

Sector Guidelines: Energy

Scope and purpose

The overall objective of these sector guidelines is to promote sustainability performance in our business relations with corporate clients, portfolio companies and suppliers in all jurisdictions where Swedbank Group operates. The sector guidelines are applicable to all companies within the sector and in all stages of the value chain.

Sustainability impact

The energy sector provides the fuel, power and heat on which people, organisations and businesses across the world depend. Equator Principles are used by Swedbank for assessing and mitigating the social and environmental risks of large-scale projects, i.e. large dams.

The environmental, social and governance impacts from the hydrocarbons sector are relatively high across the entire value chain compared to most non-extractive industries.

The sector's most significant impact is carbon emissions, which are regarded as one of the greatest environmental challenges currently facing society. The burning of hydrocarbon fuels primarily for transport, power generation and industrial processes, accounts for almost 70 per cent of global carbon emissions. Upstream hydrocarbon production and refining emissions contribute much less, about 6 per cent, but are still high compared to other sectorsⁱ.

Other key environmental, social and governance risks associated with hydrocarbon, energy production and usage relate to workplace safety, community health, biodiversity impacts, wastes and discharges, bribery and corruption.

Expectations and recommendations

Swedbank expects clients, portfolio companies and suppliers to operate in accordance with relevant international norms, as well as regional and national laws, regulations and

permits. We expect our business partners to manage material sustainability issues in a systematic manner within the field of human rights, labour rights, climate, environment and business ethics. We also recommend that companies involved in the energy sector:

- Adopt long-term planning and risk assessment in line with TCFD requirements to ensure company and customer alignment with the Paris Climate Agreement. This includes phasing out coal and unconventional hydrocarbons such as oil sands and arctic oil & gas;
- Identify material sustainability aspects and adopt relevant policies, objectives and targets;
- Have policy commitments that meet responsibilities with regard to human rights, labour rights, environmental protection, health & safety at work and anti-corruption;
- Undertake community consultation early in project life cycles in order to prevent negative impact and obtain social license to operate;
- Respect customary land tenure and usage rights of indigenous people by applying free, prior and informed consent (FPIC) principles;
- Respect labour rights and ensure a safe and healthy workplace;
- Prevent discrimination and improve equal treatment of men and women;
- Minimise impacts on land, water, air and biodiversity by implementing careful physical planning, and best practice waste management and emissions control systems;
- Assess project impact on water resources with the aim of ensuring high standards of water quality and availability for local communities;
- Reduce resource use and recycle waste;

- Minimise carbon emissions by incorporating emissions analysis into project planning, controlling operational and product carbon emissions via technological and behavioral means, and maximising the production and use of renewable energy. Commit to continuous improvement;
- Have in place Oil Spill Contingency Plans and robust emergency response measures for significant identified safety, environmental and community related incidents or crises;
- In high risk zones, implement the Voluntary Principles on Security and Human Rights;
- In weak governance zones, leverage company influence in order to minimise corruption risks and ensure benefit flows to local communities;
- Implement grievance mechanism processes and processes for the remediation of human and environmental impacts;
- Early in project life cycles incorporate health, safety, environmental and community considerations into decommissioning planning. Ensure adequate decommissioning funding is set aside on a regular basis;
- Observe zero tolerance of deliberate serious offsite environmental impacts, involvement in illegal oil trading or bunkering, child labour, extractive activity in Ramsar, World Heritage and critical habitat areas, impacts on IUCN Red Listed species, and bribery & corruption;
- Report transparently on tax payments at group and country level in line with Publish What You Pay and the Extractive Industries Transparency Initiative;
- Conduct due diligence on supplier management of environmental, social and business ethics issues and integrate sustainability criteria within procurement

processes. Verify compliance with company standards on a regular basis;

- Report regularly on material sustainability issues in line with established reporting framework standards, such as GRI.

Relevant norms, guiding principles & standards:

- ✓ The 10 principles of the United Nations Global Compactⁱⁱ.
- ✓ OECD Guidelines for Multinational Enterprisesⁱⁱⁱ.
- ✓ UN Guiding Principles on Business and Human Rights^{iv};
- ✓ The Voluntary Principles on Security and Human Rights^v
- ✓ The ILO Declaration on Fundamental Principles and Rights at work^{vi}
- ✓ IFC Environmental and Social Performance Standards and Guidance Notes^{vii}
- ✓ IPIECA Vision, Mission and Membership Commitment^{viii}
- ✓ OSPAR Offshore Industry Strategy^{ix}
- ✓ MARPOL^x
- ✓ UNESCO World Heritage Convention^{xi}
- ✓ IUCN Advice note on mining, oil and gas in World Heritage sites^{xii}
- ✓ Wetlands covered by the Ramsar Convention^{xiii}
- ✓ The 12 principles of the Roundtable on Sustainable Biomaterials (RSB)^{xiv}
- ✓ The 7 principles of the World Commission on Dams (WCD)^{xv}
- ✓ Publish What You Pay^{xvi}
- ✓ Extractive Industries Transparency Initiative^{xvii}

Implementation

Sustainability risk assessment is an integral part of Swedbank group's risk assessment within corporate lending, investment and procurement. Sector guidelines set the context for risk assessment. In order to comply with our existing sustainability framework Swedbank shall:

- Ensure understanding of existing and potential clients' and portfolio companies' activities and risks. This means that Swedbank may require relevant documentation such as certificates, impact assessments, procedures and policies in order to understand sustainability governance and performance;
- Evaluate suppliers' sustainability performance and integrate sustainability requirements as a mandatory part of supplier agreements. This means that Swedbank may terminate supplier relationships in the event of non-compliance with our supplier code of conduct;
- Continuously educate relevant Swedbank staff on general and specific Corporate Sustainability trends, issues and opportunities;
- Monitor our portfolios to mitigate ESG risks;
- Collaborate with third-party professional Corporate Sustainability experts and establish dialogue with counterparties on environmental and social matters;
- Manage our portfolios by divesting all companies mining and producing coal to more than 5 per cent of its turnover from our internal funds and equity offerings. All divested companies will also be excluded from new financing and trading;
- Not directly finance coal-fired power production or the establishment of new coal-fired power plants;
- Not directly finance unconventional fossil fuel production such as shale oil/gas, arctic oil/gas or oil sand;
- Not directly finance exploration of new oil or gas fields, although we can finance clients with such activities if the business strategy is aligned with the Paris Agreement;
- Report transparently on sustainability performance.

ⁱ World Resources Institute carbon emissions flowchart.
<http://www.wri.org/publication/world-greenhouse-gas-emissions-2005>

ⁱⁱ The United Nations Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption.
<https://www.unglobalcompact.org/about>

ⁱⁱⁱ OECD Guidelines for Multinational Enterprises.
<http://mneguidelines.oecd.org/text/>

^{iv} The United Nations Guiding Principles on Business and Human Rights (UNGPs) are a global standard for preventing and addressing the risk of adverse impacts on human rights linked to business activity.
http://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf

^v The Voluntary Principles are the only human rights guidelines designed specifically for extractive sector companies. Participants in the Voluntary Principles Initiative — including governments, companies, and NGOs — agree to proactively implement or assist in the implementation of the Voluntary Principles.
<http://www.voluntaryprinciples.org/>

^{vi} The ILO Declaration on Fundamental Principles and Rights at Work were adopted in 1998. The Declaration commits Member States to respect and promote principles and rights in four categories, whether or not they have ratified the relevant Conventions. These categories are: freedom of association and the effective recognition of the right to collective bargaining, the elimination of forced or compulsory labour, the abolition of child labour and the elimination of discrimination in respect of employment and occupation.
<http://www.ilo.org/declaration/lang--en/index.htm>

^{vii} Environmental and Social Performance Standards and Guidance Notes.
http://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/ifc+sustainability/our+approach/risks+management/performance+standards/environmental+and+social+performance+standards+and+guidance+notes#2012

^{viii} International Petroleum Industry Environment and Conservation Association (IPIECA) Vision, Mission and Membership Commitment
<https://www.ipieca.org/membership/>

^{ix} OSPAR Offshore Industry Strategy
<http://www.ospar.org/work-areas/oic>

^x International Convention for the Prevention of Pollution from Ships (MARPOL)
[http://www.imo.org/en/About/Conventions/ListOfConventions/Pages/International-Convention-for-the-Prevention-of-Pollution-from-Ships-\(MARPOL\).aspx](http://www.imo.org/en/About/Conventions/ListOfConventions/Pages/International-Convention-for-the-Prevention-of-Pollution-from-Ships-(MARPOL).aspx)

^{xi} The United Nations Educational, Scientific and Cultural Organization (UNESCO) seeks to encourage the identification, protection and preservation of cultural and natural heritage. The UNESCO World Heritage List includes over 900 properties forming part of the cultural and natural heritage which the World Heritage Committee considers as having outstanding universal value, such as a forest, mountain, lake, desert, monument, building, complex, or city that is considered to be of outstanding importance to the common heritage of humanity.
<http://whc.unesco.org/en/list>

^{xii} IUCN Advice note on mining, oil and gas in World Heritage sites. IUCN's position is that mineral and oil & gas exploration and exploitation (including associated infrastructure and activities) is incompatible with the Outstanding Universal Value of World Heritage Sites and should not be permitted within these sites. If it is outside the boundaries of World Heritage sites, it should not, under any circumstances, have negative impacts on their Outstanding Universal Value.
https://www.iucn.org/about/work/programmes/wcpa_world_heritage/policies/mining_oil_gas/

^{xiii} Ramsar Convention.
<http://www.ramsar.org/>

^{xiv} Roundtable on Sustainable Biomaterials (RSB).
<http://rsb.org/>

^{xv} The 7 principles of the World Commission on Dams (WCD).
[The report of the World Commission on dams \(pdf\)](http://www.wcd.org/2000/01/01/7-principles-of-the-world-commission-on-dams/)

^{xvi} Publish What You Pay.
<http://www.publishwhatyoupay.org/>

^{xvii} Extractive Industries Transparency Initiative.
<https://eiti.org/>