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Investors Question Mining Giant Over Thermal Coal Plans

January 10, 2023

Investing

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A group of institutional investors led by the Australian Centre for Corporate Responsibility (ACCR) and the NGO ShareAction has filed a **shareholder resolution** seeking details of the "specific plan" for Glencore PLC, a multinational commodity trading and mining company, "to align thermal coal production with emissions reductions commitments." The resolution requests "[d]isclosure of how the Company's projected thermal coal production aligns with the Paris agreement's objective . . . to limit the global temperature increase to 1.5°C" and also seeks detail regarding capital expenditure on coal mines. More specifically, while in 2021 Glencore had committed to align its fossil fuel portfolio with the goals of the Paris Agreement—and "[t]his commitment was accompanied with a medium-term 50% reduction of total (Scope 1, 2 and 3) emissions by 2035 on 2019 levels"—the investors state that "it is unclear how our Company's planned thermal coal production aligns with the global demand for thermal coal under a 1.5°C scenario." The resolution further observes that according to the company's 2021 Annual Report, "coal accounted for approximately 90% of its total disclosed scope 1, 2 and 3 emissions."

The **group** of institutional investors—which includes Legal & General Investment Management (LGIM), The Ethos Foundation, HSBC Asset Management, and Vision Super—collectively represent $2.2 trillion in assets under management. The group anticipates a **vote** on the filed resolution at Glencore's annual general meeting in May.

Concern over Glencore's coal production led, at last year's annual general meeting, to almost a quarter of shareholders voting against the company's climate action plan. This resulted in a **report** published in October where the company agreed to "enhance disclosures" in its Climate Progress Report to be published in March 2023. Glencore will also provide shareholders with details of its progress and next steps in the full-year presentation in February. The company stated in its October announcement that "shareholders continue to reinforce that climate strategy will remain an important area of focus. There was broad support for our climate strategy, recognizing the importance of maintaining a strategy that remains resilient to the risks and opportunities of the evolving energy transition, and encouragement to continue our focus on progressing towards our ambition of achieving a net zero total emissions footprint by 2050."

Taking The Temperature: The Glencore resolution is a good example of the convergence of enterprise risk and opportunity assessment, and corporate governance, all arising from climate change. Company shareholders were permitted to require Glencore to circulate the resolution in connection with its Annual Meeting under Article 53.3 of Glencore's Articles of Association (AA). Article 53.3 provides the "Company is required to give notice of a resolution once it has received requests to do so from: (a) members representing at least 2.5 per cent. of the total voting rights of all the members who have a right to vote on the resolution at the Annual General Meeting to which the requests relate (excluding any voting rights attached to any shares in the Company held as treasury shares); or (b) at least 50 members who have a right to vote on the resolution at the Annual General Meeting to which the requests relate and who hold shares in the Company on which there has been paid up an average sum, per member, of at least US$100." That represents a relatively low bar to requiring the company to circulate shareholder resolutions in advance of annual meetings. We have previously observed that other shareholder rights initiatives likewise may result in relatively more climate and other ESG-related resolutions being submitted for a shareholder vote. Blackrock and Vanguard, for instance, have rolled out "pass through" voting programs that provide investors with greater say over how their shares are voted, with one potential result being that companies are forced to deal with more diverse shareholder constituencies interested in ESG issues.

At the same time, the Glencore resolution highlights that shareholders, unsurprisingly, remain concerned about the potential impact of climate change on enterprise value. While acknowledging the risks to Glencore associated with climate change, the resolution also observes the potential opportunities arising from a transition to a green economy: "Our Company is well positioned to benefit in the new energy economy. It possesses significant potential to increase strategic focus on boosting transition metal production to aid renewable energy development. In contrast, thermal coal production faces declining demand and is misaligned with efforts to stabilize global temperature rise to 1.5°C. There is potential to enhance the Company's valuation by aligning coal production to a 1.5°C pathway and accelerating investment in transition minerals. Our Company will benefit from actively embracing the climate change challenge. By allocating capital to thermal coal expansion, Glencore is exacerbating its Scope 1 and 3 emissions impacts. We believe more value will be created for shareholders by allocating fossil fuel capex to the energy transition instead."