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Norway's Sovereign Duty

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BRUSSELS – Recent developments in Norway could have momentous implications for climate-related commitments at the UN climate-change conference (COP26) in Glasgow this November.

In August, a government-appointed committee recommended that Norway put its sovereign wealth fund (SWF) on track for net-zero greenhouse-gas (GHG) emissions by 2050, and that the fund's activities be made consistent with Norway's commitments under international climate agreements. Soon thereafter, the Norwegian Labour Party's candidate for prime minister, Jonas Gahr Støre, confirmed that, if elected, he would introduce a net-zero target for the fund. Now that Støre has emerged victorious in this month's parliamentary elections, his challenge is to form a coalition that will allow him to follow through on his conviction.

Norway's $1.4 trillion Government Pension Fund Global is the world's largest SWF. But the country has been hesitant to put the weight of its fund behind its own international climate commitments. It is not alone.

Under existing international agreements, climate commitments are based on emissions originating within each country's physical borders. Emissions resulting from countries' foreign asset holdings are not counted in the domestic inventory. Thus, while governments have scrutinized their economies for emissions cuts, they have tended to leave their countries' SWFs on the sideline. As a result, only one sovereign fund, Germany's KENFO, has signed on to the United Nations-convened Net-Zero Asset Owner Alliance, which represents some $6.7 trillion in assets under management, and counts 46 pension funds and insurance companies among its members.

Given that Norway's massive SWF owns 1.4% of all the world's listed companies, on average, the country's apparent change of heart is important both symbolically and as a practical matter. The new Norwegian government is backed up by the recent recommendation from Olivier Blanchard, a former chief economist at the International Monetary Fund, and others recommending it to sign up its SWF for the Net-Zero Alliance at COP26.

But Norway should not stop there. All told, sovereign funds represent some $10 trillion in assets under management, or about seven times that of Norway's SWF alone. As the

country with the world's largest SWF, Norway should spearhead a diplomatic effort for a global movement of sovereign funds toward net-zero commitments at COP26.
Norway has a proud history of activist international diplomacy. Its highly capable foreign service has played a central role in mediating an end to armed conflicts around the world. Moreover, its sovereign-fund manager, Norges Bank Investment Management, is a sophisticated and globally respected investor. Together, these attributes place Norway in a strong position to mobilize others within a sovereign-fund coalition toward net-zero targets.

Fortunately, some SWFs have already demonstrated burgeoning climate ambitions. Norway can look to countries like France, Ireland, New Zealand, Singapore, and the United Arab Emirates for potential partners. These countries' sovereign funds have sophisticated investment teams that would be perfectly capable of implementing net-zero targets. And one hopes that when they do, SWFs at an earlier stage of their climate commitments, or that have more limited resources, will join the new global consensus.

As the most recent report from the Intergovernmental Panel on Climate Change reminds us, the window for averting catastrophic climate change is closing quickly. And yet, many countries remain unable or unwilling to make the necessary emissions cuts within their own borders.

Under these fraught conditions, governments with large foreign asset holdings should look for ways to mitigate climate change not only within their borders but across all assets that they own and are able to influence. For Norway and several Gulf countries whose SWFs' asset holdings amount to multiples of their domestic economy's GDP, the largest potential climate gains can be found in SWF portfolios.

Countries with SWFs should recognize that accounting for climate risk and climate-related investment opportunities is no longer sufficient. In fact, countries doing only that with their SWFs are essentially taking advantage of the climate crisis without doing anything to prevent it.

Norway, a star of international peace negotiations, should seize the opportunity to lead a global sovereign-fund movement. Doing so would establish it as a champion of international climate diplomacy and leadership. For a country that built its wealth by pumping hydrocarbons out of the seabed and exporting them along with their inherent GHG emissions, it is the right thing to do.

The views expressed in this article do not necessarily represent those of the OECD.

CHRISTIANA FIGUERES

Christiana Figueres, a founding partner of Global Optimism, is a co-author of the bestselling book *The Future We Choose: The Stubborn Optimist's Guide to the Climate Crisis*, and a co-presenter of the *Outrage + Optimism* podcast. She was executive secretary of the United Nations Framework Convention on Climate Change from 2010-16, overseeing the landmark Paris agreement on climate change, adopted by 190 countries and the European Union.

HÅVARD HALLAND

Håvard Halland is Senior Economist at the OECD Development Centre.

KNUT ANTON MORK

Knut Anton Mork is Professor Emeritus of Economics at the Norwegian University of Science and Technology.

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