The Council's assessments under the criteria covering severe environmental damage, coal and greenhouse gas emissions

Serious environmental damage is one of the criteria that the Council on Ethics has focused on since its inception. The criteria covering coal and greenhouse gas emissions where introduced in 2016.

The criterion on environmental damage

Section 3 of the ethical guidelines states that *"Companies may be put under observation or be excluded if there is an unacceptable risk that the company contributes to or is responsible for severe environmental damage…"*

Since work on operations linked to *illegal logging and other particularly destructive logging practices* began, the Council has made 10 recommendations to exclude, and one recommendation to place companies under observation. The Council will continue to pursue its ongoing dialogues with individual plantation companies in 2017.

For several years, the Council has assessed whether any companies in which the Government Pension Fund Global (GPFG) invests have operations that could damage *areas of high conservation value.* The threats to conservation areas are linked to the exploitation of resources and the construction of infrastructures, in particular. So far, three recommendations have been made. In 2016, several companies associated with world heritage areas in Asia, Africa and South America have been assessed. The evaluation of some of these has been concluded because the business does not seem to pose an unacceptable risk of impairment to the conservation value of the world heritage area, while other companies have been divested from the fund's portfolio of reasons unrelated to the ethical guidelines. In the Council's experience, few fund companies have operations that could threaten such areas. Were this situation to change, however, the Council would investigate the companies concerned.

The Council has continued its assessment of companies involved in *illegal fishing and other fishing activity that is particularly harmful to the environment.* In particular, the Council has examined the extent to which companies are involved in illegal, unreported or unregulated fishing (IUU fishing), and the extent to which they catch globally endangered species. This includes not only companies which are themselves engaged in catching the fish, but also those which buy seafood from suppliers. So far, the Council has recommended the exclusion of one fishing company. In 2016, the Council has investigated in more depth, and has engaged in dialogues with, four fishing and seafood companies, which it considers may be complicit in IUU fishing or fishing for endangered species. This dialogue seems to have prompted two of these companies to change their procedures and introduce measures which indicate that the future risk of complicity in IUU fishing may be reduced. Several companies, however, have provided little information to the Council, in which case the basis for assessment will often be limited. A lack of transparency with regard to a company's operations, could be an indication that it is contributing to severe environmental damage.

The climate criterion

The greenhouse gas criterion is a conduct-based criterion, and reads as follows: *"Companies may be put under observation or be excluded if there is an unacceptable risk that the company contributes to or is responsible for acts or omissions that on an aggregate company level lead to unacceptable greenhouse gas emissions."*

The wording of the greenhouse gas emission criterion is relatively general. Unlike the majority of other criteria, there are no regulatory frameworks or internationally accepted norms for what is acceptable. At the same time, the preparatory works and the White Paper state that interpretation of this criterion must be developed over time. The Council on Ethics has therefore been very conscious that the work it is now doing in this field may, to some extent, become normative. For this reason, it has been necessary to spend some time to ensure that the interpretations on which its decisions rest may be used across different sectors and companies.

This work is hampered by the fact that the most relevant data, such as the companies' greenhouse gas emission figures, are frequently unavailable at the company level. The Council is therefore of the opinion that it will be necessary to base its assessments not only on emission figures, where these exist, but also on other indicators, such as the choice of technologies and raw materials, and on the companies' plans. It would be unfortunate if the Council were to adopt a practice that limits

its investigation to only those companies which voluntarily report their emissions.

Even where emission figures do exist, comparing companies will be challenging in complex industrial sectors. However, the Council takes the position that companies whose emissions are large in absolute terms and which, in addition, have specific emissions that are significantly higher than the industry average, may, nevertheless, be considered for exclusion. It could also be of significance for the Council's assessment if a company has high emission levels but no relevant plans to reduce them. In 2016, the Council began evaluating the production of oil, steel and cement, sectors where emission levels are high and where the specific emissions vary considerably between companies.

The coal criterion

The coal criterion is a product-based criterion, and reads as follows: *"(2) Observation or exclusion may be decided for 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."* In addition, importance must be attached to the companies' plans to reduce their dependence on coal. The criterion does not encompass the companies' green bonds.

Responsibility for identifying GPFG companies that fall within the scope of the coal criterion is divided between Norges Bank and the Council on Ethics. Norges Bank has initiated a systematic review of the portfolio, which has so far resulted in the exclusion of 59 companies, while 11 have been placed under observation. The bank has also given notice of a further round of exclusions before its current portfolio assessment is complete. To avoid duplication of effort, the Council has provisionally put work on the coal criterion to one side.