The Norwegian Government Pension Fund and Coal: Time to Take the Next Step

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In June 2015, the Storting took a decision to pull the Government Pension Fund Global (GPFG) out of coal. In its recommendation, the Storting suggested a threshold of 30% (coal share of activity or coal share of revenue) to determine which companies should be excluded from the pension fund's investment universe.

At the time, this policy was a major break-through. It led to the exclusion of 69 companies from the GPFG and set a template, which was replicated by many other investors. In the meantime, however, many European finance institutions and investors have gone further and adopted stronger criteria for coal divestment. France's central bank, for example, adopted a coal exclusion threshold of 20% and two of Europe's largest insurance companies, AXA and Generali, not only replicated the 30% threshold, but added two additional criteria.[1,2] Both insurers now also exclude:

- companies producing over 20 million tons of coal per year, and
- companies planning new coal facilities or power plants.[3]

Norway's largest private pension fund, Storebrand, also strengthened its coal criteria and now excludes companies planning over 1,000 MW of new coal-fired capacity. And the world's largest insurance company, Allianz, recently decided to ban companies planning over 500 MW of new coal capacity from its portfolio.

In 2015, the GPFG's divestment was considered a "gold standard", but now the bar has risen. The rapid development of new coal divestment actions by other long-term investors suggests it is time for the Storting to evaluate how its 2015 coal divestment decision has been implemented and to take next steps to strengthen the coal criteria.

Investments in Coal Plant Developers Must be Stopped

The implementation of the current coal criteria include a forward-looking assessment, that allows the GPFG to retain companies in the portfolio, that have plans in place to meet the 30% threshold in the near future. The criteria, however, do not specify how the GPFG should deal with companies which are planning new coal plants or new coal mines. The GPFG currently holds investments of almost 13 billion NOK in 18 companies that are planning to build new coal plants of 1000 MW or more. Collectively, these 18 companies plan to build more coal plants than Germany currently operates. Storebrand has decided to divest companies building coal plants with 1,000 MW or more of installed capacity. There are, however, solid arguments for following the lead of Allianz and Generali and setting this threshold even lower. In many developing countries, the typical size for a new coal power station is 600 MW.

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[1] https://www.axa.com/en/newsroom/press-releases/axa-accelerates-its-commitment-to-fight-climate-change

[2] "Generali approves climate change strategy", Press release, Feb. 21, 2018

[3] In order to implement their new policies, AXA and Generali are both using the "Global Coal Exit List" (GCEL), a comprehensive database that provides key statistics on over 770 companies operating along the thermal coal value chain. The analysis presented in this paper is also based on the GCEL.

The UN 2017 Emissions Gap Report warns that there is no room for new coal plants if we wish to meet the Paris Agreement climate goals of limiting global warming to well below 2°C.[4] Yet currently, over 1,300 new coal plants are planned or under development in 60 countries.[5] If built these projects would add 656,000 MW to the global coal plant fleet – an increase of 33%. As Bill Hare, CEO of Climate Analytics and lead author of the 4th IPCC Assessment report says: "These new coal plants would put us on a fast track towards a 4°C temperature rise. They must be halted at all costs."

More and more financial institutions are taking action on this issue. 13 of Europe's largest banks have adopted policies excluding financing of new coal power plants. During the 2017 UN Climate Summit, Storebrand announced a strengthening of its divestment policy, saying "This is meant as a warning to coal plant developers: Companies that build new plants will have to forgo our capital."[6] Just one month later, the umbrella organization of French insurers reported that its members will no longer invest in coal plant developers. And in 2018, Italy's and Germany's largest insurance companies announced that they will divest from companies planning new coal-fired capacity.

While there are variations between the thresholds these investors apply, they are all aiming at the same goal: to stop investments which would lead to a failure of the Paris climate goals. The Storting should follow their example and use this year's deliberation on the GPFG to send a clear signal to the world: It is time to stop investments in new coal.

We suggest that the Storting adopts the following wording:

→Companies planning to build new coal power plants, coal mines or other coal infrastructure shall be excluded from the fund.

Strengthening the GPFG's policy through forward-looking criteria that address the expansion of the coal industry could play an important role in convincing companies to change course. A case in point is Japan's Marubeni. Marubeni is a highly diversified company that does not fall under the 30% threshold, but is nonetheless planning to build new coal plants in 9 different countries. And many of these projects are sited in countries that have little or no coal capacity up to now. Building new coal plants instead of renewable projects will lock these "frontier countries" into a cycle of coal dependency for decades to come. The GPFG currently hold investments of 1.2 billion NOK in Marubeni and is the 9th largest investor in this company.

Still Homework to be Done on the Current Coal Criteria

All in all, 69 companies were excluded from the GPFG due to the coal criteria. However, many companies with coal-based business models remain in the Fund – a fact that contradicts the spirit and intention of the Storting's 2015 divestment decision. A deep dive into the portfolio shows that the oil fund still holds investments of over 15 billion NOK in 32 companies, whose business models are coal-based. 14 of these companies are classified as utilities and they account for 2/3 of said investments.

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[4] UNEP, „The Emissions Gap Report 2017", United Nations

[5] „Summary Statistics", Global Coal Plant Tracker

[6] Own translation. Quoted from „Storebrand hofft auf Dominoeffekt", Börsenzeitung, Nov. 18, 2017

The GPFG, for example, still holds investments of over 1.38 billion NOK in the German utility RWE. RWE is Europe's largest CO_2 emitter, with reported CO_2 emissions of 148 million tons in 2016, an amount almost 3 times as high as Norway's total annual greenhouse gas emissions. 54% of RWE's current power generation is coal-fired and the utility operates more coal power stations than any other company in Europe. It seems bizarre that the GPFG continues to invest in a company which poses the single greatest stumbling block for the achievement of the EU's climate goals.

RWE lignite mine and power plants

Aside from the utilities, the GPFG is invested in 18 companies, whose main business is providing services to the coal industry. Among these is for example, Harbin Electric, the world's largest manufacturer of coal plants. Harbin Electric's coal plant business accounted for 56% of its revenues in 2016. NBIM's refusal to apply the 30% threshold to coal plant manufacturers, coal transporters and other coal service companies is not only at odds with the intention of the Storting's 2015 decision, but also financially unsound as these companies' business models are increasingly at risk as the energy transition gains momentum. Other major investors like AXA, Allianz and Generali also apply the 30% threshold to these coal service companies and have thus made them part of their divestment actions.

We recommend that the Storting addresses this situation by tightening the coal criteria with the following additions:

→ ***Power companies with 30% or more coal power in their electricity mix shall be excluded from the Fund. The 30% coal share of revenue threshold shall also be applied to coal service companies.***

The new climate goals set out in the Paris Climate Agreement require an accelerated phase-out of the coal industry. This in turn means that the GPFG's 30% threshold must be further tightened over time. To allow companies enough lead-time to make the necessary adjustments, we believe NBIM should soon announce a suitable timeframe for further lowering of the coal threshold. The Dutch bank ING, for example, recently announced that by the end of 2025, it will no longer finance clients in the utilities sector, that have more than 5% coal-fired power in their energy mix. In his statement, ING's Vice Chairman Koos Timmermanns says: "We realize that contributing to the Paris Agreement targets is also about making clear choices in what we'll no longer finance. We are taking this decisive step as part of our overall ambition to support the energy transition."[7]

Adding an Absolute Threshold to the Coal Criteria

To bring its portfolio in line with the Paris targets, the GPFG should also adopt an absolute threshold excluding the largest coal producers and largest coal plant operators. If this threshold were set at 20 million tons of coal production or coal consumption, it would lead to the exclusion of 7 companies from the GPFG's portfolio. Since the coal criteria were adopted, the Fund actually increased its holdings in these 7 companies from 36.9 billion NOK to 48.9 billion NOK.

One of the companies that would fall under this divestment is, for example, the multinational miner Glencore. Although coal only accounts for 20% of Glencore's revenues, the company is the world's 8th largest coal producer (125 million tons), the world's largest exporter of seaborne thermal coal and a key player in the World Coal Association. And it is intent on further expanding its coal business. Glencore only recently struck a deal to buy Rio Tinto's thermal coal mines in Australia.

The insurance companies, AXA and Generali have recognized that percentage criteria are not sufficient as they only measure the relative importance of a company's coal operations to its overall business. The impact a company has on our climate, however, depends on the absolute size of its coal operations. AXA and Generali have therefore both adopted an absolute threshold and now exclude all companies whose annual coal production exceeds 20 million tons. As AXA's CEO, Thomas Buberl says: "Instead of supporting the past, let's invest in a future that is well below 2°C."[8]

We believe that the Storting should follow this example by adding the following provision to the coal criteria:

→ ***The GPFG adopts an absolute threshold that excludes companies producing or consuming more than 20 million tons of coal annually.***

Summary

By following the lead of investors such as AXA, Allianz and Generali, the Storting could send a powerful signal to investors worldwide and take an important step towards

[7] https://www.ing.com/Newsroom/All-news/ING-further-sharpens-coal-policy-to-support-transition-to-low-carbon-economy.htm
[8] Speech at the One Planet Summit, Dec. 12, 2018

aligning the GPFG with the Paris climate goals. If the GPFG were to replicate their policies, the resulting divestment would equal around 80 billion NOK, which is approximately 1% of the Pension Fund's current portfolio.

Greenpeace activists demonstrate for a coal phase-out as the Immerather church is destroyed for the expansion of RWE's open-pit lignite mine Garzweiler.

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Appendix: Overview of the Norwegian Government Pension Fund's Coal Investments

Table 1

This table shows the GPFG's investments per 31.12.2017 in companies building coal fired power plants with an installed capacity of 1000 MW or more. Some of the companies only have a share in the new coal power plants, such as JFE holdings. So while their prorated share is less than 1000 MW, they are part of building a plant with an installed capacity of 1000 MW.

Company	ICB Sector	Investments 2016 NOK	Investments 2017 NOK	Country of HQ	Expansion plans coal power prorated* (MW)	Expansion plans coal power total (MW)
Companies where new exclusion criteria need to be implemented: new coal power plants > 1000 MW						
Ayala Corporation (Ayala Corp)	Industrials	61 456 207	111 706 583	Philippines	985	1876
China Machinery Engineering Corp (CMEC)	Industrials	62 144 371	71 073 867	China	1053	1810
Chubu Electric Power Co Inc	Utilities	1 153 934 415	420 018 566	Japan	2378	4020
Daewoo Engineering & Construction Co Ltd	Industrials	107 579 467	187 322 488	South Korea	3610	4620
EL Sewedy Electric Company	Industrials	85 679 756	308 501 210	Egypt	2000	4000
Engie SA	Corporate Bonds	2 202 781 028	2 195 954 587	France	950	2211
Engie SA	Utilities	3 660 724 228	4 847 837 106	France	950	2211
Inter RAO UES PJSC	Utilities	607 050 597	330 812 391	Russia	4250	8500
JFE Holdings	Basic Materials	407 686 132	1 133 381 424	Japan	333	1000
JG Summit Holdings, Inc	Consumer Goods	314 032 771	54 062 953	Philippines	801	1270
Kansai Electric Power Co (KEPCO)	Utilities	861 913 027	683 822 063	Japan	1817	3522
Marubeni Corporation	Industrials	980 774 922	1 214 552 003	Japan	5865	13620
Orascom Construction	Industrials	137 967 689	194 711 588	Jnited Arab Emirates	1980	3960
Osaka Gas Co., Ltd.	Utilities	788 239 332	640 310 384	Japan	622	1422
Polenergia	Utilities	19 199 762	20 508 737	Poland	1600	1600
Power Finance Corp Ltd	Corporate Bonds	46 358 508	46 100 405	India	16000	16000
Power Finance Corp Ltd	Financials	54 850 677	55 331 294	India	16000	16000
Samart Corp PCL	Technology	6 247 767	13 619 476	Thailand	1000	2000
Shanghai Electric Group Corp	Industrials	152 179 971	95 353 142	China	6945	7930
TTCL Public Company Limited (TTCL) (formerly Toyo Thai)	Industrials	76 104 015	70 090 489	Thailand	1 200	1200
Sub total		**11 786 904 642**	**12 695 070 756**		**53 389**	**98 772**
20 investments in 18 companies						
***Prorated share: Co-builders of coal fired power plants with a capacity bigger than 1000 MW**						

Table 2

This table shows the GPFG's investments per 31.12.2017 in companies that should have been divested if the current coal criteria were fully implemented. The Pension Fund still holds 21 investments in utilities with more than 30 percent coal share in their energy mix. An additional 17 investments are in coal service companies, such as coal equipment suppliers or coal transporters. The "30% of activity" criteria should also be applied to these coal service companies.

Company*	ICB Sector**	Coal inudstry sector	Investments 2016 NOK	Investments 2017 NOK	Country of HQ	Coal share of power production (red=capacity)	Coal share of revenue	Exclusion criteria***
Companies where exclusion criteria of NPFG supposely apply: >30% coal share of revenue or/and power production								
Adani Ports and Special Economic Zone Limited (APSEZ)	Industrials	Services	470 356 828	729 175 796	India			cspp, csr sub
PacifiCorp	Corporate Bonds	Power	1 359 382 989	1 055 180 221	USA	56 %		cspp
Midamerican Funding LLC	Corporate Bonds	Power	302 038 818	52 765 562	USA	39 %		cspp
Berkshire Hathaway Energy Co	Corporate Bonds	Power	1 124 250 180	1 340 149 671	USA	46 %	NA	cspp
CGN New Energy Holdings Co Ltd	Utilities	Power, Services	43 034 226	46 774 418	China (Bermuda)	59 %	16 %	cspp
CITIC Limited (joint venture)	Industrials	Power, Mining	702 374 400	18 671 616	China (Hong Kong)	>90%		cspp
CMS Energy Corp	Corporate Bonds	Power	193 558 566	193 834 006	USA	58 %	NA	cspp
CMS Energy Corp	Utilities	Power	755 560 916	508 246 211	USA	58 %	NA	cspp
Consumers Energy Company	Corporate Bonds	Power	596 747 352	455 863 586	USA	78 %		cspp
EDP - Energias do Brasil SA	Utilities		436 057 893	473 144 015	Brazil	54 %		cspp
EVN AG	Utilities	Power	108 808 648	208 571 235	Austria	48 %	NA	cspp
Kobe Steel Ltd	Basic Materials	Power, Services	291 210 060	166 805 890	Japan	100 %	4 %	cspp
Kyushu Electric Power Co Inc	Utilities	Power, Services	372 356 993	322 291 634	Japan	31 %	NA	cspp
National Aluminium Co. Ltd. (NALCO)	Basic Materials	Power, Services	47 292 864	375 262 742	India	92 %	NA	cspp
OGE Energy Corp	Oil & Gas	Power	506 235 396	583 082 475	USA	48 %	NA	cspp
Origin Energy Limited	Utilities	Power	753 048 230	192 732 626	Australia	67 %	NA	cspp
PPL Corporation	Utilities	Power	1 363 332 367	1 123 507 160	USA	81 %	NA	cspp
SCANA Corporation	Utilities	Power	461 944 169	218 524 146	USA	37 %	NA	cspp
Sembcorp Industries Ltd	Oil & Gas	Power, Services	350 433 664	382 715 863	Singapore	39 %	NA	cspp
Alabama Power Co	Corporate Bonds	Power	131 333 420	134 667 009	USA	54 %		cspp
Georgia Power Co	Corporate Bonds	Power	185 128 878	184 770 664	USA	41 %		cspp
Tohoku Electric Power Co Inc	Utilities	Power, Services	632 388 520	412 799 215	Japan	40 %	NA	cspp
Ube Industries	Basic Materials	Services, Power	308 356 628	411 185 509	Japan	94 %	<10%	cspp
Uniper SE	Utilities	Power	411 588 873	761 369 708	Germany	32 %	<30%	cspp
AGL Energy Ltd	Utilities	Mining, Power	1 156 962 587	1 072 398 446	Australia	85 %	44 %	cspp, csr
Huadian Fuxin Energy Corp Ltd	Utilities	Power	11 526 212	12 062 702	China	42 %	34 %	cspp, csr
RWE AG	Utilities	Mining, Power	959 158 084	1 384 982 777	Germany	54 %	41 %	cspp, csr
Vectren Corporation	Utilities	Power	355 390 137	348 315 853	USA	80 %	35 %	cspp, csr
AJ Lucas Group Ltd	Industrials	Services	0	31 731 570	Australia		>50%	csr
Aurizon Holdings Ltd	Industrials	Services	908 816 952	929 792 140	Australia		60 %	csr
Dongfang Electric Corporation Ltd	Industrials	Services	40 140 738	35 400 214	China		>30%	csr
Famur SA	Industrials	Services	3 277 810	56 520 656	Poland		>30%	csr
Harbin Electric Corp	Industrials	Services	23 189 603	19 741 747	China		56 %	csr
Mongolia Energy Corp Ltd	Basic Materials	Mining	170592	111 079	China (Hong Kong)		100 %	csr
PKP Cargo SA	Industrials	Services	90 614 287	68 373 006	Poland		>30%	csr
Teck Resources Ltd	Corporate Bonds	Mining	74 202 907	80 625 655	Canada		45 %	csr
Teck Resources Ltd	Basic Materials	Mining	866 967 652	946 286 955	Canada		45 %	csr
Westshore Terminals Investment Corp	Industrials	Services	159 750 151	233 485 963	Canada		89 %	csr
			16 556 988 590	**15 571 919 741**				

38 investments (32 companies)
***Dark orange: investments in utilities**
****See appendix for explanation of coal related business models for companies not listed as utilities**
*****CSPP = coal share of power production, CSR = coal share of revenue**

Explanation to the coal service companies in table 2

Explanation of companies not listed as utilities and their business models	
Citic Group Corp (joint venture): ICB Sector: Industrials	Financial service provider, but also 86th biggest coal power company (installed capacity) (coal share of power production >90%)
OGE Energy: ICB Sector: Oil&Gas	Is an energy producing utility, mainly producing natural gas, but also producing power with a coal share of power production of 48%
Sembcorp: ICB Sector: Oil&Gas	Large diversified group, but installed coal capacity is very large and coal share of power production 39%
AJ Lucas Group: ICB Sector: Industrials	Lucas is the leading provider of drilling services to the Australian coal industry.
Aurizon Holdings Ltd: ICB Sector: Industrials	Australian coal transport company → Its coal share of revenue is 60%. Aurizon owns and operates one of the world's largest coal rail networks, linking approximately 50 mines with three major ports in Queensland. https://www.aurizon.com.au/company/overview
Famur SA: ICB Sector: Industrials	FAMUR Group is a manufacturer of mining machinery and equipment. It focuses on complete automation of longwall systems, as well as on developing IT-based master systems for managing the coal extraction process from the face to the mine surface.
Harbin Electric Corp: ICB Sector: Industrials	The world's largest coal plant manufacturer. Its coal share of revenue is 56%.
Dongfang Electric Corporation: ICB Sector: Industrials	Dongfang Electric Corporation's is one of the world's largest manufacturers of generators for coal plants and it is also a coal plant developer in frontier countries like Egypt and Georgia. 32% of the its revenue is derived through producing equipment for coal plants
PKP Cargo SA: ICB Sector: Industrials	PKP Cargo Spólka Akcyjna provides rail freight transportation of various goods, but over 30% of its revenue stems from coal transport. „We are responsible for 2/3 of the coal transportation market in Poland when measured by freight turnover". (Annual report 2017)
Westshore Terminals ICB Sector: Industrials	Westshore Terminals' core business is the operation of a coal harbor in Canada.
Adani Ports and Special Economic Zone Limited (APSEZ) ICB Sector: Industrials	subsidiary of Adani with coal business, operates several coal harbors but also other port facilities.

Table 3

This table shows the GPFG's investments per 31.12.2017 in companies that produce or consume more than 20 million tons of coal annually. The current coal criteria should be supplemented by an absolute threshold that excludes the largest coal producers and consumers.

Company*	ICB Sector	Investments 2016 NOK	Investments 2017 NOK	Country of HQ	Installed Coal Power Capacity (MW)	Annual Coal Production (in million metric tons)	Coal Share of Power Production (red=capacity)	Coal Share of Revenue
Companies where new exclusion criteria need to be implemented: >20mt of annual coal production/>10GW of installed coal capacity								
Anglo American PLC	Basic Materials	1 239 156 972	1 621 737 554	United Kingdom		95		23 %
BHP Billiton Ltd	Basic Materials	3 739 970 314	3 697 929 965	Australia		77		15 %
BHP Billiton PLC	Basic Materials	5 155 036 830	8 830 618 743	United Kingdom		77		15 %
BHP Billiton Finance Ltd	Corporate Bonds	429 940 802	454 323 608	Australia				
BHP Billiton Finance USA Ltd	Corporate Bonds	562 639 214	20 263 645	Australia				
Evraz PLC	Basic Materials	756 714 530	1 001 415 585	United Kingdom		22		17 %
Glencore PLC	Basic Materials	13 015 522 810	15 336 868 574	Switzerland		125		21 %
Electricite de France SA (EDF)	Government Related Bonds	2 543 942 200	2 114 297 783	France	10600		<4%	NA
Electricite de France SA (EDF)	Utilities	791 437 920	455 800 130	France	10600		<4%	NA
Enel SpA	Corporate Bonds	635 057 737	310 521 310	Italy	16103		28 %	NA
Enel SpA	Utilities	4 862 913 708	9 454 720 476	Italy	16103		28 %	NA
Enel Finance International NV	Corporate Bonds	1 941 889 618	3 089 360 994	Netherlands				
South32 Ltd	Basic Materials	1 254 662 873	2 569 316 330	Australia		39		28 %
13 investments (7 companies)		36 928 885 528	48 957 174 697		26 703	358		