



Environment and climate

Section 4 of the guidelines states that: “Companies may be excluded or placed under observation if there is an unacceptable risk that the company contributes to or is responsible for: [...]

- i. severe environmental damage
- j. acts or omissions that on an aggregate company level lead to unacceptable greenhouse gas emissions.”



Severe environmental damage

In 2021, the Council's work under the environment criterion has focused on cases relating to the loss of important biodiversity, deforestation, serious industrial pollution and mine-related pollution. This is a continuation of the issues and topics that the Council has worked on previously.

The basis for many of the Council's recommendations to exclude companies under the environment criterion has been the loss of globally endangered species or the loss of important ecosystems. In 2021, the Council extended its endeavours to pharmaceutical companies that produce traditional Chinese medicines containing body parts from animals threatened with global extinction and subject to an international trade ban. This work is described in more detail later in the annual report.

The Council has, moreover, taken a closer look at certain hydropower projects, where the risk of harm to biodiversity is considerable. The environmental consequences are associated with both the inundation and the operation of the hydropower plants.

In 2021, the Council's work on deforestation consisted of following up one company that was under observation, as well as assessing companies that contribute to deforestation through their suppliers. Following a recommendation from the Council, one of Brazil's largest meat producers has recently been placed under observation. The company purchases cattle from suppliers whose properties are at very considerable risk of deforestation. The company has announced new and wide-ranging measures and a goal of eliminating deforestation in its supply chain. As a result, the Council recommended observation rather than exclusion.

Unacceptable practices of shipbreaking continued to be an important topic for the Council in 2021, as it has been since 2017. During the year, the Council established a framework for assessing shipbreaking in India. This included a consultancy for surveying conditions at Indian shipbreaking yards. During the

autumn, assessments were initiated on companies that have disposed of ships for break-up in India, in line with the established framework. This work will continue through 2022. The exclusion of one company was revoked in 2021. The Council's work relating to unacceptable shipbreaking practices is described later in this annual report.

In 2021, the Council embarked on the study of two areas where the risk of environmental damage is considerable, and which could involve many GPFG companies. One area is damage to protected areas. For several years, the Council has assessed companies with operations that could harm areas inscribed on UNESCO's World Heritage List. These are areas which are considered to be of outstanding and irreplaceable natural value. The Council has recommended the exclusion of several companies on this basis. In 2021, the Council commissioned a project to identify GPFG companies whose operations could risk harming other internationally important protected areas or areas with a particularly important biodiversity. Unsurprisingly, the biggest risks relate to mining, agriculture, energy production and infrastructure projects. Around 80 companies have been identified by the survey. The assessment of these companies will continue in 2022.

The Council has also embarked on a systematic review of mining companies in the GPFG portfolio, with the aim of identifying particularly polluting operations. The environmental issues relate primarily to tailings dams and the runoff therefrom, as well as emissions from enrichment. Around 300 companies in the GPFG portfolio are either pure mining companies or integrated metals producers with some mining operations. The companies have been reviewed and sorted geographically. Companies operating in areas where the enforcement of environmental legislation is deemed weak will be examined in more detail. The investigation will be divided into several sub-studies. So far, a consulting project has been commissioned to survey environmental conditions at gold mining companies. In total, there are 58 such companies in the GPFG, half of which could be worth studying in more detail.



Climate criterion

The climate criterion distinguishes itself from the other criteria in the guidelines because there are no established norms that individual companies' operations can be measured against. Furthermore, the criterion states that companies must be assessed at the aggregate company level. With regard to the other criteria, the Council normally assesses whether norm violations in a single part of a company's operations are so serious that the company should be excluded from the GPFG. To determine whether a company's emissions can be characterised as grossly unethical under the climate criterion, a great many companies must be compared. The assessment of companies under the climate criterion is therefore particularly resource intensive. The criterion also differs from the other conduct-based criteria in that normally only the company itself possesses the information we need in climate-related cases.

In its policy platform, the government has said that the GPFG shall adopt a long-term goal of zero emissions from the companies in which it invests. So far, it is not entirely clear what this means in practical terms. However, it is obvious that such a step could affect both the composition of the GPFG and the priorities guiding the exercise of its influence as a shareholder.

The Ministry of Finance has asked the Council on Ethics to report on its experience of implementing the climate criterion. Our response, which is included in this annual report, is based on the Council's experience to date, and an assessment of developments going forward. The Council's assessment may be summed up as follows: The government's goals for the GPFG's climate profile, the attention being paid to anthropogenic climate change, the world's opinion of companies responsible therefor, and reporting and monitoring systems to document the companies' role in a climate perspective have changed radically since 2016, when the climate criterion came into effect. The

changes are so great that the Council considers the focus and organisation of its work under the climate criterion should be reassessed.

The Council presumes that a goal of climate neutrality for the GPFG will probably lead to significant changes in the fund's climate profile over time, both in that companies change their behaviour and that the portfolio changes its composition. It is not given that the existing 'pegs' should form the grounds for exclusion if one is working towards such a long-term goal. It should be possible to reformulate the climate criterion to support this process.

Such a change in the investment mandate will, moreover, require a further build-up of activity and competence on the part of Norges Bank. Due to the way the climate criterion is framed, the Council and Norges Bank will to an even greater extent than today request information from the same companies and establish dialogues with the companies on the same issues. This will not be a particularly efficient use of resources, nor is it likely to instil confidence in the companies concerned.

The Council on Ethics is therefore of the opinion that the Ministry of Finance should consider solutions to give Norges Bank responsibility in the climate field, which also includes the assessment of companies under the climate criterion. Today, Norges Bank can exclude companies under the coal criterion without a recommendation from the Council on Ethics. Nevertheless, a brief explanation is still given for why the company is being excluded or placed under observation. Under this arrangement, responsibility for the coal criterion is, in principle, divided between Norges Bank and the Council, with the primary responsibility lying with Norges Bank. However, the Council may, at its own initiative, recommend exclusion or observation under the criterion. Such an arrangement should also be workable for the climate criterion.