Press release from the Expert Group that has assessed climate risk and the GPFG:

The Government Pension Fund Global's work on climate risk should be strenghtened

Date: 20 August 2021

Norges Bank's responsible investment and active ownership should be strengthened and the requirements for measuring, managing and reporting climate risk should be increased. This should be clarified in the mandate for the management of the Government Pension Fund Global.

This is the opinion of the expert group that has assessed how climate risk can affect the Government Pension Fund Global (GPFG). The group submitted its report today to the Ministry of Finance.

– Climate risk is a significant risk for the fund, and this should be reflected in Norges Bank's management. There is a need to further develop the work on climate risk, and we believe that it should be Norway's ambition that the fund's work on climate risk should be world leading, says Martin Skancke, chair of the expert group.

The expect group thinks that the investment strategy should still emphasise risk diversification.

– Climate risk can affect all sectors of the economy in different ways, and a large fund that is broadly invested has nowhere to hide, says Skancke.

The expert group proposes:

- That Norges Bank's responsible investment be based on an overall long-term goal of zero emissions from the companies in which the fund has invested, in line with the Paris Agreement.
- Further development of Norges Bank's ownership activities to influence companies' behaviour and strengthen the market's functioning through better climate risk reporting.
- Separate provisions on measurement, management and reporting of climate risk.
- A set of principles for managing the GPFG's climate risk.

– The GPFG is dependent on a successful climate policy and a well-functioning financial market. The key instrument for managing the GPFG's climate risk is active ownership, since this is aimed directly at the source of the fund's climate risk. Through active ownership, Norges Bank can test the robustness of the business models of the companies in which the fund has invested, ensure that capital is channelled to profitable projects in the transition to a low-carbon economy, and strengthen the financial market's ability to price climate risk through better reporting, says the chair of the expert group.

– If active ownership eventually turns out not to be successful, and the assessment is that a company does not have a convincing transition strategy and invests in bad projects rather than paying dividends, the bank can divest from the company. If there is an unacceptable risk that the company is associated with serious environmental damage or leads to greenhouse gas emissions to an unacceptable degree, observation or exclusion is relevant.

The expert group emphasises that risk diversification and resilience are important in the face of risks over which we have little control.

Furthermore, the expert group points out that the fund’s ownership work must underpin Norway’s commitments to contribute to a reduction in global emissions through the Paris Agreement.

– Decarbonisation of the fund should happen through contributing to decarbonisation of the companies in which the fund is invested. This is the best path to reduced climate risk for our common wealth, says Skancke.

Background

The Expert Group was appointed on 4 February 2021 to assesses how climate change, climate policy and the green shift may affect the Government Pension Fund Global (GPFG). The composition of the group is as follows: Martin Skancke (chair), Kristin Halvorsen, Tone Bjørnstad Hanstad and Karin S. Thorburn. Thomas Ekeli served as the group's secretary.

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An English translation of the report’s executive summary and chapter 7 with recommendations is available on the Ministry of Finance's website.