The National Pension Service must show clear signs to exit coal

- **South Korean civil society's joint statement on NPS coal-exit strategy**
- **NPS' coal-exit policy needs robust standards to avoid greenwashing**

On April 29, the National Pension Service (NPS) will report its coal-exit strategy and related standards to the National Pension Fund Management Committee. From May, the operation plan for each stage by asset type, regional, implementation period and methods etc., will be discussed.

Civil society has been given no information on what kind of policy or standards the NPS will present to the Management Committee. This is because, from the beginning of this process, the NPS has failed to reflect the voices of those that have long been speaking up about the climate crisis, climate finance, and the need to phase out coal. However, the public forum on March 17 provided a general sense of direction about its coal phase-out plan. We are concerned that the presented options for its policies and standards may lead to a combination that is nothing but "greenwashing."

The NPS is a massive institutional investor that represents the South Korean financial market and makes up a whole seven percent of the country's stock market capitalization. With both domestic and global financial institutions paying attention, the NPS must give a clear and concrete signal to move away from coal. Moreover, the NPS moves in lockstep with the national economy, as it is responsible for the South Korean citizens' retirement savings. Without a substantive coal-exit policy, the fund will face financial risk from coal investments that will threaten the stability of fund management.

The first step to establishing an effective coal-exit policy is to properly define a coal company and coal industry. We urge that coal companies be defined as those that derive 30 percent or less of their revenue from coal (share of coal in power production for a power generator). The NPS has suggested two options – 30 percent or 50 percent – which both fall behind global standards, such as the widely used Global Coal Exit List that uses 20 percent as the benchmark. To become a tangible policy, the NPS must at least adopt the 30 percent standard and gradually strengthen its policy.

The NPS must also expand the scope of the coal industry to the entire value chain. With fewer coal power plants being built, a critical issue with South Korean financial institutions' coal phase-out policies is that they are limited to coal generation. We urge the NPS to set an example by implementing a policy that encompasses the entire coal-related industry.

Even with well-defined quantitative criteria, the NPS' coal-exit policy can lead to greenwashing if it includes lax qualitative standards and dishes out "conditional approvals." To prevent such greenwashing, it is important to set strict guidelines that assess whether a company's emission reduction or energy transition plan aligns with the Paris Agreement, which aims to cap the global temperature increase at 1.5°C above pre-industrial levels. This means that the NPS must strictly limit its green bonds to only coal companies with businesses categorized under the 'green' sector, as defined in the K-Taxonomy, not the 'transitional' sector. Moreover, it must immediately stop all forms of financing toward overseas coal assets, including stocks and bonds.

The NPS must actively carry out the role of a fiduciary along with the aforementioned coal-exit policy. As a public pension fund, it needs to push companies toward better climate action through shareholder engagement. Specifically, the NPS must demand coal-exit policies from companies via focused management and intervention with coal companies, and publicly disclose the process. In addition, the fund must monitor and assess the efforts of coal companies, and respond via measures, such as adjusting the shares of investment. Moreover, it must establish a net-zero roadmap for its asset portfolios, and actively respond to the climate crisis by 2030.

The NPS has largely remained a bystander in responding to the climate crisis. This contradicts what other major pension funds, such as the Dutch APG and the Norwegian KLP, are doing. Now is the time for the NPS to step up as a rule-maker, by presenting a concrete coal-exit policy to both the domestic and overseas markets. We urge that the NPS, as the largest public investor and fiduciary, properly manages the financial risk from investing in coal and lead the way in mitigating risks from climate change.

Our requests for the NPS:

1. To take ambitious climate actions to align with the Paris Agreement's 1.5-degree target.

2. To expand the definition of a coal industry to the entire value chain.

3. To define coal companies as those that derive 30 percent or less of their revenue from coal and exclude them from investment.

4. To establish strict standards regarding the conditional financing approval of companies with energy transition plans to avoid greenwashing.

5. To limit green bond investment to only projects categorized under the green sector, as defined in the K-taxonomy.

6. To take an active role as a fiduciary for coal companies and enhance transparency.

7. To immediately and fully exclude investment in overseas coal assets.

8. To establish a carbon neutrality roadmap targeting 2040 or earlier based on climate science and put in maximum effort to fight the climate crisis by 2030.

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Solutions for Our Climate, Green Korea, Plan 1.5, Korea Sustainability Investing Forum, Korea Federation for Environmental Movements