Nordea

Nordea Sector Guideline for the Fossil Fuels Industry

September 2020

1. Introduction

The Board of Directors of Nordea Bank Abp 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 fuels industry approved by the Business Ethics and Values Committee, chaired by the Group Chief Executive Officer, in May 2019 and was updated on September 14th 2020.

2. Commitment

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

Nordea performs ongoing due diligence (ODD) on all customers and enhanced due diligence (EDD) on customers that are considered to pose a higher risk.

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

3. Fossil fuels and climate change

Fossil fuels – coal, oil and natural gas – have revolutionised the world and powered the industrial revolution for the past 150 years. Fossil fuels today represent 80%[1] of the world's energy consumption. They are used to produce electricity and heat to run factories, to heat and light homes and offices, to produce metals, plastics and agricultural products and to propel cars, trucks, ships and aircraft.

Combustion of fossil fuels is also the largest man-made source of carbon dioxide (CO_2), other greenhouse gas emissions and other air pollutants. The various forms of thermal coal emit the highest concentration of greenhouse gasses per energy unit and natural gas is the relatively cleaner fossil fuel. Approximately 76% of greenhouse gases result from the production and consumption of energy, including transport. Energy and climate policies are thus closely interlinked.

The dual challenge the world faces is that demand for energy is increasing, driven by population growth, from the current world population of 7.6 billion to an expected 9.8 billion in 2050[2], and economic growth. At the same time, greenhouse gas emission must be contained to limit global warming.

The Intergovernmental Panel on Climate Change (IPCC), the United Nations body responsible for evaluating the science related to climate change, has in its 2019 Special Report – Global Warming of 1.5 °C[3] – 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. Limiting global warming to 1.5°C requires rapid and far-reaching transitions in energy, including transport, buildings and industry. The transition requires reducing emissions in all sectors and an upscaling investments in renewable energy and energy efficiency.

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"[4].

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 aimed at having competitive low-carbon sustainable economies.

4. Expectations on the fossil fuel industry

Nordea recognises the responsibility to work towards a just transition to a low-carbon economy and the transition in energy towards a sustainable society.

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

Companies in the fossil fuels industry should invest in and work towards the necessary energy transition.

Nordea expects companies, besides adhering to national laws and regulations, to follow and respect internationally recognised norms and standards in all areas of their operations. This includes having Code of Conduct and and a Supplier Code of Conduct ensuring ethical business practices and striving for best practices as well as a compliance function including whistleblower and grievance mechanisms, and striving for best practices and adhering to the United Nations "Protect, Respect and Remedy" framework set out in the UN Guiding Principles for Business and Human Rights. Furthermore, it includes having environment, health, and safety (EHS) management systems that meet standards such as the ISO 14001 and OHSAS 18001 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 clauses on the compliance with social, economic and environmental criteria in their contracts with subcontractors and suppliers, and having oil pollution emergency plans as required under the International Convention on Oil Pollution Preparedness, Response and Co-operation (OPRC), and respecting the objectives of international conventions such as the Convention for the Protection of the Marine Environment of the North-East Atlantic (OSPAR).

For specific sectors of fossil fuels Nordea applies the following;

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1 International Energy Agency, Global Energy & CO2 Status Report 2018
2 The World Population Prospects: The 2017 Revision, published by the UN Department of Economic and Social Affairs
3 Global Warming of 1.5 °C, IPCC Special Report 2018 (revised 2019)
4 Article 2 1. (a) Paris Agreement, UN 2015.

Thermal coal

Nordea does not start any new banking relationships with companies that are pre-dominantly dependent on thermal coal, including coal-fired energy production and/or mining companies involved in the extraction of thermal coal. Existing customers using thermal coal in energy production are expected to be committed to the transition to a low-carbon economy with a strategy to exit energy production with thermal coal.

Nordea does not invest in companies that have large and sustained exposure to thermal coal mining and more than 30% of their revenues derived from sales of coal products, and which lack a meaningful opportunity to diversify away from coal.

Unconventional oil and gas

Nordea expects companies to have a restrictive approach towards exploration and extraction of unconventional oil and gas and does not have banking relations with corporate groups whose main business is the extraction of unconventional oil and gas. 'Unconventional oil' is oil sands (tar or bituminous sands that are a high-viscosity form of petroleum that is energy-intensive to process into oil) and shale oil or shale gas (oil or gas that is extracted by hydraulic fracturing, in which process large volumes of water mixed with chemicals and sand are injected into the ground).

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

Nordea is refraining from investing in companies with large and sustained exposure to extraction from oil sands, applying a revenue threshold of 10 %.

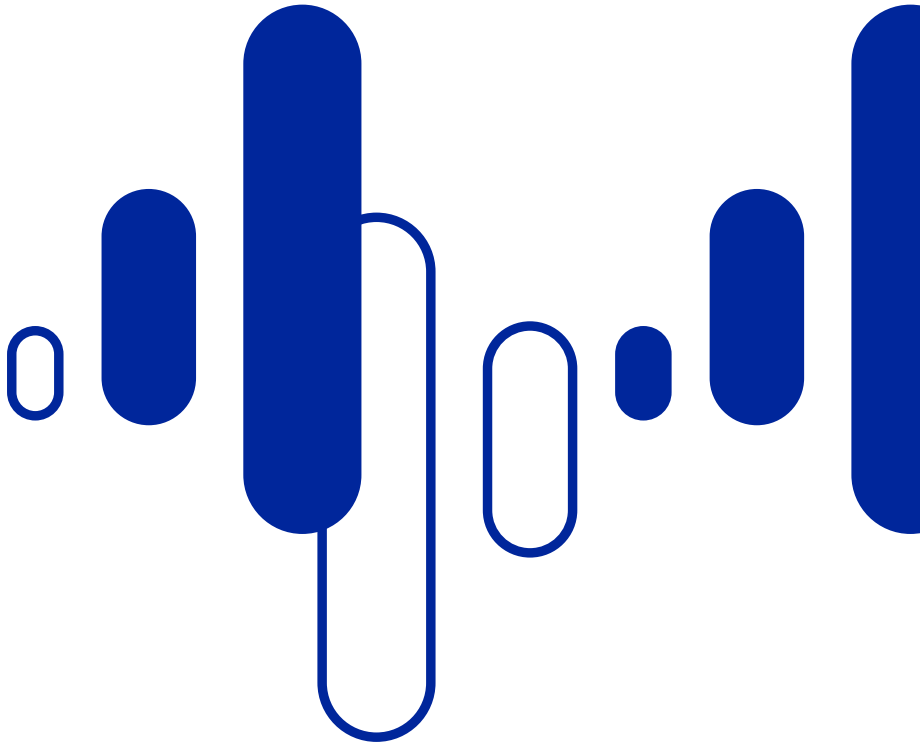
Exploration and extraction in sensitive areas

Exploration and extraction of fossil fuels involves the risk of potential negative environmental and social impact. Nordea expects clients and investee companies to meet high standards with regards to the management of such risks.

Operations are expected to integrate biodiversity in environmental management planning and decision-making processes. This includes undertaking environmental baseline studies and environmental impact assessments.

Nordea expects companies to refrain from exploration and extraction in areas protected by international conventions, and respect the objectives of conventions that protect biodiversity 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).

Companies involved in exploration and extraction in the Barents Sea are required to operate under a licence awarded by the Norwegian Ministry of Energy and Petroleum, granting permission by the Norwegian Environment Agency and the Norwegian Petroleum Safety Authority to conduct exploration and extraction.

Nordea is committed to reviewing, engaging and maintaining a dialogue with stakeholders to ensure that customers and portfolio companies adhere to this sector guideline.