

Nordea

# Nordea Sector Guideline for the Fossil Fuel based Industries

May 2021



## Introduction

The Board of Directors of Nordea Bank has adopted a Code of Conduct for Nordea Bank Abp and its subsidiaries, including branches and representative offices. It applies to all people working for Nordea.

The Code of Conduct is primarily based on the ten principles of the UN Global Compact and sets out the general principles for how we aspire to work at Nordea and guides us in our business relationships. The Code of Conduct is supplemented by more detailed internal rules, policies and guidelines.

This is Nordea's Sector Guideline for the Fossil Fuel based Industries approved by the Risk Committee, 27.05.2021.

This Sector Guideline applies to Oil, Gas & Offshore<sup>1</sup> companies and Mining companies operating in exploration, extraction or production of coal, peat, oil & gas. Also included are oil & gas pipeline and thermal coal heat & power production companies. Exempted from this Sector Guideline are companies where Nordea's lending amounts to less than 1 MEUR.

The guideline covers unconventional oil and gas defined as oil sands,

shale oil and shale gas, oil shale, Coal to liquids (Ctlg) and Coal to gas (Ctg).

The guideline covers arctic drilling and for this Nordea uses the arctic definition as offshore locations enclosed by the southernmost extent of winter sea ice above the Arctic Circle.

The guideline covers coal companies, defined as companies operating in thermal coal mining, coal exploration, coal processing, Coal to liquids (Ctlg) and Coal to gas (CtG).

## Commitment

Nordea is committed to conducting business responsibly and to integrating environmental, social and governance (ESG) criteria into the decision-making process.

Nordea's Policy for Anti-Money Laundering (AML) and Counter Terrorist Financing (CTF) risk management sets the framework and minimum standards for Anti-Money Laundering and Counter Terrorist Financing risk management. According to the policy the Know-Your-Customer process is a key element in all AML/CTF activities.

Nordea performs ongoing due diligence (ODD) on all customers and enhanced due diligence (EDD) with regards to customers that are assessed to have a higher risk.

Nordea does not facilitate business with individuals, corporations or countries that are subject to relevant sanctions. Nordea has detailed processes for capturing potential violations of sanctions to ensure that transactions do not breach relevant sanctions imposed by UN, EU, USA and applicable local regulators. Nordea has dedicated task groups and constant training in place.

## Fossil Fuels and Climate Change

Fossil fuels – coal, oil and natural gas – have revolutionized the world and powered the industrial revolution for the past 150 years. Fossil fuels today represent more than 80% of the world's energy consumption<sup>2</sup>. It is used e.g. in construction, to produce electricity and heat to run factories, to heat and light homes and offices, to produce medical supplies, metals, plastics and agricultural products and to propel cars, trucks, ships and aircraft.

Approximately 73% of greenhouse gases result from the production

and consumption of energy, including transport<sup>3</sup>. Thus, energy and climate policies are closely connected. The dual challenge the world faces is that demand for energy is increasing, driven by population growth, from the current world population of 7.8 billion to an expected 9.8 billion in 2050, and economic growth, while greenhouse gas emission must be contained to limit global warming.

The Intergovernmental Panel on Climate Change (IPCC) has in its 2019 Special Report - Global Warming of 1.5 °C – set out the context for strengthening the global response to the threat of climate change. Emission pathways need to lead to net zero by 2050. The transition requires emissions reductions in all sectors and an upscaling of investments in renewable energy and energy efficiency.

The IPCC concludes that society needs to transition to significantly less primary energy from fossil coal, oil as well as gas already by 2030. Decarbonizing several other sectors, including transport, cannot occur if decarbonization of power production and distribution do not also occur. Burning fossil fuels is the largest man-made source of greenhouse gases, of which burning of thermal coal is the single largest

<sup>1</sup> Offshore service industry is not included

<sup>2</sup> World Energy Outlook 2020 by International Energy agency, Statistical Review of World Energy 2020 by BP.

<sup>3</sup> Climate Watch data 2018, World Resources Institute.

contributor, accounting for one third of the 1°C average temperature rise already observed. Thus, thermal coal phase out is the most urgent fossil fuel-related emissions driver<sup>4</sup> to address today.

The Paris Agreement commits signatories to 'holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels'<sup>5</sup>. The Paris Agreement has served as a catalyst for numerous initiatives including the EU Action Plan for Financing Sustainable Growth and all the Nordic countries have adopted climate laws and national targets with the aim to have competitive low-carbon sustainable economies and achieve net zero emissions 2050 by the latest. Likewise, EU has adopted a long-term strategy to become an economy with net-zero greenhouse gas emissions by 2050. The objective is at the heart of the Green New Deal and the step-by-step transition beyond the combustion of fossil coal, oil and gas in the EU and Nordic region. The EU as well as all Nordic countries also have intermediate climate and energy targets in legislation for 2030 and sector by sector decarbonisation roadmaps<sup>6</sup> which all result in

lowered fossil fuel dependencies.

## Our position

Nordea recognises the responsibility to work towards a just transition to a low-carbon economy and the energy transition to a sustainable society. Nordea's objective is to become a bank with net zero emissions by 2050 at the latest. To reach this goal, Nordea has set a mid-term objective to reduce carbon emissions from its lending and investment portfolios by 40-50% by 2030.

Nordea will conduct climate risk assessments for companies in the fossil fuel based industries outlined and set climate targets for the climate-related risk vulnerable industries as part of fulfilling Collective Commitment to Climate Action and the Guidelines for Climate Target Setting for Banks.

Further, for specific fossil fuels Nordea applies the following:

### Thermal Coal

#### *Financing*

Nordea does not start any new financing relationships with companies having more than 5% of their revenues coming directly from thermal coal, covering coal-fired energy

production companies and/or mining companies that are extracting thermal coal. We do not finance or refinance companies with expansion plans for thermal coal or new and pre-construction phase thermal coal activities.

Nordea requires that existing financing customers, using thermal coal in power production or mining, are committed to exit power production and mining based on thermal coal by 2030 latest for industrialised countries<sup>7</sup> and a full phase out globally by latest 2040. Nordea will not expand financing to existing customers unless the customer has a credible transition plan in line with the Paris Agreement. Nordea does not provide project financing dedicated to thermal coal mining or new thermal coal power plants.

#### *Investment*

Nordea does not invest in companies with substantial and sustained exposure to coal mining, defined as having a 10% revenue threshold on thermal coal and a 30% revenue threshold on total coal (including metallurgical coal). Nordea will phase out investments in coal-based electricity utilities that lack meaningful commitment to a transition to clean energy.

### Unconventional Oil and Gas

#### *Financing*

Nordea does not start any new financing relationships with companies having more than 5% of their revenues coming from the extraction of unconventional oil and gas. Nordea does not finance or refinance new and pre-construction phase unconventional oil and gas extraction activities or pipelines.

Nordea will phase out customers that have not exited unconventional oil and gas extraction by 2026.

Nordea will not expand financing to existing customers unless the customer has a credible transition plan in line with the Paris Agreement.

Nordea does not provide project financing dedicated to pipelines or the extraction of unconventional oil and gas.

#### *Investment*

Nordea does not invest in companies with substantial and sustained exposure to oil sand with a 10% revenue threshold.

### Arctic drilling

#### *Financing and investment*

Nordea does not invest in or finance companies with exposure to oil and gas extraction through arctic drill-

<sup>4</sup> Global Warming of 1.5 °C, IPCC Special Report 2018 (revised 2019).

<sup>5</sup> Article 2.1. (a) Paris Agreement, UN 2015.

<sup>6</sup> eg Fossil Free Sweden 21 sector decarbonisation road maps, Klimapartnerskapen 13 sector decarbonisation roadmaps in Denmark, Finland Ministry of Economic Affairs and Employment 13 sector decarbonisation roadmaps.

<sup>7</sup> In Germany, the coal exit framework has been defined by the Coal Phase-out Act which provides for the gradual phase-out of coal-fired power generation by 2038 at the latest. Thermal coal exit path for Russia to be ready by latest 2022.

ing with a 5% revenue threshold.

Nordea's priority is to assess and promote sound management of biodiversity and ecosystem risks in the wider Arctic region north of the Arctic Circle. We recognize that such risks are especially severe in offshore locations enclosed by the southernmost extent of winter sea ice, and Nordea seeks to phase out financing relationship with customers that are drilling north of the southernmost extent of winter sea ice by latest 2023.

For companies involved in exploration and extraction in the Barents Sea it is required that they operate under a license awarded by the Norwegian Ministry of Energy and Petroleum with the permission to carry out exploration and extraction by the Norwegian Environment Agency and the Norwegian Petroleum Safety Authority.

## Recommendations

Nordea encourages customers and investee companies to acknowledge the IPCC scientific consensus on the influence of human activities on inducing climate change and commit to the fulfilment of the objectives of the Paris Agreement.

Nordea recommends companies to, in addition to the adherence

to national laws and regulations, follow and respect internationally recognized norms and standards in all areas of their operations.

This includes:

- having a transition plan in line with the Paris Agreement by 2022.
- having Code of Conduct, a Supplier Code of Conduct and include clauses on compliance with ESG criteria in their contracts with subcontractors and suppliers, ensuring ethical business practices well as a compliance function including whistle blower and grievance mechanisms
- adhering to the OECD Guidelines for Multinational Enterprises and the United Nations "Protect, Respect and Remedy" framework set out in the UN Guiding Principles for Business and Human Rights
- having environment, health, and safety (EHS) management systems meeting standards such as the ISO 14001 and OHSAS 45001 where relevant
- reporting regularly on material sustainability matters in line with established standards, such as the GRI Standards,

(applied to companies required to report according to Directive 2014/95/EU)

- include scope 3 emissions in carbon accounting from 2021 for oil & gas and mining companies (i.e., NACE L2: 05-09, 19, 20) as specified by EU Technical Expert Group and Partnership for Carbon Accounting Financials global standard for financed emissions accounting
- having oil pollution emergency plans as required under the International Convention on Oil Pollution Preparedness, Response and Co-operation (OPRC)
- respecting the objectives of international conventions such as the Convention for the Protection of the Marine Environment of the North-East Atlantic (OSPAR)
- integrate biodiversity in the environmental management planning and decision-making processes which includes undertaking environmental baseline studies and environmental impact assessments.

Exploration and extraction of fossil fuels involves the risk of potential negative environmental and social impact. Nordea recommends clients

and investee companies to meet high standards with regards to the management of such risks. Nordea encourages companies to refrain from exploration and extraction in areas protected by international conventions and respect the objectives of the conventions protecting bio diversity and wildlife as expressed in;

- the Convention on Biological Diversity (CBD),
- the International Union for Conservation of Nature and Natural Resources (IUCN) with regards to protected areas defined therein,
- the United Nations Educational, Scientific and Cultural Organization (UNESCO) World Heritage Convention with regards to sites listed therein and,
- the Ramsar Convention on Wetlands of International Importance especially as Waterfowl Habitat (RAMSAR).

Nordea is committed to review, engage and have a dialogue with our stakeholders to ensure that Nordea's customers and portfolio companies adhere to this sector guideline.