



## Sovereign Wealth Fund Divestment as an Environmental Protection Strategy



Posted by [Saleem Ali](#) of [University of Queensland \(Australia\)](#) on November 22, 2014

*In this guest post, one of my doctoral students Asmaa Khadim, who is a Canadian lawyer, presents perspectives on the growing trend for large national funds to divest from particular industries that they consider socially or environmentally problematic. Is this making any positive change? This article explores how in a few cases some signs of influence from such divestment strategies on the performance of companies.*

Guest article by [Asmaa Khadim](#)



Negotiating Wealth and Accountability – a sculpture in China’s affluent city of Hangzhou –  
Photograph by Saleem H. Ali

Divestment (also known as disinvestment) generally entails the use of economic means to pressure an entity, such as a corporation or government, towards a change in its policies or practices. It usually involves the reduction of an asset to achieve an ethical objective. Organized economic boycotts have been utilized in a variety of situations where the practices of the impugned entity have been deemed to violate the norms of society, such as in the case of the tobacco industry, arms manufacturers and governments that support policies of apartheid. More recently, divestment strategies have made their way into the environmental protection sphere.

The Norwegian government in particular has taken some promising steps toward including environmental concerns as an important consideration when determining in which companies its sovereign wealth fund should invest over the past decade. In 2004, the Norwegian government established the [Council on Ethics](#) to ensure that investments are consistent with ethical guidelines. The Council on Ethics obtains risk data from [RepRisk Business Intelligence](#), which monitors companies in the Fund's portfolio for issues involving severe human rights violations, environmental degradation or corruption. Recommendations made by the Council are then considered by the Ministry of Finance in making decisions about which companies to exclude from the fund.

This protocol was significant given the value of the fund and therefore the potential influence it may wield in the market. For example, the 2010 exclusion of 17 tobacco companies amounted to a \$2 billion divestment. The fund, known colloquially as the Oil Fund and formally as the [Statens pensjonsfond Utland](#) (or the Government Pension Fund Global), derives its income from wealth produced by Norway's petroleum sector. The value of the fund is currently estimated at \$859 billion US dollars, making it the largest fund in its class in the world.

Section 2(c) of the *Ethical Guidelines* adopted by the Ministry of Finance provides that the Fund may exclude companies "...if there is an unacceptable risk that the company contributes to or is responsible for...severe environmental damage" (COE website). The application of this provision has resulted in divestment based on environmental considerations totaling nearly \$1.2 billion, with companies such as [Rio Tinto](#), [Barrick Gold](#), [Freeport McMoran Copper & Gold Inc.](#) and [Volcan](#) being removed from the portfolio, and Shell being considered for exclusion. Naturally, this leads to the question of whether divestment has actually made a difference in terms of inspiring corporations to improve upon their environmental track record. Further research may be required to answer this question. However, the case of [DRDGold Limited](#), a South African mining company, serves as an anecdotal example.

DRD Gold was excluded from the Fund in January 2007 on the basis of serious environmental damage caused by its gold mining operations, albeit through a subsidiary, in Papua New Guinea (Tolukuma mine) and [Fiji \(Vatukoula mine\)](#). The Ethics Council expressed concern regarding the company's operation in relation to riverine tailings disposal which were believed to have caused "extensive and lasting environmental damage to the riverine ecosystem as well as having far-reaching adverse effects on the local population's life and health" at Tolukoma (COE, 2006a). The operation at Vatukoula was found to produce significant air and water pollution, thereby

potentially inflicting serious and chronic health damage on the population. It is interesting to note that in arriving at its conclusions, the Council also consulted with local NGOs as well international organizations, [Oxfam Australia](#) in particular.

The amount divested was approximately \$0.6 million, not a considerable sum in the grand scheme of things. However, after Council recommendations were made, the company subsequently announced its decision to close the Vatukoula mine in Fiji. Given the unacceptable risk of severe environmental damage posed by the Papua New Guinea operations, though, this was deemed as insufficient to warrant a change in the Council's recommendations. The following year, DRDGold sold off its interests in the subsidiary company and sought reinstatement within the Fund portfolio. After the company was deemed to no longer be involved in activities that initially led to its exclusion, it was reinstated to the fund in September 2009.

While engaging in unchecked environmental pollution and then off-loading assets is not an ideal outcome, the fact that DRDGold had to engage in the exercise of reviewing its environmental track record and then meeting the expectations of the Council on Ethics in this regard may serve as a effective tool for raising environmental standards. This may also reflect the underlying power of "naming and shaming" companies, which should not be underestimated. Furthermore, perhaps a desire to remain in the portfolio may serve as sufficient incentive to continue to conduct operations in accordance with accepted international norms.

There is some uncertainty as to what activities will amount to a risk of severe environmental damage sufficient to warrant divestment in the future as, earlier this year, the Norwegian government proposed future structural changes to the sovereign wealth fund that will eliminate the Council on Ethics and bring such decisions under the control of the fund itself. Critics have expressed concern over loss of independence and transparency in determinations involving ethics considerations that may occur as a result of these changes. Nevertheless, the Norwegian experience has revealed some encouraging prospects for the effective use of divestment as a strategy for increasing accountability for severe environmental damage and related human impacts.