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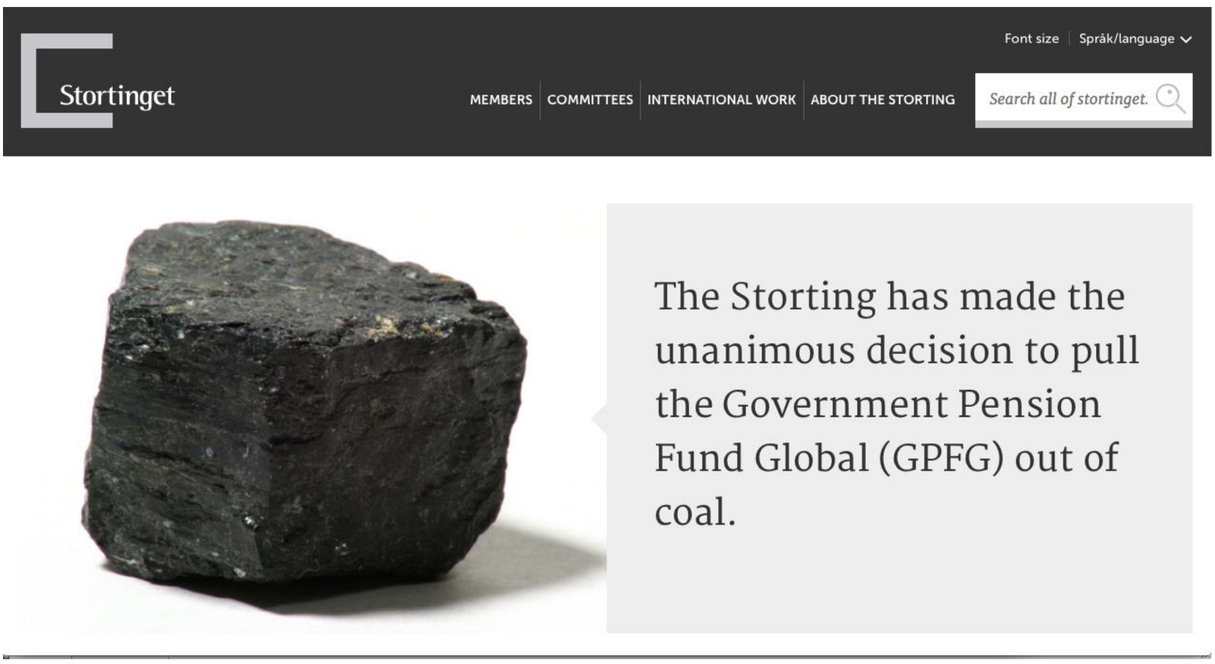
Norway Divests!

Visitors opening the English language webpage of the Norwegian Parliament (Storting) are greeted by a stark image and a strong message these days. A photo of a colossal lump of coal and the following announcement: “The Storting has made the unanimous decision to pull the Government Pension Fund Global (GPFG) out of coal.”[1]



In what seems divine timing, the decision will be formalized by the Norwegian Parliament on June 5th World Environment Day, some 6 months ahead of the upcoming UN Climate Summit in Paris. The real break-through was, however, forged last week when the Parliament’s Finance Committee made its recommendations for the upcoming parliamentary debate on the management of the GPFG. Most Norwegians simply call it the “oil fund” (oljefondet) as the GPFG’s capital stems from the country’s oil revenues. Since 2008, the value of the Fund has tripled and now lies at NOK 7,012 billion[2] (€ 837 billion) making it the world’s second largest pension fund.[3]

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[1] See: https://www.stortinget.no/en/In-English/

[2] Market value of the GPFG on March 31, 2015.

[3] “Pensions and Investments / Towers Watson 300 analysis,“ Towers Watson, Sept. 2014

Trine Skei Grande, leader of Norway's liberal party, calls the Pension Fund's move out of coal "perhaps the most important climate decision I have been involved in as a politician." Torstein Tvedt Solberg from the Labor Party says, "the fact that the Parliament stands united on this sends an important signal to the world."

But the Parliament's decision is not "just" about climate or reducing climate-related financial risks. As Hans Olav Syversen, Chairman of the Finance Committee and representative of the Christian Democrat Party says: "There are strong ethical reasons to withdraw the oil fund from coal investments."[4]

The New Criteria

In its remarks, the Finance Committee recommends the exclusion of "coal power companies and mining companies, who themselves or through operations they control, base 30% or more of their activities on coal, and/or derive 30% of their revenues from coal". The Committee, however, also calls for "forward-looking assessments" that take note of "companies' plans that would change the share of coal-related activities and the share of activities relating to renewable energy sources."[5] It is fair to assume that this provision will work in both directions, meaning:

- companies which are beneath the 30% benchmark may still be excluded if they have significant coal investments in the pipeline.
- companies which hover above the 30% may be retained if they can show conclusive plans for a reduction of their coal-related business.

The Parliament expects the GPFG's manager, Norges Bank Investment Management (NBIM) to implement these recommendations by January 1, 2016. And it expects "that the decisions made by Norges Bank's executive board based on the new criteria will be published in accordance with the same rules as for existing product- and conduct-based exclusion." This is important as it means that the list of excluded companies would be published, thus making it easier for other investors to follow suit.

In addition to the sector-based divestment criteria for coal companies, the Parliament has also introduced a "conduct-based criteria for the observation and exclusion of companies whose activities entail unacceptable degrees of climate gas emissions". The climate criteria will be independent of business line or sector and provides an additional avenue for the future exclusion of major greenhouse gas emitters.

How Big will the Divestment Be?

In a first statement, the Norwegian Finance Ministry estimated that 50 – 75 companies in which the GPFG holds assets of NOK 35 – 40 billion would fall under the newly adopted exclusion criteria for coal.[6] As the Ministry has, however, in the past repeatedly understated the Pension Fund's coal assets, we decided to undertake our own calculation.

In our analysis of the Pension Fund's 2014 holdings – "Still Dirty, Still Dangerous" – we had identified investments of NOK 85.7 billion in 114 companies from the coal sector

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4 „Oljefondet skal ut av kullselskaper," Aftenposten, May 27, 2015

5 „Translation of the Recommendation 290 S (2014-2015)," https://www.stortinget.no/en/In-English/

6 „Stortinget vil dumpe kullet - men ikke verdens største kulleksportør," Aftenposten, May 28, 2015

(coal mining and coal-fired power operators).[7] Due to the sheer size of the portfolio (in 2014 the GPFG was invested in 9,134 companies), we emphasized that this was likely an underestimation as it is reasonable to assume that we missed some companies when sifting through the Pension Fund's enormous holdings. Over the past week, and motivated by the Norwegian Parliament's decision, 36 such companies were brought to our attention by researchers and NGOs from various countries, thus bringing the GPFG's total coal portfolio up to 150 companies with a value of NOK 106.2 billion. [8]

As our original research was not only based on percentages, but also included absolute benchmarks, we re-evaluated the 114 companies cited above to see which meet the coal exclusion criteria set by the Norwegian Parliament. We also examined all of the "new" companies that were brought to our attention. The methodology was simple, but thorough: We examined the annual reports of each company to identify those whose coal activities or coal-based revenues are higher than 30%. For utilities, we based calculations either on the percentage of coal-fired electricity generation, or in cases where utilities also provide other services, on the percentage of coal-based revenues. In order to address the "forward-looking" aspect, we used databases such as the "Global Coal Plant Tracker"[9] or checked investor presentations and news reports to identify companies with significant coal expansion plans.

The gist of our assessment is that the amount of coal holdings to be excluded by the new criteria is much higher than the Finance Ministry's estimate. The annex of this briefing contains a divestment list of 118 companies whose share of coal business is over 30% and 4 companies, whose coal expansion projects are so significant in relation to the company's size or power generation portfolio that they also warrant an exclusion. Companies were only put on the list, if there was sufficient documentation that they meet the divestment criteria.[10]

And now, the big number: The GPFG's investments in these **122 companies** total **NOK 67.2 billion or € 7.7 billion**.[11] This is the biggest divestment action to date from the coal industry and sets a new standard for investors worldwide.

<u>Implementation is Everything</u>

The Finance Committee of the Parliament has mapped out the following steps on the road to divestment:

- The Ministry of Finance will request Norges Bank to conduct and report on a specific

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7 https://www.urgewald.org/sites/default/files/typ_download/still_dirty.final_.compressed.pdf

8 While this is the best estimate to date, it is quite likely that there are still "undetected" coal companies in the GPFG's portfolio. This in turn means that the "divestment list" may still grow.

9 http://endcoal.org/plant-tracker/

10 E.ON is one of these 4 companies, but it warrants a special explanation. In 2013, 31% of the company's electricity generation was coal-fired. In 2014, only 28% of E.ON's power generation was coal-fired, the company, however, currently has over **6,000 MW** new coal-fired capacity in the pipeline. In our view, these are clear grounds for exclusion. In June 2016, E.ON's shareholders will decide whether the company will be split into 2 entities: E.ON and Uniper, which will take over the company's fossil and nuclear business. It is, however, not yet clear what portion of Uniper's shares will be retained by E.ON. As the details of the split are still undefined and due to E.ON's massive coal expansion plans, we believe that E.ON as it currently stands should be divested. At a later point in time, the GPFG could possibly re-invest in E.ON, but most definitely not in Uniper.

11 Each of the subsidiaries on the divestment list was counted as a separate company.

risk-based review of companies in the portfolio for which coal extraction, coal power generation or coal-based energy conversion accounts for a significant part of their business.

- The Government shall invite Norges Bank and the Council of Ethics to assess how the new criteria can best be operationalized. Concrete proposals should be set out in the national budget for 2016.

The operationalization of the new criteria as well as the concrete divestment decisions will undoubtedly be watched closely by civil society, by investors, by fund managers and financial analysts and last, but not least, by utility executives taking decisions on which power stations to build or to decommission. It is therefore crucial that the operational definitions for the implementation of the new criteria are stringent, clear and fully reflect the Parliament's decision "to pull the GPFG out of coal."

The "Divestment To Do" list we present at the end of this briefing is the first comprehensive attempt to apply the language formulated by the Parliament to the GPFG's portfolio. Whoever wishes to delve more deeply into our calculation of the percentages, may request a copy of our full data sheet.

<u>What is Not on the Divestment List</u>

Although Norway's decision is rightfully celebrated by environmentalists near and far, the Norwegian divestment model still has important shortcomings. Coal operations have immense physical impacts on landscapes, the environment, human health and our climate. The percentage criteria, however, only measures the size of a company's coal operations in relation to its overall business and not the **absolute** damages these operations cause in the physical world. It therefore fails to capture large diversified companies even if their coal operations are vast and place them among the top players in the sector. As suggested in our study "Dirty & Dangerous", percentage criteria therefore need to be augmented by absolute thresholds regarding the amount of coal produced or burned by a company.[12]

A case in point, are the big 3 multinational mining companies, Anglo American, BHP Billiton and Glencore, in which the Pension Fund holds investments of NOK 27 billion. Collectively, the big 3 produced 364 million tons of coal last year, and when burned, this coal generates CO_2 emissions that are over 16 times as high as Norway's total annual greenhouse gas emissions. Their coal business, however, accounts for less than 20% of their earnings and the big 3 are therefore not on the divestment list.

A similar case are the Chinese oil companies, Sinopec and CNOOC, which are building massive plants to convert coal to synthetic natural gas (SNG) in China's northwestern provinces. The coal-to-gas technology is extremely controversial as it produces much higher CO_2 emissions than simply burning coal for power generation.[13] These projects will also require vast water withdrawals causing irrevocable damage to fragile ecosystems and depriving local communities of the water resources their livelihoods depend upon. Yet both companies are so huge, that even these massive coal expansion plans will not put them over the 30% benchmark.

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[12] https://www.urgewald.org/sites/default/files/dirty_and_dangerous_coal_gpf.pdf

[13] „China's Synthetic Natural Gas Revolution," Chi-Jen Yang and Robert Jackson, Nature Climate Change, Oct. 2013

Another important gap is posed by the fact that Norway's new criteria only address companies active in coal mining and coal-based energy production. The criteria do not cover other parts of the coal sector such as coal-to-chemicals production, specialized coal equipment companies or coal transportation enterprises. Strictly speaking, this means that the Pension Fund's holding in Adani Ports and Special Economic Zone Ltd would not be on the divestment list. This is a shame as the company aims to expand its coal business by building a gigantic coal terminal in the area of the Great Barrier Reef, thus endangering one of the world's greatest biological wonders.

While Norway's new divestment criteria are an enormous step forward, we should bear no illusions that many significant coal investments will still remain in the GPFG's holdings. Truly cleaning all the coal dust out of its portfolio would require additional steps and further-reaching criteria.

Divesting for a 2°C World

For the environmental movement, coal-impacted communities and climate-concerned citizens around the world, the unanimous decision of the Norwegian Parliament nonetheless represents a tidal shift in efforts to move global capital flows out of the coal sector.

Climate change is not only an issue for governments to take up in Paris. Behind each and every coal mine and new coal-fired power plant, there are investors. And for the most part, these have yet to heed the UNFCCC's message: "There is no room for new coal". Politicians in Oslo have heard and they have acted by initiating the largest divestment action from the coal industry to date.

Thank you for divesting, Norway! **Now it is time for others to follow.**

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Many thanks to colleagues from Greenpeace International, the Institute for Energy Economics and Financial Analysis (IEEFA), CoalSwarm and the Philippine Movement for Climate Justice who made invaluable research contributions to this briefing.

The GPFG's To Do List for Divestment

(based on the 30% and expansion criteria)

Black = Equity Holdings
Blue = Bond Holdings

Companies ordered by Country	Investment Value (NOK)	Coal Share of Power Production/ Coal Share of Revenue
Australia		
AGL Energy Ltd	639.669.644	>71%
Cockatoo Coal Ltd	512.061	100%
Cokal Ltd	8.011.288	100%
Origin Energy Ltd	781.063.936	48%
Yancoal Australia Ltd	11.601.739	100%
Brazil		
Eneva SA	2.032.409	50%
Canada		
Emera Inc	283.093.572	50%
Fortis Inc/Canada	438.281.154	>30%
Teck Resources Ltd	184.449.971	39%
Teck Resources Ltd	389.396.551	39%
Turquoise Hill Resources Ltd	159.684.796	53%
Transalta	168.816.857	72%
Chile		
AES Gener SA	238.711.642	>30%
E.CL SA	184.599.330	79%
China		
China Power International Development Ltd	115.187.703	83%
China Resources Power Holdings Co Ltd	230.915.470	88%
China Shenhua Energy Co Ltd	210.824.934	100%
Datang International Power Generation Co Ltd	55.602.802	84%
GD Power Development Co Ltd	213.105.106	73%
Guangdong Electric Power Development Co Ltd	121.195.798	82%
Hidili Industry International Development Ltd	9.784.129	100%
Huadian Fuxin Energy Corp Ltd	117.681.616	53%
Huadian Power International Corp Ltd	136.689.931	91%
Huaneng Power International Inc	471.313.209	91%
Inner Mongolia Yitai Coal Co Ltd	131.495.358	100%
SDIC Power Holdings Co Ltd	156.639.529	35%
Czech Republic		
CEZ AS	289.497.592	49%
CEZ AS	338.043.447	49%
Denmark		
Dong Energy A/S	231.053.312	35%

Germany		
E.ON SE	5.391.648.940	28% plus expansion
RWE AG	2.485.967.715	62%
Greece		
Public Power Corp SA	103.708.837	50%
Hong Kong		
CLP Holdings Ltd	1.411.950.946	66%
HK Electric Investments & HK Electric Investments Ltd	16.325.850	67%
Mongolian Mining Corp	10.632.089	100%
Shougang Fushan Resources Group Ltd	140.347.801	100%
India		
Reliance Power Ltd	31.604.647	100%
Isle of Man		
Sasol Financing International PLC	448.060.336	70%
Italy		
Enel SpA	5.346.135.921	29% plus expansion
Enel SpA	207.232.744	29% plus expansion
Japan		
Chugoku Electric Power Co Inc/The	321.555.977	55%
Electric Power Development Co Ltd	436.114.533	49%
Hokuriku Electric Power Co	245.767.017	64%
Kyushu Electric Power Co Inc	301.082.615	34%
Nippon Coke & Engineering Co Ltd	12.081.383	61%
Okinawa Electric Power Co Inc/The	26.218.662	76%
Shikoku Electric Power Co Inc	33.828.191	53%
Tohoku Electric Power Co Inc	420.498.630	41%
Malaysia		
Tenaga Nasional Bhd	731.157.376	35%
MMC Corp Bhd	144.932.131	31%
The Netherlands		
E.ON International Finance BV	194.785.737	28% plus expansion
EnBW International Finance BV	107.661.331	37%
Enel Finance International NV	1.631.745.601	70%
RWE Finance BV	624.680.172	62%
The Philippines		
Aboitiz Power Corp	105.749.319	48%
DMCI Holdings Inc	110.938.170	33%
Manila Electric Co (MERALCO)	130.389.183	39%
Semirara Mining Corp	58.392.415	100%
Poland		
Energa SA	4.044.732	50%
Lubelski Wegiel Bogdanka SA	48.865.789	100%
PGE Polska Grupa Energetyczna SA	35.885.655	91%

Tauron Polska Energia SA	57.623.263	87%
Portugal		
EDP SA	2.044.310.035	45%
Russia		
Enel OGK-5 OJSC (now Enel Russia)	66.927.853	40%
Kuzbasskaya Toplivnaya Kompaniya OAO	19.772.810	100%
Mosenergo	9.662.866	100%
OGK-2 OAO	46.194.735	32%
South Africa		
Sasol Ltd	537.600.463	70%
South Korea		
Korea Electric Power Corp	1.098.966.642	63%
Korea Electric Power Corp	38.299.376	63%
Spain		
Endesa SA	916.978.150	35%
Sweden		
Vattenfall AB	212.864.084	40%
Thailand		
Electricity Generating PCL	32.751.076	expansion up to 50%
Glow Energy PCL	201.626.162	36%
Toyo-Thai Corp PCL	87.323.613	expansion to 72%
United Kingdom		
Drax Group PLC	382.937.937	87%
New World Resources PLC	9.314.931	100%
SSE PLC	7.412.273.639	46%
Scottish Power Ltd	231.070.160	63%
United States of America		
AES Corp/VA	348.742.690	40%
Alabama Power	162.274.433	53%
Alliant Energy Corp	404.703.299	48%
Ameren Corp	489.528.552	56%
Ameren Illinois Co	524.594.837	56%
American Electric Power Co Inc	1.186.770.319	83%
Appalachian Power Co	198.696.360	69%
Arizona Public Services Co.	107.843.357	44%
CMS Energy Corp	1.140.415.285	38%
Dominion Resources Inc/VA	2.491.002.660	30%
Dominion Resources Inc/VA	415.702.660	30%
DTE Energy Co	542.731.946	72%
Duke Energy Carolinas LLC	508.300.857	39%
Duke Energy Corp	3.349.250.104	39%
Duke Energy Corp	621.015.505	39%
Duke Energy Florida Inc	185.900.890	39%
Duke Energy Ohio Inc	83.643.588	39%
Duke Energy Progress Inc	464.870.289	39%
Empire District Electric Co	97.296.297	31%

FirstEnergy Corp	853.628.668	52%
FirstEnergy Solutions Corp	20.681.873	52%
Georgia Power Co	597.962.167	39%
Great Plains Energy Inc	289.771.262	84%
Great River Energy	38.400.314	70%
IDACORP Inc	142.243.320	35%
Indiana Michigan Power	86.818.436	40%
Integrys Energy Group Inc	350.472.635	75%
Kansas City Power & Light Co	379.038.153	78%
Midamerican Energy Co	402.276.872	63%
Midamerican Funding LLC	47.514.778	63%
NRG Energy Inc	624.221.794	65%
Northern States Power	172.957.466	48%
OGE Energy Corp	446.933.620	50%
Ohio Power Co	127.483.838	63%
Otter Tail Corp	71.406.959	97%
PacifiCorp	1.212.849.788	75%
Pinnacle West Capital Corp	512.543.295	42%
PPL Corp	855.259.055	64%
PPL Electric Utilities Corp	201.622.295	64%
Southern Co/The	1.880.477.270	37%
Southwestern Electric Power Co	33.167.808	31%
Union Electric Co	350.526.553	75%
Vectren Corporation	258.947.389	36%
Virginia Electric & Power Co	731.853.413	35%
Westar Energy Inc	304.398.030	53%
Wisconsin Energy Corp	913.890.196	71%
Wisconsin Electric Power Co	171.831.226	71%
Xcel Energy Inc	616.281.722	45%
Xcel Energy Inc	146.339.970	45%
Vietnam		
Pha Lai Thermal Power JSC	26.883.482	100%
TOTAL	**67.237.410.701**	