The Council's work under the coal and climate criteria

In 2017, the Council on Ethics has issued several recommendations under the climate criterion, and will continue working with respect to the most emissions-intensive types of industry, such as the production of oil, steel and cement.

The climate criterion was introduced in 2016 and applies to "acts or omissions that on an aggregate company level lead to unacceptable greenhouse gas emissions". The criterion's wording is general and does not rest on any known norms or standards. It has therefore been necessary to identify a number of overarching factors which may be significant in the assessment of whether a company's emissions are unacceptable.

The scope and availability of data and information varies substantially, and there may be systematic variations between countries, regions and business sectors. Not all companies report their emissions, and not all report their output of products in ways that can be compared. The extent to which companies publish details of other factors which could affect our assessment of their greenhouse gas emissions also varies.

In principle, the Council considers that to warrant exclusion under the climate criterion, a company must have a large overall emission volume, its emission level per unit produced must be higher than its competitors, and it must have no credible plans detailing how its emissions are to be reduced to an acceptable level within a reasonable period of time.

Relevant regulations and agreements

The UN's Framework Convention on Climate Change, the Kyoto Protocol and the Paris Agreement are intended to cover the states which endorse them and give signatory states full control over how emission reductions are to be implemented. Practically every country in the world has signed the Paris Agreement. The Paris Agreement does not itself set emission levels for the business community as a whole or for individual companies. Nor does it set specific targets for emission reductions in the individual countries. However, it has been agreed that the overall objective is to keep global warming well below two degrees Celsius. There is also agreement on how large the emission reductions need to be to reach that goal. So far, the sum of all the national emission reduction targets is insufficient to reach this overall objective, but it is expected that the individual countries will gradually set national emission reduction targets that coincide with the global objective, and will choose appropriate measures to achieve it.

Different countries will adopt different approaches to reach their targets, based on a mixture of domestic political assessments and priorities, and country-specific opportunities. Nevertheless, it is the Council's opinion that no company with substantial emissions can decide simply not to set reduction targets for its own greenhouse gas emissions. The Council considers that companies with substantial greenhouse gas emissions have an autonomous responsibility to contribute to the reduction in overall emission levels, and will attach importance to the extent to which the companies' own specific plans and targets coincide with the global emission-reduction goals.

Emission allowances and other measures

A small number of countries have introduced various types of cap and trade systems. The EU's is the largest of these. Some other countries have introduced various types of carbon tax. At the moment, the EU's cap and trade system is based on a large proportion of cost-free allowances. There is also a large surplus of tradable emission allowances in the market, so prices are currently low and do not trigger much in the way of emission-reducing measures. However, because the EU has recently resolved to tighten up the regulations, this picture will change somewhat over time. Nevertheless, around half of the emissions generated within the EU are still not regulated by the cap and trade system. The majority of countries which have signed the Paris Agreement either plan to introduce cap and trade systems or wish to regulate national emissions in other ways.

When emission costs increase, certain types of production could be relocated to countries where the costs are lower, while others, such as power generation facilities, do not compete in the global market and could find it easier to pass the additional costs on their customers.

At present, the Council on Ethics does not place particular emphasis on whether companies produce emissions in countries with established cap and trade systems.

What can be compared?

In the majority of cases assessed by the Council on Ethics, a company's behaviour must be compared with a norm of some sort. The Council's mandate under the climate criterion is to identify companies that produce unacceptable levels of greenhouse gas emissions. However, there are no established norms for what constitutes unacceptable emission levels. Instead, the Council will have to compared one company's emissions with another, similar company's emissions, and assess whether the difference in emissions per unit produced warrants being characterised as unacceptable.

A further challenge is that such emission figures do not normally exist. Nevertheless, it is often possible to make an indirect comparison. If, for example, different types of raw materials or production technologies are used by the companies being compared, and these raw materials and technologies have known emission outputs, it may often be possible to estimate the differences in emission levels. This is something that requires substantial resources on the Council's part.

Parent companies and subsidiaries

The grounds for exclusion are "acts or omissions that on an aggregate company level lead to unacceptable greenhouse gas emissions". For the Council on Ethics, the aggregate company level encompasses the company's entire production of the same class of goods. (This differs from the coal criterion, which states explicitly that it applies both to companies and to "entities they control".) As a result, no weight can be attached to activities in a company's parent or subsidiaries. This can be illustrated clearly if we look at a hypothetical example from the power generation sector:

The GPFG owns shares in Company A, which produces electricity. 95 per cent of Company A's output is either hydropower or wind power, while 5 per cent comes from old, inefficient power plants which burn brown coal. On an aggregate level, this results in a volume of emissions that is too small to qualify for exclusion. Then imagine that the coal-fired power division is transferred into another company, Company B, which Company A controls and in which the GPFG also owns shares. Company B produces no other kind of electricity. Company B therefore derives 100 per cent of its power output from outdated brown-coal power plants, and may be excluded from the GPFG on the grounds of the emissions they produce. In this case, it seems unreasonable to exclude Company A for the emissions of its subsidiary, since it would not have qualified for exclusion if the emissions had all been in the same company. Correspondingly, if the opposite were to happen and the hydropower and wind power operations were transferred to the subsidiary, Company B, and only coal-fired electricity were retained in the parent company, Company A, the Council would be unable to attach importance to the emissions from Company B when the parent company, Company A, was being assessed.

With respect to the other behavioural criteria, the Council holds the general view that where one company (subsidiary) in which the fund invests is controlled by another company (parent) in which the fund also invests, the parent company is also responsible for the actions of the subsidiary. If a subsidiary is excluded because it has violated our guidelines, eg by causing serious environmental damage, the parent company must also be excluded.

Lobbying

In most countries, the arrangement of measures intended to reduce national emission levels will be the outcome of complex assessments, in which their impact on businesses, employment, infrastructure, etc, may be given importance. In connection with such decision-making processes, it is usual for various company and commercial interests to present proposals and assessments of the measures' impact on their own business activities. In principle, such lobbying activities must be considered legitimate and can hardly be accorded any weight in our assessments. However, it is quite a different matter if companies attempt to mislead decision makers through statements they know to be false. The fact that information about such attempts to actively influence policy is not as readily available everywhere represents a challenge. In most countries, such processes take place largely behind closed doors.

The coal criterion

The coal criterion was also introduced in 2016 and applies to "mining companies and power producers which themselves or through entities they control derive 30 per cent or more of their income from thermal coal or base 30 per cent or more of their operations on thermal coal". Implementation of this criterion is divided between the Council on Ethics and Norges Bank, with the main responsibility falling to Norges Bank.