



KLP's expectations for companies with respect to climate change and the natural environment

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Background



Ongoing global warming is driving the climate system into a less stable phase with alarming consequences for humanity. Weather extremes are becoming more frequent, intense and unpredictable in many regions of the world. Floods, droughts and winds are causing human casualties, damaged infrastructure and ruined harvests.

At the same time, we are witnessing loss of nature¹ at a rate only experienced in previous mass extinctions. This is threatening the viability and stability of ecosystems both on land and in the oceans that are the foundation of prosperous human societies. The degradation of the natural environment is also undermining the buffering capacity of ecosystems at a time when it is most needed to limit the impacts of a changing climate.

The interlinked effects of destruction of the natural environment and climate change threatens the provision of many of nature's vital services to humans, including water and food, and undermines efforts to meet sustainable development goals. This will drive population movements, spur social and political unrest, and threaten the stability of institutions that underpin prosperous modern societies, including the global financial system.

Purpose and approach

KLP and KLP Mutual funds (KLP) considers climate change and nature loss as both a direct financial risk and an indirect system level risk to global society and the financial system at large. The purpose of this document is to describe how KLP, as a long-term responsible investor, expects companies to manage their business activities in a way that limits these risks. The objective is to minimize KLP's exposure to nature and climate-related financial risks, and to ensure that KLP's financial objectives are met in a way that supports social and economic development within the finite limits of our planet².

KLP recognizes that this may require companies to adapt, fundamentally transition or, in some cases, phase out their traditional business models, while others will seize the new opportunities and flourish. Companies will start their transition from different sociopolitical positions and with different historic liabilities and assets. KLP is committed to supporting companies through their respective transition processes.

Our climate and nature-related expectations are based on the goals agreed under the UN Framework Convention on Climate Change (UNFCCC) and the UN Convention on Biological Diversity (CBD), and are inspired by the ambitions of the UN Sustainable Development Goals. In developing these expectations, KLP is guided by evolving norms, principles and the science-based practices referenced in the sections below.

The expectations outlined in this document should be seen as an operationalization of the global goals agreed under the UNFCCC and CBD projected onto the business activities most relevant to KLP³. They set the standard for KLP's ownership engagement and voting decisions as we seek to do our part in the collective effort of shifting the global economy towards these common goals. The expectations will also inform project analysis and investment decisions in the context of this broader economic shift.

KLP will contribute to further alignment around goals, principles and best practices that support an efficient, fair and orderly transition. This will allow KLP to base ownership strategies and company dialogues on companies' own reporting, aggregated assessments and ratings provide by third-party initiatives. The approach is intended to support effective and well-coordinated investor engagement through aligned expectations and reporting

requirements. A coordinated effort by companies operating in the real economy and the financial sector will lower the transition cost to society and individuals, limit the financial risk to individual actors and therefore support the global objective of an orderly transition towards a sustainable society. KLP's risk management, as it relates to climate and nature rests upon and seeks to support such a well-coordinated and effective transition.

KLP recognizes that the challenges facing society with regards to halting nature loss and limiting climate change are complex, system-wide, interconnected and require the whole economy to transition. We underline that climate and nature related challenges need to be seen and met in conjunction, and acknowledge that this will introduce challenging dilemmas that require careful consideration and wise decisions beyond the specifics of this document. While we here lay out our expectations for individual companies and projects, the systemic nature of the challenges and the many real dilemmas that will arise require companies and institutions to explore collaboration, push action through value chains and support common goals both in their political dialogue and in their broader communication with stakeholders.

Responsible business conduct⁴

No matter how well coordinated, the transition to a low-carbon, nature-positive society will affect regions, countries and individuals unequally. We expect companies to act responsibly with respect to their social obligations. As a minimum, we require companies and project developers to adhere to the International Bill of Human Rights, the UN Convention on the Rights of the Child and the ILO's Core Conventions. It should be a core focus of businesses to protect vulnerable individuals and groups of people affected by and associated with their operations and prevent all forms of discriminations. In particular, the rights of indigenous peoples are often relevant in the context of land-extensive economic activity and require close attention⁵ in relation to many of the topics addressed in this document. Furthermore, we expect companies to implement a responsible tax practice⁶ and actively combat corruption⁷. Companies are responsible for ensuring human rights are respected not only in their own organizations, but throughout their supply chains. As part of a comprehensive compliance system, companies should establish grievance mechanisms adapted to local circumstances of its operations.

KLP expects that companies confirm their commitment to respect and promote the above-mentioned rights and standards through publicly available policies, ensure implementation through robust compliance routines with board oversight, and are transparent about challenges and progress.



I. KLP's general expectations with respect to climate change and the natural environment

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Companies operating in different business sectors and geographies will **depend on** and **impact** climate and nature in different ways and will have different exposure to climate and nature-related **risks**⁸ and **opportunities**. No-one will be unaffected by the impacts of a changing climate and deteriorating natural environment. Nor should anyone be indifferent to the opportunities that lie in business models that reduce emissions and contribute positively to the environment and the needs of societies. This section lays out KLP's general expectations for all companies with regards to climate change and the natural environment on land and in the oceans. KLP encourages companies to urgently manage downside risks and impacts, and proactively seek economic opportunities.

1) KLP's general expectations for companies with respect to climate change

KLP expects all companies to align their business strategies with the goal of the UN Framework Convention on Climate Change/Paris Agreement to *limit the global average temperature increase to 1.5 degrees Celsius above pre-industrial levels*⁹.

More specifically, we expect companies exposed to climate change risks and opportunities¹⁰ to:

- Publicly disclose company-wide emission targets consistent with a science-based pathway aligned with the 1.5 degrees target of the Paris Agreement, covering scopes 1, 2 and 3¹¹, supported by an action-oriented strategy¹² with clear KPIs focused on short and medium-term milestones¹³.
- Demonstrate a strong governance framework, which clearly articulates the board's accountability and oversight of strategy and resource allocations relevant to climate change-related emissions, risks and opportunities.
- Align all climate-related lobbying¹⁴, both directly and through trade associations, with the goals of the Paris Agreement, and disclose their trade association memberships.
- Take action to reduce the potential negative impacts of climate change on the company's assets and operations (i.e. adapt to the consequences of a changing climate), both directly and across the value chain¹⁵.
- Be attentive to the company's role and social responsibilities in contributing to an organized and just transition¹⁶.
- Disclose in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) or the International Sustainability Standards Board¹⁷ (ISSB). In particular, companies should provide indicators to demonstrate progress towards the company's climate-relevant targets and milestones, and disclose resource allocations relevant to these indicators. Scenario analyses should also be used to provide insight into long-term climate risks, impacts and opportunities.
- Require and monitor similar commitments to emission targets, strategy implementation and reporting, as outlined above, across the company's entire value chain, including subcontractors and suppliers.

To assess companies' commitments and progress, KLP will draw on best practice standards, frameworks, tools and initiatives. Presently, we are guided by the Science Based Target initiative (SBTi), Climate Action 100+ and the EU taxonomy for carbon-intensive sectors.

Additional sector-specific expectations and references are listed for sectors prioritized for follow-up by KLP in Section II of this document.

2) KLP's general expectations for companies with respect to the natural environment on land - terrestrial and freshwater ecosystems¹⁸

KLP expects all companies to align their business strategies with the global goals of the UN Convention on Biological Diversity (CBD)¹⁹ with protocols²⁰, the UN Sustainable Development Goals (SDG 15 "Life on Land"²¹) to *halt and reverse the loss of nature*, and international environmental conventions including the United Nations Convention to Combat Desertification (UNCCD), Ramsar Convention on Wetlands and the Convention on International Trade in Endangered Species (CITES).

More specifically, we expect companies dependent on or impacting the natural environment on land²², including both surface- and groundwater basins to:

- Commit to contribute to halt and reverse the loss of nature, and publicly disclose company-wide science-based targets for nature supported by an action-oriented strategy with asset-level subtargets and clear KPIs focused on short and medium-term milestones²³.
 - KLP encourages companies to use the methodology outlined by Science Based Target for Nature (SBTN), including third-party verification, and do in any case expect targets and strategy to cover the main drivers of biodiversity²⁴ loss: Ecosystem conversion, overexploitation of resources, pollution and introduction of alien species to new ecosystems, as identified as relevant by the company's risk and materiality assessment of both direct activities and through their value chain²⁵.
 - Companies dependent on or impacting water quantities or qualities in regions of water stress, or in water basins which are not characterized as having a good conservation status²⁶, include specific targets and strategies on freshwater withdrawal, nutrient pollution and toxic chemicals pollution as relevant.
- Demonstrate a strong governance framework, which clearly articulates the board's accountability and oversight of strategy and resource allocations relevant to nature-related dependencies, risks, impacts and opportunities.
- Align all lobbying related to the management of the natural environment²⁷, both directly and through trade associations, with relevant global goals, and disclose trade association memberships.
- Evaluate, assess and disclose dependencies, impacts, risks and opportunities in line with the recommendations of the Task Force on Nature-related Financial Disclosures (TNFD). In particular, companies should provide indicators to demonstrate progress towards the company's targets and milestones related to impact on nature and water use, and disclose resource allocations relevant to these indicators.
- Require and monitor similar commitments to halt and reverse nature loss and sustainable use of freshwater, backed by targets, strategy and reporting as outlined above, across the company's entire value chain, including subcontractors and suppliers.

To assess companies' commitments and progress, KLP will align with best practice standards, frameworks, tools and initiatives. Presently, we are guided by the IFC

Performance Standard 6 and the Science Based Target for Nature (SBTN). Additional sector-specific expectations and references are listed for sectors prioritized for follow-up by KLP in Section II of this document.

3) KLP's general expectations for companies with respect to the natural environment in marine ecosystems²⁸

KLP expects all companies to align their business strategies with the global goals of the UN Convention on Biological Diversity (CBD) and the UN Sustainable Development Goals (SDG 14 "Life below water"²⁹) to *halt and reverse the degradation of the marine environment*.

More specifically, we expect companies dependent on or impacting the marine environment³⁰ to:

- Commit to contribute to halt and reverse the degradation of the marine environment and publicly disclose company-wide science-based targets for nature supported by an action-oriented strategy³¹ with asset-level subtargets and clear KPIs focused on short and medium-term milestones³².
- Demonstrate a strong governance framework, which clearly articulates the board's accountability and oversight of dependencies, risks, impacts and opportunities related to the marine environment.
- Align all lobbying related to the management of the natural environment³³, both directly and through trade associations, with relevant global goals, and disclose trade association memberships.
- Evaluate, assess and disclose dependencies, impacts, risks and opportunities in line with the recommendations of the Task Force on Nature-related Financial Disclosures (TNFD). In particular, companies should provide indicators to demonstrate alignment with and progress towards the company's nature-related targets and milestones, and disclose resource allocations relevant to these indicators.
- Require similar commitments to halt and reverse the degradation of the marine environment, strategy implementation and reporting, as outlined above, across the company's entire value chain, including subcontractors and suppliers.

To assess companies' commitments and progress, KLP will align with best practice standards, tools and initiatives. Presently, we are guided by the Science Based Target for Nature initiative (SBTN) and the *Sustainable Ocean Principles* (UN Global Compact). Additional sector-specific expectations and references are listed for sectors prioritized for follow-up by KLP in Section II of this document.



II. KLP's sector specific expectations for companies with respect to climate change and the natural environment

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This section builds on KLP's general expectations for companies with regards to climate change and loss of nature on land and in the oceans, as set out in Section I above. It seeks to further specify our expectations for companies in sectors considered by KLP to be both of particular importance in the transition to a more sustainable, low-carbon nature positive future and highly relevant to KLP's portfolio, role and social responsibilities. Our general expectations outlined above, including those concerning reporting, are not repeated below.

Identifying a limited number of priority sectors allows for a "bottom up" approach to portfolio management, where KLP can maximize its impact. This document reflects KLP's present priorities and will be updated as industry-specific guidance, standards and best practices evolve, along with KLP's experience.

1) Oil and gas

The production and burning of fossil fuels contributes around 70% of the greenhouse gases related to human activities³⁴. Half of this comes from oil and gas. To stay within the 1.5-degree Celsius target, these emissions must be reduced to close to zero over the next thirty years. This fundamentally challenge the business model of companies in this sector.

KLP expects companies in the oil and gas industry to present a comprehensive strategy that outlines how they will either transition to a net-zero business model, wind down while returning capital to shareholders, or a combination of the two. Building on recommendations and best practice articulated by, among others, Climate Action 100+ and IIGCC³⁵, KLP expects a credible **transition strategy** to:

- Be aligned with a science-based sector pathway towards 1.5 degrees.
- Cover full lifecycle emissions (scopes 1, 2 and 3).
- Be bound by absolute emission targets³⁶, including short and medium-term milestones.
- Cover emissions from the company's owned production and global product sales on a full equity share basis³⁷.
- Prescribe actions to reduce greenhouse gas emissions across the value chain, consistent with both long-term targets and short-term milestones.
- Allow for accountability and transparency, including on short-term milestones.
- Be supported by capex allocations consistent with the above.
- Prescribe climate policy engagement supportive of global sustainability objectives.

Reaching the 1.5 degree target will require most of the remaining fossil resources to remain in the ground. The International Energy Agency (IEA), among others, have clarified that there is no room for investments in new oil and gas production³⁸. To the extent companies still find that they can engage in new exploration and production within a transition plan consistent with the criteria above, KLP expects companies involved in oil and gas industry to:

- Develop a net-positive approach to the environmental impact of their operations³⁹, and disclose the implementation plan.

- Commit to not carry out industrial activity in i) UNESCO World Heritage sites, ii) areas that fall under the Ramsar Convention on Wetlands, or iii) areas classified under the International Union for Conservation of Nature (IUCN) protected area categories I and II, or similar national classifications.
- Not engage in exploration or production, or support such activities, in ecologically or biologically sensitive areas⁴⁰, critical habitats⁴¹, key biodiversity areas⁴² or areas of high conservation value (HCV)⁴³, except when such areas are allocated to industrial activities under a holistic science-based management plan that considers cumulative effects at an ecologically relevant scale, and not under any circumstances operate in such areas when the consequences of an accident for the environment are unmanageable⁴⁴.
- Implement best-practice standards and technologies relevant to the specific geography and nature of the operation⁴⁵, including minimizing extractive waste and managing and processing this waste in a responsible manner.

2) Mining⁴⁶

Mining contributes around 1% of global emission from direct operations. Fugitive methane emissions are estimated to contribute a further 3-5%⁴⁷. When including downstream (scope 3) emissions, mining accounts for around a third of all emissions, dominated by the burning of coal. For the sector in general, use of land for open pit mining and operational infrastructure is a major contributor to deforestation and land conversion. Fresh water extraction, tailings deposition and pollution are historically seen to have destructive and irreversible impacts on the local environment in sub-standard mining operations - which is no longer acceptable or necessary.

The transition to a low carbon society will require a large amount of minerals. Investing in recycling, the circular economy and new technologies will substantially reduce the need for new mining activities⁴⁸. Until the goal of a fully circular economy is achieved, there will still be a need to extract higher volumes of many mineral types. As the industry responds to these demands, it needs to urgently phase out production of thermal coal, lower operational emissions and freshwater consumption, and implement a net-positive approach to the environmental impact of its operations. Considering the necessary transition to low-emission steel production, the industry should prepare to phase out metallurgical coal production over a medium timeframe.

Building on the recommendations, standards and best practice articulated by, among others, Climate Action 100+, the Science Based Target initiative (SBTi), Science Based Target for Nature (SBTN) and the IRMA standard for Responsible Mining Operations⁴⁹, KLP expects companies involved in mining operations to:

- Develop an asset specific no-net-loss or net-positive approach to the environmental impact of their operations⁵⁰, and disclose the implementation plan.
- Publicly disclose a climate action plan aligned with science-based emission targets⁵¹ covering scopes 1, 2 and 3⁵², as outlined in the general climate expectations set out in Section I above.
- Commit to not carry out industrial activity in i) UNESCO World Heritage sites, ii) areas that fall under the Ramsar Convention on Wetlands iii) areas classified under the International Union for Conservation of Nature (IUCN) protected area categories I and II, or similar national classifications.

- Not engage in exploration or production, or support such activities, in ecologically or biologically sensitive areas⁵³, critical habitats⁵⁴, key biodiversity areas⁵⁵ or areas of high conservation value (HCV)⁵⁶, except when such areas are allocated to industrial activities under a holistic science-based management plan that considers cumulative effects at an ecologically relevant scale, and not under any circumstances operate in such areas when the consequences of an accident for the environment are unmanageable.
- Adopt best-practice technologies and standards⁵⁷ most relevant to the specific geography and nature of the operation, including those covering:
 - Mining, trading and related supply chains of minerals from conflict-affected and high-risk areas ("conflict minerals")⁵⁸.
 - Water stewardship practices.
 - Designing, constructing, operating, monitoring and decommissioning of tailings disposal/storage facilities⁵⁹.
 - Minimizing and responsible management of extractive waste (waste rock).
- Actively contribute to improve technologies and operational methods to lower greenhouse gas emissions, freshwater use and environmental impacts.
- Support the development and implementation of national and international regulations, sector-specific policies and standards for use of best practice technologies and operational procedures.
- Support the global moratorium on deep-sea mining until the biological and ecological impact of both the exploration and exploitation phases are properly studied and understood⁶⁰.

3) Other high-emission industries

Industry sectors with high inherent dependence on fossil fuels, or with process-related greenhouse gas emissions, including cement, steel, aluminum and chemicals (including mineral fertilizer), contribute around 30% of the greenhouse gases generated by human activities⁶¹. Most of this relates to the burning of fossil fuels in production processes, while around 5% of global emissions are process by-products, mostly from cement production.

The emission reductions required for companies in this sector to align with the 1.5 degree target typically depend on a capital-intensive shift in production technology and energy input, improved recycling levels and, in some cases, on further technology development and development of new products.

KLP expects these companies to present a comprehensive strategy that outlines how they plan to transition to a net-zero business model. Building on the recommendations, standards and best practice articulated by, among others the Science Based Target initiative (SBTi), Climate Action 100+ and the EU taxonomy, KLP expects a credible **transition strategy** to:

- Be aligned with a science-based sector pathway towards 1.5 degrees. Alternatively, that the company complies with the relevant EU Technical Screening Criteria for climate change mitigation or has more than 50% capex aligned with the EU taxonomy.
- Cover full lifecycle emissions (scopes 1, 2 and 3).

- Prescribe action to reduce greenhouse gas emissions across the value chain, consistent with both long-term targets and near-term milestones.
- Allow for accountability and transparency, including on short-term milestones.
- Be supported by capex allocations consistent with the above.
- Prescribe climate policy engagement supportive of global sustainability objectives.

4) Agriculture and forestry⁶²

Agriculture (including animal husbandry), forestry and other land use account for 21% of global emissions⁶³. Deforestation and other land conversion, mainly driven by agricultural expansion and forestry⁶⁴, contributes a net 11% of global emissions, is the main driver of nature loss and freshwater depletion, and is a substantial contributor to environmentally harmful pollution.

KLP fully recognizes the world's critical dependence on efficient and stable food production by both small-scale and industrial farmers. The potential for sufficient output on already converted land is well documented⁶⁵. Long-term sustainability in the sector requires an urgent halt to the conversion of land and a shift to regenerative agriculture, based on efficient use of available land, reduced input of agrochemicals and improved nutrient recycling. An overall reduction in meat consumption, where sufficiently nutritious food alternatives are available, will substantially lower the pressure on land and reduce greenhouse gasses from ruminants.

Building on the recommendations, standards and best practice articulated by, among others, the Food and Land Use coalitions' *Growing Better: Ten Critical Transitions to Transform Food and Land Use*⁶⁶ and Global Canopy's *Finance Sector Roadmap on Eliminating Commodity-Driven Deforestation*⁶⁷, KLP expects companies involved in the value chain of land-extensive industries such as agriculture and forestry to:

- Publicly commit to deforestation- and conversion-free production or sourcing⁶⁸, through a policy covering all deforestation-risk commodities⁶⁹, all operations and geographies, and all direct and indirect suppliers and financed projects/clients, with a target date of 2025.
- For each deforestation-risk commodity, trace supply through all tiers of suppliers (including indirect suppliers) to a point which is sufficient to ensure full compliance with the company's non-deforestation/-conversion and human rights policy, implement a compliance mechanism and report on level of compliance.
- Companies in industries with a large impact on forests report their forest-related information to the Carbon Disclosure Project (CDP) Forest Program.
- For companies involved in production, trading or the downstream value chain⁷⁰ of food commodities with a high risk of deforestation/land conversion⁷¹:
 - Publicly disclose a strategy, for each relevant commodity, outlining actions to ensure a deforestation- and conversion-free supply chain within the timeframe of their commitment (and no later than 2025), and report annually on progress.
 - Require not only that their own supply is deforestation free, but also that their suppliers are deforestation free across all their production, procurement and sales.

- For companies involved in the value chain of boreal forests⁷²:
 - Ensure⁷³ that no forest resources from old-growth/natural forest⁷⁴ or key biodiversity areas enters the supply chain, and that sourcing is only from suppliers committed to not harvest any remaining old-growth/natural forest or key biodiversity areas.
 - Support the development of a forest industry value chain aimed at improving both wood quality and biodiversity status of production forest, aiming for good conservation status⁷⁵ of relevant habitat and species.
- For companies in the downstream forest industry, including those involved in wood processing and pulp & paper:
 - Impose supply chain requirements as outlined above on all forest resources.
 - Minimize the use of water, chemicals and the disposal of polluting effluents to the natural environment by use of best available practices and technologies.
- Companies involved in agricultural production (including livestock):
 - Disclose targets and an action plan to minimize all material negative impacts on the climate and environment. Short and medium-term indicators could include greenhouse gas emissions, soil carbon content, water use and untreated effluents, as well as use of pesticide and fertilizer.
 - Disclose if and how targets and strategies align with best practices for sustainable farming.
 - Demonstrate how the company explores opportunities in “alternative proteins”⁷⁶ as an alternative to livestock farming with a lower environmental footprint.

5) Mariculture (ocean-based aquaculture)

Farmed fish has a generally lower climate and environmental footprint than terrestrial meat sources such as cattle and pork, and can play an important role in a healthy diet, reducing the need for other animal protein sources. However, highly concentrated production and inadequate management practices may contribute to deterioration of the local environment through pollution, the spread of parasites and diseases, and displacement and “genetic pollution” of naturally occurring species. Producers may also contribute indirectly to deforestation and the overharvesting of other marine resources through feed production.

Building on the recommendations and best practice articulated by, among others, the World Economic Forum *Road to Sustainable Aquaculture* and the *Sustainable Ocean Principles* (UN Global Compact), KLP expects all companies involved in fish farming to:

- Commit to and implement a zero-impact target for biodiversity and ecosystems directly affected by the full range of the company’s operation⁷⁷, supported by an action-oriented strategy with clear KPIs and short-term milestones to demonstrate progress in minimizing the locally and regionally most relevant pressures.
- Actively support the development and implementation of effective regulation and oversight by appropriate authorities, to ensure that the aggregate stress on the local and regional ecosystem does not have a negative impact on the environment⁷⁸.
- Companies with a high risk of contributing to deforestation/land conversion in connection with feed production and use have a group level commitment to a strict

no-deforestation and no-conversion policy⁷⁹, and full traceability in the feed supply chain. Companies require that suppliers are deforestation free across their production, procurement and sales.

- Comply with the best-practice certification standard most relevant to the specific geography and species being farmed.

6) Fisheries (wild-caught fish)

The number of overharvested fish stocks has increased steadily over the last 50 years, and now represent around 30% of global fisheries⁸⁰. Another 65% of fisheries are harvested at their maximum exploitable limit. Overharvesting, unintended bycatch and seabed habitat destruction are among the largest drivers of biodiversity loss in the marine environment⁸¹. Recent evidence also suggest that bottom trawling stirs up CO₂ from the ocean floor at a level comparable to global aviation⁸². Improving fishery management and harvesting practices is essential to reverse the overharvesting of species and biodiversity loss, and reduce greenhouse gas emissions. Better management could over time also allow for higher harvesting levels from rebounding stocks.

Industry sectors involved in capture fisheries, processing or distribution of wild-caught fish will, depending on region and type of catch, face a high risk of contributing directly or indirectly to illegal, unreported and unregulated (IUU) fishing and unsustainable harvesting practices. This risk extends down through the supply chain of traders, processors, food producers, supermarkets and various intermediaries.

Building on the recommendations and best practice articulated by, among others, the Food and Agriculture Organization of the UN (FAO) *Code of Conduct for Responsible Fisheries*, The Ocean Panel's⁸³ *Call to Action*, UNEP FI's *Turning the Tide: How to finance a sustainable ocean recovery* and the *Sustainable Ocean Principles* (UN Global Compact), KLP expects companies involved in capture fisheries or the handling of wild-caught fish to:

- Have a group level commitment to avoid illegal, unreported and unregulated fishing (IUU) and the harvesting of stocks beyond biologically sustainable levels throughout their supply chains. Stocks of species for which there is insufficient scientific data to establish sustainable catch levels should be treated according to the precautionary principle and should not be harvested for commercial purposes.
- Ensure sufficient traceability to keep all IUU catches out of the supply chain and make data on sourcing locations and supply chains publicly available.
- Minimize bycatch and avoid environmental damage to the ocean floor and the release of greenhouse gases from disturbance of seabed sediments, by utilizing best-practice methods and gear types. Bottom trawling should only be practiced with sophisticated trawls that are not in contact with the ocean floor.
- Comply with the best-practice certification standard most relevant to geography and species.
- Downstream companies should demand not only that their own supply is caught and processed in accordance with the expectations above, but that their suppliers also adhere to the same principles across their harvesting, distribution, processing and sales.
- Support the development of national and global policies for sustainable fisheries management and their enforcement by appropriate authorities, the elimination of

harmful subsidies and the development and implementation of recovery plans for endangered species and stocks at historically low levels.

7) Shipping

International shipping contributes between 1% and 2% of global anthropogenic greenhouse emissions⁸⁴. Operating largely in international waters, international shipping is not legally bound by the Paris agreement⁸⁵. The shipping industry is regulated by the International Maritime Organisation (IMO), who recently presented a common ambition to reach net-zero GHG emissions from international shipping close to 2050⁸⁶. This is seen as a monumental task for an industry that over time has struggled with overcapacity and low returns and which is not bound by the regulatory requirements set by the nation states.

Building on among others the IMO commitments on low carbon shipping, KLP expects companies in the shipping industry to:

- Publicly disclose a comprehensive climate strategy consistent with the IMO common ambition to reach net-zero emissions by 2050, including aligned short- and medium-term targets⁸⁷ covering all scope 1-3 emissions. For fleet owners, this means that all new investment in shipping engines need to have the flexibility to utilize low and zero emission fuels such as blue/green ammonia or blue/green hydrogen⁸⁸, and emissions from current sailing fleet to be reduced through implementation of further phases of the energy efficiency design index (EEDI)⁸⁹.
- Ensure that new equipment is produced in an environmentally and socially responsible manner, including ensuring responsible mineral extraction and processing, promoting recycling and accounting for emissions.
- Recycle ships only in yards that are approved in accordance with the Hong Kong convention for safe and environmentally sound recycling of ships.
- Minimise negative impact on the natural environment through a zero-waste policy, responsible management of ballast water⁹⁰, hull-fouling management, and giving due consideration to animal migration routes⁹¹.

8) Finance

Stopping nature loss and limiting climate change to 1.5 degrees Celsius will require a realignment of global capital. The challenges are huge and the timeframe short, but this is also the biggest business opportunity of our time. KLP is committed to being part of the transition to a more sustainable society, financing solutions and benefiting from the opportunities. We expect the same from other financial institutions.

We encourage a green and sustainable investment/loan portfolio, but emphasize that our main expectations for financial institutions are that they incentivize and support the urgent transition away from harmful practices towards a net-zero and nature-positive real economy.

Building on the recommendations, standards and best practice referenced in KLP's general expectations for companies with regards to climate change and damage to the natural environment on land and in the oceans, as set out in Section I above, including the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), the Task Force on Nature-related Financial Disclosures (TNFD), the UN Race to Zero, the Glasgow Financial Alliance for Net Zero (GFANZ) and the Science Based Target initiative (SBTi), KLP expects financial institutions to:

- Strategically and consistently support transitions in the real economy aligned with global nature- and climate goals, and publicly disclose company-wide science-based climate and biodiversity⁹² targets supported by an action-oriented strategy⁹³ with clear KPIs focused on short and medium-term milestones. KLP recommends all companies to set short, medium and long-term targets aligned with the SBTi, and expects financial institution to incentivize and support investees/clients in setting science-based targets.
- Develop a portfolio with a high degree of alignment with the EU taxonomy and encourage all investees/clients with taxonomy-eligible activity to report alignment as required by regulation, or voluntarily for companies below regulatory thresholds.
- Not finance companies or projects linked to the production of coal, exploration or production of new (greenfield) oil and gas fields, or deforestation, unless linked to a credible transition plan aligned with global objectives. (See the sector-specific expectations above for details.)
- Make disclosures in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) or the International Sustainability Standards Board⁹⁴ (ISSB) and the Task Force on Nature-related Financial Disclosures (TNFD). Comprehensive reporting will require financial institutions to request similar TCFD/ISSB and TNFD-aligned reporting by clients/investees.

Reporting on both companies' own and their underlying portfolios' alignment with the EU taxonomy and SBTi allows KLP to base ownership strategies on contribution to sustainability objectives. Demonstrated progress and relative performance will guide KLP's ambition to support companies with proven capacity to support the transition to a low-carbon nature-positive future.

End Notes

¹ Throughout this document we will use the broad terms **the natural environment** or just **nature** as defined by the Taskforce on Nature-related Financial Disclosures (TNFD, referring IPBES): "The natural world, with an emphasis on the diversity of living organisms (including people) and their interactions among themselves and with their environment." As a practical approach, we also follow TNFD in understanding nature as a construct of four realms – Land, Ocean, Freshwater, and Atmosphere. These components of the natural world provide the basis for separating Section I of this document into general expectations with respect to 1) climate change 2) land and freshwater and 3) ocean. For the more quantitative expectations we refer to **biodiversity**, as defined and used as the foundational concept of the Convention on Biological Diversity (CBD): "The variability among living organisms from all sources, including, inter alia, terrestrial, marine and other aquatic ecosystems and the ecological complexes of which they are part; this includes diversity within species, between species and of ecosystems." For clarity on scope, biodiversity refers to variability of forms of life at three levels: **Genetic** biodiversity refers to variability in the gene pool of a community. **Species** biodiversity refers to the number of species living in an area. **Ecosystem** biodiversity refers to the number of ecosystems in a certain area. **Ecosystems** (IPBES): A dynamic complex of plant, animal and microorganism communities and the non-living environment, interacting as a functional unit.

² Refer the planetary boundary concept developed by the Stockholm Resilience Centre in 2009 with frequent updates. The concept aims to define environmental limits that humanity must operate within to maintain a stability in the earth systems. Five of the nine parameters are already considered to be exceeded by human activities.

³ I.e. relatively large scale commercial companies and projects. This expectation document should not be taken as a basis for deriving universally applicable policy position.

⁴ While this document lays out KLP's expectations for companies with respect to climate and the natural environment, it should be read and understood within the broader context of KLP's expectation with respect to responsible business conduct. A just and orderly transition to a low-carbon nature-positive society depends on a stable society based on mutual trust and transparency, where people feel that both costs and benefits of the transition are shared, and where companies work to strengthen the credibility of laws, regulations and the institutions tasked to develop and enforce them. Our expectations builds on among other UN Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises, and the UN Global Compact. See also KLP's expectations as an owner and investor: <https://www.klp.no/en/english-pdf/KLPs%20expectations%20as%20an%20investor.pdf>

⁵ This includes respect for customary rights to lands and resources, and application of international best practice in seeking their Free, Prior and Informed Consent for business activities that may affect them.

⁶ Companies shall pay tax where value is created, and shall avoid speculative financial transactions and legal structures aimed at tax avoidance. We recommend GRI topic specific guidance on tax (GRI 207) for further guidance.

⁷ Companies shall have zero tolerance for all forms of corruption, money laundering and other financial crimes.

⁸ Physical risks and transition risks.

⁹ This follows directly from KLP's own commitment to the same goal. For details refer [KLP's roadmap to net zero - KLP - English](#).

¹⁰ Relevance should be determined by the company's **risk and opportunity materiality assessment**. Science Based Target for Nature (SBTN) and Task Force on Nature-related Financial Disclosures (TNFD) and others offer various forms of materiality assessment methodologies, maps and tools. KLP expects companies to apply a "double materiality" approach, considering both risks on company (dependencies) and impact on the natural environment, and related opportunities.

¹¹ Scopes 1, 2 and 3 as defined by the Greenhouse Gas Protocol.

¹² KLP encourages the methodology and verification process of the Science Based Target initiative (SBTi). We outline more detailed expectations for companies' transition plans/strategies in sector-specific strategies for KLP's priority sectors.

¹³ Typically, between 4 and 6 years from base year for short-term milestones and between 8 and 12 years for medium-term milestones.

¹⁴ This includes direct and indirect engagement in government-led planning processes related to natural resource extraction and management, and land use planning.

¹⁵ Adaptive actions should be considered in light of both risk and opportunities to halt and reverse nature loss. Refer the section below *on KLP's general expectations for companies with respect to the natural environment*.

¹⁶ In the Preamble to the Paris Agreement on Climate Change, signatory countries agree that their actions on climate change need to account for the imperatives of a just transition of the workforce and the creation of decent work and quality jobs in accordance with nationally defined development priorities. A just transition is essentially about limiting the hardship on individuals as some industries or economic activities transition or phase out, paying particular attention to vulnerable groups. A just transition is also essential to maintain public support and limit political backlash from policy changes needed to drive the transition.

¹⁷ IFRS S1 and IFRS S2.

¹⁸ See endnote 1 for use of the terms **nature, the natural environment, biodiversity and ecosystems** in this document.

¹⁹ The Global Biodiversity Framework (GBF) of the CBD has a mission to *halt and reverse biodiversity loss by 2030*. At company level this should be supported by a policy/commitment to net-positive environmental impact of its operations, or a similar net-gain or no-net-loss commitment. A no net loss policy should follow the guidance of IFC Performance Standard 6, *Biodiversity Conservation and Sustainable Natural Resource Management*.

²⁰ The *Cartagena Protocol on Biosafety* to the Convention on Biological Diversity (CBD) is an international treaty governing the movements of living modified organisms resulting from modern biotechnology from one country to another. The *Nagoya Protocol on Access to Genetic Resources and the Fair and Equitable Sharing of Benefits Arising from their Utilization* is a supplementary agreement to the CBD. It provides a transparent legal framework for the effective implementation of one of the three objectives of the CBD: the fair and equitable sharing of benefits arising out of the utilization of genetic resources.

²¹ *Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.*

²² Relevance should be determined by the company's **risk and opportunity materiality assessment**. Science Based Target for Nature (SBTN) and Task Force on Nature-related Financial Disclosures (TNFD) and others offers various forms of materiality assessment methodologies, maps and tools. KLP expects companies to apply a "double materiality" approach, considering both risks on company (dependencies) and impact on the natural environment, and related opportunities.

²³ Typically between 4 and 6 years from base year for short-term milestones and between 8 and 12 years for medium-term milestones.

²⁴ See endnote 1 for use of the terms **nature, the natural environment, biodiversity and ecosystems** in this document.

²⁵ Relevance should be determined by the company's **risk and opportunity materiality assessment**. Science Based Target for Nature (SBTN) and Task Force on Nature-related Financial Disclosures (TNFD) and others offers various forms of materiality assessment methodologies, maps and tools. KLP expects companies to apply a "double materiality" approach, considering both risks on company (dependencies) and impact on the natural environment, and related opportunities.

²⁶ The Environmental Impact Assessment should also document that the company's activity will not lower water quality or volumes below thresholds for good conservation status.

²⁷ This includes direct and indirect engagement in government-led planning processes related to natural resource extraction and management, and land/sea use planning.

²⁸ See endnote 1 for use of the terms **nature, the natural environment, biodiversity** and **ecosystems** in this document.

²⁹ *Conserve and sustainably use the oceans, seas and marine resources for sustainable development.*

³⁰ Relevance should be determined by the company's **risk and opportunity materiality assessment**. Science Based Target for Nature (SBTN) and Task Force on Nature-related Financial Disclosures (TNFD) and others offers various forms of materiality assessment methodologies, maps and tools. KLP expects companies to apply a "double materiality" approach, considering both risks on company (dependencies) and impact on the natural environment, and related opportunities.

³¹ KLP encourages companies to use the methodology outlined by Science Based Target for Nature (SBTN), including third-party verification, as outlined above for the natural environment on land.

³² Typically between 4 and 6 years from base year for short-term milestones and between 8 and 12 years for medium-term milestones.

³³ This includes direct and indirect engagement in government-led planning processes related to natural resource extraction and management, and land/sea use planning.

³⁴ IPCC AR 6, the Global Carbon Project, and Our World in Data.

³⁵ Net Zero Standard for Oil and Gas, September 2021

³⁶ With regards to **scope 3 emissions**, the intention behind this expectation is to ensure that the transition plans of oil and gas companies lead to absolute reductions at the global level. Actions that only lead to a reduction in reported emissions while not affecting overall emissions, such as selling off certain assets, is of little relevance. We expect forthcoming SBTi guidance for the O&G sector to provide further details on this. **Intensity targets** may provide additional guidance and inspiration. The phase-out of fossil fuel-related emissions is, however, fundamental to achieve global climate objectives and a company-specific transition plan should include a global perspective on how it will contribute to absolute emission reductions.

³⁷ I.e. the transition strategy and emission targets should not be limited to the company's fully owned operations nor limited to production operated by the company.

³⁸ IEA Net Zero by 2050: A Roadmap for the Global Energy Sector. (Ref. also IPCC)

³⁹ Ref. e.g. IFC Performance Standards 6 on the mitigation hierarchy and the use of biodiversity offsets, or SBTN. KLP recommends a geography-specific version of the mitigation hierarchy (ref. SBTN): i) Avoiding new impacts, ii) Reducing existing impacts, iii) Regenerate existing land to increase the biophysical function and/or ecological productivity, iv) Initiate or accelerate the recovery of ecosystems, and v) Contribute to system-wide change to alter the drivers of nature loss.

⁴⁰ Ecological sensitivity is defined as the ecosystem's reaction to environmental change caused by internal and external factors. An ecologically (or biologically) sensitive area means an area whose ecological balance is prone to be easily disturbed, usually identified and notified by central government based on scientific criteria.

⁴¹ Ref IFC Performance Standard 6

⁴² [KBA Criteria \(keybiodiversityareas.org\)](#)

⁴³ Forest Stewardship Council (FSC) High Conservation Value (HCV). In fragmented landscape, the High Carbon Stock Approach (HCSA) may be a more appropriate tool for project development.

⁴⁴ For clarity, KLP considers oil and gas exploration and production in natural forest, undisturbed wetlands and arctic environment to be among the general no-go areas under these criteria.

⁴⁵ For offshore operations, this includes reducing the effects of seismological research on whales and other marine mammals.

⁴⁶ As clarified in the initial section on Purpose and approach, the expectations outlined in this document are directed towards the business activities most relevant to KLP, i.e. relatively large-scale commercial companies and projects. This expectation document should not be taken as a basis for deriving universally applicable policy position. Companies are encouraged to include artisanal and small-scale mining in their value chain with policies and incentives adapted to their particular social and environmental circumstances.

⁴⁷ Mck *Climate risk and decarbonization: What every mining CEO needs to know.*

⁴⁸ Ref. e.g. SINTEF rapport: https://wwf.panda.org/wwf_news/?7087466%2FFuture-mineral-demand-can-be-met-without-deep-seabed-mining-as-innovative-technology-can-cut-mineral-use-by-58

⁴⁹ IRMA, Initiative for Responsible Mining Assurance, Standard for Responsible Mining Operations [Resources - IRMA - The Initiative for Responsible Mining Assurance](#)

⁵⁰ Ref. e.g. IFC Performance Standards 6 on the mitigation hierarchy and the use of biodiversity offsets, SBTN, or similar no-net-loss policy by ICMM (principle 7, Conservation of Biodiversity). KLP recommends a geography-specific version of the mitigation hierarchy (Ref SBTN and ICMM): i) Avoiding new impacts, ii) Reducing existing impacts, iii) Regenerate existing land to increase the biophysical function and/or ecological productivity, iv) Initiate or accelerate the recovery of ecosystems, and v) Contribute to system-wide change to alter the drivers of nature loss.

⁵¹ Long-term (2050) as well as short (4-6 years) and medium term (8-12) targets should be consistent with a sector-specific science-based pathway consistent with the 1.5 degree target of the Paris agreement. KLP recommends the methodology and verification process of the Science Based Target initiative.

⁵² Scopes 1, 2 and 3 as defined by the Greenhouse Gas Protocol.

⁵³ Ecological sensitivity is defined as the ecosystem's reaction to environmental change caused by internal and external factors. An ecologically (or biologically) sensitive area means an area whose ecological balance is prone to be easily disturbed, usually identified and notified by central government based on scientific criteria.

⁵⁴ Ref IFC Performance Standard 6

⁵⁵ [KBA Criteria \(keybiodiversityareas.org\)](#)

⁵⁶ Forest Stewardship Council (FSC) High Conservation Value (HCV). In fragmented landscape, the High Carbon Stock Approach (HCSA) may be more appropriate tool for project development.

⁵⁷ E.g. IRMA, Initiative for Responsible Mining Assurance, Standard for Responsible Mining Operations [Resources - IRMA - The Initiative for Responsible Mining Assurance](#), or ICMM performance expectations.

⁵⁸ OECD *Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas.*

⁵⁹ Global Industry Standard on Tailings Management (GISTM).

⁶⁰ See e.g. [No Deep Seabed Mining | WWF \(panda.org\) for further details.](#)

- ⁶¹ IPCC AR 6, the Global Carbon Project, and Our World in Data. Including both direct and indirect emissions from energy and processing.
- ⁶² As clarified in the initial section on *Purpose and approach*, the expectations outlined in this document are directed towards the business activities most relevant to KLP, i.e. relatively large-scale commercial companies and projects. This expectation document should not be taken as a basis for deriving universally applicable policy position. Companies are encouraged to include small-holders in their value chain with policies and incentives adapted to their particular social and environmental circumstances.
- ⁶³ The UNFCCC category AFOLU, IPCC AR 6.
- ⁶⁴ UNFCCC category LULUCF, IPCC AR 6
- ⁶⁵ Food and Land Use Coalitions' *Growing Better: Ten Critical Transitions to Transform Food and Land Use*
- ⁶⁶ [About - Food and Land Use Coalition](#)
- ⁶⁷ [Roadmap – Deforestation-Free Finance \(globalcanopy.org\)](#)
- ⁶⁸ Including a no-peatland degradation policy where relevant. For definitions of key terms and additional guidance, refer to the Accountability Framework Initiative's definitions and guidance [Home | Accountability Framework \(accountability-framework.org\)](#).
- ⁶⁹ As determined by the company's risk assessment, and in any case including beef, leather, soy, palm oil, cocoa and pulp and paper.
- ⁷⁰ Including producers, traders, processors, food producers, supermarkets and various intermediaries.
- ⁷¹ As determined by the company's risk assessment, and in any case including beef, leather, soy, palm oil, cocoa and pulp and paper .
- ⁷² Boreal forest is here used as a broad reference to commercially targeted forests in Finland, Norway, Sweden and to some extent the Baltics when forest resources from the latter is part of the same 'Nordic marked'. The specific expectations may need some adaptation to apply to North American and Russian forests.
- ⁷³ Logging should only occur in forest stands that are completely and verifiably mapped [by independent parties] to ensure that all biodiversity values are identified and sufficiently protected, with documentation publicly available prior to logging.
- ⁷⁴ Various definitions exist, but **natural forest** stands are generally understood to consist of indigenous tree species which have arisen predominantly through natural regeneration and which is characterized by diverse and stratified natural forests with abundant old/coarse trees and plenty of coarser dead wood in various stages of decomposition. Human disturbances such as patch felling for shifting cultivation, burning, and also selective or partial logging may have occurred, as well as natural disturbances. A forest stand that has never been exposed to intensive clear felling should typically be considered a natural forest in this context. For a more detailed and nationally appropriate interpretation of forests that should not enter the supply chains, we recommend the respective national FSC criteria and indicators under FSC principle 6 and 9, as guidance.
- ⁷⁵ EU: «Good conservation status» as defined by the Birds and Habitats directives. Norway: «Økologisk tilstand» >0,6 as defined by Miljødirektoratet.
- ⁷⁶ E.g plant- or fermentation-based proteins or cultivated meat. See e.g. [Plant-based and cultivated meat innovation | GFI](#)
- ⁷⁷ Covering as a minimum: Escapes, plastic pollution, sea-lice, nutrient pollution, environmental toxins, antibiotics/drugs.
- ⁷⁸ Including from escapes, plastic pollution, sea-lice, nutrient pollution, environmental toxins, antibiotics/drugs.
- ⁷⁹ Refer the sector-specific expectations for *Agriculture and Forestry*.
- ⁸⁰ FAO The State of World Fisheries and Aquaculture 2022. Considering landing volumes rather than number of fish stocks, 83% are harvested within sustainable limits (i.e. large volume fishery stocks are generally better managed than small volume stocks).
- ⁸¹ Along with acidification and ocean warming, pollution and coastal development. WWF Living Planet Report 2020.
- ⁸² Nature (2021) *Protecting the global ocean for biodiversity, food and climate*
- ⁸³ High Level Panel for A Sustainable Ocean Economy: *Transformations for a Sustainable Ocean Economy: A Vision for Protection, Production and Prosperity*
- ⁸⁴ IPCC AR 6 (GHG emissions from international shipping and aviation, 2%), IEA (GHG emissions from shipping 2% and aviation 2% of global energy related emissions, where energy related emission makes up around 2/3 of global emissions).
- ⁸⁵ Similar for international aviation in international airspace, regulated by the ICAO.
- ⁸⁶ [Revised GHG reduction strategy for global shipping adopted \(imo.org\)](#)
- ⁸⁷ IMO *Indicative checkpoints*: to reduce the total annual GHG emissions from international shipping by at least 20%, striving for 30%, by 2030, compared to 2008; and to reduce the total annual GHG emissions from international shipping by at least 70%, striving for 80%, by 2040, compared to 2008. According to IEA, this translates to 15% emission reduction by 2030 compared to 2022.
- ⁸⁸ Upstream emissions related to fuel production to be full accounted for.
- ⁸⁹ [FEDI & SEEMP explained - Website of marpol-annex-vii](#)
- ⁹⁰ As a minimum, implement the International Convention for the Control and Management of Ships' Ballast Water and Sediments (BWM), [International Convention for the Control and Management of Ships' Ballast Water and Sediments \(BWM\) \(imo.org\)](#)
- ⁹¹ In particular Cetaceans
- ⁹² See endnote 1 for use of the terms **nature, the natural environment, biodiversity** and **ecosystems** in this document.
- ⁹³ KLP encourages the methodology of the Science Based Target for Nature, with third-party verification. We outline more detailed expectations for companies' transition plans/strategies in sector-specific strategies for KLP's priority sectors.
- ⁹⁴ IFRS S1 and IFRS S2.

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