



Decision to exclude companies involved in coal-based activities

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Summary

KLP has decided to exclude Perennial Energy Holdings Ltd., OGE Energy Corp., Adani Transmission Ltd. and CIMIC Finance Ltd. from KLP's and the KLP funds' investment universe. The companies are involved in coal-based activities.

Introduction

Global warming has vast consequences, and there is an urgent need for substantial greenhouse gas (GHG) emission reductions. Climate change has implications for ecosystems, the economy and people's health. It's a global problem that affects us all. Most countries around the world support the Paris Agreement. The ambition of the Paris Agreement is to keep global temperature rises this century to well below 2°C above pre-industrial levels, and to pursue efforts to limit the temperature increase further to 1.5°C. Current emission reduction policies are not sufficient, and we are on a path leading to 3°C global warming¹.

Therefore, authorities, businesses and society in general need to step up their climate efforts in the coming years, across all sectors. Globally, a phase out of coal-based energy production must take place by 2050². Coal is the energy source with the highest level of absolute GHG emissions³, and energy production from coal has low CO₂ efficiency⁴. Therefore, it is worrying that coal consumption is on the

¹ International Energy Agency (IEA) 2017. "World Energy Outlook 2017".. og Climate Action Tracker 2018, tilgjengelig fra: <http://climateactiontracker.org/global.html>

² Intergovernmental Panel on Climate Change (IPCC) 2018. "Global Warming of 1.5 °C. Summary for Policymakers".

³ Global Carbon Budget 2018. Tilgjengelig fra: <https://www.globalcarbonproject.org/carbonbudget/>

⁴ International Energy Agency (2014). "Special report World Energy Investment Outlook". OECD/IEA.

rise after some years in decline⁵. Coal was a major contributor to the increase in global GHG emissions in 2018⁶.

A key problem with coal plants is their long lifetime, 40 years on average⁷. A study conducted by researchers at the University of Oxford states that, the GHG emissions from coal plants already in operation are set to expend the entire carbon budget for coal sector⁸. In effect, all construction of new power plants are incompatible with these targets⁹. Yet, estimates indicate that the GHG emissions from coal plants under construction or planned will increase the emissions from coal by 50-75 percent compared to the emissions of existing coal plants¹⁰.

Consequently, the efforts to restrict coal consumption must be accelerated in order to secure a responsible transition of the global energy system. It is positive that a number of countries with minor shares of coal in their energy mix have announced plans for coal phase-outs¹¹. Unfortunately, countries with a large proportion of coal in their energy mix are not making the same commitments¹².

KLP's ambition is to send a strong signal on the urgency of transitioning from fossil fuel to renewable energy sources. Through divestment and active ownership, KLP intends to send a clear market signal to producers, distributors and users of energy. The Intergovernmental Panel on Climate Change (IPCC) highlights the fact that investments in coal must be terminated by 2030 to limit the global temperature increase to 1,5°C¹³.

KLPs tools for responsible investments

KLP seeks to contribute to the transition to a low-carbon society, and we can do this in multiple ways. Active ownership, investments in renewable energy, exclusions and industry initiatives are some examples. An analysis of KLPs investments in fossil energy in 2014 considered the tools at hand¹⁴.

KLP's board of directors decided on the 4th of November 2014 that companies that derive more than 50 percent of their revenues from coal-based activities should be excluded as a means to contribute to the climate agreements. The limit was tightened to 30 percent of revenues in 2017, in line with the implementation of a coal criteria by the Government Pension Fund Global (GPFG).

⁵ International Energy Agency (2018). "Global Energy & CO2 Status Report".

⁶ Cicero 2018. "Global CO2 emission rise again in 2018". Tilgjengelig fra: <https://www.cicero.oslo.no/en/posts/climate-news/global-co2emissions-rise-again-in-2018-according-to-latest-data>

⁷ Intergovernmental Panel on Climate Change (IPCC) (2014a). Annex III: Technology-specific cost and performance parameters.

⁸ Pfeiffer et al. (2016). The '2°C capital stock' for electricity generation: Committed cumulative carbon emissions from the electricity generation sector and the transition to a green economy. Applied Energy, Volume 179, 1 October 2016

⁹ WWF-Norge 2016. "Etikk eller Falitt? Hvorfor Oljefondet ikke bør medvirke til investeringer i ny kullkraft. Tilgjengelig fra: https://www.wwf.no/assets/attachments/2016_wwf_rapport_etikk_eller_falitt2.pdf

¹⁰ Intergovernmental Panel on Climate Change (IPCC) 2018. IPCC SR1.5. Chapter 2: Migration pathways compatible with 1.52°C in the context of sustainable development.

¹¹ International Energy Agency (2018). "Global Energy & CO2 Status Report".

¹² International Energy Agency (2018). "Global Energy & CO2 Status Report".

¹³ Intergovernmental Panel on Climate Change (IPCC) 2018. IPCC SR1.5. Chapter 2: Migration pathways compatible with 1.52°C in the context of sustainable development.

¹⁴ KLP (2014): "Karbonutredning: Investeringer i fossil energi". November 2014. URL: <http://www.mynewsdesk.com/no/klp/documents/karbonutredning-investeringer-i-fossil-energi-40691>

Exclusion of coal companies and companies involved in coal-based activities will have no, or at best, a minor effect on the world's GHG emissions. However, when investors like KLP choose to divest from coal, it sends an important signal on future financing of such projects, and is an incentive for companies to seek other sources of income than coal-based activities.

Coal-based activities are not considered purely unethical. Neither is this a legal issue. When KLP still decides to exclude companies with coal-based activities, it is because the consumption of coal consumed for energy use today is not consistent with the achievement of the targets in the Paris Agreement. Divesting from companies with coal-based activities is a tool in the asset management strategy, which supports the IPCC's recommendations.

Extension of KLPs exclusion criteria for coal

Given the trends in global energy production and GHG emissions, KLP finds it necessary with a further limitation of the threshold for the exclusion criteria for coal. An observation made since 2014 is that the criteria, which excludes companies, that derive more than 30% of their revenues from coal-based activities is efficient for identifying the most coal-intensive companies. Yet, a number of companies with a large absolute coal production volume, and high absolute GHG emissions from coal have remained in KLP's investment universe. Whereas KLP's ambition in 2014 was to exclude the most coal-intensive companies, our ambition today is to be coal free.

Definition of exclusion criteria for coal-free

KLP is to exclude companies that are involved in coal-based activities through (1) coal mining and (2) energy generation from coal. The following three criteria have been used to identify companies that are to be excluded:

- Companies that derive more than 5 percent of their revenues from coal-based activities;
- Companies with a coal production exceeding 20 million tons annually and/or;
- Companies with more than 10 000 megawatt (MW) installed production capacity.

When evaluating companies, KLP can take into considerations forward-looking assessments such as plans to reduce the proportion of coal or increase the share of renewable sources in energy production. The purpose of these forward-looking assessments is to identify companies with a positive trend that are contributing to the transition to a low-carbon society.

Decision

KLP and the KLP Funds have decided to exclude Perennial Energy Holdings Ltd., OGE Energy Corp., Adani Transmission Ltd. and CIMIC Finance Ltd. from the investment portfolios because the companies are involved in coal-based activities.