

Severe Environmental Damage

KLP seeks to apply a consistent and principled approach to all of its exclusion decisions. To ensure that we handle similar cases consistently, we rely on KLP's previous divestment decisions, as well as recommendations on exclusion from the Council on Ethics for the Government Pension Fund – Global (GPFG).¹

KLP makes exclusion decisions based on whether there is an unacceptable risk for ongoing or future violations, not on past violations alone. This approach highlights that KLP's goal is not to "punish" companies, but to ensure that KLP does not contribute to violations through its investments.

International standards

Finding international standards applicable to severe environmental damage is more difficult than for the other categories of conduct-based exclusions. International environmental conventions such as the Convention on Biological Diversity² or the World Heritage Convention³ set a normative framework for company behavior. As the conventions' requirements apply to states, these can be challenging to translate into specific standards for companies. The precautionary principle informs KLP's assessment, but is rarely sufficient. Determining that a company's activities entail an *unacceptable risk* requires concrete evidence that the activity leads to severe environmental harm.

KLP also takes into account violations of national environmental legislation. In states with weak protections or enforcement, we expect companies to go beyond local requirements. We do not expect all multinational companies to apply Norwegian environmental standards globally, but we do expect companies to avoid severe environmental damage, even if permitted under the local legal framework.

Key considerations

KLP looks to the same factors as the Council on Ethics for the Norwegian Government Pension Fund - Global in determining whether to categorize environmental damage as severe:

- *The damage is significant.*
- *The damage causes irreversible or long-term effects.*
- *The damage has considerable negative consequences for human life and health.*
- *The damage is the result of violations of national law or international norms.*
- *The company has neglected to act in order to prevent damage.*
- *The company has not implemented adequate measures to rectify the damage.*
- *It is probable that the company's unacceptable practice will continue.*⁴

Examples:

Unacceptable risk of damage to a national park and world heritage site

KLP excluded Bharat Heavy Electricals Ltd. (BHEL) in 2017. BHEL won a contract to construct a coal power plant in a vulnerable natural area of unique biodiversity in Bangladesh. The Sundarbans is one of the world's largest mangrove forests, and is rich in biodiversity. Two world heritage sites lie within the national park itself, while a further world heritage site lies across the border on the Indian side. Bharat Heavy Electricals has not implemented adequate measures to reduce the risk of serious damage to a vulnerable area. It is also questionable whether it is even possible to complete the project in this area safely.

Unacceptable risk of deforestation in area of unique biodiversity, through conversion to palm oil plantations

KLP excluded Noble Group in 2015. The company owns through two subsidiaries concession areas in, respectively, Papua and West Papua, in Indonesia, where the company plans to convert forest to palm oil

¹ <https://www.regjeringen.no/no/dokumenter/nou-2003-22/id118914/>

² <https://www.cbd.int/>

³ <http://whc.unesco.org/en/convention/>

⁴ <https://nettsteder.regjeringen.no/etikkradet-2017/files/2017/02/Freeport-2006.pdf> (p. 7).

plantations. The area has a unique biological diversity unmatched anywhere else in the world. The company has completed pre-development studies of the concession areas' conservation value, known as "high conservation value" or "HCV" assessments. Technical experts retained by the Council on Ethics for the Government Pension Fund – Global have identified significant weaknesses in these HCV assessments, which in KLP's estimation the company has not addressed in a sufficient manner. The company does not have any plans to undertake new assessments, or submit the existing assessments for third party peer review. Although the company is a member of the Roundtable on Sustainable Palm Oil, that organization's currently applicable requirements are more stringent than those that prevailed when the HCV assessments were undertaken. Due to all of the above reasons, KLP determines that there exists an unacceptably high risk that the company, through the conversion of rainforest to palm oil plantations, will cause serious environmental damage.