



The significance of say-on-climate resolutions

Part 3 - An Asia Pacific overview



Preface

The Asia Pacific (APAC) region, hosting the world's largest population and two of the top carbon-dioxide-producing economies (China and India), faces the greatest challenge in addressing the impact of climate change. Against this backdrop, there has been an increase in the number of countries in the region that have committed to aligning with the Paris Agreement through Nationally Determined Contributions (NDCs). The implementation of these NDCs requires remarkable efforts from both regional corporates and local multinational corporations.

To better monitor corporate progress towards climate change adaption and mitigation, how have the institutional shareholders been exercising their shareholder rights? What were the say-on-climate votes presented at annual general meetings (AGMs) in the APAC region in 2021?

Say-on-climate resolutions in the Asia Pacific

Unlike the bustling scene in Europe, we observed that only companies in Australia and Japan faced shareholder proposals to address climate change in this year's AGMs as of 30 June 2021. To be rigorous and aligned with the definition of a "widely recognized say-on-climate proposal," which provides shareholders with non-binding advisory votes on a company's climate action plan and its performance against the plan, some of the below proposals may not have been classified as strictly say-on-climate. Nevertheless, as we intend to analyze the general trend of corporate and shareholder ambition to fight climate change, we have taken relevant proposals into account.

Table 1: List of Climate Change Proposals in APAC (as of 30 June 2021)

Issuer	Country	Sector	Resolution Text	Proponent	% For	% Against
Oil Search	Australia	Energy	Request to Disclose Paris-Aligned Capital Expenditure and Operations	Shareholder (Market Forces, affiliated with Friends of the Earth)	9.6%	90.4%
			Approve the Amendments to the Company's Constitution to Insert New Clause in Relation to the Annual Vote on Adoption of Climate Report	Shareholder (The Australasian Centre for Corporate Responsibility (ACCR))	Withdrawn	Withdrawn
Rio Tinto Ltd.	Australia	Materials	Approve Paris-Aligned Greenhouse Gas (GHG) Emissions Reduction Targets	Shareholder (Market Forces)	99%	1%
			Approve Climate-Related Lobbying	Shareholder (ACCR)	99%	1%
			Approve the Amendments to the Company's Constitution to Insert New Clause in Relation to the Annual Vote on Adoption of Climate Report	Shareholder (ACCR)	Withdrawn	Withdrawn
Santos Ltd.	Australia	Energy	Request to Disclose Paris-Aligned Capital Expenditure and Operations	Shareholder (Market Forces)	13.28%	86.37%
			Approve the Amendments to the Company's Constitution to Insert New Clause in Relation to the Annual Vote on Adoption of Climate Report	Shareholder (ACCR and co-filers)	Withdrawn	Withdrawn
Woodside Petroleum	Australia	Energy	Request to Disclose Paris-Aligned Capital Expenditure and Operations	Shareholder (Market Forces)	N/A ¹	N/A
			Approve the Amendments to the Company's Constitution to Insert New Clause in Relation to the Annual Vote on Adoption of Climate Report	Shareholder (ACCR)	Withdrawn	Withdrawn

¹ This item was not required and was not put to the meeting as it was conditional on item 5(a) being passed.

Chugoku Electric Power Co. Inc.	Japan	Utilities	Amend Articles to Establish Special Committee on Green Projects and Disclose Information on Risks Arising from Climate Change and Biodiversity Crisis	Shareholder (Not Disclosed)	5.3%	94.7%
Kansai Electric Power Co. Inc.	Japan	Utilities	Amend Articles to Add Provisions Concerning Withdrawal from Coal-Fired Power Generation Business	Shareholder (Not Disclosed)	4.8%	95.2%
			Amend Articles to Establish Promotion Committee on Nuclear Phase-Out and Carbon Zero	Shareholder (Not Disclosed)	4.1%	95.9%
			Amend Articles to Promote Decarbonization of Power Generation Business	Shareholder (City of Kyoto)	19.1%	80.9%
Mitsubishi UFJ Financial Group, Inc. (MUFG)	Japan	Financial Services	Amend Articles to Disclose Plan Outlining Company's Business Strategy to Align Investments with Goals of Paris Agreement	Shareholder (Kiko Network and three co-filers from Market Forces, Rainforest Action Network, and 350.org Japan)	22.8%	77.2%
Shikoku Electric Power Co. Inc.	Japan	Utilities	Amend Articles to Reduce Carbon Dioxide Emissions to Half of Fiscal 2020 Levels by 2030 by Leveraging Renewable Energy	Shareholder (Not Disclosed)	3.6%	96.4%
Sumitomo Corp.	Japan	Trading Companies & Distributors	Amend Articles to Disclose Plan Outlining Company's Business Strategy to Align Investments with Goals of Paris Agreement	Shareholder (Market Forces)	20.1%	79.9%
Toyo Seikan	Japan	Consumer Cyclical	Amend Articles to Disclose Plan Outlining Company's Business Strategy Taking into Account Task Force on Climate-related Financial Disclosures (TCFD)	Shareholder (Not Disclosed)	14.4%	85.6%

Source: Proxy Insight, IHS Markit

Key Observations



- **All 10 companies' climate-related proposals were from shareholders this year.** In the APAC region, executive management and corporate boards have been comparatively less proactive in getting shareholders involved in the company's climate risk management than in Europe. This situation is changing in Australia, thanks to a push from investors. Driven by the say-on-climate proposals from ACCR, the three Australian companies Oil Search, Santos, and Woodside Petroleum announced their intentions to provide shareholders with non-binding say-on-climate votes at their 2022 AGMs. These shareholder proposals were withdrawn accordingly at 2021 AGMs.



- **Investors mainly targeted the energy and utilities sectors.** Utilities companies are listed among the largest carbon emitters while energy suppliers heavily impact decarbonization action plans in other industries. Companies in both sectors are urged to take the first steps in leading decarbonization.



- **Only two proposals, both from Rio Tinto, obtained support from management and the two leading proxy advisors, Institutional Shareholder Services (ISS) and Glass Lewis, passing with 99% approval rate.** The unprecedented success of these campaigns could be greatly attributed to readiness for climate change transition at Rio Tinto, partly manifested by it being the first Australian company to announce an intention to adopt say-on-climate at its 2022 AGM.



- **Proposals with more than 20% approval rates shared the objective to request companies to disclose Paris-Agreement-aligned business and investment plans.** This followed the trend of the first climate shareholder proposal filed in Japan at the 2020 Mizuho Financial Group AGM, which received nearly 34% shareholder support. Proposals saw shareholder groups call for companies to make best efforts to disclose plans to avoid and phase out projects and businesses that were not Paris-Agreement-aligned. But the trend for support of this kind is not fully entrenched. Nomura Asset Management, a top shareholder for three Japanese companies, represented split voting decisions when considering whether the content of similar proposals would impose specific restrictions on business execution, based on IHS Markit's proprietary shareholder identification database and Proxy Insight.



- **In Japan, ISS tends to support more progressive climate proposals.** Japan has become the top supporter of TCFD and Japanese companies have made gradual progress in disclosure every year, according to the Ministry of Economy, Trade, and Industry (METI).² While TCFD framework adoption has become common in Japan, shareholder requests of incorporating TCFD-aligned disclosure into company articles are seemingly redundant to ISS. The proxy advisor, on the other hand, supported MUFG and Sumitomo Corp. proposals to disclose Paris-Agreement-aligned business plans this year.

2 https://www.meti.go.jp/english/press/2020/0731_002.html

Regulatory Landscape

Australian companies are not mandated to disclose climate-related information in line with the framework of the TCFD, nor are they required to develop GHG emission reduction targets. Therefore, the emergence of say-on-climate votes could lead a way to pressure companies for improved climate risk management and corresponding disclosures. With active engagement by shareholder groups and strengthened awareness of companies, we expect a significant transformation in climate disclosure in the coming year.

Contrary to many other markets, the only mechanism to file a shareholder proposal in Japan is to call for the amendment of company articles of incorporation under corporate law. That means shareholder proposals would have binding effect and compel the target company to implement the proposed resolution. If wording in the content of a proposal is deemed too vague or broad, a company could argue compliance is difficult to implement. One of the potential factors behind the low approval rating of proposals in Japan (some around only 5%) is that the change required after passing a proposal is rather drastic, imposing higher “cost” for approval.

Why haven't say-on-climate resolutions emerged in the rest of the APAC region?

One may question the reason why shareholders or management did not bring up say-on-climate votes for the biggest emitters.

Existing regulatory requirements of climate change disclosure could be one of the factors. A large number of Chinese companies listed on the Hong Kong Stock Exchange are already required to disclose climate-change information, as new Environmental, Social, and Governance (ESG) reporting requirements that came into effect in July 2020 have incorporated certain important elements of the TCFD recommendations, including GHG reduction targets, significant climate-related issues to business, and corresponding action plans. It is possible that such required disclosure temporarily satisfies investor requests for climate information.

Heightened awareness of climate change may also explain company readiness for say-on-climate votes. To date, 448 Japanese companies and 117 Australian companies have become supporters of TCFD. At press time, 48 Indian companies and 23 Chinese companies have made such commitments.



Conclusion

We expect management to bring up climate proposals in Australia in 2022. These management-supported proposals should be much welcomed by the investor community. With the increased adoption of TCFD recommendations in Japan, we expect shareholder proposals with increasingly ambitious and detailed requests, targeting energy, utilities, and financial services. Even without a dedicated climate-related proposal in some regions, shareholder votes against management proposals and certain board directors deemed responsible could be expected as a mechanism to express opposition to what they consider inadequate climate-related risk management.

In the final part of our series, we will spotlight what to expect in the future of say-on-climate resolutions, shedding light on company preparation for shareholder engagement and meetings regarding climate change.

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