



The Council's work under the environment and climate criteria

In Section 3 of the GPFG's ethical guidelines, it says: "Companies may be excluded or placed under observation if there is an unacceptable risk that they contribute to or are themselves responsible for:

- c) severe environmental damage
- d) acts or omissions that on an aggregate company level lead to unacceptable greenhouse gas emissions".



Severe environmental damage

In 2020, the Council has continued working under the environment criterion with respect to companies whose operations harm World Heritage Sites, contribute to deforestation or lead to serious pollution from shipbreaking or mining. During the year, the Council focused particularly on issues relating to the loss of important biodiversity.

Many of the recommendations to exclude companies which the Council has issued under the environment criterion have been linked to the loss of globally endangered species and important ecosystems. During the year, the Council has pursued this topic. Several GPFG companies engage in production processes that make use of preparations made from animal parts. The Council is taking a close look at the companies' use of species that are at risk of becoming globally extinct and whose international trade is prohibited. The Council will assess whether the companies' use of such species may give grounds for their exclusion from investment by the GPFG.

Over a period of several years, the Council has examined companies whose operations may harm areas that UNESCO has classified as World Heritage Sites. The Council aims to expand its efforts to include other important protected areas, whose conservation values are threatened by companies' activities. The Council has commissioned a study of the extent to which GPFG companies have operations that could cause such harm. Depending on the study's outcome, the Council's efforts in 2021 will consist of selecting companies for further research and defining what could, potentially, constitute grounds for excluding companies from investment by the GPFG.

In 2020, the Council's work on deforestation has primarily comprised the follow-up of one company that has been placed under observation. Dialogue with the company has concerned the steps it has taken to preserve biodiversity and important conservation values in its oil palm plantations. The Council has also raised the situation facing indigenous people who live under extremely difficult conditions within the company's concession area.

Every year, a substantial number of ships are broken up on beaches in Asia. The process, known as beaching, involves extremely dangerous working conditions and causes serious pollution. Since 2017, the Council has reviewed companies that dispose of ships to be broken up for scrap on beaches in Bangladesh and Pakistan. In its beaching-related recommendations, the Council has assessed companies against both the environment and human rights criteria. In 2019, the Council began investigating the conditions under which ships are broken up for scrap in India, where there is also a large shipbreaking industry. The Council's investigations were made difficult in 2020 due to the Covid-19 pandemic, but will continue in 2021.

In 2019, the Council began investigating factories' discharge of antibiotics into watercourses in the area around Hyderabad, India. The matter is serious, but has proved difficult to investigate because of the large number of companies manufacturing antibiotics there. Since it has not been possible for the Council to identify individual companies' contributions to the problem, it has decided to discontinue any further investigation into these cases.

In 2020, the Council also embarked on a systematic review of the environmental harm linked to mining companies in the GPFG's portfolio.



The Council's work under the climate criterion

After a lengthy clarification process between the Council on Ethics, Norges Bank and the Norwegian Ministry of Finance, four companies were excluded in May 2020 on the grounds of unacceptable greenhouse gas emissions. The companies extract oil from oil sands, which also account for the bulk of their oil reserves. The extraction of oil from oil sands is extremely energy-intensive and therefore leads to materially higher greenhouse gas emissions per unit produced than oil production based on other resources. Absolute emissions and emission intensity levels have been the most important elements in the Council's recommendations relating to the climate, along with forward-looking assessments. Since the Ministry of Finance's clarification, the Council now also includes authorities' climate-related regulatory framework in its assessments.

The Council concentrates its efforts on extremely large individual emissions or business sectors and processes which, by their nature, generate high emission levels. This applies, for example, to the production of cement and steel, which the Council plans to work on in 2021.

While the Council's role is to advise on whether to exclude companies from the GPFG or place them under observation, Norges Bank undertakes a number of activities to manage the risk that greenhouse gases represent. Of the Bank's total risk-based divestment of shares in 314 companies that had taken place at the close of 2020, 170 were divested on the grounds of climate risk. Climate change was a topic discussed at over 500 of the almost 2,900 meetings with companies that the Bank held during the year. Cement is one of the business sectors that the Bank is also working on.⁴

With the guidelines that have been drawn up for the climate criterion, it is natural that the work of Norges Bank and the Council should overlap. Both institutions will prioritise sectors that generate substantial emissions, and the main focus will be on companies that perform below the industry average. In this area, therefore, there is a particular need for close coordination to establish an effective division of labour.

⁴ https://www.nbim.no/contentassets/fef0e2802b3f423ba2e514cfde1277d7/responsible-investments-2020_government-pension-fund-global_webversion.pdf p 41 and 91