Vanguard Investment Stewardship Insights

Voting Insights: Climate-related proposals at Woodside Petroleum

April 2021

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

Company: Woodside Petroleum Ltd.

Meeting date: 15 April 2021

Proposals: Item 5b-6 (shareholder proposals) – Capital Protection; Annual Vote on Adoption of Climate Report (Withdrawn Resolution)

Constructive engagement, votes cast/not cast

Before the annual meeting at Woodside Petroleum Ltd., Australia's largest oil and gas producer, we had a constructive engagement with company leaders about a "say on climate" proposal that would allow investors to cast an annual vote on a climate report. After listening to shareholder feedback, the board announced it would comply with the proposal's asks and the proponent withdrew the proposal. We viewed this as a positive outcome for long-term shareholders.

The Vanguard funds voted against a "capital protection" shareholder proposal that asked the company to disclose details of how it would wind down its oil and gas operations and assets in a timeframe consistent with the Paris Agreement 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 just such a 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 framework of the Task Force on Climate-related Financial Disclosures.

Our previous Insights on this topic provides more details on our views for climate-competent boards, risk oversight and mitigation of climate issues, and key considerations for effective disclosure.

Engagement and voting history/record

Over the last several years, environmental activist groups in Australia have focused on getting the country's largest energy companies to develop and disclose plans for decreasing emissions. During that time, Woodside and its peers have received similar climate-related shareholder proposals. Our previous engagements with Woodside's board have covered that topic and others.

In 2020, the Vanguard funds voted against a proposal that asked the company to adopt targets to reduce its greenhouse gas emissions in line with Paris Agreement goals. At the time, we were encouraged by details that board members provided us on the progress the company had made on climate initiatives and its improving disclosures.

However, when speaking to board members we shared our view that the proponent's requests were reasonable and we encouraged the company to make further progress.

Later that year, we were pleased to see the adoption of a new, more ambitious climate strategy, including a net zero emissions aspiration by 2050, as well as a goal of a 15% emissions reduction by 2025 and an additional 30% reduction by 2030 compared with 2016–20 levels, for its own operational emissions.

Analysis and vote rationale

Before the 2021 annual meeting, we engaged with board members and discussed climate risk management and the climate-related proposals.

We sought to understand the company's perspective on the "say on climate" proposal. These proposals are an emerging trend in various markets and sectors. We recognized the sensitivity of the topic for local and global stakeholders and the potential material risk to the company's reputation among investors, regulators, customers, employees, and in the communities where it operates.

The day before our engagement, the company announced it would adopt an advisory vote on its climate report at the 2022 meeting. Consequently, the proponent withdrew the resolution. We were pleased to see that the company was receptive to feedback from shareholders and proactively adopting the vote.

Given Woodside's strategic vision and the recurring activism from certain groups, we encouraged company leaders to view this vote as an annual accountability mechanism on this key material risk and as an additional tool for shareholders beyond engagement, thus increasing shareholders' rights and supporting alignment of interests.

Our discussion with company leaders covered several other topics, including the company's roadmap to net zero emissions by 2050, Scope 3 emissions-reduction targets, carbon pricing and scenario analysis, and the role of carbon offsets and hydrogen in the strategy.

Given the company's strategy over the next decade, we also used our discussion on climate to touch on the succession plans for the retiring CEO, as well as the role of company culture and executive remuneration in driving the company's transformation.

Finally, we discussed the capital protection proposal, which requested that the board develop a plan to phase out its oil and gas operations. We expect portfolio companies, especially those in the energy sector, to think through and develop responsible transition plans for certain assets. However, we believe boards and management are responsible for setting and deciding how to deliver that strategy, not shareholders. The Vanguard funds therefore voted against this proposal.

We encouraged progress on all fronts, and in particular we asked for more robust and detailed disclosure on how the company's capital expenditure is aligned with the goals of the Paris Agreement, because of our concerns about stranded-assets risks in the context of the company's growth plans.

What Vanguard expects from companies on this matter

As mentioned above, we expect boards to have appropriate competencies to oversee climate-related risks; we expect companies to adopt robust risk management and mitigation practices, including emission-reduction targets; and we expect companies to provide effective and comprehensive disclosures to the market on their climate-related strategies.

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