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The Norwegian Government Pension Fund Global, Corporate Social Responsibility and Climate Change

El Fondo Gubernamental de Pensiones noruego, responsabilidad social corporativa y cambio climático

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Abstract

This paper aims at presenting the Norwegian Government Pension Fund Global (GPFG), the world's largest Sovereign Wealth Fund, characterized by its pioneering ethical guidelines for investment decisions, based on active ownership and the exclusion of firms from its portfolio. Two major reasons for the exclusion of a company are "severe environmental damage" and "coal production", leading to the banishment of many companies from the Fund's holdings. Despite the noble intentions, the GPFG is loaded with inconsistencies, especially because its resources come from the exploitation of fossil fuels that contribute to global greenhouse gas emissions. Moreover, the entire Norwegian environmental policy is fragmented and suffers from contradictions.

Keywords: Sovereign Wealth Funds; Norway; Ethical Investment; Climate Change.

Resumen

El objetivo de este trabajo consiste en presentar el Fondo Gubernamental de Pensiones de Noruega (GPFG), el fondo soberano más grande del mundo, caracterizado por unas directrices éticas pioneras para la elección de inversiones, basadas en el ejercicio activo de los derechos de propiedad y la exclusión de empresas de su cartera. Dos razones importantes para la exclusión de una firma son "causar graves daños medioambientales" y "producir carbón", que conlleva al destierro de una empresa de la cartera de inversiones. A pesar de las intenciones nobles, el GPFG está repleto de inconsistencias, especialmente debido a que sus fondos se nutren de la explotación de hidrocarburos que contribuyen a las emisiones de efecto invernadero. Además, toda la política medioambiental noruega está fragmentada y sufre numerosas contradicciones.

Palabras clave: Fondos soberanos de inversión; Noruega; Inversión ética; Cambio climático.

JEL Classification: G11, M14, Q35, Q59.

Introduction

Sovereign Wealth Funds (SWFs) have attracted a great deal of attention of economists during the past decade. Their sources of capital, objectives and investment strategies are very diverse and their actions are sometimes quite opaque. Moreover, they are controlled by governments that are often non-democratic, which generates fear in recipient countries related to geopolitically driven investment decisions. Norway's prudent oil rent management is reflected in its Sovereign Wealth Fund, the so called Government Pension Fund Global (GPFG), the largest SWF in the world aimed at keeping macroeconomic stability and intergenerational distribution of petroleum wealth. At the end of the 90s Norwegian public opinion requested that the SWF should not only serve for stabilization and savings purposes, but ought to contribute to the implementation of responsible investment. In 2004 the Parliament established a set of ethical guidelines for the investment decision of the GPFG, based on active ownership and the exclusion of firms from its portfolio. One of the major reasons for the exclusion of a company is "severe environmental damage" and several businesses were banished from the fund's investments. These guidelines lack geopolitical intentions and only aim at raising awareness among other institutional investors to consider responsible investments when selecting their portfolio and pressure companies to halt unethical practices.

Despite the noble intentions, the GPFG is loaded with inconsistencies, especially because its resources come from the exploitation of fossil fuels that contribute to global greenhouse gas emissions. Moreover, the entire Norwegian environmental policy is fragmented and suffers from contradictions. This work will try to present these paradoxes and emphasize that the country is still too dependent on the petroleum industry. However, alternative paths are feasible for the mitigation of climate change through domestic policies, beyond the mere management of a fund linked to its global activities.

This work aims at presenting the Norwegian Sovereign Wealth Fund, its role as a macroeconomic stabilization and savings fund, and its focus on responsible investment, particularly on climate protection. The first section offers a literature review on the definition of Sovereign Wealth Funds, their purposes and potential threats to recipient countries. Section 2 is a presentation of the Government Pension Fund Global as an instrument for economic policy and investment vehicle. Section 3 explores its attitude towards ethical investment and mechanisms to avoid holdings in enterprises suspicious of unethical activi-

ties. Section 4 concentrates on developments in ethical principles regarding environmental issues and climate change, specifically on the "Divest Norway" movement and its results. Section 5 shows that despite the Norwegian authorities' noble intentions and high profile rhetoric when using the Fund as a tool for climate protection, the Norwegian environmental policy is not flawless at all and ecological performance is in contradiction with speech. Last but not least, the last section concludes. The article consists of a case study from the approach of Political Economy and mainly uses statistical assessment through secondary data acquired from several international organizations as well as an analysis of reports and white papers.

1. Controversies on Sovereign Wealth Fund activity

The term SWF was first coined by Andrew Rozanov in 2005, although got popularized when the Financial Times used it in 2007. Although SWFs have been an object of debate, especially during the second half of the 2000s, research institutes and international organizations still have not agreed on a unique definition, hence inconsistencies arise as to which funds should be included in the analyses and why[1]. Perhaps the most widely accepted definition is the formulated by the International Working Group on SWF (2008): "special purpose investment funds or arrangements, owned by the government, that hold, manage, or administer assets primarily for medium- to long-term macroeconomic and financial objectives".

From this definition we can conclude that SWF are property of governments and are investment pools with medium- and long-term stabilization functions. The best way to determine what a SWF really is consists of distinguishing it from other institutional investors. SWFs' capital sources are resource revenues, fiscal surpluses and excess foreign reserves, and thus resemble foreign exchange reserves. However, their function is beyond mere exchange-rate management, and their investments include a wider range of assets, with higher risk and longer maturity horizons. SWFs are not public pension funds either. Their capital might be earmarked for future pension payments, but they lack current liabilities (fiduciary duty) and have no clearly identified beneficiaries- only abstract ones, as the "citizens" or the "nation". Although many SWFs choose diversified portfolios not short of risk, they are different from hedge funds, as they are free from speculative purposes. Finally, SWFs invest a significant part of their assets abroad owing to the scarce absorptive capacity of their home economies and to avoid inflationary pressures and loss of competitiveness.

SWF can be classified depending on their source of capital income: commodity exports (oil and metals), excess exchange reserves originating from exports of manufactured goods (China Investment Corporation, Korea Invest-

[1] For further discussion on SWF definitions, see Rozanov (2011), Capapé and Guerrero (2014) and Wirth (2017).

ment Corporation), or income associated with State holdings and/or privatizations (Temasek Holdings). Oil SWF assets represented 56% of total assets in 2015, other commodity SWF only 1%, and SWF whose resources are not linked to commodities 43% (Sovereign Wealth Fund Institute, 2016).

Until 2006 SWFs were low-profile investors and their actions did not attract much attention from the media. However, when the Financial Times began to call them SWF, insisting on the term "sovereign", controversies started to emerge. Concerns about SWF activities were listed by Truman (2010) and are shared by other state-owned investors other than SWFs. First of all, the size of these investors and the volume of their transactions create a fear of destabilization in financial markets –for instance, if a SWF decides to acquire a considerable amount of shares in a company, it could trigger out herd movements from other investors, causing price and capital market volatility on the short run. Second, the fact that the majority of these funds are owned by non-Western governments, as Russia, China or Gulf Cooperation Council members, who do not provide sufficiently transparent information on their SWFs' size, portfolio and investment strategy, generates concerns about the use of these investors as political tools. This latter one is one of the main arguments that Western politicians used against the influx of money from SWFs. The more SWFs invest in a specific country, the higher the threat of divestment, which gives SWF owners a remarkable ability to exercise pressure on recipient economies, acting as a "Trojan horse of non-democratic countries" (Yi-chong, 2012: 193) by claiming special rights for their national enterprises, geopolitical interests and threatening human rights. Barbary and Bortolotti (2012) state that many of these governments are unstable and prone to undergo *coups d'état* or international sanctions, events that could force them to withdraw money abruptly from recipient states. Moreover, if a foreign government sponsored SWF purchases shares in strategic industries or critical infrastructure, there is a risk that foreign authorities could take over crucial intellectual property, perform industrial espionage (Markheim, 2008).

Now then, many authors acknowledge the essence of these arguments against non-western SWFs, but underline the lack of empirical evidence concerning financial market destabilization, industrial espionage or pressures with geopolitical purposes on Western governments or companies (Avendaño and Santiso, 2011; Balding, 2012). As a matter of fact, many authors claim the role of SWFs as market stabilizers for being large, highly liquid, non-leveraged and long-term oriented in comparison with other institutional investors as pension funds, banks or hedge funds. Thus, they are able to withstand short-term fluctuations in capital markets in exchange of higher returns on the long run (Jory *et al*., 2010). They serve as "white knights" when markets fail, as was demonstrated during the 2007-2009 subprime crisis despite suffering important short-term losses (Fei *et al*., 2013; Gasparro and Pagano, 2010). Fernandes (2014) proved that SWF investments had a positive effect on target companies' stock prices on the short-run, but not on the long run.

As for the potential political maneuvering by SWF owner governments, Balding (2012) and Kaminski (2017) explain that such threat via SWF is relatively limited and those governments possess other instruments to exercise power. The Santiago Principles – also known as the Generally Accepted Principles and Practices for SWFs- are 24 guidelines for good governance, disclosure and accountability- which were adopted under the *aegis* of the IMF in order to enhance global market confidence in the operations carried out by SWFs (International Working Group on SWFs, 2008). Their purpose is to increase Western confidence in these sovereign investors by establishing a formal separation between the State apparatus and the SWF, and make the latter resemble a private investor who chooses its investment portfolios based only on risk-adjusted financial returns. However, they are not mandatory but voluntary, thus many SWFs are not fully committed to all of them. Backer (2009) mentions the existence of a grey area for SWF investments which is not covered by the Santiago Principles: they can choose their portfolios based on the principles of corporate governance or other ethical codes, without pursuing political goals, as it happens in the Norwegian case. Such behavior also applies to a growing number of private investors who are guided by certain social guidelines -for instance human rights, animal welfare or environmental protection- in order to make other investors follow their causes. The following paragraphs offer the case study of the Norwegian SWF, which falls into this latter category.

2. The Government Pension Fund Global of Norway

Despite its name, the GPFG is not a public pension fund, but a stabilization and savings SWF to deal with the potential increase in pension expenses in a future context of resource depletion and aging population, so that a balanced public budget and intergenerational allocation of oil resources can be achieved. However, it lacks current pension liabilities and the link to the funding of future pension liabilities still has not been formally defined. It was set up in 1990 after two decades of economic volatility caused by dependency on oil prices, as a means for severing oil revenues from public spending (Thøgersen, 1994). The Fund received its first allocation in 1996 after the government repaid its debt and managed to generate fiscal surplus in 1995.

In 2001 authorities adopted the 4% rule, which allows for a business-cycle corrected non-oil public deficit equivalent to the 4% of the Fund's value at the end of the year[2]. The Norwegian government collects oil rents comprised of taxes, royalties, dividends from the semipublic oil company (Statoil) and state oil fields (called State Direct Financial Interest), which constitute the state's petroleum net cash flow and is integrally transferred to the Fund. However, at the end of the fiscal year, the government is allowed to transfer 4% of the Fund's

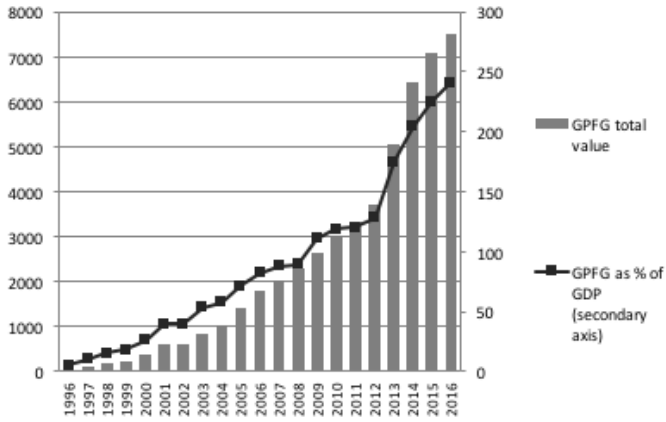
[2] This 4% is the expected long-term real net return on the Fund.

value into the public ark in order to cover the structural non-oil fiscal deficit, while the rest remains in the Fund.

The total value of the GPFG is invested abroad in order to prevent the overheating of the domestic economy, limit the Norwegian kroner's (NOK) appreciation and the subsequent loss of competitiveness of the economy. At the end of 2016 62.5% of the portfolio was comprised of equities, 34.3% of fixed income and 3.2% of real estate. As can be seen in Chart 1, since the first transfer was made to the Fund's account in 1996, the Fund's value has never stopped increasing, especially between 2004-09 and 2012-14, reaching a value of NOK 7510 billion (USD 870 billion) at the end of 2016, equivalent to 241% of the country's GDP and leading the ranking of the biggest SWFs.

The GPFG is formally owned by the Ministry of Finance, which possesses ultimate responsibility for the management of the Fund, including its investment strategy, its regulation and ethical guidelines. The GPFG is operationally managed by a special department in the Norwegian Central Bank, called Norges Bank Investment Management (NBIM), comprised of experts in financial markets who aim to maximize the Fund's return, but should pursue it according to the mandate laid down by the Ministry, including quantitative rules concerning the allocation of assets. In contrast to other large public funds, such as the Australian Future Fund or the Canada Pension Plan Investment Board, the GPFG is entangled in the government apparatus and is not protected from public opinion due to statutory powers invested in its trustees (Clark, Dixon and Monk, 2013).

Chart 1: GPFG total value (billions of NOK) and as percentage of the Norwegian GDP, 1996-2016.



Source: NBIM and Statistics Norway.

Apart from being the world's largest SWF, the GPFG is widely acknowledged as an outstandingly transparent and well governed institutional investor. It is awarded ten points out of ten in the Linaburg-Maduell Transparency Index, published by the Sovereign Wealth Fund Institute; and 98 points out of 100 in Truman's SWF Scoreboard (Bagnall and Truman, 2013). Indeed, while other major SWFs are reluctant to reveal their size, let alone their portfolios, the GPFG publishes quarterly reports and an annual report on financial performance, and an annual report on responsible investment. By Ministry edict, the GPFG cannot hold more than 10% of the outstanding shares of a company in order to avoid suspicions that the Fund is managed by non-economic considerations. Besides, the GPFG is also well-known for its investment principles bound up in ethical guidelines, apart from "maximizing the international purchasing power of the Fund's assets, given a moderate level of risk" (Norwegian Government, 2014)[3]. Such fact suggests the use of the SWF for purposes other than purely economic ones, focusing on the need to satisfy the aspirations of Norwegian citizens as applied to Norway's behavior overseas in order to achieve global government values of the Norwegian state, driven by corporate social responsibility.

3. Ethical Investment

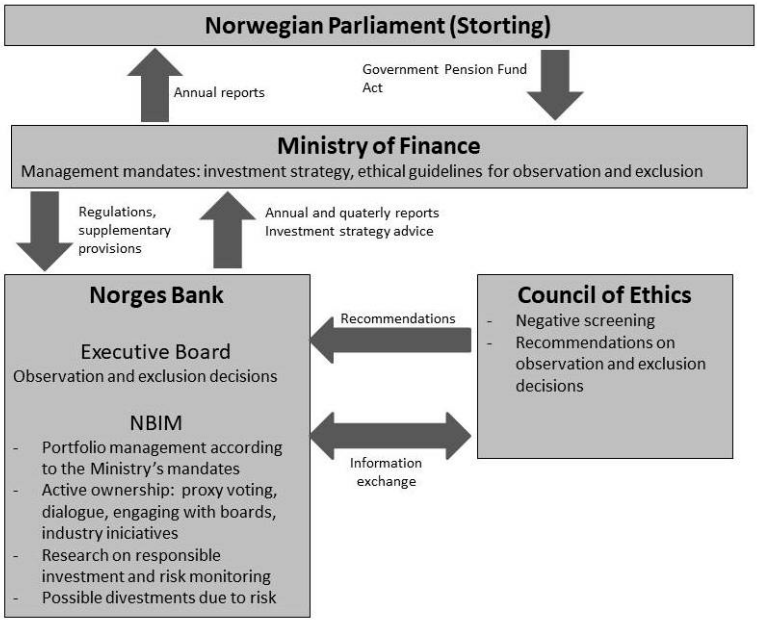
The GPFG is officially owned by the Ministry of Finance, but at the same time is ultimately the Norwegian citizens' property, therefore it is influenced by public opinion. At the end of the 90s, when the Fund started to invest in equity and its value began to soar, citizens insisted that it should not only be used for intergenerational justice, but also contribute to the implementation of universally accepted values and norms. At that time the Kommunal Landspensjonskasse, Norway's largest insurance company, elaborated a black list of companies with unethical activities, and it came out that the GPFG held investments in many of those firms, which was embarrassing (Cappelen, 2015).

The Ministry of Finance decided to set up a commission in 2002 under the chairmanship of Hans Petter Graver, professor of Law, in order to propose a foundation from which the Parliament could decide the ethical regulations. The report, entitled "Graver report", was handed in in July 2003 and identified a set of internationally accepted ethical values related to human rights, corporate governance and environmental protection, based on UN and OECD principles (Chesterman, 2007). The report highlighted two major ethical obligations: i) guaranteeing financial rents with the aim of spreading oil wealth across generations even when petroleum reserves run dry; and ii) the need to respect fundamental rights for those who are influenced by firms in which

[3] There are other examples of SWFs moved by moral guidelines, as the Kuwait Investment Authority, which refrains from investing in alcoholic beverages, pork meat industry, gambling and prostitution, in line with the Islamic finance.

the GPFG invests. At the end of 2004 the Parliament accepted the Ethical Guidelines for the GPFG after a careful assessment of the Graver Report. The Ministry identifies two mechanisms to fulfill these ethical obligations: i) active exercise of ownership rights, carried out by NBIM; and ii) placing enterprises under observation and exclusion based on recommendations from the Council of Ethics (Chart 2).

Chart 2: The GPFG's framework.



Source: NBIM and Norwegian Government.

3.1. Active exercise of ownership rights

NBIM is committed to good corporate governance and principles stipulated in the UN Global Compact, the International Labor Organization, the OECD Principles of Corporate Governance and the OECD Guidelines for Multinational Enterprises. It exercises its ownership rights through proxy voting in shareholder meetings of the 9050 companies in which the GPFG invests – during 2016 it voted 112,210 resolutions at 11,294 shareholder meetings (NBIM, 2017) and via interactions with these enterprises in 3,790 company meetings – dialogue, legal actions and meetings with regulatory authorities in collaboration with other investors.

The goal is to safeguard the GPFG's asset worth and add value over the long term, acknowledging that well-governed firms are more likely to enhance shareholder value, as Bebchuk (2005) pointed out, and is consistent with the long-term efficiency of global capital markets. Therefore, NBIM is devoted to ethical investment, not only for moral reasons but also on efficiency grounds. Whenever NBIM identifies firms that may pose risk to environmental, social and governance commitments, and dialogue is not possible, it may disinvest from such enterprises.

3.2. Negative screening and exclusion

Norges Bank may also resolve to banish companies from the Fund's portfolio based on the recommendations of the Council of Ethics[4]. This independent council, founded in 2004 is made up of experts in ethics and international law who work in close collaboration with NGOs and consultancies that report on companies suspicious of causing environmental damage, human rights violations, corruption, and other contraventions grounded on daily news searches on all companies within the Fund's portfolio.

The Council conducts regular negative screening by monitoring whether companies have operations that contravene any product-based (production of weapons, coal and tobacco) and conduct-based criteria (gross corruption, human rights' violation and environmental damage). If there is evidence that an enterprise carries out unethical activities, the Council contacts it by asking questions and requesting documentation on their actions, such as a project's environmental impact assessment, emission data or information on working conditions within a factory. After analyzing the company's reply –or the lack of it- the Council's members determine if a recommendation for exclusion should be communicated to Norges Bank. The Council has had substantial influence on the Ministry of Finance and Norges Bank, as its suggestions have been generally accepted. Until March 2017 a total of 105 companies were excluded grounded on their products, 29 on their conduct and 15 were placed under observation[5]. On the other hand, the council ought to review exclusions regularly and propose reincorporation if appropriate in light of new data.

The Council of Ethics is moved by deontological principles, that is, because it is the right and proper thing to do, while NBIM is founded on consequentialism, as it keeps in mind economic and efficiency considerations as well (Nilsen, 2010). The Council does not wish to influence a company's corporate govern-

[4] Before 2015 it was the Ministry of Finance that took exclusion resolutions upon recommendations from the Council. The government led by Erna Solberg and Siv Jensen opted for changing this procedure and put Norges Bank in charge of deciding the expulsion instead of the Ministry, in order to depoliticise the exclusion mechanism. This was met with criticism, as it was feared that Norges Bank would only be driven by economic criteria to the detriment of moral principles.

[5] The full list of exclusions and their motives can be found at https://www.nbim.no/en/responsibility/exclusion-of-companies/

ance as NBIM does, but naming and shunning it in order to produce change in these firms' behavior (Clark, Dixon and Monk, 2013). Clark and Monk (2010) also emphasize that these ethical standards represent a cost resulting from financial ignorance that Norwegian inhabitants are willing to assume, they are not subject to profit and loss statement. According to Financial Times (2016), the Fund's resolve to dump tobacco producers like Philip Morris and Imperial Tobacco has cost USD 1.9 billion in missed profits over the past ten years.

4. Ethical Guidelines and Environmental Protection

As we have noted earlier, one of the focus areas for NBIM's exercise of active ownership and exclusion recommendations by the Council of Ethics is dedicated to environmental issues, specifically to water management, climate change and other severe environmental damage. Some banishments from the Fund's portfolio have taken place between 2005 and 2013 due to conduct related to severe environmental harm, mainly concentrated in mining enterprises as Rio Tinto, Freeport McMoran, or Zijing Mining Group, nonetheless no exclusions or withdrawals were made based on products that widely contribute to climate change through greenhouse gas emissions until 2015.

By the beginning of the current decade there has been a strong social pressure on the Fund to dump fossil fuel producers, particularly from firms engaged in extracting and burning coal, represented by "Divest Norway" (Schücking, 2014). The country's major environmental NGOs and the Lutheran Church were behind this movement, which bears resemblances to 350.org and "Go Fossil Free", whose goal is to confer on fossil fuel firms the same stigmatization as on tobacco companies and urge universities and pension funds to desist from investing in such entities (Rimmer, 2016).

As a result, in April 2015 the Ministry of Finance issued new guidelines for observation and exclusion from the Fund with regard to climate issues. A new conduct-based banishment criterion was introduced aimed at *"*acts and omissions that, on an aggregate company level, to an unacceptable degree entail greenhouse gas emissions*",* "not limited to specific sectors or types of greenhouse gases" (Norwegian Government, 2015a). In May a new product-based criterion came out aimed at mining companies and power producers that have a significant portion of their income related to coal. According to the Norwegian Government (2015b), it affects companies that "base 30 percent or more of their activities on coal, and/or derive 30 percent of their revenue from coal". According to NBIM's Responsible Investment Report (2017), the Fund's managers have withdrawn from numerous companies whose activity involved coal-fired power generation, coal mining and coal extraction towards electricity power production: 69 firms were directly excluded from the Fund's portfolio, as suggested by the Council of Ethics because of production of coal or coal based energy up to March 2017. The aim is to send a signal to other global investors, such as SWFs, pension funds and development banks,

and encourage them to engage in abandoning fossil fuels, particularly now that their prices have fallen.

However, the fact that the GPFG holds substantial stocks belonging to non-Norwegian petroleum companies seems ironical: in December 2016 6.4%[6] of its equity investments were made up of shares issued by oil and gas companies and Royal Dutch Schell and Exxon Mobil have been among the top 10 firms where the GPFG held the largest equity assets (NBIM, 2017). Apart from moral considerations, as these companies base their activities on producing fossil fuels, Caner and Grennes (2009) argue that the riskiness of a portfolio depends on the correlation among the portfolio's components, thus the fact that GPFG receives money from oil extraction and owns stocks in foreign oil firms increases its riskiness. Scherer (2009) claims that oil SWFs should build portfolios that are not correlated with the broader economy, hence they ought not to invest in extractive sectors, but diversify the national wealth away from hydrocarbons, especially when their prices diminish.

5. Paradoxes between environmental rhetoric and practice

The GPFG's Ethical Guidelines allow for divestment and banishment of multinational companies owing to humanitarian, governance and environmental reasons, which can be accused of projecting the Norwegian State's power overseas via a SWF. In 2006 the Fund boycotted Wal-Mart for contracting suppliers that employed child labor, paid wages below local minimum, and blocked workers' efforts to form unions, which triggered out a diplomatic conflict with US authorities. However, negative screening and exclusions affect enterprises from all over the world, both developed countries and developing ones. Furthermore, the GPFG can only own up to 10% of a company's capital, which limits its scope of action for geopolitical opetarions. Yngve Slyngstad, NBIM's CEO, clearly denies the Fund's politicization: "If you run a SWF in a democracy and there are limits to what the population wants to make money on, those limits have to be put up by the political establishment that's representative of the Population" (Financial Times, 2015). Tranøy (2009) and Foldal (2010) stress that the purpose of the ethical guidelines is to legitimize the Fund's actions among Norwegian citizens, and do not serve as political tools. Backer (2009) argues that the Ethical Guidelines can be compared to a growing number of private investors that take into account social responsibility in conjunction with purely financial goals, so it should not be a reason for promoting special regulations against SWF investments. Halvorssen (2011) claims that such investments linked to social and environmental matters are not equal to national security threats, but merely a process of internalizing externalities.

Certainly, Norway, as the rest of its Nordic neighbors, has been committed to the promotion of conventions and capacity building around climate issues.

[6] Although in 2011 it was 11.5%, so considerable divestment took place (NBIM, 2012).

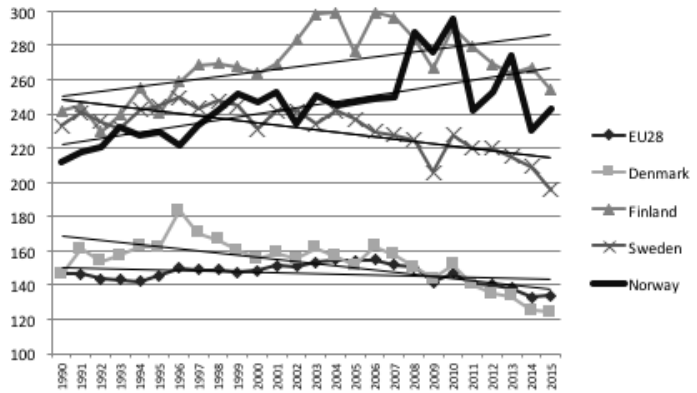
It was the first country to establish a Ministry of Environment in 1972 and the former Norwegian prime Minister, Gro Harlem Brundtland, is known as the "world environment minister" for chairing the report "Our Common Future" (World Commission on Environment and Development, 1987), which introduced the term "sustainable development", and was a pioneer in establishing a tax on carbon emissions in 1991. Besides, Norway is one of the leaders in renewable energy consumption: in 2015 44.7% of its gross primary consumption came from renewable sources, while the EU-28 average was only 13% (Eurostat, 2017). Specifically, it has been relying on hydraulic power ever since the beginning of the 20th century thanks to the fast-flowing mountain rivers: it generates nearly 90% of renewable energy and 95% of electrical power (Eurostat, 2017). One of the largest environment friendly policies applied in Norway is the subsidization of electric vehicle purchases, transforming Norway into the country where the electric car fleet per capita is the largest, and can make the most of clean hydroelectric technology (Aasness and Odeck, 2015).

Nevertheless, it is worth mentioning that Norway also has a very high consumption of gross primary energy at a per capita basis (see Chart 3). Its consumption is above the EU-28 average and higher than in Denmark and Sweden. Moreover, it tended to increase between 1990 and 2015 as the tendency slope indicates, while in Sweden, Denmark and the EU-28 a slight drop was registered. This fact is not surprising given the country's geographical ubiquity with cold and dark winters; a disperse population distributed in a lengthened area, giving rise to longer transport times; and a very high income per capita, which prompts consumerism. Its greenhouse-gas emissions per capita are also above the European average and exceed the ones of Sweden and Denmark, although they are still below the OECD average (Chart 4). As for its ecological footprint, it ranks 25st with a value of 5.8 global hectares per capita, similar to the ones registered in the Netherlands or South Korea, though not as high as in the rest of the Nordic countries, and far from Luxembourg (13) and the USA (8.6) (Global Footprint Network, 2017).

What is truly a paradox is the GPFG insisting on diversifying away from fossil fuels due to their contribution to climate change, while it gets most of its inflow of money from the extraction and export of oil and natural gas, which are fossil fuels. Norway was Europe's biggest hydrocarbon producer and the world's third largest exporter of natural gas after Russia and Qatar (EIA, 2016). Oil production began in 1971 and reached its peak in 2001 (Norskpetroleum, 2017). Since then oil extraction has suffered a steady decline but was partly offset by an increase in natural gas production, whose value surpassed the value of oil since 2011 (Norwegian Petroleum Directorate, 2016). As can be observed in Chart 5, approximately 90-95% of oil and gas is exported, mainly to Germany, UK and the Netherlands. Fortunately for the Norwegian oil sector, the Kyoto regime is based on the principle of counting CO_2 emissions where carbon is consumed, not where the fossil fuels are extracted. Consequently only direct emissions from oil platforms in Norwegian waters are accrued to

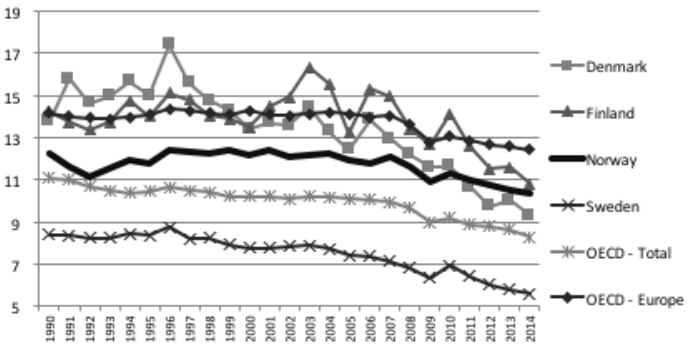
Norway, emissions from exported hydrocarbon resources are counted in the countries where they are burnt (Ryggvik and Kristoffersen, 2015). According to Peters (2014), this fact leads to around 500 million tons of CO_2 per year, approximately 100 tons of carbon emissions per citizen, which are not reflected in Chart 4.

CHART 3: GROSS INLAND ENERGY CONSUMPTION PER CAPITA (GIGAJOULES/CAPITA), 1990-2015.



Source: author's calculations based on Eurostat (2016).

CHART 4: GREENHOUSE GAS EMISSIONS PER CAPITA (TONS), 1990-2014.



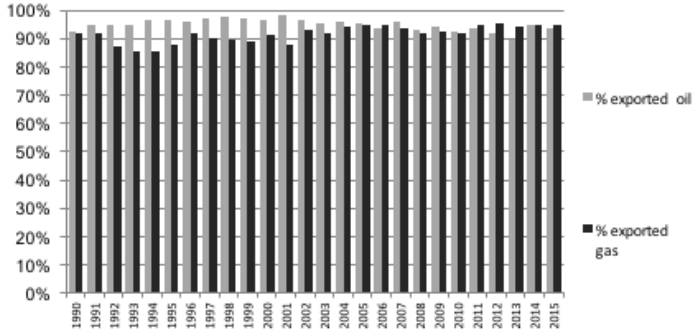
Source: OECD (2017).

The Norwegian Government, the oil operators and their suppliers are reluctant to halt oil production, even with current low prices, as the oil sector is a major driver of the economy. In 2016 it represented 37% of the country's

exports, 16% of state revenues and 15% of the GDP (Norskpetroleum, 2017). Furthermore, Hvinden and Nodbø (2016) estimate that the industry directly and indirectly employed around 11% of the labor force in 2014. On the other hand, the official argument is that Norwegian gas exports shift European consumption away from coal, lowering greenhouse-gas emissions since gas generates 125% less CO_2 per unit of energy burnt. Moreover, the Norwegian shelf is close to the major export markets, hence transportation emissions are relatively low and hydrocarbons are extracted with "clean" technology- low gaseous emissions, flaring and toxic charges (International Association of Oil and Gas Producers, 2014).

There is an even more contradictory fact surrounding divestments from and exclusions of coal miners: coal mines still exist in Norway, specifically in the Svalbard archipelago, next to the North Pole. Since the resettlement of the islands in the early 20th century, coal mining has been the dominant activity which gave job for around 350 people in 2014 -out of a population of approximately 2100 and a workforce of 1600 (Statistics Norway, 2017). However, the state controlled mining firm, Store Norske, has been hit by a steep fall in coal prices and high extraction costs, so many units are being closed after years of heavy subsidies to keep jobs, and reconversion should take place towards fish-processing, tourism and research (The Arctic Journal, 2015).

Chart 5: Oil and gas exports as percentage of oil and gas production, 1990-2015.



Source: author's calculations based on Eurostat (2016).

Finally, there is little diversification in renewable energies other than hydroelectricity despite Norway's comparative advantage in wind and wave power (Steen and Hansen, 2014). Ryggvik (2014) argues that low investments in alternative energies are triggered out by the very profitable hydrocarbon industry and the already existing hydropower plants, which crowd-out other sectors. Norway's main oil markets, Germany and the UK, would want Norway to lay

more submarine cables in order to profit from the country's hydropower, a flexible and clean energy. Nonetheless, Norwegian authorities are reluctant to these plans as they believe that they would increase local electricity prices and require an expansion of the electrical grid in Norway, which may further spoil the ecosystems of Norwegian rivers. Thus, politicians encourage the export of Norwegian natural gas to the rest of Europe instead of developing hydroelectricity (Gullberg, 2013).

6. Conclusion

As we have seen, the GPFG is perhaps Norway's main asset for macroeconomic stabilization and wealth preservation, projecting a solid image of the Scandinavian country. Its decisions are widely covered by the global media and are able to influence other institutional investors' attitude. Indeed, the authorities' main intention by setting up a series of guidelines for ethical investment and the Council of Ethics is to legitimize the Fund's investment actions among Norwegian citizens and also to put pressure on companies' and encourage them to adopt responsible management when it comes to human rights, governance and environment, shaming those firms that contribute to deforestation, water pollution and the burning of huge quantities of coal. It lacks a pursuit of geopolitical goals and targets enterprises from all over the world, not governments. The GPFG is moved by moral principles, but also by long-term economic interests in the sense that environmentally unfriendly enterprises should lose market value in the future, while firms betting on clean energies and respecting human rights will gain reputation.

However, Norway should contribute to climate protection not only through the management and rhetoric of a SWF with regard to its global investments, but also via domestic policies, nonetheless in this area it has still a long way to go. It is understandable that the hydrocarbon sector has been crucial for the country's industrial policy, wealth and job creation, and Norwegian gas is way cleaner than coal, but it will not last forever. Consequently, an adequate strategy for economic diversification and reducing dependence on oil would entail the development of renewable energies beyond hydroelectricity, as Denmark and Sweden are pursuing. Ironically, the state has still not established a convincing subsidy policy with proper compensation and long-term investment guarantees for those willing to invest in wind and wave power. As Midttun and Olsson (2011) stress, such inconsistencies between rhetoric and action concerning environmental policy are common to all Nordic economies, since their resource-intensive sectors contribute to wealth creation and high standard of living. Putting their naïve environmental ideals into practice should disturb their basic social contract, their welfare states and relatively luxurious way of life.

Norway's role regarding climate change was among those topics that caused a heated debate during the latest election campaign in September 2017, especially concerning oil exploration in the Arctic (Bloomberg, 2017).

The re-elected Conservative-led government, usually in favor of the oil sector's development, has even set up a commission to assess climate-related risks. Furthermore, the GPFG's strategy is undergoing several reforms: there is a proposal to sell off assets belonging to oil majors, just like the Fund did with coal companies. It is crucial to follow-up these changes and observe how other institutional investors would be influenced by them: other Scandinavian investment funds are already keeping track of the GPFG's potential moves.

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