

Serious Environmental Damage

Storebrand Sustainability Team



Storebrand aims to invest in corporations that contribute actively to sustainable development. We believe such practices – when integrated into core business – will be financially rewarded. Furthermore, we have implemented a standard for all investments under management by the Group; Storebrand standard. This standard leads to certain corporations being excluded from investment. Among them are companies involved in practices that cause serious environmental damage.

Definition

Storebrand shall not invest in companies that contribute to or cause serious environmental damage.

In general, *environmental damage* involves the act of discharging substances or energy into the environment (water, air, soil) in such quantities or concentrations that it inflicts damage to the environment, or to plant or animal life, or that it is detrimental to the health or well-being of humans.

The *severity* of the environmental damage depends on the extent, reversibility and context associated with it. In addition to the severity of the environmental damage, the company's degree of complicity and the measures which they have implemented to prevent future repeats of the incident are central to the assessment of whether a company should be excluded.

The following issues are regarded as being the most serious:

- In instances of environmental damage on a local level, there are often one or a few companies involved. Cases where a company is complicit in irreversible damage to large or sensitive areas, or to vulnerable people, through some part of their operation, and is lacking in a systematic approach to reducing environmental impact, are considered to be the most serious.
- In instances of environmental damage on a global level, a single company's contribution is usually limited. However, certain types of activity contribute to a larger extent than most, such as the effect on climate change from the burning of coal. When such activity is a part of a company's core business model, it is considered most serious.

Background

Fundamental principles and framework

Storebrand bases its environmental criterion on the main international environmental treaties and principles, which form the basis for most national laws, emission permits and concessions/licenses (see Table 1). Two principles are particularly important in this regard:

- 1) "The precautionary principle" dictates that a lack of complete scientific certainty or proof should not be used as a reason to postpone implementing cost-effective measures to prevent environmental damage.
- 2) "The polluter pays principle" dictates that the party responsible for causing environmental damage should also pay to reduce or reverse it.

Table 1. Relevant international environmental treaties

UN conventions, protocols and declarations
<p>The Rio Declaration on Environment and Development: The Rio Declaration consisted of 27 principles intended to guide countries in future sustainable development. It was signed by over 170 countries.</p>
<p>The Aarhus Convention grants the public rights regarding access to information, public participation and access to justice, in governmental decision-making processes on matters concerning the local, national and transboundary environment. It focuses on interactions between the public and public authorities.</p>
<p>The United Nations Framework Convention on Climate Change (UNFCCC) objective is to stabilize greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system.</p>
<p>The Kyoto Protocol is an international treaty which extends the 1992 United Nations Framework Convention on Climate Change (UNFCCC) that commits state parties to reduce greenhouse gas emissions.</p>
<p>The Vienna Convention for the Protection of the Ozone Layer acts as a framework for the international efforts to protect the ozone layer. The Montreal Protocol on Substances that Deplete the Ozone Layer (a protocol to the Vienna Convention for the Protection of the Ozone Layer) is an international treaty designed to protect the ozone layer by phasing out the production of numerous substances that are responsible for ozone depletion.</p>
<p>The Convention on Biological Diversity (CBD) has three main goals; the conservation of biological diversity (or biodiversity); the sustainable use of its components; and the fair and equitable sharing of benefits arising from genetic resources. The Nagoya Protocol on Access to Genetic Resources and the Fair and Equitable Sharing of Benefits Arising from their Utilization and Cartagena Protocol on Biosafety are two supplementary agreements to the Convention on Biological Diversity.</p>
<p>The United Nations Convention on the Law of the Sea (UNCLOS), defines the rights and responsibilities of nations with respect to their use of the world's oceans, establishing guidelines for businesses, the environment, and the management of marine natural resources.</p>
<p>The Ramsar Convention is an international treaty for the conservation and sustainable use of wetlands.</p>

The Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) aims to ensure that international trade in specimens of wild animals and plants does not threaten the survival of the species in the wild.

Convention for the Protection of the Marine Environment of the North-East Atlantic or OSPAR Convention is the current legislative instrument regulating international cooperation on environmental protection in the North-East Atlantic.

The Bern Convention is a binding international legal instrument in the field of nature conservation, covering most of the natural heritage of the European continent and extending to some States of Africa.

Convention on the Conservation of Migratory Species of Wild Animals (CMS) or the Bonn Convention aims to conserve terrestrial, marine and avian migratory species throughout their range.

The Stockholm Convention is a global treaty to protect human health and the environment from persistent organic pollutants (POPs). POPs are chemicals that remain intact in the environment for long periods, become widely distributed geographically, accumulate in the fatty tissue of living organisms and are toxic to humans and wildlife.

Basel Convention is an international treaty that was designed to reduce the movements of hazardous waste between nations, and specifically to prevent transfer of hazardous waste from developed to less developed countries (LDCs).

Rotterdam Convention is a multilateral treaty to promote shared responsibilities in relation to importation of hazardous chemicals. The convention promotes open exchange of information and calls on exporters of hazardous chemicals to use proper labeling, include directions on safe handling, and inform purchasers of any known restrictions or bans.

The Minamata Convention on Mercury is an international treaty designed to protect human health and the environment from anthropogenic emissions and releases of mercury and mercury compounds.

Assessment criteria

Storebrand shall not invest in companies that contribute to or cause severe environmental damage. What qualifies as being serious enough to warrant exclusion depends on a number of factors. The different factors are weighted differently depending on the issue at hand. We will discuss each element in further detail below.

Geographic impact

In principle, matters of environmental harm are considered to be more serious the greater the geographical extent of the environmental damage. A good example of this are mega dams often used for large-scale hydropower generation. The impact of these dams over the environment and the people affected can be enormous. Therefore, Storebrand will take into account the World Commission on Dams (WCD) guidelines for dam building projects to see to what extent companies are mitigating their environmental and social impact.

Another are global environmental problems such as climate change that will be regarded as severe due to the wide geographical scope involved. Such issues will also score high on other factors, such as the fact that they affect a great number of people, as well as vulnerable natural areas and groups of people. Each individual company's emissions and responsibility is often a smaller part of the total extent of the environmental damage. However, if the contribution to the environmental damage is caused by the company's core activities, Storebrand will nonetheless make an assessment of the company's contribution *relative to* other companies. The greater the relative damage caused by the company, the more serious the matter.

Environmental damage at the local level is usually smaller in scale; yet, the company's contribution is relatively larger and more specific and therefore these cases can also be very serious. To what extent a smaller or larger part of the company is responsible for the detrimental activity is not considered an important factor in our analysis.

The company's involvement

The extent of the individual company's direct involvement depends on the extent to which the company's activities caused the environmental damage. If their activity is a significant contributing factor, the severity of the matter is also determined by whether the environmental damage could have been anticipated. Additionally, company policies and control measures to prevent such environmental damage are assessed. The most serious cases are those where the company's activities are the main cause of the environmental damage, and where the company should have been able to anticipate the environmental impact, but failed to implement due measures to prevent environmental damage.

Reversibility

To what extent the damage is reversible depends on the amount, concentration and properties of the contaminating substance. Extensive, prolonged and lasting damage, where the contamination or emissions exceed nature's ability to reverse the damage within a reasonable period of time (irreversibility), is considered to be far more severe than cases where the contamination or emissions are limited in time and scope, and where the damage is reversible.¹

Impact on life and health

The severity of the issue depends on the number of people affected and the severity of the damage inflicted on them.

Context

Detrimental environmental incidents are considered to be more severe in areas where local populations are particularly dependent on local natural resources, or are economically and politically vulnerable (e.g. indigenous peoples). The same applies in cases where business operations take place in areas of great ecological importance (e.g. conservation areas), or affect animal or plant species that are particularly vulnerable. Criteria covers species which are classified as endangered by CITES², or species or ecosystems red listed by IUCN³. Negative impact by companies to areas on UNESCO's list of World Heritage Sites⁴ can add to the seriousness of an event.

Reducing carbon exposure in investments

We work to reduce climate change through our investments. We have identified companies with the highest carbon footprint, primarily in the oil sand extraction and coal mining, and excluded them from our investment universe. Currently, Storebrand excludes companies that derive more than 25 % of their revenue from coal. This threshold will be reduced by

¹ Documentation on limits that apply to different types of pollution can be retrieved from the publication list of the Norwegian Environment Agency (Miljødirektoratet).

² <http://www.cites.org/>

³ <http://www.iucnredlist.org/>

⁴ <http://whc.unesco.org/en/list/>

5 % every second year starting from 2018 (25 % in 2018, 20 % in 2020 and so on). Storebrand will effectively divest from coal investments by 2026. The Storebrand Group has also chosen to exclude investments in companies with more than 20% of their revenue from oil sands.

In addition, we have drawn attention to the second part of the climate equation– by excluding palm oil plantations that do not operate in a sustainable manner.

Summary

When assessing potential violations of Storebrand's environmental criterion, the extent and reversibility of the environmental damage is evaluated alongside the degree to which the company is involved in causing the damage, the context in which the damage occurs, and the measures taken by the company to prevent future environmental damage.

The criteria above results in a large representation of companies from the Energy and Materials sectors among companies assessed and considered for exclusion. For mining companies, practices related to handling and storage of wastes and tailings in dams, rivers and the sea are common.

Scope

In the event that subsidiaries of a company are involved in causing severe environmental damage, but are not publically listed, the closest listed company above the subsidiary in the hierarchy, with a controlling interest, is excluded. In the event that a subsidiary involved is listed, the parent company is also excluded if it has a controlling interest in the subsidiary. If a parent company is involved in causing severe environmental damage, listed subsidiaries are only excluded if they are involved in the same unacceptable activities. Storebrand will also consider exclusion in cases where suppliers or other business partners (such as joint ventures), systematically violate the criterion. Storebrand will not exclude companies based on operations in specific countries, but will assess the manner in which they run their business in the countries they operate in.

References

National institutions

The Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime (Økokrim): <http://www.okokrim.no/>

Miljødirektoratet (Norwegian Environment Agency): <http://www.miljodirektoratet.no/en/>

International environmental treaties

The Basel Convention: www.basel.int/pub/baselban.html

CITES (the Convention on International Trade in Endangered Species of Wild Fauna and Flora): www.cites.org/eng/disc/what.shtml

The European Environment Agency (EEA): www.eea.eu.int/

UN conventions in general: www.unep.org/dec/links/index.html

The UN Convention on the Law of the Sea: www.un.org/Depts/los/convention_agreements/convention_overview_convention.htm

The UN Climate Convention: www.unfccc.int

The Convention on Biological Diversity: www.cbd.int/convention/convention.shtml

The Cartagena Protocol on Biosafety: <https://www.cbd.int/doc/legal/cartagena-protocol-en.pdf>

The Convention on Nuclear Safety: www.iaea.org/Publications/Documents/Conventions/nukesafety.html

The Kyoto Protocol: www.unfccc.int/kyoto_protocol/items/2830.php

The Convention on Wetlands of International Importance <http://www.ramsar.org/about-the-ramsar-convention>

OSPAR (The Convention for the Protection of the Marine Environment of the North-East Atlantic):
www.ospar.org/eng/html/welcome.html

The Rio Declaration on Environment and Development:
www.unep.org/Documents.multilingual/Default.asp?DocumentID=78&ArticleID=1163

The Stockholm Convention: www.pops.int/, <http://www.chem.unep.ch/pops/>

UNEP: www.unep.org/

The Vienna Convention: www.hq.unep.org/ozone/

International associations and frameworks

UNEP Finance Initiative: www.unepfi.net

UN Principles for Responsible Investment (UNPRI): www.unpri.org

UN Global Compact: www.globalcompact.org

International Finance Corporation (IFC): www.ifc.org

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Criterion enforced since: 2005

Analyses of the environmental management have been carried out since 1995.

Storebrand Asset Management

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