

Vanguard Investment Stewardship Insights

Voting insights: Climate-related proposal at BP

Vanguard publishes Investment Stewardship Insights to promote good governance practices and to provide investors and public companies with our perspectives on important governance topics and issues that come up for shareholder votes.



May 2021

Company: BP Plc

Meeting date: 12 May 2021

Proposal: Item 13 - Approve Shareholder Resolution on Climate Change Targets



How the funds voted

At the annual meeting for BP Plc, the UK-based energy company, the Vanguard funds voted against a binding shareholder resolution that requested the company's board adopt emission-reduction targets aligned with the goals of the Paris Agreement on climate change and publish annually a report on any progress made toward those goals.

Vanguard's principles and policies

Boards are responsible for overseeing a company's long-term strategy and any material risks. As part of our Investment Stewardship team's activities, we regularly assess how well a board of directors oversees the company's strategy and the board's own role in identifying, mitigating and disclosing material risks that may affect long-term shareholder value. Climate change is one such material risk to our investors' portfolios.

We look for companies to exhibit three key elements of sound climate change risk management:

- A climate-competent board that can foster healthy debate on climate topics, challenge management assumptions and make thoughtful and informed decisions regarding these risks.
- Robust risk-oversight and mitigation measures, including setting targets aligned with the Paris Agreement and integrating climate-risk considerations into strategic business planning and capital allocation decisions.

- Effective and comprehensive disclosures, both qualitative and quantitative, to show progress over time, preferably written in accordance with the Task Force on Climate-related Financial Disclosures (TCFD) frameworks.

Our previous *Insights* provide more details on our views on climate-competent boards, risk oversight and mitigation of climate risks and key considerations for effective disclosure, as well as on how Vanguard evaluates climate-related shareholder proposals.

Engagement and voting history

As one of the world's largest energy companies, BP faces an elevated level of material climate-related risks and has long been subject to scrutiny from activist investors on its strategic response to climate change.

At BP's 2019 annual meeting, a group of institutional investors submitted a binding proposal that requested BP's board enhance its corporate reporting to outline how its climate strategy was consistent with the goals of the Paris Agreement. The proposal was supported by an overwhelming majority of shareholders, including the Vanguard funds, and it also drew the backing of BP's board. Since then, BP has made progress on its TCFD-aligned disclosures and has provided better visibility to investors into its approach.

In 2020, an activist investor group submitted and then withdrew a climate-related resolution after BP committed to working with the group on refining the company's net-zero strategy and emission-reduction targets. However, the two parties were ultimately unable to agree on a common approach.

BP has since announced a new 10-point strategy to become a net-zero company by 2050 or sooner. The activist group considered the strategy's aims insufficient and filed a resolution

asking the company to set and publish quantitative targets covering short-, medium- and long-term emissions (Scope 1, 2 and 3) that would lead to absolute emissions reductions consistent with the Paris Agreement. The shareholder proposal reflected a reasonable challenge to the BP plan and was worthy of consideration.

Analysis and vote rationale

Our analysis of the climate-related proposal included multiple engagements with members of the BP board and engagement with the activist investor group.

The group expressed a view that BP's 10-point strategy represented a long-term ambition rather than a specific commitment and that BP's current targets and capital allocation would be inadequate to deliver the carbon-emission reductions necessary to achieve the Paris Agreement's goals in this decade. The group argued that the company needed a clear signal from shareholders to take stronger action.

Our discussions with BP covered its governance and risk oversight and the strategic road map to achieve net-zero emissions by 2050. We sought clarification on the assumptions used in the strategy's scenario analysis and questioned the metrics and targets that the company used in considering the strategy as consistent with the Paris goals. We challenged leaders about the pace of plans to deliver meaningful emission reductions over the next decade.

Company leaders signalled their intention to increase targets over time as they deliver on the strategy and as technologies mature. They stressed the need to consider this new strategy in its entirety and cautioned about the challenges of changing certain elements of the strategy at a time when the organisation wanted to focus on execution rather than going back to the drawing board. Finally, they were concerned about the legal implications of an additional binding resolution while BP was already under the special resolution of the 2019 annual meeting.

We are conscious of the rapidly evolving policy environment in which oil and gas companies operate and the evolving market sentiment regarding the heightening risk of stranded assets. At the same time, we acknowledge that the business transformation of one of the world's largest energy providers entails significant challenges.

BP's management team has taken positive steps, including a goal of cutting upstream oil and gas production by 40% by 2030 compared with 2019 levels and increasing investments in low-carbon technologies tenfold, to USD 5 billion a year by 2030. BP is also complying with the binding 2019 climate proposal by providing extensive reporting on its strategy.

Our analysis concluded that BP had taken considerable steps to evolve its governance, oversight and disclosure relating to climate change and that significant work had been done to establish a comprehensive climate strategy. Although we did not conclude that the current climate ballot proposal was the best way to move forward at this time, we recognised that the climate strategy would need to evolve further and that the spirit of the challenge from the shareholder proposal was well-directed. The Vanguard funds voted against the shareholder proposal.

The proposal received 20.65% of votes in support, well below the 75% required to pass but a clear indication that many shareholders would like BP to do more. The level of support triggers a requirement in the UK market for BP to further engage with shareholders to discuss their concerns.

In our engagements, we have encouraged BP's leaders to continue to be ambitious as they pursue opportunities to increase emission-reduction targets. We will continue to engage with them on this topic in the coming months and year, conveying our support for an acceleration of the strategy, and we will closely monitor the company's progress.