

Decision to include companies based on product-based coal criteria

September 2021

Summary

Anglo American PLC, Empire District Electric Company, EDP – Energias de Portugal S.A. and Enel SpA were excluded due to revenues from the production of coal that exceeded 5% of total revenues. KLP and the KLP Funds (hereafter, "KLP") have decided to include the mentioned companies mainly based on the Council on Ethics' recommendation to the Government Pension Fund Global (GPF), published on 1st of July 2021¹, when Norges Bank revoked exclusions and ended observations.

Anglo American PLC

The company is excluded from KLP's investments as of May 2019 based on the product criterion for coal. At the time, the company derived 25% of total income from coal.

In the Council on Ethics' recommendation, it is considered that "... the company has completed a demerger of its thermal coal operations in South Africa. Consequently, the company no longer meet the threshold of the absolute coal criterion".

Through its own website, the company informs that they have recently sold out of their coal operations in South Africa, as well as their share of 33.3% in Cerrejón in 2021. The company confirms in dialogue with KLP as of August 2021 that the company no longer has any income from thermal coal.

Based on this, the company is no longer in breach with KLP's coal criterion.

Empire District Electric Company

The company is excluded from KLP's investments as of December 2016 based on the product criterion for coal. At the time, the company derived 46 % of total income from coal.

In the Council on Ethics' recommendation, it is considered that "... the company has sold or closed all coal capacity. As such the company is no longer relevant for exclusion based on the coal criterion".

Based on this, the company is no longer in breach with KLP's coal criterion.

EDP – Energias de Portugal S.A.

The company is excluded from KLP's investments as of May 2019 based on the product criterion for coal. At the time, the company derived 12 % of total income from coal.

In 2016, NBIM decided that the company should be put on observation due to the levels of their coal power output and uncertainty related to the use of alternative fuel sources, as well as plant closure

¹ <https://www.nbim.no/en/the-fund/news-list/2021/decisions-on-observation-and-revoking-of-exclusion-and-observation/>

plans going forward. Since then, the company has reduced their power output from coal to levels where the observation status is no longer required.

The company confirms in dialogue with KLP as of August 2021 that the company only derive 4.5% of total income from coal. The company's vision is to become 100% green within 2030.

Based on this, the company is no longer in breach with KLP's coal criterion.

Enel SpA

The company is excluded from KLP's investments as of May 2019 based on the product criterion for coal. At the time, the company derived 17 % of total income from coal.

In 2019, NBIM decided that the company should be put on observation due to the levels of their coal power output, combined with forward guidance from the company related to its coal phase-out plans. Since then, the company has reduced their power output from coal to levels where the observation status is no longer required.

The company confirms in dialogue with KLP as of August 2021 that the company only derive 2.5% of total income from coal and that coal is to be phased out of its operations within 2027.

Based on this, the company is no longer in breach with KLP's coal criterion.

KLP's 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 hand².

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 (GPF).

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 KLP's 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

² KLP (2014): "Karbonutredning: Investeringer i fossil energi". November 2014. URL: <http://www.mynewsdesk.com/no/klp/documents/karbonutredning-investeringer-i-fossil-energi-40691>

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

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 include Anglo American PLC, Empire District Electric Company, EDP – Energias de Portugal S.A. and Enel SpA as the companies no longer is in breach with KLP's coal criteria.