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Norway's \$1.4 Trillion Wealth Fund Puts Oil Stocks on Notice

- World's biggest wealth fund still holds several oil majors
- Norway is reviewing the fund's mandate to look at climate risk

By Lars Erik Taraldsen

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Norway's wealth fund says there are oil companies in its portfolio that "absolutely" aren't doing enough to cut emissions, as the guidelines it operates by are reviewed to give climate risk greater prominence.

Norges Bank Investment Management still holds stakes in a number of fossil-fuel giants, including Exxon Mobil Corp., Chevron Corp. and BP Plc., after failing to win political approval to dump its entire portfolio of oil stocks a few years back.

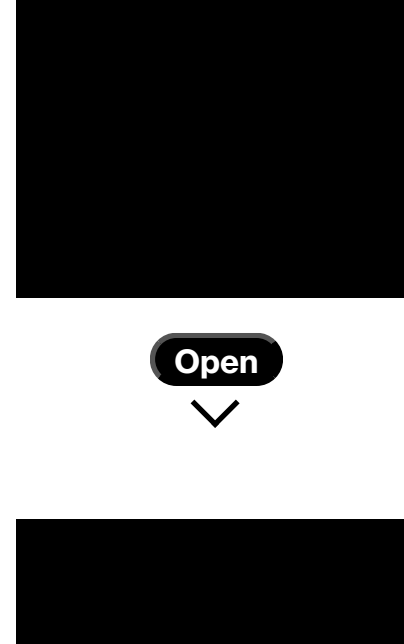
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"These are companies we monitor very, very closely with a view to the climate and emissions," Carine Smith Ihenacho, chief corporate governance officer at the Oslo-based fund, said in an interview.

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Norway is now taking another look at the mandate handed to its wealth fund, the world's biggest. On Friday, a government-appointed expert group submitted its recommendations, amid increasingly disturbing evidence that the planet is heating up much faster than previously feared.

The expert group says the government should "change the mandate" under which the fund operates to "better handle climate risk." Changes would include giving the fund more

leeway to put pressure on greenhouse-gas emitters, using its global dominance as a stock owner to influence the outcome of shareholder votes. And if companies don't improve, the fund should have more scope to divest.

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Martin Skancke, who led the expert group, said the fund already incorporates climate risks in its strategy. "But that's because there have been people at the fund who are passionate about this, and who treat this as a serious issue," he said in an interview. But it's "not satisfactory" to just rely on good people, he said. "It needs to be in the mandate."

Investor Uprising



Carine Smith Ihenacho. Source: Norges Bank

This year, Norway's wealth fund started voting against corporate boards, and Ihenacho says it's a tool that will increasingly be used to bring about change. That's as investor revolts become a more frequent occurrence, resulting in some spectacular upsets at a number of the world's biggest oil companies. Most notable among these was Exxon's failure in May to repel an uprising that handed board seats to an activist investor group insisting the company do more to reduce its carbon footprint.

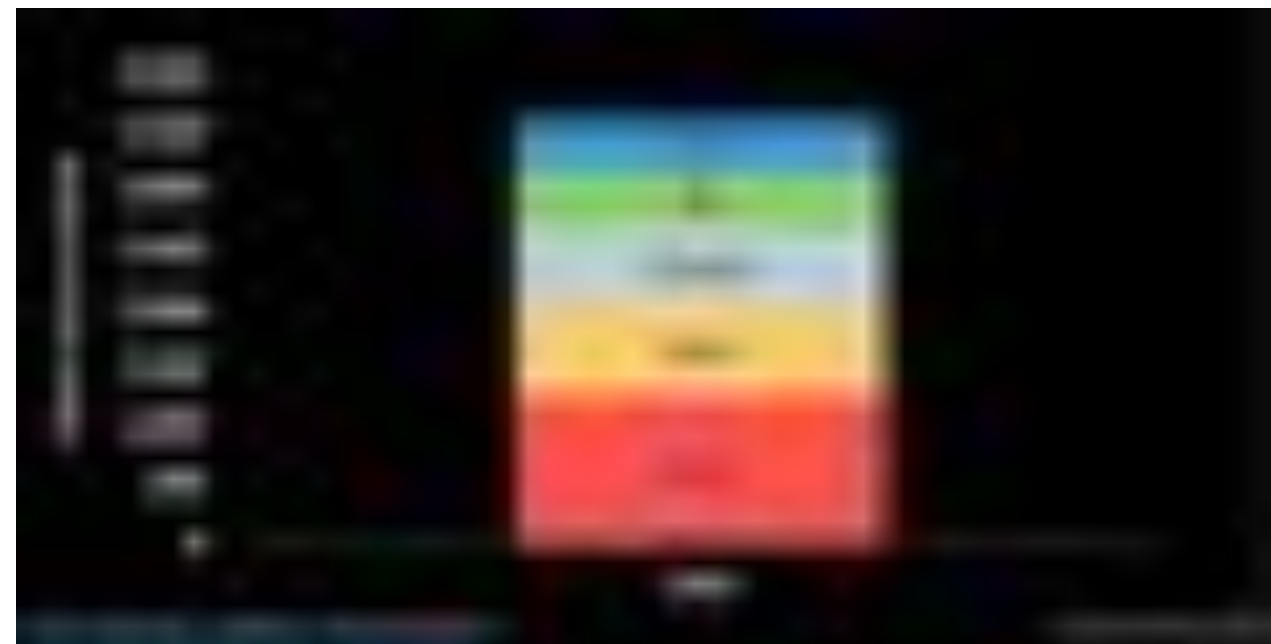
Norway's wealth fund used the votes it had, which didn't include weighing in on shareholder proposals on board seats, to demand that Exxon be transparent around political contributions, in an effort to stop the kind of corporate lobbying that leads to dubious climate policies. The fund also withheld support for Exxon Chief Executive Officer Darren Woods to continue as chairman, based on its view that those jobs shouldn't be held by one person.

"We use the tools we have," Ihenacho said.

Taking On Big Oil

She also points to Chevron Corp. as an example of shareholders forcing through change. Norway's wealth fund was among investors backing a successful proposal insisting that Chevron's emissions targets include Scope 3, which is the broadest definition and includes the carbon footprint of the oil giant's customers. The vote, which came the same day as the Exxon shareholder victory and coincided with a court decision in the Netherlands forcing Royal Dutch Shell Plc to slash emissions, sent shock waves through an oil industry used to pushing through its own agenda.

The Oil Majors and Their Emissions



The IPCC report calls for swift cuts in global greenhouse-gas emissions, which will shine an unwelcome spotlight on the top five western oil majors: Exxon Mobil, Chevron, Shell, BP and TotalEnergies, which are among the largest corporate emitters in the world. At a combined 3.5 gigatons of CO2 last year (Scope 1-3), the group makes up roughly 8.5% of total annual global emissions (about 40 Gt) excluding land-use changes. Bloomberg Intelligence analyst Will Hares.

Norway, which is western Europe's biggest oil producer, has faced criticism for not using its giant investment vehicle to fight climate change more aggressively. This month, as the world braced for the latest assessment of the United Nations' Intergovernmental Panel on Climate Change, a group of academics and economists lambasted nations that haven't set net-zero emissions goals for their wealth funds. Signatories include former executive secretary of the UN Framework Convention on Climate Change, Christiana Figueres. At the front of the firing line was Norway.

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Havard Halland, a former senior economist at the World Bank who started the pressure campaign on sovereign investors, says "it has come to a point where choosing not to have climate goals is the active choice."

He points out that Norway's wealth fund, through its portfolio holdings, emits twice as much carbon dioxide as the entire country, which isn't included in official Norwegian emissions statistics.

As Norway "opts out" of setting climate targets for its wealth fund, the country is essentially "free riding" on others' efforts to fight global warming, he said.

'Complex' Risk

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Norway's Finance Ministry views global warming as "a complex financial risk," according to an emailed statement in response to questions. The ministry will now go through the recommendations of the expert group, after which any decision needs to make its way through parliament. Any change in the fund's mandate won't take place until next year, with polls showing the current Conservative-led coalition will be replaced by a more left-leaning bloc in September elections.

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Christiane Hach, a spokeswoman for the UN Convened Net Zero Asset Owner Alliance, says that "for sovereign wealth funds, it is a challenge to make the commitment as it needs to be aligned with the government's agenda, and needs to satisfy complex strategy decision processes."

In the meantime, Norway's wealth fund says it's working hard to keep portfolio emissions down.

"We're telling companies to set targets that live up to the Paris Agreement," Ihenacho said.

"As a fund, it's clearly in our interest that the goals in the Paris Agreement are reached," she said. "And that includes net zero emissions by 2050."

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