climate policy. While this is to be applauded, it falls short of what is needed in terms of urgent action; the need for corporate climate policy to be swiftly translated into measurable action and performance improvement.

Carbon emissions that are currently emitted by companies within investment portfolios already present considerable financial and environmental risks.

As the analysis from Trucost (see addendum to this report) states: "Further investments in carbon-intensive industrial plant could lock economies into a high-carbon trajectory, making future mitigation efforts more expensive and exposing portfolio holdings to significant carbon costs". A clear strategy for exercising ownership rights on climate change is needed to identify and address these risks and responsibilities of The Fund.

Further guidance on Corporate Governance and climate change is also available in the 2006 report by CERES[3] entitled Corporate Governance and Climate Change: Making the Connection". The report contains a 30-page summary report of how 100 companies are incorporating "climate governance" into their work. It includes the company scores with 2 to 3 page profiles on each, as well as sector-specific findings.

Two further reports from CERES which offer detailed advice on Corporate Governance are:

- "Climate Risk Disclosure by the S&P 500-"[4] This assesses how S&P 500 corporations from 11 key industries disclose the risks and opportunities they face from climate change. The report finds that over half of the USA's largest companies are providing inadequate disclosure to investors, despite growing financial losses in multiple sectors from climate change.
- "Corporate Governance and Climate Change: The Banking Sector"[5]
  This report analyzes the corporate governance and strategic approaches of 40 of the world's largest banks to the challenges and opportunities posed by

[3] Cogan, Douglas G. *Corporate Governance and Climate Change: Making the Connection*, CERES Publication 2006. http://www.ceres.org/NETCOMMUNITY/Page.aspx?pid=593&srcid=592

[4] http://www.ceres.org/NETCOMMUNITY/Page.aspx?pid=858&srcid=593

[5] http://www.ceres.org/NETCOMMUNITY/Page.aspx?pid=592&srcid=595

climate change. The financial community is at the centre of this economic transformation. With nearly $6 trillion in market capitalization, banks are the world's major capital providers and risk management experts. As such, banks have a vital role in finding timely, practical and cost-effective solutions to mitigate climate change and adapt the economy to its already apparent effects.

2. EXCLUSION OF COMPANIES

A business as usual scenario is likely to be devastating for the planet. According to the UK Government Stern Review[6], business as usual could result in a 5-20% loss in global GDP annually. It is imperative that responsible investors such as the Fund begin to examine the conditions under which a company is excluded for causing 'severe environmental damage' through knowingly and wilfully contributing to climate change.

The Albright and Chesterman report make the point that '*engagement will not always yield sufficient progress, and certain governance violations are (or should be) too problematic to ignore or accept. At times, a lack of progress may necessitate the removal of some or all management or the disinvestment of shares*'. Greenpeace strongly agrees with this view in the context of managing climate risk and would argue that the exclusion or disinvestment in shares of companies is merited when the criteria for such action is based on companies with unacceptably high carbon-intensity in their activities and where there is a lack of management commitment to reducing emissions. Therefore Greenpeace is wholly in agreement with recommendation 7 of the Albright Group and Professor Chesterman that 'NBIM should be authorised to recommend to the Chief Investment Officer changes in holdings based on the results of engagement'.

Contrary to the Albright Group and Professor Chesterman, we believe a publicly available "observation list" will help add pressure on companies prior to potential exclusion, and that this will be a useful tool to document the real corporate engagement of the Fund.

[6] Stern ,N. (2006) *The Economics of Climate Change,* HMSO, London

In Greenpeace's view excluding companies is consistent with the Fund's twin ethical objectives:

1. To ensure that owners of the Fund achieve favourable long-term returns.
2. To avoid investments that entail *an unacceptable risk that the Fund contributes to certain specified gross or serious ethical violations, including systematic human rights violations, severe environmental damage or gross corruption.*

In terms of achieving a favourable long-term return, Greenpeace believes that Climate risk in the form of physical, regulatory and reputational risk will impact all companies and sectors to one extent to another. Companies in all industrial sectors, but especially in *carbon-intensive industries like energy, real estate, and transportation* are likely to suffer financial and physical risks as the changes in regulation and physical climate affect business models and business assets. Risks and opportunities for investors are also likely to be thrown up in the food and commodities sectors due to the changes that must take place from more responsible land use practices, such as a halt to deforestation, greater reforestation and sustainable agricultural practices.

Greenpeace is of the view that the current relatively low carbon price cannot possibly be sustained as the pressure on international policy makers mounts. Carbon markets will also need to expand to cover a greater proportion of emissions – currently only a fraction of global emissions (10%)[7] are covered by carbon pricing mechanisms.

A likely higher carbon price will have a substantial impact on long term investment returns. In the view of Greenpeace and others[8] the price of carbon is under-valued and does not reflect the true cost of greenhouse gas emissions. We note, for example that the Stern Review estimated the cost of greenhouse gas emissions at US$85 (€63) per tonne of CO2 equivalent. We also note that investment managers and traders such as Deutsche Asset Management [9] recently commented that '…market pressures are building that could take the price [for European carbon allowances] to €100 a tonne or higher'. In February of this year, Al Gore advised Wall Street leaders and institutional investors that ".. the

[7] Krosinsky C. and Robins N., *Sustainable Investing, The Art of Long Term Performance*, Earthscan 2008.
[8] Stern ,N. (2006) *The Economics of Climate Change,* HMSO, London
[9] Parker, K. (Deutsche Asset Management), *Carbon emitters free ride is about to end.* Financial Times July 16th 2008.

assumption that you can safely invest in assets that come from business models that assume carbon is free is an assumption that is about to go splat." Gore advised Wall Street in no uncertain terms that Carbon assets can be likened to sub-prime lending in terms of financial risk[10]. Therefore it would seem only prudent, and in keeping with their fiduciary duty, that long term investors use enhanced research to identify and address portfolio financial risks due to investments in companies with high carbon emissions. A policy of both corporate engagement to change corporate behaviour, and divestment - where engagement is not working, would give a clear and unequivocal signal in terms of responsible investment practice in the face of dangerous climate change.

There are also clear inconsistencies between current Norwegian government policy and the Fund's investment practices which Greenpeace finds disturbing. For example, the Norwegian government is not in favour of unabated new Coal. This is evidenced by it's commitment to CCS and large investments in attempts to be pioneering CCS technology. The 2007 Norwegian Government white paper on climate policy also commits to a trebling of investment in energy efficiency and renewable energy and a ban on oil-fired heating in new buildings. The Norwegian government has also announced its intention to become carbon neutral by 2030. However the contrast between this commitment on climate change generally and fossil power abatement specifically in the domestic sphere, and the Fund's international investment practices cannot be starker. For example, the Trucost analysis of just two high carbon investments (RWE and Xcel) in the Fund's portfolio demonstrate how, based on holdings as at 31 December 2007, emissions associated with the fund could be estimated at 1.5 million tonnes of carbon dioxide equivalent (CO2e)[11]. This equates to almost 2.8% of Norway's emissions of 55 million tonnes of CO2e in 2007. It would seem that the Fund, specifically through its investments in energy producing companies that depend on Coal-fired power stations, is complicit in increasing emissions outside Norway's borders.

[10] New York Times, February 14, 2008. *Gore Warns on 'Subprime Carbon' Industry*
Cougan, D. *Sub-prime and carbon: an eerie similarity*, http://www.responsible-investor.com/home/article/sub_prime_carbon/

[11] See addendum to this report: Trucost, *'Guide for Pension Funds on Best Practice Responsible Investment in Managing Climate Change.* September 2008.

These types of investments are unattractive from a financial perspective too: Carbon costs for RWE amounted to €683 million during the first s ix months of 2008, compared with €37 million during the same period in 2007. This contributed to a 5% fall in earnings before interest, tax, depreciation and amortization (EBITDA) and an 8% drop in operating profits during the first half of 2008.

In the light of the severe environmental damage that new Coal-fired power stations will pose to our climate and that of future generations, as well as the incongruence between these types of investments internationally and stated Norwegian domestic energy policy (and risk to long term financial returns), Greenpeace would urge the Fund to adopt a policy of divestment of companies that plan further new investment in coal-fired power plants. The same should apply to companies that spend large resources on developing new fossil fuel resources like tar sands, shale oil and coal to liquids. Anything less can only be interpreted as a green-light to companies to continue business as usual.

3. RESPONSIBLE INVESTMENT FOR CLIMATE CHANGE

The United Nations Environment Programme is of the view that the transition to a cleaner energy sector and the avoidance of dangerous climate change can be achieved through currently available technologies. Achim Steiner, UNEP executive director explains it in very clear terms: "The twin thrusts from renewable energy and improved energy efficiency can be the sustainable energy engine of a global economy without dangerous carbon emissions. Rather than waiting for new technology to clean up the current energy infrastructure, the job can be done now from existing solar, wind, geothermal and other currently commercial technologies….. Renewable energy and energy efficiency really are the light at the end of the climate tunnel that illuminates the most cost-effective and timely ways to reduce carbon emissions across the global economy."[12]

This is an encouraging and unambiguous message which is consistent with research that Greenpeace has undertaken[13] and should be welcomed by investors looking for investments in clean technologies. The latest independent report from Greenpeace entitled 'The Energy [R]evolution' is an independently produced report that provides a

[12] UNEP, Global trends in Sustainable Energy investment 2008 http://sefi.unep.org/english/globaltrends
[13] Greenpeace, Energy [R]evolution - http://www.energyblueprint.info/

practical blueprint for halving global CO_2 emissions, while allowing for an increase in energy consumption by 2050 and simultaneously phasing out nuclear energy.

In the view of Greenpeace, these messages should signal to long term investors wishing to lead the way on investor action on climate change, that investment in currently available renewable energy and energy efficiency technologies is the low-cost and most direct means of supporting the transition to a lower-carbon economy. The renewable energy sector is currently growing at record levels and growing globally. New investment in sustainable energy reached $148.4 billion in 2007, 60% higher than in 2006, while for the same period investment in energy efficiency technology reached $1.8 billion, an increase of 78% on 2006[14]. According to UNEP Investment flows in renewable energy have not only continued to grow but have broadened and diversified, making the overall picture one of greater breath, depth and scale….'

Greenpeace view on earmarking fund for special investments

The Norwegian Ministry of Finance has specifically requested views on whether it is at all appropriate to move in the direction of reserving a part of the Fund for management under a special mandate, and what types of investments might be examined in detail for this purpose. The view of Greenpeace is unequivocal on this. Given the concerns voiced earlier in this paper regarding the source of the wealth of the Fund, i.e. revenues from climate change causing fossil fuels, Greenpeace would strongly advocate investments in renewable energy and energy efficiency as the types of investments that must be considered under a dedicated investment focus for a part of the wealth under management. This is also consistent with plans set out in the Norwegian Government white paper on climate policy which promises a trebling of investment in energy efficiency and renewable energy, up to NKr10bn(€1.25bn) over t he next five years.

[14] UNEP, Global trends in Sustainable Energy investment 2008 http://sefi.unep.org/english/globaltrends

Best practice Investing in Renewable Energy and Energy Efficiency

Investments in renewable energy and energy efficiency have a commercial profile and are in keeping with current best practice. In February 2008 the United Nations co-hosted the third investor summit on Climate Risk. At the Summit over 50 U.S. and European Institutional Investors managing $1.75 trillion in assets announced a new Investor Network on Climate Risk (INCR) Action plan. One of the specific commitments was to 'Seek investment opportunities in all appropriate asset classes to support clean technology efforts.....[the] goal is to deploy $10 billion collectively in additional investment over the next two years.

As an element of its responsible investment strategy, ABP a large Dutch pension fund with €208 billion in assets, has dedicated investments i n renewable energy. In autumn 2006, ABP invested $363 million in Climate Change Capital's (CCC) Carbon II fund, a large private sector carbon fund run by Climate Change Capital, the UK investment banking group dedicated to investment in clean energy and a low carbon economy. The fund invests in projects, principally in developing countries, which will lead to reductions in greenhouse gas emissions.[15]

The Californian Public Employees Retirement Scheme (CalPERS), the largest pension fund in the USA with assets totalling $239 billion has committed $400 million to a new private equity vehicle focusing on clean energy and technology investments. The clean energy and technology program will concentrate on energy, water and material technologies, products and services that reduce carbon emissions, conserve natural resources and improve energy efficiency.[16]

Publications by IIGCC such as *'Investment Opportunities in a Changing Climate: The Alternative Energy Sector'*[17] outline in detail the investment opportunities available for consideration.

[15] 2007, UNEP-FI and UKSIF report 'Responsible Investment in Focus: How leading public pension funds are meeting the challenge'
[16] http://www.calpers.ca.gov/index.jsp?bc=/about/press/pr-2007/feb/cleantech.xml
[17] http://www.iigcc.org/docs/PDF/InvestmentOpportunitiesChangingClimate.pdf

Given the large and long term investment needed in the global energy systems over the coming decades, and the climatic need for these to be transformed into energy efficient and renewable systems, there are no reasons not to earmark a large and growing proportion of the Fund to investments in renewable energy and energy efficient applications and production, even under a commercial profile. This will require significant sector expertise, and should be done with the view to transform the Fund to a majority of such investments over time.

Best practice Investing in Real Estate

The plan for the Norwegian government pension fund to invest up to 5 percent of the capital of the Fund in real estate is encouraging. Greenpeace would advocate that the Fund should consider investing in real estate with a focus on energy conservation and absolute reductions in CO2 emissions. According to the UN's Intergovernmental Panel on Climate Change (IPCC), residential and commercial buildings account for 21% and 11%, respectively, of global CO2 emissions with transportation adding a further 22%.[18] There is evidence that energy conservation generates returns for investors.[19] Professor Gary Pivo (University of Arizona) and Dr Paul McNamara (Head of Property Research at PruPIM) explain that '*According to research by the U.S Environmental Protection Agency, drawing on experience from real estate investment companies that participate in its Energy Star programme, a recommended sequence of upgrades designed to save energy costs an average of US$2.30 per square foot, reduces energy use by 40%, produces an annual saving of US$0.90 per square foot and is paid back in 2.5 years. If ths sequence of costs and returns is analysed for a 10 year period, with the energy savings being capitalised into building valuation and returned at the end of 10 years, the internal rate of return for the investment comes to 41%.*'[20]

Cited examples of best practice in real estate investment among both investors and investment management companies are:

[18] Intergovernmental Panel on Climate Change, Climate Change 2001: Working Group III: Mitigation. 3.3 Buildings and 3.4 Transport and Mobility.UNEP and WMO, 2001. Available online at http://www.grida.no/climate/ipcc_tar/wh3/089.htm
[19] Prof Pivo Gary and Dr McNamara Paul, Chapter 10 – Sustainable and Responsible Property Investing in Krosinsky and Robins, *Sustainable Investing, The Art of Long Term Performance*, Earthscan 2008.
[20] ibid

- The California Public Employees' Retirement System (CalPERS) and Caifornia State Teachers' Retirement System(CalSTRS). These two large investors hold over 200 million square feet of property. Both funds have set goals to reduce the energy use in their real estate holdings by 20% over a five year period.

- *Investa Property Group* (Australia) audits the energy use in its office buildings, diagnoses inefficiencies, and identifies cost-effective ways to save energy. In one building alone it's saving AUS$30,000 and 363 tonnes of CO_2 per year, all with minimal or no cost conservation strategies.

- *AXA Real Estate Investment Managers* (France) is refurbishing the energy systems in its buildings. In one of its properties, updated heating and cooling units and a change from fuel oil to natural gas is saving more than €20,000 and 107 tonnes of CO_2 per year.

- *Sumitomo Trust* (Japan) through the New Gaea Projects has introduced solar power to apartment buildings in Japan.[21]

- *PRUPIM* (UK) has worked with an energy procurement service provider to contract for green power for 240 of its properties, avoiding 21,000 tonnes of CO^2 emissions per annum. The £75 million contract provides the properties with green power at a significant discount to the current market rate. Because the power is generated from Combined Heat and Power plants, it is also exempt from the UK Climate Change Levy, making the price even more competitive.

[21] UNEP FI, Responsible Property Investing - What the leaders are doing, 2008, available online at: http://www.unepfi.org/fileadmin/documents/ceo_briefing_property_01.pdf

Climate change investments in emerging markets

Greenpeace notes that the Fund plans to expand its investment benchmark portfolio to include all emerging markets (as defined by FTSE)[22]. While emerging markets have come of age for investors in developed economies, the environmental, social and climate change challenges in these regions remain particularly challenging and pressing. Taking India as an example, India attracts 15% of total equity flows to emerging markets, while climate change impacts are estimated to cost 5% of GDP. 77% of the Indian population live on less than US$50 cents a day and the number of people classified as 'poor and vulnerable' is increasing daily. India is expected to be one of the world's worst affected countries due to climate change, with famine, drought, flooding, malaria and It is expected that per capita water supply will drop to critical levels. The World Bank has warned that India's demand for water could exceed all sources of supply by 2020 unless action is taken now. In terms of Indian industry responses to responsible practices, reporting on environmental, social and governance factors by the majority of companies is poor and action on climate change is overshadowed, by other urgent development priorities. The implications of these not insignificant challenges for long term equity investors that aim to invest responsibly, are that active owner engagement is required, usually through collaboration, to develop management policies and practices for climate change mitigation and adaptation

Responsible investment in emerging markets therefore must be acknowledged as a challenging and complex business, requiring active rather than passive management. It is also clear from the research undertaken for this report that best practice in this area has still to emerge. Investor groups are for example, beginning to tackle gaps in company disclosure practices in emerging markets and these are outlined in more detail in the Trucost report. The group of pension fund known as the 'P8' group, convened under the leadership of H.R.H. Prince Charles is beginning to research the all important questions such as: what are the real risks to current investments in emerging markets? What types of investment structures (and partnerships) are needed to produce investable products in developing countries (rainforests, infrastructure, development linked to the climate agenda

[22] This would include the top 90% large and mid cap companies in Argentina, Brazil, Chile, China, Colombia, Czech Republic, Eqypt, Hungary, India, Indonesia, Israel, Korea, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand and Turkey.

etc)? With the widening of the investment mandate of the Norwegian Government Pension Fund to cover all emerging markets, it would require Norges Bank to collaborate on these initiatives.

CONCLUSIONS

To conclude, it is encouraging that the Norwegian government's aspiration for the Fund to take a leadership position and to adopt best practice in asset management has led it to this open public consultation. It is also encouraging that the Fund plans to make climate change a priority. This paper has sought to explain why aligning and reshaping the investment priorities of the Fund to take a leadership role in investing for climate change is critical, given the urgency and scale of the problem as well as the source of the wealth of this Fund. If Norges Bank is to avoid being just another follower of a responsible investment style, it has to reassert its conviction, as a long term investor, to address climate change through unequivocal policies and transparent practices. In the view of Greenpeace this means adopting the recommendations on corporate governance for climate change and exclusion of new investments in Coal-fired power stations as well as dedicating a large and growing earmarked investment to currently available technologies in renewable energy and energy efficiency. It also means exercising care and evaluating its approach on engagement on climate change in its extended investment mandate across emerging markets.

Bredgade 20, Bagh 4
1260 København
Tlf 33-93 53 44
www.greenpeace.dk

Stora Robertsgatan 20-22 A
00171 Helsinki
Puh 09-698 63 17
www.greenpeace.fi

PB 6803, St Olavspl
0130 Oslo
tlf 22 20 83 79
www.greenpeace.no

Box 151 64
104 65 Stockholm
Tel 08-702 70 70
www.greenpeace.se

info@nordic.greenpeace.org