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Norden Is Leading the World on Fossil Fuel Divestment

126 Globally Significant Financial Institutions Have Formal Coal Exit Policies

Executive Summary

Norway's sovereign wealth fund is the most widely cited and largest global financial institution demonstrating world-leading fossil fuel divestment policies necessary to limit carbon emissions.

The Fund however is but one of many Nordic majors that have increasingly provided global leadership since 2013. Others include Norway's DNB, Storebrand and KLP; Denmark's Danske Bank, MP Pensjon and ATP; Sweden's state pension funds Fjärde AP-fonden (AP4) and Sjunde AP-fonden (AP7); Finland's OP Financial Group, Varma and Ilmarinen; Sweden's Handelsbanken, Swedbank, SEB and Riksbank, Sweden's central bank; and Nordea and the Nordic Investment Bank, both headquartered in Finland.

This briefing note examines the global leadership position of Nordic countries[1] in their implementation of financing policies that are starting to align with the Paris Agreement. They are increasingly applying divest-invest principles, restricting the provision of finance and insurance for new coal projects and selling investments in fossil-fuel companies while investing in those companies providing solutions to climate change.

Well before BlackRock, Norden was leading divestment globally.

Almost all paths to less than 2°C of global warming require the phase-out of all non-abated coal use globally before 2050. Thermal coal is the largest and most emissions-intensive fuel source, and the one most technologically challenged by cheaper, zero emission alternatives such as solar, wind and hydro. For these reasons, most financial sector climate policies

[1] Nordic or Norden countries include Denmark, Finland, Iceland, Norway, Sweden and Greenland.

start with thermal coal / coal power exclusions, and subsequently build from there. This is reflected in the world's largest asset manager BlackRock's January 2020 announcement, where it is divesting thermal coal miners as a key part of its first step to reduce global emissions and climate risk to its portfolio.

Pension Funds

In 2013, **Storebrand** of Norway (with assets under management (AuM) of US$89bn) first divested from coal and tar sands. It has been expanding its strategy since then to comprehensively deal with and/or mitigate against the financial risks associated with climate change.

In 2014, **KLP** (AuM of $85bn), Norway's largest pension fund began blacklisting firms that derived more than 50% of their revenues from coal-based activities.[2]

Since 2015, Norway's sovereign wealth fund (SWF), the **Government Pension Fund Global** (GPFG) with AuM of $1,100bn, has progressively tightened its coal exclusion criteria. GPFG is managed by Norges Bank and guided by an independent Council on Ethics. It undertakes engagement reinforced by its divest-invest strategy with "companies that impose substantial costs on society as a whole, and so are not considered long-term sustainable." Over the last four years GPFG has divested 71 coal companies to-date.[3] GPFG has also reduced its investments in oil and gas as part of a strategic decision to reduce Norway's overall country exposure to the sector.

In June 2018, the Fourth Swedish National Pension Fund **AP4** (AuM of US$41bn), which has sustainability as a core focus, divested 20 thermal coal companies to reduce climate risk (using a threshold of 20% of revenues), thereby reducing their equity portfolio carbon emissions profile to 57% of the global average.[4]

Sweden's state-owned pension fund **AP7** (AuM of US$52bn) has a climate policy of active engagement including pursuing shareholder resolutions to enact change. It employs a blacklist for firms engaged in severe environmental harm or corruption, and divests firms that are actively undermining and/or funding lobbying against the Paris Agreement. Peabody Energy (U.S.), ExxonMobil (U.S.), Southern Company (U.S.), Evergy (U.S.) and TC Energy (Canada) are all on the blacklist.[5]

In November 2018, **Storebrand** expanded its climate strategy[6] to exclude companies with >25% of their revenue from coal-related activities. Storebrand's coal exit strategy involves a 5% threshold reduction every second year to allow firms time to transition. By 2026, Storebrand will have a 5% threshold for coal exclusions. Companies are also excluded if they produce over 20 million tons per annum (Mtpa) of coal or operate >10,000 megawatts (MW) of coal-fired capacity.

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[2] FT. Norway's largest pension fund vows to drop coal mine holdings. 23 November 2014.
[3] Norges Bank. Government Pension Fund Global Guidelines for Observation and Exclusion. 25 October 2018.
[4] AP4. AP4 finalizes sale of more than 20 coal companies. June 2018.
[5] AP7. Update AP7 blacklist. 18 June 2019.
[6] Bloomberg. An $85 Billion Asset Manager Is Planning a Total Exit From Coal. 30 November 2018.

Importantly, Storebrand also excludes any companies that have new coal-fired power plants of >1,000MW of capacity under construction, reflecting the global transition critically requires a progressive reduction in thermal coal reliance, and new coal plants only add to the stranded assets pile and lock in new carbon emissions for the coming four decades. Storebrand's progressive implementation is consistent with giving incumbent firms a time-limited opportunity to transition.[7] While the initial commitment omit these absolute thresholds, we expect Blackrock will soon rectify this omission.

In January 2019, **Danske Bank Asset Management** (AuM of $220bn) expanded its lending and investment restrictions to divest firms that derive more than 30% of sales from thermal coal, as well as tar sands and munitions.[8]

In February 2019, **GPFG** announced it would exclude a wider range of coal-fired power firms including the Korea Electric Power Corporation (KEPCO), Malakoff Corporation Berhad of Malaysia, Otter Tail Corporation of the U.S., PGE Polska Grupa Energetyczna SA of Poland, SDIC Power Holdings Co. Ltd of China, and Bharat Heavy Electricals Ltd of India.[9]

In April 2019, the Government of Norway announced **GPFG** could invest up to 2% of the Fund's total assets in unlisted renewable energy infrastructure assets.[10] A gradual deployment approach was recommended to manage risks and assist in the development of this rapid but still emerging new asset class, consistent with analysis by IEEFA[11] and McKinsey.[12] Given the magnitude of investment needed globally to decarbonise the global energy sector, IEEFA views this as a key policy step, divesting laggards and accelerating deployment of zero emissions, low risk renewable energy infrastructure.

In May 2019 KLP announced: "Coal cannot, and should not be part of the energy supply in the future. Therefore, we have decided to divest completely."[13] This exclusion involves any company that derives more than 5% of total revenues from coal activities, and resulted in divestment of 46 companies, including RWE, Sasol and BHP Group. This move is classed as a 'best in the class' kind of coal exit, with 5% set for legal purposes.

This move is a 'best in the class' kind of coal exit.

KLP is also a significant investor in renewable energy with equity investments in Otovo (Norway) and Stena Renewable (Sweden), in renewables infrastructure via

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[7] Storebrand ASA. Exclusions. Accessed 7 January 2020.
[8] Danske Bank. Investment Restrictions. 29 January 2019.
[9] Chief Investment Officer. Norges Bank Releases ESG Exclusions. 10 February 2019.
[10] Government of Norway. Allowing for unlisted renewable energy infrastructure. 5 April 2019.
[11] IEEFA, Renewable Energy Opportunity Now for Norway's $976 Billion Pension Fund as Global Institutional Capital Migrates Out of Fossil Fuels. 30 August 2017.
[12] McKinsey & Co. The Market for Unlisted Renewable Energy Infrastructure, 19 December 2018.
[13] KLP goes coal free. 8 May 2019.

Copenhagen Infrastructure Partners, as well as renewable energy projects in developing countries including part of the 1.8GW solar energy park in Egypt in collaboration with Norway's Development Finance Institution, Norfund.

In June 2019, Norway's parliament gave the go-ahead for **GPFG** to divest its holdings in over 100 oil producers under a strategy to further reduce its exposure to firms still expanding their fossil fuel exposures. This included $6bn worth of holdings in exploration and production firms like EOG Resources Inc. (U.S.), Reliance Industries Ltd (India) and Occidental Petroleum Corporation (U.S.).[14]

In September 2019, Denmark's **MP Pensjon** (AuM of $17bn) announced its divestment of holdings in the world's ten biggest listed oil firms – including Equinor (refer below) - on the grounds their business models were incompatible with the Paris climate goals, and hence the expected return profile from those firms over the coming decade would be submarket.[15] The sustained underperformance of oil and gas stocks over the last decade entirely supports this move.[16]

Also in September, **PensionDanmark**, **Nordea** and **Storebrand** joined the Net-Zero Asset Owner Alliance committed to a net zero emissions investment target by 2050 by accelerating the transition to a low emissions global economy consistent with the Paris Agreement.[17] Like KLP, PensionDanmark also committed US$250m to the Copenhagen Infrastructure Partners' New Markets Fund for investment in renewable energy infrastructure in emerging markets.[18]

In October 2019 **KLP** divested all of its oil sands exposures, recognising divesting coal was only a first policy step towards fully aligning with the Paris Agreement.[19]

This trend of divestment policies being updated and tightened is increasingly evident across the financial institutions we are tracking, given alignment with the Paris Agreement requires moves well beyond preventing the use of unabated thermal coal.

This trend of divestment policies being extended and tightened is increasingly evident.

In December 2019 Pensionsmyndigheten, the **Swedish Pensions Agency** (AuM of $5bn) announced its' complete divestment from all fossil fuel exposures.[20]

[14] Norges Banks. Energy stocks in the Government Pension Fund Global. 11 September 2019. Bloomberg. Norway's Wealth Fund gets the nod to sell 5.9bn in oil stocks. 1 October 2019.
[15] S&P Global. Denmark's MP Pension to divest shares in 10 leading oil majors. 3 September 2019.
[16] FT. Why US energy investors are experiencing a crisis of faith. 28 August 2019.
[17] PensionDanmark co-founds a global investor alliance ensuring carbon neutral investment portfolios. September 2019.
[18] PensionDanmark invests DKK 1.7 billion kroner in renewable energy in growth economies. 15 May 2019.
[19] KLP. Norway's Largest Pension Fund Goes Oil Sands-Free. 7 October 2019.
[20] Ipe.com. Sweden goes fossil free with €4.3bn of premium pension assets. 4 December 2019.

Also in December 2019, **Storebrand** moved its entire Swedish asset management arm (one third of its entire AuM) to a fossil free position.[21]

In January 2020, Sweden's leading private equity investor **EQT** (AuM of $45bn) joined with Temasek of Singapore to commit to invest US$500m in O2 Power to underpin investment in 3-4GW of renewable energy in India.[22]

In February 2020, Denmark's largest pension and social security provider **ATP** (AuM of $139bn) reported it will cease investing in new fossil fuel assets, acknowledging the rising stranded asset risk. ATP has yet to divest its existing fossil fuel holdings.

We understand Denmark's **PKA** is also a sustainability leader, but we haven't found a specific coal exclusion policy, so have not included this group to-date.

Insurers

In February 2015 the city of Oslo, Norway's capital voted to go fossil fuel free, and the city's wholly owned life insurance firm **Oslo Pensjonsforsikring** (AuM of US$9bn) divested from coal, and later in 2015 from oil and gas companies as well.[23]

Since 2015, Finland's **Ilmarinen** Mutual Pension Insurance Company (AuM of $55bn) has been promoting the transition to a low-carbon economy. A signatory to the United Nations-supported Principles for Responsible Investment (UN PRI), Ilmarinen's policy commitment includes monitoring "the carbon footprint" of its investments "annually across different asset classes", and trying to "influence the company's activities through engagement or, if we consider the risks to be too high and rapidly realisable, to exit the investments. Our goal is also to increase investments in solutions that promote sustainable development." Ilmarinen has a 30% thermal coal threshold, and will divest unless the firm has a clear path to reduce this exposure.[24]

In January 2019, Finland's **Varma Mutual Pension Insurance Company** (AuM of $53bn) announced an update of its investment blacklist to include industries excluded for ethical and climate reasons".[25] Varma had already excluded tobacco and nuclear weapons from its investments in 2004, and refuses to invest in companies that manufacture other controversial weapons, such as anti-personnel mines, cluster bombs, and chemical and biological weapons. Lignite and coal companies were included on Varma's blacklist. Varma also committed to disclosure on the company's climate-related risks in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), in addition to encouraging investees to do the same.

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[21] NordSIP. SPP Goes 100% Fossil-Free. 9 December 2019.
[22] EQT. EQT and Temasek launch O2 Power, a renewable energy platform in India. 22 Jan 2020.
[23] Climate Change News. Norway's oil-rich capital first to divest from fossil fuels. 19 October 2015.
[24] Ilmarinen. Climate Policy. 30 October 2017.
[25] Varma has updated its investment blacklist – industries excluded for ethical and climate reasons. January 2019.

In February 2020, Finland's **Ilmarinen** revised its responsible investment goals to achieve a carbon-neutral investment portfolio by 2035.

Banks

In 2015 **Nordea**, the largest Nordic bank (AuM of US$550bn) blacklisted coal mining companies from its lending and asset management investment portfolio.

In August 2016 **DNB,** Norway's largest private financial services group (AuM of US$330bn) released a policy stating: "Project financing of coal-fired power is outside DNB's strategy." The policy excluded new clients with more than 30% of revenues from coal power.[26]

In 2017 **Swedbank,** Sweden's third largest private bank (AuM of US$265bn) issued the bank's first green bond while throwing its support behind the TCFD. Swedbank's climate policy states: "We will not invest in companies that generate over 30% of their revenue from coal production. We have also decided not to directly finance coal-fired power plants." Swedbank has made it a priority to finance investments in renewable energy.[27]

In 2018 **Handelsbanken,** Sweden's largest private bank (AuM of US$337bn) released its Sustainability Report which stated: "Handelsbanken must not directly finance new mining of coal or new coal power plants. Nor will the Bank initiate new business relationships with companies that are either active in coal mining or dependent on coal and are not working actively to ensure a transition to renewable energy production."[28]

Also in 2018 **SEB,** Sweden's second largest bank (AuM of US$320bn) endorsed the TCFD. Their climate policy states: "At SEB, we recognise the importance of limiting the average global temperature rise to well below the 2^0C target. Financial institutions have a crucial role to play in enabling the transition from a carbon-intensive economy to more efficient low-carbon alternatives." SEB does not provide finance for greenfield coal power generation plants absent the usage of carbon capture technology. Further, SEB will not enter into new business relations with companies holding major business in coal mining, however it will support clients in their transformations away from coal.[29]

SEB's asset management arm (AuM of $200bn) does not have an overall divestment policy, stating it prefers engagement dialogues and investor collaboration with the Institutional Investors Group on Climate Change (IIGCC), CDP and Principles for Responsible Investment (PRI). It does measure and report on the carbon emissions intensity of its portfolio, and its sustainability funds exclude companies engaged in the extraction of fossil fuels.[30]

[26] DNB. CSR/ESG sector guidance – energy. August 2016.
[27] Swedbank. Climate. online - accessed January 2020.
[28] Handelsbanken. Sustainability Report 2018. Page 58 online - accessed January 2020.
[29] SEB, Climate change strategy, online - accessed January 2020.
[30] SEB, Climate impact in asset management, online - accessed January 2020.

In May 2019 **Nordea** released its fossil fuel sector policy aligned to the Paris Agreement. In it, Nordea describes how it will not initiate new coal financing for thermal coal, nor will it invest in firms with a material coal or coal power exposure (>30% of revenues; >10% threshold for thermal coal mining). Further, Nordea has committed to a zero emissions investment portfolio by 2050.[31]

In January 2020 **Swedbank Robur** (AuM of $135bn), a subsidiary of Swedbank, announced it will fully align with the Paris Agreement by 2025, five years ahead of its official timeline. It also stated that all investments will have to be carbon neutral by 2040, a decade ahead of the official timeline. The policy excluded any company generating more than 5% of revenues from coal (down from the 30% threshold previously applied).[32]

In February 2020, **Danske Bank** of Denmark (AuM of $560bn) announced that: "By 2023, Danske Bank's total financing for sustainable purposes will more than double from its present level of DKK46bn to DKK100bn (US$15bn). Within the area of investing, Danica Pension also commits to tripling the level of investments that support the green transition from DKK10bn to DKK30bn in 2023 as part of its target of reaching DKK100bn by 2030. By 2023, Danske Bank will set a climate target for its corporate loan portfolio in line with the climate goals of the Paris Agreement."[33]

Development Finance Institutions

Development finance institutions (DFIs) provide risk capital for economic development projects on a non-commercial basis.

The Nordic region operates three international DFIs focused on climate. The **Nordic Investment Bank** (NIB, AuM of $37bn) invests in productivity and the environment across the Nordic and Baltic countries. In energy, NIB only invests in renewable energy and energy efficiency. The **Nordic Development Fund** (NDF) provides financing for climate change related investments in emerging markets. Finally, the **Nordic Environment Finance Corporation** (NEFCO, AuM of $0.2bn) facilitates investments related to green growth and climate mitigation and adaptation globally.

The Nordic region also has four country-specific DFIs all investing heavily in renewable energy and sustainable development: **Norfund** of Norway (AuM of US$3bn), **Swedfund** of Sweden (AuM of $0.5bn) investing in renewable energy in emerging markets, **Investeringsfonden for Udviklingslande** (IFU) of Denmark (AuM of $0.9bn) and **Finnfund** of Finland (AuM of $0.9bn). While these DFIs have policies strongly aligned to the Paris Agreement, their size means they are not included in our globally significant list.

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[31] Nordea, Nordea Sector Guideline for the Fossil Fuels Industry, May 2019.
[32] AMWatch, Swedbank Robur adopts new climate strategy impacting all investment areas, 10 January 2020.
[33] Danske, Danske Bank sets new targets for contributing to the green transition, 5 Feb 2020.

Export Credit Agencies and Central Banks

An export credit agency provides trade financing to domestic companies for their international activities.

The Nordic Region has six export credit agencies (ECAs), all of which have signed the now outdated OECD policy restricting lending to coal-fired power projects, unless the emissions profile is ultra-supercritical or <750g/kWh:[34]

- Eksport Kredit Fonden (EKF) of Denmark
- Finnvera and Finnish Export Credit Ltd (FEC) of Finland
- Eksportkreditt Norge of Norway
- Garantiinstituttet for eksportkreditt (GIEK) of Norway
- Exportkreditnämnden (EKN) of Sweden
- Aktiebolaget Svensk Exportkredit (SEK) of Sweden

In November 2019, Sweden's Central Bank **Sveriges Riksbank** (AuM of $102bn) announced its divestment of Australian and Canadian state government bonds (Queensland, West Australia and Alberta). The reasons provided included the financial risk of economic activity contributing to excessively high greenhouse gas intensity per capita of these states, and the failure of those state governments to address that risk.[35]

"Green swan" events, or climate-related disasters, could trigger the next systemic financial crisis.

The Network of Central Banks and Supervisors for Greening the Financial System (NGFS) contributes to the development of environment and climate risk management in the global financial sector. The volunteer group also aims to mobilise mainstream finance to support the transition towards a sustainable economy by sharing knowledge and frameworks for this risk assessment.[36] Early signatories to the NGFS in the Nordic region were the Suomen Pankki - Bank of Finland; Danmarks Nationalbank of Denmark; Norges Bank of Norway; Finansinspektionen (FI) Financial Supervisory Authority (FSA) of Sweden; Finanstilsynet FSA of Norway; and Sveriges Riksbank of Sweden.

A clear extension of the NGFS' work was published in January 2020. The Bank for International Settlements warned that "green swan" events, or climate-related disasters, could trigger the next systemic financial crisis in its report entitled

[34] OECD, Arrangement On Officially Supported Export Credits, January 2019.
[35] Sveriges Riksbank, Monetary Policy in a changing world, 13 November 2019.
[36] NGFS, A Sustainable and Responsible Investment Guide for Central Banks' Portfolio Management, 17 April 2019.

'*Central banking and financial stability in the age of climate change*'.[37] It also comes off the work done by the Bank of England on stranded asset risks under the leadership of Mark Carney since 2015 since his landmark Tragedy of the Horizon speech.

Equinor: Swimming Against this Nordic Leadership Trend

Nordic financial institutions are generally leading the world on stakeholder accountability in the climate area. However, Norden expansion in oil and gas remains problematic and out of alignment with the Paris Agreement. And within this sector's activity, there is one particularly bizarre outlier, particularly to those affected by fires in Australia.

Norwegian-based international energy company Equinor's (nee Statoil) deep sea drilling investment in the Great Australian Bite has profound climate, environmental and financial risks. Equinor has made strong statements of domestic emissions accountability[38] but its international actions[39] show this is largely hollow rhetoric.

Norden expansion in oil and gas remains problematic and out of alignment with the Paris Agreement.

An alignment with the Paris Agreement extends well beyond that of divesting/restricting coal. The world needs to embrace new low emissions alternatives and drive an aggressive reduction in our energy systems' reliance on unabated fossil fuels as a key part of a wider decarbonisation of all economic activities.

One leading Nordic example of this is the HYBRIT research and development project jointly run by Swedish firms SSAB, LKAB and Vattenfall to commercialise the production of fossil free steel - involving the replacement of coking coal with renewable energy generated hydrogen. In December 2019, HYBRIT's landmark announcement brought forward the target commercialisation date to 2026, nine years ahead of the original timeline.[40]

We note that despite Nordic leadership in adopting ambitious and clear policies to reach the Paris Agreement, particularly with respect to thermal coal, coal power and tar sands, many Nordic oil and gas firms are still expanding their fossil fuel footprint. A significantly more ambitious policy scope covering all unabated fossil fuel use is still required, even from these global leaders.

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[37] Bank for International Settlements, Green Swans: Central banking and financial stability in the age of climate change, January 2020.
[38] Reuters, Equinor aims to cut emissions in Norway by 40% this decade, 6 January 2020.
[39] The Guardian, Great Australian Bight: Norwegian energy company Equinor given environmental approval to drill for oil, 18 December 2019.
[40] HYBRIT, SSAB, LKAB and Vattenfall welcome higher ambitious to reach climate targets, 10 December 2019.

Coal Divestment is Accelerating, Global Capital is Fleeing

Global capital is increasingly fleeing the financial risk of stranded assets in the thermal coal mining and coal-fired power plant sector.

Financial institutions are increasingly accepting that thermal coal is the most carbon intensive and least technologically viable fossil fuel, and therefore a good place to begin divestment. Although these are progressive moves by corporates, many policies are insufficient given the Paris Agreement requires a deep decarbonisation across the global economy.

Many policies are insufficient given the Paris Agreement requires a deep decarbonisation across the global economy.

IEEFA is tracking the rate at which thermal coal and/or coal-fired power plant restrictions, exclusions and/or divestments are being announced by globally significant financial institutions. At the time of writing, 115 banks and insurers of global significance (defined as total assets greater than US$10bn) have coal policies aimed at aligning with the Paris Agreement.

Following new coal exit policy announcements by BlackRock of the U.S., ATP of Denmark, ABP of the Netherlands and Pictet Group of Switzerland since the start of 2020, there are now also 11 independent globally significant asset managers and asset owners with coal exclusion policies (defined as AuM of >US$50bn, covering the top 200 managers globally, and which are not subsidiaries of banks or insurers to avoid double-counting). In total, there are 126 global financial institutions with formal coal exclusions/restrictions.

And with new or stronger coal policy announcements by RBS, BlackRock, Pictet Group, ABP, ATP, Aegon, the UK government on export credit agency finance, Swedbank Robur, Ilmarinen, Crédit Mutuel Alliance and Danske Bank all made since the start of 2020, momentum is accelerating.

The Nordic region has been leading this global trend away from coal since 2015. The extensive fossil fuel divestment in the region, combined with the sheer size of Norway's sovereign wealth fund, has attracted global attention. Far from being a lone example, the Fund's alignment with the Paris Agreement on the issue of coal is increasingly being replicated and endorsed by almost every major Nordic financial institution – be it a bank, insurer or asset manager, across both public and private entities.

Thanks to Norden, the divestment trend away from thermal coal has gone global.

About IEEFA

The Institute for Energy Economics and Financial Analysis conducts research and analyses on financial and economic issues related to energy and the environment. The Institute's mission is to accelerate the transition to a diverse, sustainable and profitable energy economy. www.ieefa.org

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