



8 Climate and environment

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: [...]

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

[...]”



8.1 Severe environmental damage

In 2022, under the environment criterion, the Council continued to work on cases relating to the impairment of areas of high conservation value or the potential extinction of endangered species. Serious environmental damage may occur for many reasons. The Council has looked at several cases relating to the conversion of land containing important biodiversity for agriculture, mining, hydroelectric production, infrastructure or other purposes, and cases relating to pollution from industry and shipbreaking. According to the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES),⁶ land use change, exploitation of natural resources and pollution are the three most important of the five main reasons for the loss of biodiversity and ecosystem services worldwide; the other two being climate change and invasive alien species. The Council's work therefore help to set standards for what may be considered as serious norm violations based on what the international expert community considers the most important threats to nature worldwide.

In many of the cases the Council assesses under the environment criterion, inadequate policies and systems for impact assessment, as well as poor decision-making processes, diminish opportunities to identify the risk of serious environmental damage. A lack of methods for the development and documentation of mitigating measures is thus also part of the risk picture. This is in line with IPBES, which finds that the underlying societal reasons for the damage to, and loss of, nature may be found in economic, demographic, regulatory, cultural and other conditions.⁷ The Council's work is therefore also helping to uncover underlying causalities, clarify key factors behind norm violations and point to both opportunities and the need for development.

6 IPBES (2019): Summary for policymakers of the global assessment report on biodiversity and ecosystem services of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services, S. Díaz, J. Settele, E. S. Brondízio, H. T. Ngo, M. Guèze, J. Agard, A. Arneth, P. Balvanera, K. A. Brauman, S. H. M. Butchart, K. M. A. Chan, L. A. Garibaldi, K. Ichii, J. Liu, S. M. Subramanian, G. F. Midgley, P. Miloslavich, Z. Molnár, D. Obura, A. Pfaff, S. Polasky, A. Purvis, J. Razzaque, B. Reyers, R. Roy Chowdhury, Y. J. Shin, I. J. Visseren-Hamakers, K. J. Willis, and C. N. Zayas (eds.). IPBES secretariat, Bonn, Germany. 56 pages. <https://doi.org/10.5281/zenodo.3553579>

7 IPBES (2019)



Box 8.1 Kunming-Montreal Global Biodiversity Framework

In December 2022, 196 countries signed the Kunming-Montreal Global Biodiversity Framework. The primary aim of this agreement is to stop the loss of ecosystems and biodiversity, and ensure a fairer distribution of nature's bounty by 2050. This agreement reflects growing international awareness of our shared global responsibility to protect nature and the benefits it provides. One innovative feature of the Kunming-Montreal Global Biodiversity Framework is that it sets clear and frequently quantifiable targets for reducing biodiversity loss. Another is that it places responsibility for helping to reduce biodiversity and environmental loss on the business and financial sectors.⁸ For example, it is expected that companies, especially major transnational enterprises, monitor, assess and openly share information about their exposure to biodiversity-related risks, and to their dependence and impact on nature. Companies are further expected to make this information freely accessible to consumers and public authorities, so that the risk to biodiversity and negative impacts can be reduced, and sustainable production and positive impacts increased (Kunming-Montreal Global Biodiversity Framework, Target 15). Public authorities must ensure the full integration of biodiversity and its multiple values into policies, regulations, planning and development processes (Target 14) and ensure that all areas are under participatory integrated biodiversity-inclusive special planning and/or management processes relating to land and sea use change, to bring the loss of areas of high biodiversity importance close to zero by 2030 (Target 1). Also important is the agreement's ambitious goal of phasing out subsidies harmful for biodiversity by a targeted USD 500bn per year by 2030 (Target 18), as well as the goal of mobilising at least USD 200bn per year in public and private financing for the restoration and preservation of biodiversity (Target 19), and ensuring the sharing of capacities and resources (Targets 17, 20, 21). This package of targets establishes strong incentives for the development of norms and thresholds for what constitutes serious environmental damage, as well as new systems for monitoring and reporting the environmental impacts and dependencies of both the business and financial sectors in the years ahead.

In many of its recommendations to exclude companies under the environment criterion, the Council has rested its assessment on the loss of globally endangered species and important ecosystems. In 2022, for example, the Council took a closer look at the construction of certain hydroelectric power projects where the risk of biodiversity loss is considerable. The Indian company NHPC Ltd, which is the builder, owner and operator of the Lower Subansiri hydro-power project in India, was excluded in 2022 due to the inundation of an over 30 km² global biodiversity hotspot and the impact that operation of the power station will have downstream.

In 2022, the Council continued assessing GPFG-invested companies whose operations risk harming internationally important conservation areas or areas of particular importance with respect to biodiversity. The highest risks relate to mining operations, agricultural production, energy production and infrastructure projects. Many of the companies, which have been identified in several consultant reports, have projects which have not yet got underway, but which the Council will monitor going forward. The Council has also commenced an assessment of other companies with respect to environmental risk. This work will continue in 2023.

8 Kunming-Montreal Global biodiversity framework: <https://www.cbd.int/doc/c/e6d3/cd1d/daf663719a03902a9b116c34/cop-15-l-25-en.pdf>



The observation of companies on matters relating to biodiversity has also been an important part of the Council's work under the environment criteria in 2022. Here, the Council assesses whether the measures the companies have implemented are sufficient to reduce the risk of serious environmental damage. Such assessments can be difficult, not least due to a lack of environmental data. Companies can also engage in several different types of problematic activities. In relation to one of the companies under observation, it has emerged that a subsidiary other than the one which prompted the observation decision has operations involving a high risk of important biodiversity loss. Based on the Council's experience, companies with weak policies and systems for identifying and mitigating the negative consequences of their operations seem to have a higher probability of being involved in multiple norm violations than others.

The Council has also worked with companies responsible for serious pollution related to both mining and other operations. The recommendation concerning the South Korean company Young Poong Corp relates to serious pollution from a smelting works in South Korea. The company failed to reply to the Council's queries during the assessment process, but has subsequently said that it wishes to share information in order for its exclusion from the GPFG to be revoked. The Council has also been approached by other companies asking what is required for an exclusion to be revoked. We see this as an indication that exclusion can lead to changes in reporting and, hopefully, also in companies' business practices.

The break-up of ships for scrap by means of beaching continues to be an important area for the Council's work – as it has been since 2017. The Council constantly monitors whether companies dispose of ships or oil platforms for break-up on the beaches of certain countries in Asia. Based on general information about environmental and working conditions in connection with beaching in Bangladesh and Pakistan, the Council has taken the position that beaching represents an unacceptable risk of environmental damage or serious abuse of workers' rights in these two countries. The risk

associated with shipbreaking in India is assessed on a case-by-case basis.

The Council visited several shipbreaking yards in India in 2022 and observed substantial differences between them with regard to the steps taken to prevent environmental damage. The Council has been in contact with several companies which dispose of ships for breakup by means of beaching. As a result, some of them have introduced new policies regarding responsible shipbreaking. In 2022, it was announced that the Korean company Hyundai Glovis Co had been placed under observation because it had disposed of ships for break-up by means of beaching, but had indicated that it would change its practice in this area.

8.2 Change with respect to the climate criterion

The Council's ethical guidelines have contained a criterion concerning unacceptable greenhouse gas emissions since 2016. The Council has issued five recommendations under this criterion, resulting in a total of four companies being excluded. This criterion has been hard to put into practice. In its 2021 annual report, the Council explained why it was proposing that primary responsibility for the climate criterion should be transferred to Norges Bank. The Council's letter to the Norwegian Ministry of Finance on this subject was also included in the 2021 annual report.

It was decided to implement this change in 2022. In practice, therefore, Norges Bank now has primary responsibility for the climate criterion. The actual wording of the criterion has not changed. The Council will, for a time, follow up the companies already excluded under the climate criterion, but will not normally assess new companies on this basis.