Norway sovereign wealth fund, world's biggest, to dump oil and gas

March 8 2019, by Pierre-Henry Deshayes

Norway's sovereign wealth fund, fuelled by the state's oil revenues, is divesting its oil and gas holdings

Norway's sovereign wealth fund, the world's biggest thanks to petrodollars, will sell off stakes in oil and gas exploration and production companies to reduce its exposure to black gold, the government said

Friday.

While the decision is based solely on financial considerations and not on the environment, a divestment—even partial—by an investor worth more than $1 trillion was seen as a major blow to the fossil fuels industry and hailed by the environmental lobby.

The government of Norway, the biggest oil and gas producer in western Europe, said the divestment was specifically targetting exploration and production companies, "rather than selling a broadly diversified energy sector."

"The objective is to reduce the vulnerability of our common wealth to a permanent oil price decline," Finance Minister Siv Jensen said, stressing the move should not be interpreted as a lack of confidence in the future of the oil sector.

As the decision only concerns companies specialised in upstream operations, it could affect 134 groups like Chesapeake of the US, Canada's Encana, China's CNOOC, France's Maurel and Britain's Tullow, among others.

Companies involved in downstream operations, such as distribution and refining, and, more importantly, integrated companies which do both down- and upstream—such as giants ExxonMobil, Shell, BP and Total—will not be affected.

Expected to sail through parliament

Friday's proposal therefore concerns $7.5 billion of the around $37 billion the fund held in the oil and gas sector at the end of 2018.

The government's proposal is expected to sail through parliament.

Sovereign funds are state-owned investors in various kinds of assets that aim to generate revenue for government programmes and pensions.

The Norwegian decision follows a headline-making 2017 recommendation by the Scandinavian country's central bank, which manages the fund, aimed at limiting the state coffers' exposure to a steep drop in oil prices, as in 2014.

Oil and gas represent almost half of Norway's exports and 20 percent of the state's revenues.

The state's oil revenues are placed in the sovereign wealth fund—commonly referred to as the "oil fund" but formally known as the Government Pension Fund Global—which Oslo then taps to balance its budget.

The finance minister insisted that Friday's decision "does not reflect any specific view on the oil price, future profitability or sustainability of the petroleum sector."

Jensen noted that the oil industry "will be an important and major industry in Norway for many years to come."

'Shockwave'

For environmental organisations and climate change activists, Norway's new position is a clear victory as the world struggles to meet Paris Agreement goals.

"If this passes through parliament, it will cause a shockwave on the market, dealing the biggest blow yet to the illusion that the fossil fuel sector still has decades of business ahead of it," said Yossi Cadan of 350.org, an organisation engaged in the fight against climate change.

"The decision should be seen as a red flag for private banks and investors whose oil and gas stocks are becoming increasingly high-risk and morally untenable," he said in a statement.

Beyond the sums involved, the decision is also important because positions taken by the fund—which controls 1.4 percent of global market capitalisation—are closely watched by other investors.

"When one of the biggest sovereign funds in the world concludes that it can yield high returns on its investments with moderate risk by reducing its exposure to oil and gas, investors take note," Jan Erik Saugestad, head of asset management at Norwegian insurer Storebrand said.

The fund has already pulled out of the coal industry, both for environmental and financial reasons.