Climate change

Expectations of companies

Norges Bank Investment Management manages the assets of the Norwegian Government Pension Fund Global. We work to safeguard and build financial wealth for future generations. As a long-term and global financial investor, we are dependent on sustainable development, well-functioning markets and good corporate governance.

Our expectation documents set out how we expect companies to manage various environmental and social matters. Our expectations are based on internationally recognised principles such as the UN Global Compact, the UN Guiding Principles on Business and Human Rights, the G20/OECD Principles of Corporate Governance, the OECD Guidelines for Multinational Enterprises and other topic-specific standards. This document serves as a starting point for our interaction with companies on climate change. We expect companies to address this topic in a manner meaningful to their business model and wish to support them in their efforts.

Our expectations are primarily directed at company boards. Boards should understand the broader environmental and social consequences of company operations, taking into account the interests of relevant stakeholders. They must set their own priorities and account for the associated outcomes. Companies should pursue relevant opportunities and address significant risks. They should report financially material information to investors, and broader impacts as appropriate. Boards should effectively guide and review company management in these efforts.

Climate change

Climate change may give rise to transition and physical risks and opportunities for companies. How these are managed may drive long-term returns for us as a shareholder. Companies should integrate relevant climate change risks and opportunities into their corporate strategy, risk management and reporting.

Climate change has the potential to affect the global economy. The economic impacts of climate change on specific markets and regions are complex, varied and uncertain, rendering the timing and extent of impacts challenging to predict at a company level.

Climate outcomes may affect company and portfolio returns. To reduce future climate risk and increase opportunities, the fund has an interest in an orderly transition in line with the Paris Agreement[1]. The Intergovernmental Panel on Climate Change (IPCC) concluded that global net anthropogenic carbon dioxide emissions should reach net zero by 2050 to limit global warming to 1.5 degrees Celsius[2]. We support well-functioning carbon markets and other measures that may contribute to achieving these goals. The Paris Agreement and UN Sustainable Development Goals 13 (Climate Action) and 15 (Life on Land) provide business with guidance and reference points for climate change commitments.

Our expectations are high-level guidance for companies. We support effective climate disclosure, as this contributes to sustainable market outcomes and enables a better understanding of the exposure to climate-related risks. We welcome efforts such as those of the Task Force on Climate-related Financial Disclosures (TCFD) to provide an internationally agreed framework for climate reporting.

Our expectations are directed at all companies in our portfolio. We are, however, mindful that climate change may be especially relevant to companies whose operations or value chains result in significant greenhouse gas emissions, including activities with material land use change impacts.

As an investor, we expect companies to be transparent about the topics raised in this document. We use such information to assess their climate change risk exposure, management and performance.

[1] The Paris Agreement aims to limit global temperature rise to well below 2 degrees Celsius above preindustrial levels and pursue efforts to limit the temperatu-re increase to 1.5 degrees Celsius.

[2] Emissions of non-CO2 forcers are also reduced under a 1.5 degrees scenario.

A. Integrate climate change considerations into policies and strategy

- Companies should understand the business implications of directly or indirectly generating greenhouse gas emissions and seek to achieve reductions over time.

- Companies should commit to net-zero by 2050 and align business activities with the goals of the Paris Agreement.

- Companies should assess the sensitivity and resilience of their long-term profitability to different transition and physical climate scenarios, including a well below 2 degrees Celsius scenario.

- Building on widely accepted scenario models, companies should identify future potential climate regulations, technological developments and market conditions of relevance to their business. Companies may also consider research and development needs to enhance their competitiveness.

- Companies should consider whether their organisational structure, incentive systems, training programmes and wider company culture integrate sustainable business practices appropriately. Employees and contractors should be engaged in these efforts and made aware of company policies and practices.

- Companies involved in the financing of coal activities should adopt policies that outline their criteria and assessment processes for providing new loan commitments or other types of financial intermediary support.

- Companies should undertake appropriate short-term actions to help mitigate global warming and reduce exposure to climate risk. For selected industries, this might include significantly reducing methane emissions or eliminating deforestation impacts from their business activities and/or value chains.

- Companies engaged in activities with a direct or indirect impact on deforestation or other land use change should assess their life cycle impacts and have a strategy for reducing emissions from their own activities and/or supply chains.

B. Integrate material climate change risks into risk management

- Companies should identify and include material short-, medium- and long-term climate change risks in a robust and integrated risk management framework. This should include appropriate processes for prioritising, mitigating, monitoring and reporting climate risks.
- Companies should identify and consider relevant risk adaptation and mitigation measures; for example, programmes to improve energy and resource efficiency, increased use of low-carbon raw materials and zero-emission technologies.
- Companies should identify and monitor material climate change risks in their supply chains. They should implement relevant procurement policies, engage with strategic suppliers and integrate the cost of carbon into supply chain management systems.
- Companies with oil and gas and coal-mining operations should evaluate their exposure to downstream climate risk and, where relevant, promote more efficient or low-emissions use of the fuel they produce.

C. Disclose material climate change information

- Companies should disclose a net zero transition plan to address climate change risks and opportunities.
- Companies should set science-based short-, medium-, and long-term emission reduction targets for their scope 1, scope 2 and material scope 3 emissions. To support this, efforts such as the Science-Based Targets initiative can provide guidance for companies.
- Companies should describe the expected role of carbon credits in achieving their climate targets.
- Companies should align their disclosures with applicable reporting standards, in particular the TCFD recommendations.
- Companies should disclose and externally verify the emissions associated with their business operations and value chains. Emissions should be estimated in accordance with the Greenhouse Gas Protocol or other relevant industry standards and cover scope 1, scope 2 and material scope 3 emissions. Companies should consider providing industry-specific greenhouse gas efficiency ratios.
- Additional climate-related metrics and targets should be disclosed; for example, internal carbon prices, capital expenditure on low-carbon technologies, investments in low-carbon R&D and emissions from land use change. Companies should provide a description of the methodologies used.
- Companies should be transparent on their application of climate scenario analysis, including key economic, regulatory, technological and physical assumptions.
- Asset-specific information relevant to transition and physical climate risk analysis, such as locations, technologies and physical characteristics of facilities, should be disclosed.
- Financial institutions should disclose climate-related risks and opportunities for their loan, underwriting and investment portfolios. Metrics should include financed emissions, the amount and percentage of carbon-related assets relative to total assets, as well as the amount of finance provided linked to climate-related opportunities.

D. Engage transparently and responsibly on climate change policy

- Companies should have policies or guidelines for engaging with policy makers and regulators on climate change and related topics and should be transparent about relevant associated spending and activities.

- Companies should review their memberships of industry associations and interest groups on a regular basis and assess whether the advocacy positions on climate policy held in these groups are aligned with their own positions.

- Companies should promote the conditions for well-functioning markets and approach new market-based climate regulation constructively, within their financial objective.

- Companies should describe how they consider existing and emerging regulatory requirements related to climate change and outline their position on specific climate change regulation relevant to their business profitability and outlook.

- Companies engaged in activities with large greenhouse gas emissions should report on activities to secure existing production or use of fossil fuels and disclose whether they, financially or otherwise, support industry groups or other initiatives seeking to influence climate regulation or policy.

See our website www.nbim.no for a full and updated list of our expectations on sustainability topics. We also regularly publish our perspectives on issues such as sustainability reporting and the UN Sustainable Development Goals.