

# Vote Bulletin: BHP Group Plc/Limited

Company	<b>BHP Group Plc/Limited (LSE: BHP; ASX: BHP)</b>
Market and Sector	Dual-listed in the United Kingdom and Australia; Materials
Meeting Date	BHP Group Plc: 14 October 2021 and BHP Group Limited: 11 November 2021
Key Resolutions <sup>1</sup>	<p><b>Item 20:</b> Approval of the Climate Transition Plan</p> <p><b>Item 21:</b> Amendment to the Constitution of BHP Group Limited</p> <p><b>Item 22:</b> Climate-related lobbying</p> <p><b>Item 23:</b> Capital protection</p>
Key Topics	Climate and natural capital; political activities and lobbying
Board Recommendation	The board recommended voting FOR items 20 and 22 and AGAINST items 21 and 23
<b>BlackRock Vote</b>	BlackRock voted FOR items 20 and 22 and AGAINST items 21 and 23

## Overview

BHP Group Plc/Limited (BHP) engages in the exploration, development, production, and processing of iron ore, metallurgical coal, copper, oil, and natural gas. BHP is headquartered in Melbourne, Australia, and operates under a dual-listed company structure with two parent companies (BHP Group Limited and BHP Group Plc), but functions as a single economic entity.

BlackRock Investment Stewardship (BIS) has engaged with BHP for many years to discuss a range of corporate governance and sustainability risks and opportunities that we believe can help drive long-term shareholder value. BHP is one of the 1,000+ companies included in our [climate focus universe](#). As detailed in our [BIS global engagement summary](#), during our five engagements with the company over 2021, we have discussed corporate governance issues and also focused our engagements on environmental-related risks, including climate risk management. During these engagements, we have sought to further our understanding of BHP’s approach to climate risk and its plans to align its business model to a net zero by 2050 scenario.<sup>2</sup>

## Rationale for BlackRock’s Vote

### Item 20: Approval of the Climate Transition Plan

**BIS voted FOR the management-supported “say on climate” resolution given that the company’s Climate Transition Action Plan aligns with our recommendation that carbon-intensive companies, such as BHP, disclose Scope 1, 2, and 3 greenhouse gas (GHG) emissions and accompanying reduction targets consistent**

<sup>1</sup> BHP Group Plc/Limited. “[Notice of Meeting 2021](#).” September 14, 2021.

<sup>2</sup> The most recent [BIS global engagement summary report](#) discloses our global company engagement activity from January 1, 2021 to September 30, 2021.

**with the anticipated multi-decade energy transition. In our view, the enhanced targets will further help investors, and other stakeholders, better assess BHP’s progress against its overall strategy to decarbonize its business model by 2050.**

BHP is the first company in Australia, and among the first in the UK, to offer shareholders an advisory vote on its Climate Transition Action Plan (also known as “say on climate”).<sup>3</sup> The plan – which is aligned with Climate Action 100’s Net Zero Company Benchmark – outlines the actions BHP will take to transition its business model as the global economy decarbonizes.<sup>4,5</sup> Upon closely analyzing the plan, we recognize and are supportive of BHP’s efforts to help investors, and other stakeholders, better understand and assess the company’s progress against its climate goals and targets.

In particular, we view the company’s enhanced Scope 1 and 2 short-, medium-, and long-term commitments, as well as its expanded position on Scope 3 emissions and GHG reduction targets that build on previously announced goals by 2030, as positive developments within the company’s overall strategy to decarbonize its business model by 2050.<sup>6</sup> In the plan, BHP also provides a thorough explanation of their climate transition journey, which relies on a progressive increase of the company’s exposure to iron ore and future facing commodities such as copper, nickel, and potash. In response to stakeholder feedback, the plan also outlines the company’s Capital Allocation Framework to demonstrate how BHP plans to allocate sufficient capital to meet its emissions reduction targets and align with a 1.5-degree Celsius world.<sup>7</sup>

In addition, the plan explains how the company has built a governance structure to formalize the board’s oversight role of climate-related risk management. This structure includes a dedicated Sustainability Committee to “assist the Board in overseeing BHP’s climate change performance and governance responsibilities” and where the “Risk and Audit Committee assists the Board with the oversight of climate-related risk management, although the Board retains overall accountability for BHP’s risk profile.”<sup>8</sup> Lastly, the company has committed to submit the plan to an advisory vote every three years which, in our view, is an appropriate timeframe to demonstrate progress and to modify and further enhance the plan as necessary.

BIS believes that companies that critically evaluate their current baseline, set rigorous GHG emissions reduction targets, and act on an accelerated timeline are those most likely to avoid operational and strategic disruptions in the future. As described in our commentary [Climate risk and the transition to a low-carbon economy](#), companies should have clear policies and action plans – including short-, medium-, and long-term targets – that allow shareholders and other stakeholders to understand how they are managing risks and planning to realize opportunities presented by the global energy transition. We encourage companies to disclose Scope 1 and 2 emissions and accompanying GHG reduction targets. Companies in carbon-intensive industries, such as BHP, should also work towards disclosing Scope 3 emissions.

We will continue to engage with BHP to monitor progress against the plan and to obtain regular updates on the company’s expanded position on Scope 3 GHG emissions by 2050, including: 1) measures to partner with customers and other industry players in the development of technologies and pathways to further reduce Scope

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<sup>3</sup> BHP Group Plc/Limited. “[BHP Climate Transition Action Plan 2021](#).”

<sup>4</sup> The Climate Action 100+ (CA100+) [Net Zero Company Benchmark](#) evaluates CA100+ focus companies’ progress in the transition to the net zero future. BlackRock joined CA100+ in January 2020. BIS already engages independently with most companies in CA100+’s focus universe, but in support of our membership we seek to contribute to this initiative’s efforts to further encourage those companies in which our clients are invested in to demonstrate how climate risk is integrated into their long-term strategies, and how they are taking advantage of the opportunities created by the global energy transition.

<sup>5</sup> BHP Group Plc/Limited. “[BHP Climate Transition Action Plan 2021](#).” Page 5.

<sup>6</sup> BHP’s operational GHG emissions (Scope 1 and 2 from its operated assets) commitments include: 1) a short-term target to maintain operational GHG emissions at or below FY2017 levels by FY2022; 2) a medium-term target to reduce operational GHG emissions by at least 30 per cent from FY2020 levels by FY2030; and 3) a long-term goal to achieve net zero operational GHG emissions by 2050. BHP’s value chain GHG emissions (Scope 3) goals for 2050 build on previously announced goals and include 1) targeting net zero by 2050 for the operational GHG emissions of BHP’s direct suppliers, subject to the widespread availability of carbon neutral goods and services to meet the company’s requirements; and 2) targeting net zero by 2050 for GHG emissions from all shipping of BHP’s products, subject to the widespread availability of carbon neutral solutions including low/zero-emission technology on board suitable ships and low/zero-emission marine fuels.

<sup>7</sup> BHP Group Plc/Limited. “[BHP Climate Transition Action Plan 2021](#).” Page 19.

<sup>8</sup> BHP Group Plc/Limited. “[BHP Climate Transition Action Plan 2021](#).” Page 22.

3 emissions tied to steelmaking and other downstream processes; and 2) BHP's carbon neutral production journey on future facing commodities such as copper, nickel, and potash.<sup>9</sup>

### **Item 21: Amendment to the Constitution of BHP Group Limited**

**BIS voted AGAINST the resolution to amend BHP's constitution. The full resolution reads as follows:<sup>10</sup>**

*"To amend the constitution to insert a new clause 46:*

*Member resolutions at general meeting*

*The shareholders in general meeting may by ordinary resolution express an opinion, ask for information, or make a request, about the way in which a power of the company partially or exclusively vested in the directors has been or should be exercised. However, such a resolution must relate to an issue of material relevance to the company or the company's business as identified by the company, and cannot either advocate action which would violate any law or relate to any personal claim or grievance. Such a resolution is advisory only and does not bind the directors or the company."*

As required under the Australia Corporations Act 2001, a resolution calling for an amendment to the company's constitution is first necessary to allow for the subsequent ordinary resolution (in this case items 22 and 23 for BHP Group Limited). A group of shareholders owning 5% of voting shares or 100 shareholders (with no minimum holding size or length of holding period) may file a resolution. BIS is generally not supportive of constitutional amendment resolutions. Our concern is that the relative ease of filing introduces the risk of potentially distracting and time-consuming resolutions being submitted by shareholders whose interests are not necessarily aligned with those of the broader shareholder base.

### **Item 22: Climate-related lobbying**

**BIS voted FOR the resolution given it is directionally aligned with BHP's current approach to industry associations and climate risk management. The full resolution reads as follows:<sup>11</sup>**

*"Shareholders request that our company strengthen its review of industry associations to ensure that it identifies areas of inconsistency with the Paris Agreement. Where an industry association's record of advocacy is, on balance, inconsistent with the Paris Agreement's goals, shareholders recommend that our company suspend membership, for a period deemed suitable by the Board. Nothing in this resolution should be read as limiting the Board's discretion to take decisions in the best interests of our company."*

As described in our [2020](#) and [2019](#) BHP Vote Bulletins, BIS continues to view BHP as a leader among its peers regarding the transparent management of industry association memberships and the alignment of their policy positions with the company's commitments to climate risk.

Since 2017, BHP has conducted regular and comprehensive reviews of industry association memberships "to identify any material differences between BHP and its association memberships on climate policy."<sup>12</sup> The 2019 industry association review is the company's latest publicly available review and the company recently announced it would be "conducting its next full industry association review in 2022."<sup>13,14</sup> The company committed to inform its review "by an assessment of the recent industry association reviews published by peer companies, and engagement with investors and other stakeholders on best practice."<sup>15</sup> We welcome this announcement and encourage BHP to continue incorporating shareholder feedback to enhance its approach to industry associations.

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<sup>9</sup> BHP Group Plc/Limited. "[BHP Climate Transition Action Plan 2021](#)." Page 8.

<sup>10</sup> BHP Group Plc/Limited. "[Notice of Meeting 2021](#)." September 14, 2021.

<sup>11</sup> BHP Group Plc/Limited. "[Notice of Meeting 2021](#)." September 14, 2021.

<sup>12</sup> BHP Group Plc/Limited. "[Industry associations](#)." See "Changes to our approach" section.

<sup>13</sup> BHP Group Plc/Limited. "[Industry associations](#)" and "[BHP 2019 Industry Association Review](#)."

<sup>14</sup> BHP Group Plc/Limited. "[Notice of Meeting 2021](#)." September 14, 2021. Page 26.

<sup>15</sup> BHP Group Plc/Limited. "[Notice of Meeting 2021](#)." September 14, 2021. Page 26.

### **Item 23: Capital protection**

**BIS voted AGAINST the resolution as it is overly prescriptive and risks unduly constraining management's ability to make basic business decisions. In addition, in its Climate Transition Action plan, BHP already explicitly addresses its capital alignment approach to a 1.5-degree Celsius trajectory by 2050. The full resolution reads as follows:<sup>16</sup>**

*"Shareholders note the company's stated support for the goal of achieving net-zero emissions globally by 2050, along with the publication of the International Energy Agency's Net Zero Emissions by 2050 Scenario, and the Climate Action 100+ company assessment. Shareholders therefore request the company disclose, in subsequent annual reporting, the following information pertaining to its thermal coal, metallurgical coal, oil and gas assets:*

- Details of how the company's capital allocation to thermal coal, metallurgical coal, oil and gas assets will align with a scenario in which global energy emissions reach net-zero by 2050, facilitating the efficient managing down of these assets;*
- Production guidance for the lifetime of thermal coal, metallurgical coal, oil and gas assets;*
- Plans and capital expenditure expectations for decommissioning and rehabilitating sites at the end of asset life;*
- Plans for how employees of the company will be informed of asset closures, and employee transition plans, including any compensation for job losses, training and support in seeking future employment; and*
- Details of how remaining value in the company's thermal coal, metallurgical coal, oil and gas assets will be redeployed or returned to investors."*

In general, BIS does not support shareholder proposals that we believe to be overly prescriptive and as such, would risk unduly constraining management's ability to make business decisions, as is the case with this resolution.

In addition, and as addressed under item 20, the company's Climate Transition Action Plan considers specific actions the company will take to align its capital allocation decisions to a world in which global warming is limited to 1.5-degree Celsius above pre-industrial levels. Moreover, the company has explicitly committed to "systematically integrate one or more Paris-aligned scenarios (including 1.5-degree Celsius scenarios) into its strategy and capital prioritisation processes beginning in FY2022."<sup>17</sup> The company maintains that this scenario-based analysis will enhance its current approach, in which 1.5-degree Celsius scenario is used to inform and test strategic portfolio decisions. We welcome this enhancement and will continue engaging with the company to monitor and measure progress against its Climate Transition Action Plan and Paris-aligned scenarios.

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<sup>16</sup> BHP Group Plc/Limited. "[Notice of Meeting 2021](#)." September 14, 2021.

<sup>17</sup> BHP Group Plc/Limited. "[Notice of Meeting 2021](#)." September 14, 2021. Page 19.

## About BlackRock Investment Stewardship (BIS)

BlackRock Investment Stewardship (BIS) plays a key role in BlackRock's fiduciary approach. As an essential component of our responsibility to our clients, BIS engages with companies to advocate for the sound corporate governance and business models that drive the sustainable, long-term financial returns that enable our clients to meet their investing goals.

Our approach is from the perspective of long-term, minority shareholders in public companies on behalf of our clients. We look to boards and executive management to serve the interests of long-term shareholders and other stakeholders. Our active and ongoing dialogue with the leaders of these companies gives us a valuable perspective on their long-term strategies, financial performance, and the business challenges they face.

As stewards of our clients' assets we have a responsibility to make sure companies are adequately managing and disclosing environmental, social and governance (ESG) risks and opportunities that can impact their ability to generate long-term financial performance – and to hold them accountable if they are not. Engaging with companies is how BIS builds an understanding of a company's approach to governance and sustainable business operations, how we communicate our views, and how we ensure companies understand our expectations. If a company falls short of our expectations and we have been given the authority to vote the company's shares, we would hold them accountable by voting in the best long-term economic interests of those clients that have given us proxy voting authority. As detailed in our [Global Principles](#), proxy voting involves logistical issues which can affect BlackRock's ability to vote such proxies, as well as the desirability of voting such proxies. As a consequence, BlackRock votes proxies on a "best-efforts" basis.

We are committed to transparency in our stewardship practices. Our vote bulletins provide detailed explanations of key votes relating to a range of business issues including ESG matters that we consider, based on our [Global Principles](#), [market-level voting guidelines](#), and [engagement priorities](#), material to a company's sustainable long-term financial performance. We publish select vote bulletins after the shareholder meeting to provide transparency for clients and other stakeholders into our approach to the votes that we believe require more detailed explanation.

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