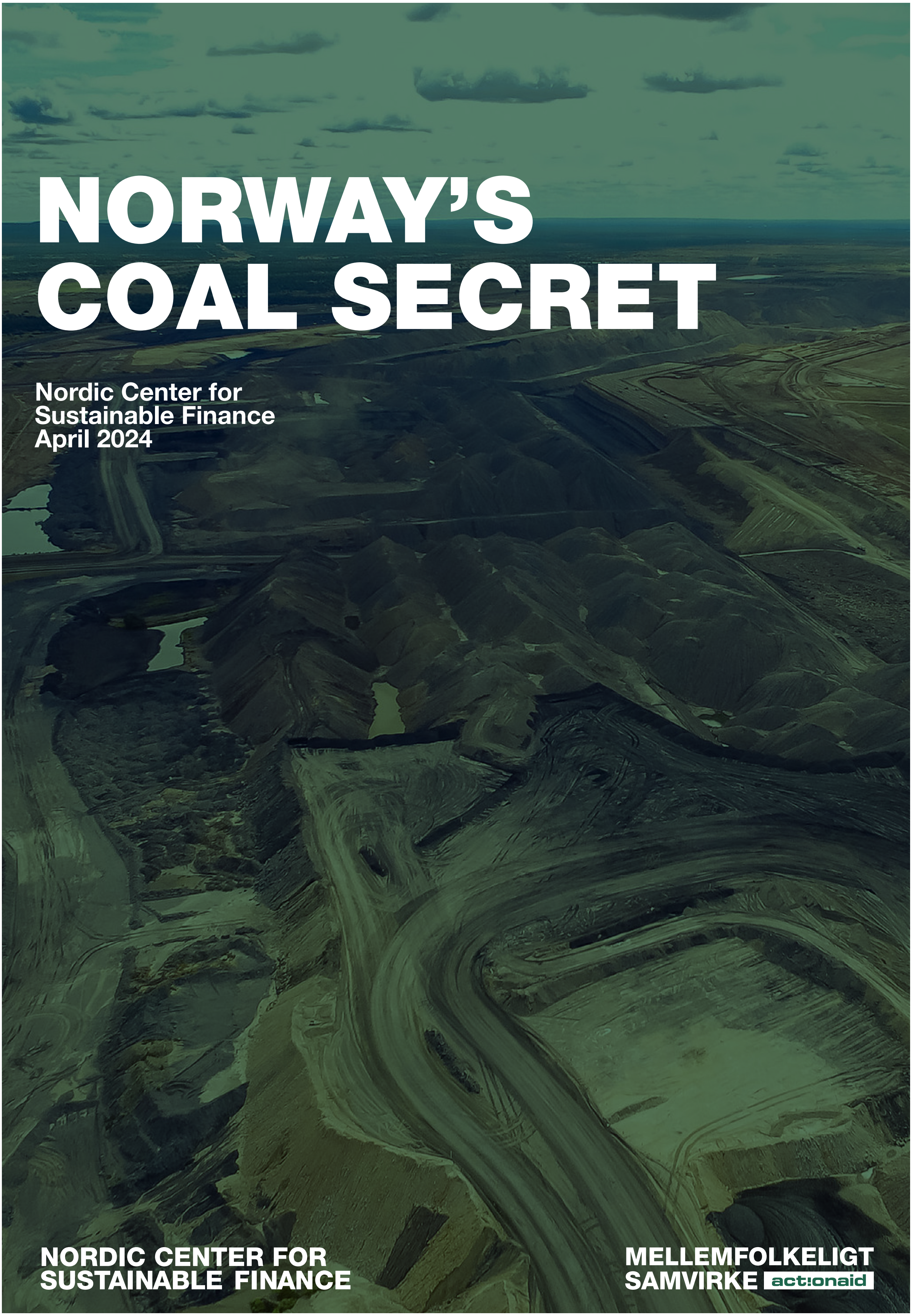

NORWAY'S COAL SECRET

Nordic Center for
Sustainable Finance
April 2024

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About the Nordic Center for Sustainable Finance: The Nordic Center for Sustainable Finance work to phase out all financing of fossil fuels from the Nordic countries. We focus on Nordic banks, pension funds and public finance, and uncover and expose investments in fossil fuels. The Nordic Center for Sustainable Finance is part of ActionAid Denmark (Mellemfolkeligt Samvirke).

Webpage: www.nordicsustainablefinance.org

NORWAY'S COAL SECRET

This brief shows how the Norwegian peoples pension fund, colloquially known as the Oil fund, continues to be a coal profiteer, despite expressed ambitions to withdraw from the industry and to be an international climate leader. These investments are also in stark contrast to the Norwegian governments expressed ambition for Norway to be an instigator for more ambitious climate policies globally.[1] As of December 31st, 2023, the fund had $18.61 bn. invested in 97 coal companies, including 47 companies with expansion plans contradicting the targets of the Paris agreement. This includes both investments in companies operating in thermal coal, which is the type of coal used to generate power, and companies operating in metallurgical coal used in the steel industry.

Based on the findings in this analysis, the Nordic Center for Sustainable Finance recommends the Norwegian parliament to strengthen the funds ethical guidelines by tightening the relative and absolute coal criteria in the guidelines, as well as introducing exclusion criteria for companies that continue to expand their coal operations.

NBIM'S COAL INVESTMENTS

When the Norwegian parliament introduced an exclusion criterion for coal in 2015, it made the Oil Fund a pioneer in managing climate risk. The decision came after years of campaigning from civil society organizations and sent a message to investors worldwide. Nine years later, the fund is lagging behind while 87 large financial institutions that have adopted criteria on coal expansion.[2] With its current criteria, the fund is failing its ambition to be an international climate leader.

§3 (2) OF THE OILFUND'S ETHICAL GUIDELINES:

Observation or exclusion may be decided for mining companies and power producers which themselves, or consolidated through entities they control, either:

a. derive 30% or more of their income from thermal coal,
b. base 30% or more of their operations on thermal coal,
c. extract more than 20 million tonnes of thermal coal p.y., or
d. have the capacity to generate more than 10,000 MW of electricity from thermal coal.

In 2023, The Oil fund was the largest institutional investor in coal. By the end of the year, the fund had $18,61 billion invested in coal companies, including $14,24 billion in companies involved in thermal coal and $4,37 billion in companies only involved in metallurgic coal. The investments in companies that are expanding in coal total $11,2 billion, shared between 47 companies. By comparison, Norway gave $1.51 billion to climate financing in 2023.[3] Continued investments in the coal industry greatly undermine any efforts undertaken by Norway to tackle the climate crisis, and is in contradiction with the governments' stated ambition for the fund to be an international climate leader, as stated by Prime Minister Jonas Gahr Støre at the 2021 Climate Summit in Glasgow.[4]

THERMAL COAL

The majority of the fund's coal investments are in companies involved in thermal coal, the type of coal that is used in power plants to generate electricity. As of 31. December 2023, the Oil Fund had invested in 81 companies with a total value of $14,24 billion. 26 of these companies also have thermal coal expansion plans beyond 2030 in countries such as Australia, Vietnam, Indonesia, China, Poland, Mozambique, Russia, India, Japan and South Korea. Additionally, the fund was invested in 12 companies operating in both thermal and metallurgical coal.

METALLURGICAL COAL

While thermal coal is the most common type of coal, and used to generate electricity, metallurgical coal is a vital component in the production of steel. It accounts for 14% of the world's coal production and the steel industry itself accounts for 11% of global emissions.[5] At the end of

1 Regjeringen.no: hurdalsplattformen.pdf (regjeringen.no)
2 Reclaim Finance: Coal Policy Tracker (coalpolicytool.org)
3 Regjeringen.no: Dobla klimafinansieringa fire år før fristen - regjeringen.no
4 NRK: Støre vil gjøre Oljefondet verdensledende for grønne investeringer – NRK Norge – Oversikt over nyheter fra ulike deler av landet
5 Ember: Why the steel industry needs to tackle coal mine methane

! NORWAY'S COAL SECRET

2023, the fund had $4.37 billion invested in metallurgical coal companies with expansion plans.

A recurring argument among investors is that divesting from metallurgical coal is more difficult than divesting from thermal coal because there are no mature alternatives for it in the steel industry. However, this argument is outdated as technological advances now make it possible to produce coal-free steel and rapidly de-carbonize the industry. Research shows that metallurgic coal could be replaced by greener alternatives in the early 2040s due to technological advances.[6] Furthermore, the IEA Net Zero by 2050 road map states that there is no need to expand metallurgical coal as operating mines will be able to meet the demand until 2050.[7] This means that any expansion plans would only contribute to maintaining demand and would be in contradiction with the targets of the Paris agreement.

	Total investments USD	Number of companies	% of portfolio
Total coal investments	18,61 bn	97	1.2%
Investments in companies expanding in coal assets	11,20 bn	47	0.71%

Table 1: Oil fund investments in coal per December 31st, 2023

CLIMATE RISKS ARE FINANCIAL RISKS

The Oil fund's mandate states that "a good long-term return depends on sustainable economic, environmental and social development". The fund's own climate action plan also emphasizes that the climate crisis poses a very real financial risk to the fund and calls for an "orderly transition in line with the goals of the Paris agreement". For transition to be orderly, it is crucial to put policies in place that stop coal expansion and end investments in companies that do not have Paris-aligned coal phase-out plans.

Scientists at MIT have found that as the world transitions towards net zero, the global value of potentially stranded assets in coal ranges between $1.3 to $2.3 trillion.[10] **In the steel industry alone, stranded assets could amount to a staggering $554 billion due to countries adopting a path towards climate neutrality.**[11] Investing in companies that are looking to develop new coal assets bears considerable financial risk to the fund.

By investing in companies involved in coal expansion, the fund contributes to maintaining an industry that is the most important driver of climate change. When the fund started excluding coal investments in 2016, it was through a unanimous agreement in Parliament, with then MP for the Progressive Party Tom Holthe stating that it was not necessary to move out of coal companies if they "showed an ambition to sell out of coal".[12] It is precisely this lack of ambition that the existing criteria have failed to address, and that makes an exclusion criterion on expansion necessary.

6 Agora Industry & Wuppertal Institute: A-EW_298_GlobalSteel_Insights_WEB.pdf (agora-energiewende.de)

7 International Energy Agency: Net Zero Roadmap: A Global Pathway to Keep the 1.5 °C Goal in Reach – Analysis - IEA

8 Regjeringen.no: 2023.02.27_gfpg_management_mandate.pdf (regjeringen.no)

9 NBIM: 2025 Climate action plan (nbim.no)

10 World Scientific Publishing: AN ECONOMY-WIDE FRAMEWORK FOR ASSESSING THE STRANDED ASSETS OF ENERGY PRODUCTION SECTOR UNDER CLIMATE POLICIES | Climate Change Economics (worldscientific.com)

11 Global Energy Monitor: Pedal to the Metal 2023 (globalenergymonitor.org)

12 E24.no: Oljefondet ut av kull – E24

! NORWAY'S COAL SECRET

MITSUBISHI CORP:

Mitsubishi Corp is the fund's seventh largest coal investment, with $919 million invested in the company. The company not only has coal expansion plans, it also doesn't plan to exit coal until 2050. This is 20 years after OECD countries must have exited coal if we are to keep the 1.5-degree target within reach.[13]

Japan remains one of the major financers of fossil fuel investments globally,[14] and it is also the second largest market for the fund's investments in coal. As one of several large investments in the Japanese coal sector, and through its refusal of a timely coal phase-out, Mitsubishi serves as an example of the financial risk the coal industry presents to the Oil Fund.

»The major problem is the fact that the Japanese government has not changed its mind since the myth of clean coal and increases investment in "innovative" technologies such as hydrogen and ammonia utilization and CCS. Driving innovation in favor of short-term economics will delay Japan's shift to renewable energy and consequently lag behind the global decarbonization business.«
— Yasuko Suzuki, Programme coordinator Kiko Network.

BHP GROUP:

The BHP Group is the fund's largest coal investment. The $2.79 bn holding equates to approximately 15% of the fund's entire exposure to the coal industry. While the company has divested from some of its mines in recent years, these efforts are undermined by its intent to expand heavily in metallurgical coal. An example is the Caval Ridge mine, where the company has applied for a permit to expand its operations, an extension that would mean that operations could last until 2056.[15]

Even in the case of the Blackwater mine, where BHP have sold out and are in the process off handing over control to Whitehaven Coal, they have also applied for the expansion of the mine that will keep it operative beyond year the 2100.[16] This shows that rather than planning for a Paris-aligned phase-out, BHP is facilitating the extension of the coal age and making a profit in the process.

» BHP's proposed extension to their Caval Ridge Coal Mine is estimated to result in over 440 million tonnes of CO_2.[17] This would be a significant contribution to current emissions from Queensland's fossil fuel, energy and industry sectors and it will lead to accelerated climate change at a time when the world is committed to trying to halt any further global warming. It is so hypocritical to keep expanding coal mines when the world is transitioning to a clean energy future. It is time the big coal companies live up to their social and environmental responsibilities and not just keep chasing the quick buck.«
— Dr. Coral Rowston, head of Central Queensland Environmental Agency.

13 Climate Analytics: Climate Analytics | Global and regional coal phase-out requirements…

14 The Guardian: World's biggest economies pumping billions into fossil fuels in poor nations | Fossil fuels | The Guardian

15 BHP: 210907_bmahorsepitextensionfactsheet.pdf (bhp.com)

16 Queensland State Government: Blackwater South Coking Coal project | State Development and Infrastructure

17 Living Wonders Org.: New coal and gas projects - Living Wonders

! NORWAY'S COAL SECRET

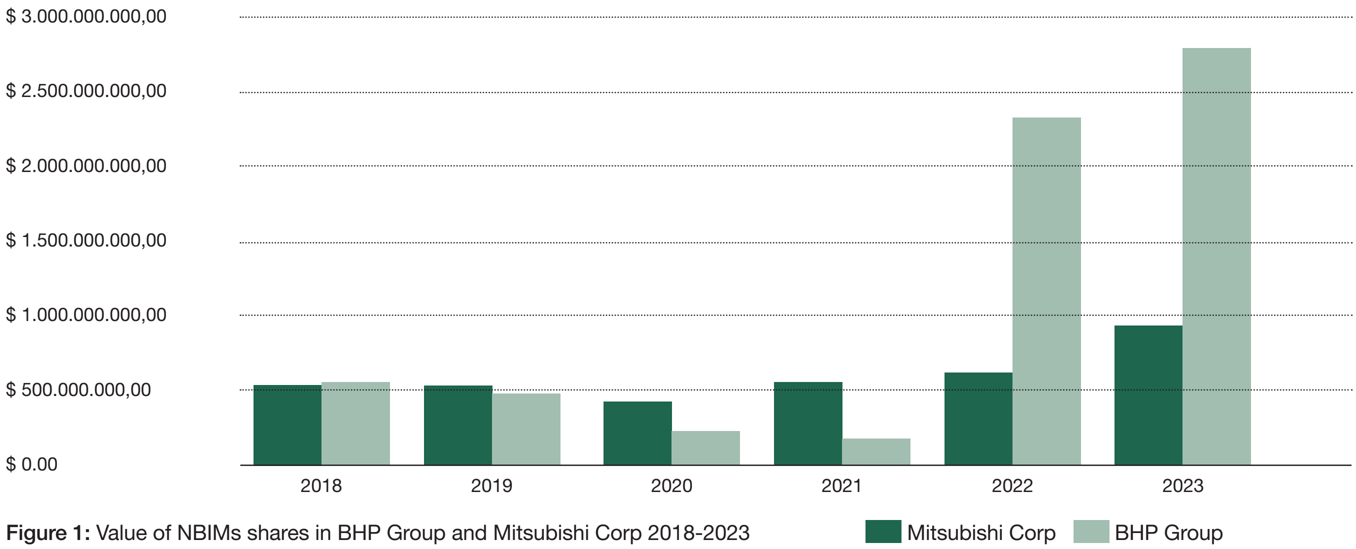

Figure 1: Value of NBIMs shares in BHP Group and Mitsubishi Corp 2018-2023

IMPLICATIONS OF TIGHTENING THE COAL CRITERIA

If the ethical guidelines were changed, and the fund could exclude companies based on more restrictive coal criteria, these companies would no longer be part of the investment universe. As such, these companies would no longer be part of the fund's benchmark index. Excluding companies is therefore preferable to divestment as it would not affect the fund's deviation from the benchmark index.

The fund's own responsibility report states that exclusions based on the coal criteria in the ethical guidelines have not had negative effects on the fund's returns. In fact, the same report states that divestments based on climate risk have had a positive impact on the fund's returns.[18] It is not only ethically right to divest from an industry that greatly contributes to the climate crisis, it is likely also a profitable decision.

RECOMMENDATIONS

Nine years after the historic decision to make the Oil Fund a pioneer on coal divestment, Parliament once again has the opportunity to make the fund an international climate leader. With all we know about the effects of the coal industry and how it accelerates the climate crisis, it is no longer ethically justifiable to stay invested in the world's most polluting industry.

We call for the tightening of the relative and absolute thresholds for coal investments:

Relative criteria: The Fund's relative thresholds on production and revenue should be lowered from 30% to 10%.

Absolute criteria: The Fund's absolute thresholds on mining capacity (20 Mt of coal per year) should be lowered to 10 Mt and the production capacity should be lowered from 10 GW to 5 GW.

Furthermore, we call on Parliament to introduce a new exclusion criterion for any company planning to develop new coal power, coal mining or coal infrastructure projects. To do so, they should use Urgewald's definition of expansion, which includes:

a. Power: Companies planning to develop new coal-fired power capacity of at least 100 MW.

b. Mining: Companies engaged in metallurgical or thermal coal exploration activities; planning to develop new coal mines or extend existing coal mines.

c. Services: Companies involved in the development or expansion of coal transportation assets or other coal-related infrastructure such as coal-to-gas facilities.

19 NBIM: Responsible Investment 2023 (nbim.no)

NORWAY'S COAL SECRET

METHODOLOGY

The brief is based on data from Urgewald's Global Coal Exit List (GCEL) 2023, as well as a preliminary scoping by Urgewald of metallurgical coal companies with mining expansion activities. The market values of the investments were provided to us by NBIM in March 2024, and are reported as of December 31st, 2023. When converting from NOK to USD, we have used the same exchange rate as NBIM uses in their publicly available overview of investments. Unless otherwise stated, this brief uses the term investments to cover the fund's holdings in both bonds and holdings.

NCSF sent the data set for this brief to NBIM for feedback in March 2024. NBIM replied that Adani Ports & Special Economic Zone Ltd has been placed under observation due to a recommendation from the Ethics Council. They did not provide any further comments.

The GCEL includes not only coal miners and coal power producers, but also companies involved in coal exploration, coal processing, coal trading, coal transport & logistics, coal equipment manufacturing, coal-related O&M and EPC services and Coal-to-Liquids as well as Coal-to-Gas production. The GCEL currently provides thermal coal-related data for over 1,400 parent companies and over 1,800 subsidiaries and joint ventures. It, however, does not cover coal used for cement or steel production. Urgewald is planning to publish a supplemental Met Coal Exit List for the first time in December 2024. This list will cover companies which engage in met coal exploration activities, plan to develop new met coal mines or extend their met coal mines by applying for new permits.

Photo: Coal © Jiri Rezac, Greenpeace

! NORWAY'S COAL SECRET

Company	Country	Bonds in USD	Shares in USD	Value in USD
BHP Group Ltd	Australia		2,797,363,810	2,797,363,810
Enel SpA	Italy	197,283,627	1,343,029,819	1,540,313,446
Southern Co/The	United States	498,690,949	612,208,043	1,110,898,992
ITOCHU Corp	Japan		1,070,177,107	1,070,177,107
Air Products and Chemicals Inc	United States	136,161,720	837,306,137	973,467,857
Mitsui & Co Ltd	Japan		969,320,897	969,320,897
Mitsubishi Corp	Japan		919,814,950	919,814,950
Anglo American PLC	United Kingdom		892,454,315	892,454,315
CSX Corp	United States	49,751,464	740,401,252	790,152,716
Dominion Energy Inc	United States	275,300,831	320,129,267	595,429,648
Enel Finance International NV	Italy	501,218,503		501,218,503
Sumitomo Corp	Japan		408,527,213	408,527,213
Wanhua Chemical Group Co Ltd	China		387,099,644	387,099,644
Marubeni Corp	Japan		377,046,161	377,046,161
South32 Ltd	Australia		222,722,309	222,722,309
Tata Steel Ltd	India		204,385,003	204,385,003
Virginia Electric and Power Co	United States	194,044,971		194,044,971
ArcelorMittal SA	The Netherlands		192,200,834	192,200,834
Teck Resources Ltd	Canada	4,955,163	176,367,179	181,322,342
Berkshire Hathaway Energy Co	United States	178,840,603		178,840,603
Nippon Steel Corp	Japan		160,795,121	160,795,121
JFE Holdings Inc	Japan		160,700,132	160,700,132
Origin Energy Ltd	Australia		156,198,068	156,198,068
NiSource Inc	United States	80,607,466	67,434,770	148,042,236
Kansai Electric Power Co Inc/The	Japan		144,320,592	144,320,592
Anglo American Capital PLC	United Kingdom	136,688,028		136,688,028
Idemitsu Kosan Co Ltd	Japan		128,368,895	128,368,895
Power Assets Holdings Ltd	Hong Kong		128,179,029	128,179,029
CMS Energy Corp	United States	21,213,574	106,788,349	128,001,923
Tokyo Electric Power Co Holdings Inc	Japan		120,342,416	120,342,416

For a complete list of the Oil funds investments in coal, please contact Dina Rui (hdr@ms.dk).

Table 2: The fund top 30 investments