fastFT Norway

Norway's $1tn wealth fund set to cut oil and gas stocks

Big groups reprieved as government recommends divestment from upstream producers

There have been increasing fears in Norway over the impact of a sustained drop in energy prices © Bloomberg

Richard Milne in Oslo and David Sheppard in London YESTERDAY

Norway's $1tn sovereign wealth fund is set to sell out of a host of oil and gas companies but stop short of abandoning the biggest energy majors such as BP and ExxonMobil as it prepares for one of the largest divestments of fossil fuel assets.

The Norwegian oil fund, which is the world's largest sovereign investor, would dispose of about $7.5bn of oil and gas companies that are focused purely on exploration and production under the proposal from the centre-right government in Oslo.

The move is designed to reduce the dependence of Norway — western Europe's biggest petroleum producer — on an industry that is facing growing questions about its long-term future. Global oil demand is forecast by many experts to peak by the 2030s while climate targets are speeding up efforts to reduce dependence on fossil fuels.

"How can we reduce our vulnerability? Because we are heavily exposed in Norway to oil and gas companies," Siv Jensen, Norway's finance minister, said.

The oil fund owns about $37bn of oil and gas shares in its $623bn equities portfolio and there have been increasing fears in Norway over the impact of a sustained fall in energy prices.

Ms Jensen said Norway had singled out dedicated upstream companies — which focus only on exploration and production, rather than integrated companies such as Royal Dutch Shell and Chevron — as that reflected the main activity on the Norwegian continental shelf.

But the decision — which affects companies such as Chesapeake, Cairn Energy and Tullow Oil — will nevertheless send shockwaves through an industry battling to improve its green credentials under pressure from investors.

Ms Jensen said the largest oil and gas majors were given a reprieve because Norway believed such groups were "in all likelihood" the ones that would make the main investments in renewable energy in the future.

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Norway's move, which is still subject to parliamentary approval, is likely to be seized upon by environmentalists as an example for other big global investors, increasing the pressure on the largest companies to do more to transform their businesses to cope with the so-called energy transition towards less polluting fuels.

"This partial divestment from oil and gas is welcome, but not enough to mitigate Norway's exposure to both global oil and gas prices and the wider financial ramifications of climate change. However, it does send a clear signal that companies betting on the expansion of their oil and gas businesses present an unacceptable risk, not only to the climate but also to investors," said Charlie Kronick, oil campaigner at Greenpeace UK.

The Norwegian oil fund, which is already barred from investing in large coal producers or consumers, initially sparked the debate and jolted markets when it recommended 18 months ago that it divest from oil and gas for purely financial reasons, rather than environmental ones. It argued that Norway could reduce its sensitivity to the oil price without hurting returns.

Share prices in oil companies fell following the announcement on Friday morning in Oslo, with UK-based Tullow Oil down almost 3 per cent.

Norway has faced cries of hypocrisy over its attempts to balance being one of the world's largest petroleum producers and an environmentally engaged country, pushing the likes of Indonesia and Brazil to protect their rainforests as well as becoming the leading nation for electric cars.

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