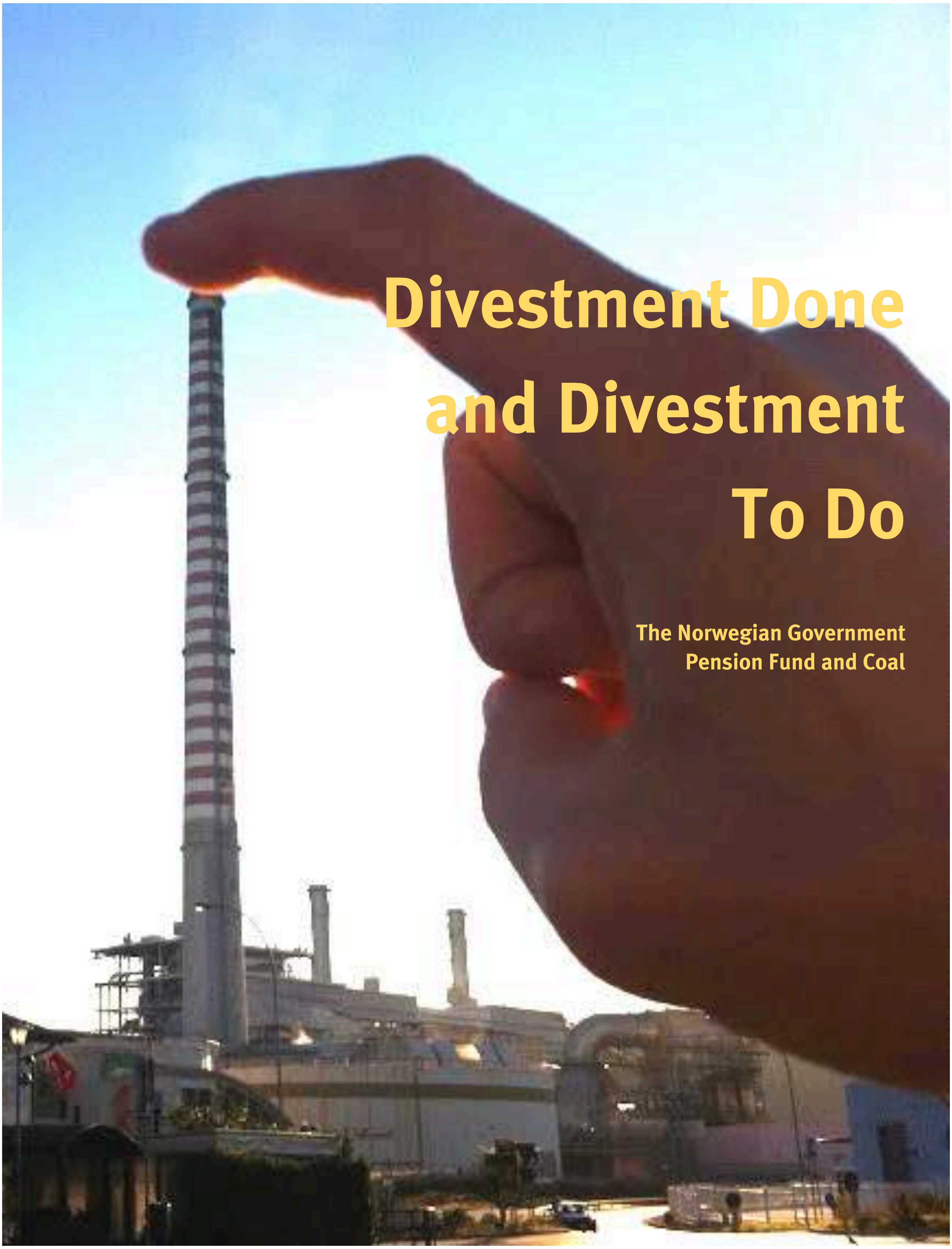

Divestment Done and Divestment To Do

The Norwegian Government Pension Fund and Coal

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We would like to thank the following for their support:
grassroots foundation, KR-Foundation

Divestment Done and Divestment To-Do

A year ago, the Norwegian Parliament took a historic decision to move the Government Pension Fund Global (GPFG) out of thermal coal. The Parliament determined that companies should be excluded if they "base 30% or more of their activities on coal, and/or derive 30% of their revenues from coal."[1] This was an important break-through as the 30% threshold established a new benchmark for divestment actions of large investors. Only months after the Norwegian decision, the world's largest insurance company, Allianz, undertook a coal divestment action of its own based on the GPFG's 30% threshold.[2] And other investors such as KLP and Storebrand, which had already undertaken divestment actions, have now tightened their thresholds to keep up with the trail blazed by the Norwegian Parliament.

This briefing provides a "snapshot" of how the world's largest coal divestment action is progressing. To this end, we have analyzed the GPFG's holdings list from December 31st 2015 as well as the implementation guidelines laid out by Norway's Finance Ministry. Although the divestment action is not due to be completed until the end of 2016, we wish to draw attention to some weaknesses that could diminish the scope and impact of the Storting's decision if they are not addressed.

How Far Along is Norway's Divestment Action?

In April 2016, the GPFG's manager Norges Bank Investment Management (NBIM) released a first list of companies that have been excluded from the Pension Fund.[3] The list comprises 52 companies (some of which were already divested in previous years) and NBIM is expected to issue further names of excluded companies in the summer, in the fall and at the end of the year. According to the head of NBIM, Yngve Slynstad, at least 40 additional companies will be added to the exclusion list.[4]

Although the process is still underway, civil society organizations are nonetheless concerned that the divestment action may end up being much more limited than the Parliament intended. The source of the problem is Norway's Finance Ministry, which is applying a very narrow interpretation of the wording issued by Parliament in its decision of June 5th 2015.

Many Coal Companies Likely to Stay in the Portfolio

Civil society organizations have 3 main concerns regarding the GPFG's coal divestment. And unless these are addressed by Parliament, it is likely that many coal companies will remain in the Pension Fund's portfolio.

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[11] „Translation of the Recommendation 290 S (2014-2015)," https://www.stortinget.no/en/In-English/

[2] https://www.allianz.com/de/presse/news/finanzen/beteiligungen/150923_allianz-steigt-aus-kohlefinanzierung-aus/

[3] http://www.nbim.no/en/responsibility/exclusion-of-companies/

[4] "Oljefondet vurderer å kutte 40 nye kullselskaper", Dagens Næringsliv, April 29, 2016

1. Divestment Should Cover all Parts of the Thermal Coal Value Chain

In its decision the Norwegian Parliament stated: **"As a point of departure**, the criteria should cover mining companies and power producers for whom a significant part of their business relates to coal used for energy purposes." Norway's Finance Ministry, however, interprets this to mean that the divestment action should be limited to these companies.

This would exempt a multitude of companies that are mostly classified as "industrials" in the GPFG's holdings, but whose business models revolve around thermal coal. Companies whose main activities consist of trading or transporting coal, providing specialized coal equipment or developing coal mines or coal-fired power plants are an integral part of the coal value chain and sometimes play a key role for the expansion of the coal industry.

Investments in new coal infrastructure such as coal harbor expansions or coal railways are, for example, a driving force in opening up new areas for the industry. Whether coal mines are developed in Botswana, Northern Mongolia or Central Borneo hinges on the development of coal railway lines into these regions.

A concrete example from the Pension Fund's holdings is the Australian company Aurizon, which derives 75% of its revenues through coal transport, and has plans to construct a 500 km long rail line to Australia's Galilee Basin. This area has long been too remote to make it economical for the coal mining industry, but if the railway goes ahead a series of mega-mines will be developed that would increase Australia's annual coal production by around 70%. If the Galilee Basin were a country, burning this amount of coal would make it the 7th largest emitter on the planet.

Our analysis of the GPFG's last holdings list from December 2015 identified 19 companies that are classified as "industrials", but derive over 30% of their revenues from coal. In total, the investment value of the Pension Fund's holdings in these companies equals 2 billion NOK.

Only the Parliament can clarify if it indeed wanted to retain companies in the Pension Fund, whose major business is transporting thermal coal from mines to power plants, trading coal or building new coal infrastructure. We, however, contend that investments in such companies only serve to deepen the dilemma of coal-dependent energy production and are unwise both from a climate as well as a financial perspective. We therefore encourage Parliamentarians to clarify that while coal mining and coal power companies are "the point of departure", at its end, the divestment action must cover all parts of the thermal coal industry.


PGE's lignite-fired Belchatów plant is Europe's largest single point source of CO_2 emissions.

2. There Should Be No "Back Door" for Majority-Owned Subsidiaries

As many members of parliament have stated in numerous interviews and public events, the Storting's decision of June 5th 2015 was primarily a "climate decision". The goal of the exclusion criteria was to prevent the Pension Fund from providing new capital to an industry, which is the single most important driver of climate change.

In its guidelines for implementation, the Finance Ministry has, however, chosen an approach that will allow many coal companies to continue raising finance from the GPFG through their subsidiaries. In the national budget presented in November 2015, the Finance Ministry specifies that "subsidiaries which themselves do not have sufficient coal-based activities will not be covered by the new criteria."

One of the most important avenues through which coal companies raise capital for new investments are bond issues, and many coal mining and coal power companies thus have special subsidiaries that were set up for the sole purpose of raising money for their mother companies. But according to the Finance Ministry, the issuing of bonds is not a "coal-based activity".

In practice, this leads to investment decisions that are at odds with the criteria laid out by parliament. A pertinent example is the Polish utility PGE. 91% of PGE's power generation is coal-based and the company is one of Europe's worst polluters.[5] Accordingly in 2015, the GPFG divested all of its PGE shares, which amounted to NOK 35.9 million. At the same time, the GPFG, however, invested over **NOK 58 million** in bonds issued by PGE Sweden. PGE Sweden is a 100% owned subsidiary of PGE, whose sole purpose is to acquire financing for its Polish mother company in the Nordic markets. As PGE has plans to build over 5,000 MW of new coal-fired power capacity, it is not hard to guess what will happen with the money the Pension Fund provided to this "coal dinosaur" in 2015.

Another prominent example is RWE Finance, a subsidiary of the German utility RWE. RWE Finance's sole business activity is to raise money for its mother company, which is the world's largest lignite producer and Europe's biggest CO2 emitter. And in recent years, the loan and bond proceeds provided by its subsidiary were used not only to expand RWE's lignite mines, but to also buy a stake in Blackhawk Mining, the world's largest producer of mountaintop removal coal.[6] The GPFG currently holds RWE Finance bonds in value of NOK 367 million. These should be treated no differently than the NOK 1.27 billion the GPFG holds in RWE shares. Both positions must be divested.

If the parliament truly wants to ensure that the Pension Fund stops bankrolling new coal investments, it is crucial that the divestment action is applied to all majority-owned subsidiaries of companies that fall under the coal exclusion criteria. Germany's Alllianz, which has adopted the same thresholds as the GPFG, provides a positive example in this regard. In the framework of its coal divestment, Allianz has decided to exclude all subsidiaries owned by companies that are above the 30% threshold.

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[5] „Dirty Thirty – How the EU's Coal-Fired Power Plants are Undermining its Climate Efforts", CAN Europe, July 2014

[6] "Das ist der Gipfel", Die Zeit, March 17, 2016

In 2012, RWE acquired a stake in Blackhawk Mining, the world's largest owner of mountaintop removal mines.

3. Forward-Looking Assessments Must Look into Coal Expansion Plans

In its decision of June 5th 2015, the parliament calls for forward-looking assessments of "companies' plans that would **change** the share of coal-related activities and the share of activities relating to renewable energy sources." Change can go in two directions and civil society organizations thus interpreted this to mean that:

- companies which are a few percentage points above the 30% threshold can be retained in the GPFG if they are able to show convincing plans for a speedy reduction of their coal-related business;
- companies which are below the 30% threshold, may still be excluded if their coal expansion plans are so significant that it is likely they will breech the 30% threshold in the near future.

The government in its white paper, has however, made a small but significant change in wording. The white paper states that forward looking assessments of companies must look at "possible plans which will **reduce** the income or share of activity tied to thermal coal (…)".[7] The switch from "change" to "reduce" has important implications as it means that Norges Bank is not mandated to look at the expansion plans of companies whose coal-related business is currently beneath the 30% threshold.

In this context, it is instructive to look at a real world case, such as the Thai company TTCL, in which the GPFG has a large ownership position (2.9%). TTCL is primarily a construction company, but also has a growing power generation business. While TTCL is currently beneath the 30% threshold, it is expanding its coal-related business at an alarming rate. Although the company's annual revenues amount to only US$ 608 million, it is currently investing **US$ 3 billion** in the construction of Burma's first large coal-fired power plant.[8] The planned 1280 MW power station has met with fierce resistance from villagers all over Ye township in Burma's Mon State where the project is located. Last year, 6000 villagers occupied the construction site, carry signs saying "No Coal – Protect our environment!"[9] Many villagers were arrested, but the protests have continued and in March 2016, 72 civil society organizations from Mon State called on the incoming National League for Democracy government to suspend the project.

Forward-looking assessments must address cases like TTCL, where companies are re-orienting their investments to become aggressive new players in the coal sector. The emissions from current coal plants are already 150% higher than a 2°C scenario allows.[10] Each and every **new** coal-fired power station that is added to this fleet is a further nail in the coffin of climate stability. It is therefore imperative that NBIM's forward-looking assessments investigate not only the reduction, but also the increase of coal activities in companies' investment pipelines.

[7] Meld. St. 23 (2015-2016) Forvaltningen av Statens pensjonsfond i 2015, page 70 - 71

[8] http://ttcl.listedcompany.com/misc/ar/20160324-ttcl-ar2015-en.pdf

[9] „Myanmar Villagers Stand United Against Coal Plant", Huffington Post, July 17, 2015

[10] „Boom and Bust 2016 – Tracking the Global Coal Plant Pipeline", CoalSwarm, Sierra Club, Greenpeace, March 2016

In spite of repeated repression, Burmese villagers protest against TTCL's plans to build the country's first large coal plant in their township.

Divestment To-Do

According to our analysis of the GPFG's 2015 portfolio and the exclusion list NBIM published in April 2016, the Pension Fund has already divested coal stocks and bonds in value of around NOK 11.5 billion.

In a letter to the Finance Ministry from August 31st 2015, NBIM had estimated that the GPFG's coal divestment action would cover around 120 companies with an investment value of approximately NOK 55 billion. This means that the bulk of the divestment – amounting to around NOK 43.5 billion – still needs to happen.

In the appendix to this briefing, we provide a new "divestment to-do" list for the GPFG, based on our understanding of the parliament's criteria. It comprises 80 companies with an investment value of NOK 42.5 billion, a figure that is quite close to NBIM's own estimate from August 2015. We would like to, however, note that we have not included the GPFG's holding of NOK 3.39 billion in E.ON in our list as the company will soon spin off its fossil fuel business into a separate entity under the name "Uniper". Uniper most definitely falls under the new coal exclusion criteria and its shares (which will be issued to E.ON shareholders in June 2016) should then immediately be divested from the GPFG. In our appraisal, the final divestment action should thus total close to NOK 43 billion.

Conclusion

Norway's divestment action has enormous potential to help set a new standard for large investors worldwide. We believe, however, that its full potential can only be realized if the Parliament takes steps to clarify the issues laid out in this briefing.

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Divestment to do 2016

script: equities
italic type: bonds

black: coal share of power generation
orange: coal share of installed capacity
blue: coal share of revenue
green: coal share of companies investment

Company	Country	Criteria 30 %	Investment Value 2015 in Norwegian Krona (NOK)
AGL Energy Ltd	Australia	71%	859.372.398
Alabama Power Co	United States	54%	129.055.857
Alliant Energy Corp	United States	67%	443.042.596
Ameren Illinois Co	United States	76%	315.146.327
Arizona Public Service Co	United States	32%	121.066.249
CEZ AS	Czech Republic	45%	286.126.865
CEZ AS	Czech Republic	see above	348.000.677
Chugoku Electric Power Co Inc/The	Japan	32%	508.808.425
CMS Energy Corp	United States	>50%	1.578.413.503
Dominion Resources Inc/VA	United States	32%	2.752.660.238
Dominion Resources Inc/VA	United States	32%	1.087.848.482
Duke Energy Carolinas LLC	United States	see below	751.481.149
Duke Energy Corp	United States	33%	2.691.134.891
Duke Energy Corp	United States	see above	680.769.504
Duke Energy Florida LLC	United States	see above	74.099.115
Duke Energy Ohio Inc	United States	see above	99.169.658
Duke Energy Progress LLC	United States	see above	355.270.767
E.ON Russia	Russia	29% (1)	178.405.848
EDP	Portugal	34%	1.754.846.602
Electric Power Development Co Ltd (J-Power)	Japan	39%	533.939.552
Electricity Generating PCL	Thailand	40%	31.973.334
Emera Inc	Canada	31%	260.866.922
Empire District Electric Co/The	United States	64%	92.190.365
EnBW International Finance BV	Netherlands	40%	38.546.283
Endesa SA	Spain	33%	1.051.839.139
FirstEnergy Solutions Corp	United States	54%	20.650.409
Fortis Inc/Canada	Canada	48%	550.128.492
Georgia Power Co	United States	41%	225.254.958
Glow Energy PCL	Thailand	38%	64.435.717
GMR Infrastructure	India	91%	38.837.902
Great Plains Energy Inc	United States	81%	341.708.357
Great River Energy	United States	71%	38.414.947
Guangdong Electric Power Development Co Ltd	China	82%	142.012.356
HK Electric Investments & HK Electric Investments Ltd	Hong Kong	67%	26.296.650
Hokuriku Electric Power Co	Japan	79%	388.559.617
Huadian Fuxin Energy Corp	China	53%	15.303.882
Inner Mongolia Yitai Coal Co Ltd	China	92%	33.534.946
Kansas City Power & Light Co	United States	81%	438.926.236
Korea Electric Power Corp	South Korea	40%	1.278.122.052
Kyushu Electric Power Co Inc	Japan	32% (2)	388.521.312
Midamerican Energy Co	United States	48%	461.356.121
Midamerican Funding LLC	United States	see above	53.181.621
NRG Energy Inc	United States	20% /43%	283.338.884
OGE Energy Corp	United States	61%	377.173.859
Ohio Power Co	United States	60%	144.193.441
Origin Energy Ltd	Australia	66%	508.054.461
Otter Tail Corp	United States	78%	62.900.779
PacifiCorp	United States	61%	1.381.636.656
PGE Sweden AB	Poland	91% (3)	58.259.689
Pinnacle West Capital Corp	United States	34%	587.481.556
PPL Corp	United States	92%	120.838.630
PPL Electric Utilities Corp	United States	see above	232.007.461
RWE AG	Germany	58%	1.273.098.007
RWE Finance BV	Netherlands	see above	366.616.457
Scottish Power UK PLC	United Kingdom	61%	488.236.692
Shenergy Co Ltd	Japan	60%	37.893.800
Southern Co/The	United States	42%	2.231.671.178
Southwestern Electric Power Co	United States	81%	129.746.723
SSE	United Kingdom	33%	7.792.312.440
Teck Resources	Canada	37%	11.685.278
Teck Resources	Canada	See above	277.346.283

Tenaga Nasional Bhd	Malaysia	40%	387.832.175
Tohoku Electric Power Co Inc	Japan	40%	697.913.564
TTCL PCL	Thailand	>30% (4)	62.302.980
Vectren Corp	United States	79%	297.265.230
Virginia Electric Power	United States	32%	846.557.916
Westar Energy Inc	United States	71%	417.241.265
Industrials			
Aurizon Holdings Ltd	Australia	75%	699.449.896
Downer EDI Ltd	Australia	estimated above 30%	147.986.867
Westshore Terminals Investment Corp	Canada	97%	52.537.590
China Machinery Engineering Corp	China	estimated above 30%	72.549.011
Dongfang Electric Corp Ltd	China	estimated above 30%	47.562.235
Harbin Electric Co Ltd	China	estimated above 30%	24.184.732
Sany Heavy Equipment International Holdings Co Ltd	China	100%	18.237.825
D/S Norden A/S	Denmark	estimated above 30%	1.878.860
Bharat Heavy Electricals Ltd	India	estimated above 30%	112.976.541
Mitrabahtera Segara Sejati Tbk PT	Indonesia	estimated above 30%	8.167.512
Kawasaki Kisen Kaisha Ltd	Japan	estimated above 30%	255.439.671
Tokyo Energy & Systems Inc	Japan	estimated above 30%	41.796.956
Famur SA	Poland	above 30%	34.689.019
PKP Cargo SA	Poland	estimated above 30%	274.117.135
Korea Line Corp	South Korea	estimated above 30%	2.199.743
Hargreaves Services PLC	United Kingdom	above 30%	11.305.820
Joy Global Inc	United States	61%	83.501.024
			42.491.506.162

note 1: new coal-fired unit to go online 2015
note 2: power generated or purchased
note 3: PGE group 2015
note 4: TTCL's most important project is the construction of a 3 bn US$ 1280 MW coal-fired power plant in Burma. The company's total revenues are US$ 608 million. Under a forward-looking assessment the company should be dropped.