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BHP shareholder proposal: Capital protection

BHP's Climate Transition Plan fails to align the company's strategy and capital expenditure decisions with the Paris climate goals or net-zero emissions by 2050. Instead, BHP plans to merge its oil and gas business with Woodside, leaving shareholders exposed to increasing transitional and physical climate risks, while handing over control of those risks to a company that clearly has no interest in managing them. Meanwhile, BHP's own plans involve billions in capital expenditure on new and expanded fossil fuel production projects, which undermine the company's own climate commitments and claims of leadership.

This resolution gives investors a necessary and timely opportunity to ensure BHP aligns its fossil fuel strategy and capital expenditure plans with its stated support for the goal of achieving net-zero emissions globally by 2050, rather than pursuing and facilitating production plans incompatible with that goal.

Investors are therefore urged to vote in favour of this resolution at the upcoming BHP Group AGM:

Resolution: Capital protection

Shareholders note the company's stated support for the goal of achieving net-zero emissions globally by 2050,[1] along with the publication of the International Energy Agency's Net-Zero Emissions by 2050 Scenario,[2] and the Climate Action 100+ company assessment.[3] 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.

1 https://www.bhp.com/-/media/documents/investors/annual-reports/2020/200910_bhpclimatechangereport2020.pdf 8

2 https://www.iea.org/reports/net-zero-by-2050

3 https://www.climateaction100.org/company/bhp/

Summary

Recognising the unacceptable financial risks global warming poses, investors managing more than US$43 trillion in assets have committed to the goal of net-zero greenhouse gas emissions by 2050 or sooner.

The rapid transition required to meet this goal presents material risks and opportunities for our company. The International Energy Agency's (IEA) seminal Net-Zero Emissions by 2050 Scenario (NZE2050) - modelled to provide a 50% chance of limiting global warming to 1.5°C - highlights these risks, projecting steeply declining fossil fuel demand.

The likelihood of these risks materialising is rapidly increasing, with countries and entities representing more than 50% of global GDP having committed to net-zero by 2050.

BHP has committed to work towards the climate goals of the Paris Agreement and net-zero by 2050. Its own analysis demonstrates that, despite declines in demand for BHP's fossil fuel products, a 1.5°C warming scenario presents by far the most upside, compared to higher warming scenarios (p. 21).

Yet BHP threatens to waste capital on new fossil fuel exploration and production that is antithetical to achieving net-zero by 2050 and limiting warming to 1.5°C. The Climate Action 100+ investor initiative's assessment confirms BHP's capital allocation plans are not aligned with the Paris Agreement's 1.5°C goal. The company's recent Climate Transition Plan still fails to commit to this alignment. BHP's capex plans include up to US$17.5 billion on petroleum growth projects from FY22 to FY30 (p. 35-36).

The proposed merger of BHP's petroleum business with Woodside would leave shareholders exposed to increasing physical and transitional climate change risks via the Woodside shares they would receive in the deal. However, Woodside has demonstrated it has no interest in managing those risks by reducing production in line with global climate goals. Woodside is pursuing even greater oil and gas growth plans than BHP (p. 25-27). The merger, as with BHP's plans to divest its remaining thermal coal and some metallurgical coal assets instead of responsibility managing them down over time, fails to address the reputation risks associated with avoiding responsibility for employee transition and site rehabilitation.

Rather than divesting to parties seeking to irresponsibly extend and expand production, which leaves shareholders exposed to stranded asset risk we cannot control or manage, BHP must manage its fossil fuel assets in line with its support for net-zero by 2050, ensuring reliable returns that can be redeployed on net-zero-aligned opportunities or returned to shareholders.

Investors are therefore urged to vote in favour of this shareholder resolution, and against BHP's Climate Transition Plan.

Support for net-zero by 2050 undermined by strategy

BHP's Position on Climate Change states (p. 3): "The world must pursue the Paris Agreement goals with increased levels of national and global ambition to limit the impacts of climate change" and "We will… support emissions reductions in our value chain, and the economy-wide transitions necessary to meet the Paris Agreement goals". The company goes on to state (p. 8): "We will continue to seek opportunities to collaborate with value chain partners, investors, researchers and governments to work towards net-zero emissions globally by 2050."

However, **BHP's plans to expand and extend fossil fuel production capacity conflict with its stated support for global climate goals**, regardless of whether BHP executes these plans itself or enables others to do so through divestment.

This contradiction raises serious reputation risks for BHP, which has sought to position itself as a leader on climate action. The expansion of the fossil fuel sector also raises both transitional and physical climate-related risks for BHP and its shareholders.

Transition plan inadequate

Without any plans to take responsibility for managing down coal, oil, and gas production, nor a commitment to align capex and strategy with net-zero by 2050 or the Paris climate goals, BHP's Climate Transition Plan falls well short of investors' expectations and the company's claims of climate leadership.

Despite its stated support for the Paris Agreement, BHP has until now only used scenarios consistent with the failure of Paris (2.5°C and 3°C of warming) as inputs to its strategic planning (p. 19). The new Climate Transition Plan states "We intend to systematically integrate one or more Paris-aligned scenarios (including 1.5°C scenarios) into our strategy and capital prioritisation processes beginning in FY2022" (p. 19).

This commitment does not guarantee Paris-aligned strategy and capital decision-making, as Paris-aligned scenario(s) will not necessarily be given any more weight than the 2.5°C and 3°C scenarios the company already relies on.

Scope 3 emissions make up 96% of BHP's total reported emissions (p. 5), with 29% of those (116.2 $MtCO_2e$) coming from the end use of the company's thermal coal, metallurgical coal, oil and gas products in FY21 (p. 13). To cut real world emissions generated by these products at the scale required to align with global climate goals, production must decline.

Yet BHP plans to pursue and facilitate further fossil fuel expansion, including extending the lifetimes of coal mines, sanctioning new and expanded petroleum projects, and divesting assets to companies seeking to further increase production. These plans belie the claims of climate leadership repeated throughout the Climate Transition Plan.

BHP states (p. 20): “Social value is the positive contribution we make to the environment and society. It goes hand in hand with financial value in our decision-making, and we believe this approach is in the long-term best interests of shareholders.” **However, the company's plans regarding coal, oil and gas threaten to destroy its social value by avoiding responsibilities such as real world emission reductions, employee support, and site remediation.**

Transition risks and opportunities

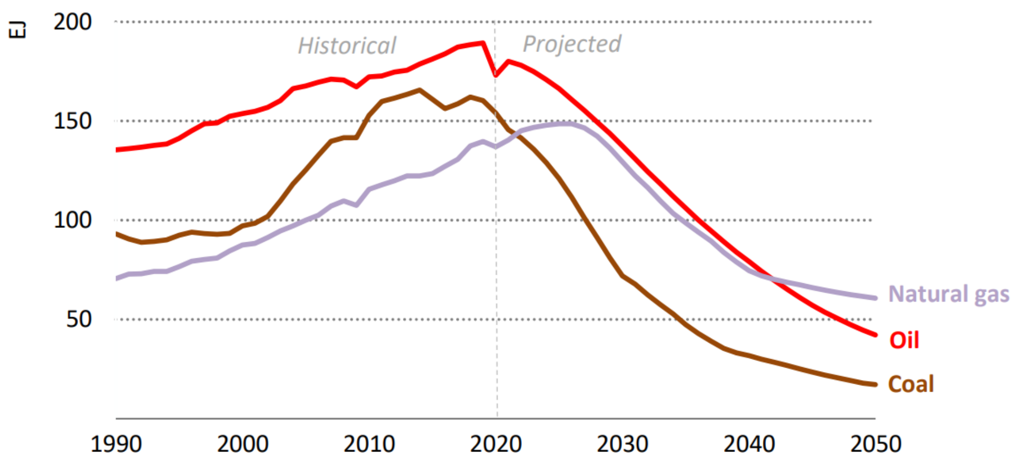
Achieving net-zero emissions by 2050 means the world cannot accommodate any new or expanded coal, gas or oil production projects. The CO_2 emissions embedded in existing and under-construction fossil fuel projects is more than double the IPCC’s 1.5°C carbon budget.

Even the traditionally conservative IEA has recognised this. In its landmark roadmap for the global energy sector to reach net-zero emissions by 2050, the IEA has made it clear that no expansion of fossil fuel production - including thermal coal, metallurgical (or coking) coal, oil and gas - is consistent with this goal.

In the IEA’s NZE2050 scenario (p. 21):

- **“There is no need for investment in new fossil fuel supply in our net zero pathway”**
- **“Beyond projects already committed as of 2021, there are no new oil and gas fields approved for development in our pathway, and no new coal mines or mine extensions are required”**
- **“Unabated coal demand declines by 98% to just less than 1% of total energy use in 2050. Gas demand declines by 55%... and oil declines by 75%”**

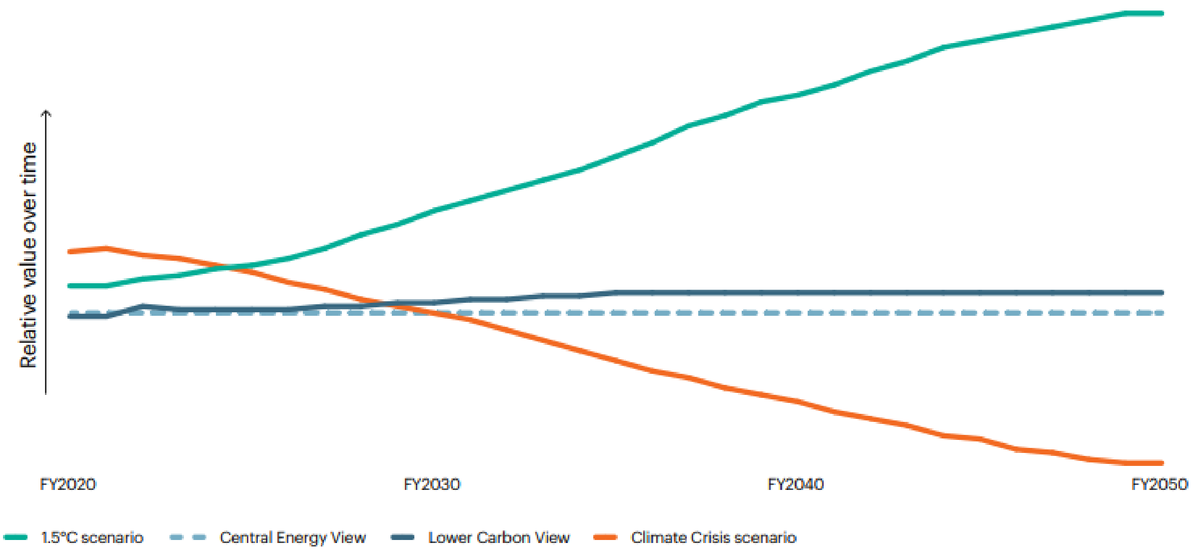
Figure 3.2 ▷ Coal, oil and natural gas production in the NZE



Source: IEA Net Zero by 2050, May 2021, p. 101

Despite the projected falls in coal, oil and gas demand, BHP's own analysis (p. 13-21) demonstrates a 1.5°C warming scenario presents by far the most upside for BHP, compared to 2.5°C, 3°C, and 'Climate Crisis' scenarios.

Figure 8. Rolling present value [1] relative to Central Energy View



(1) Present value of unlevered free cash flows. Data in this chart is based on our current portfolio and does not include any potential future divestments.

Source: BHP 2020 Climate Change Report, p. 21

This analysis shows BHP can make the most of climate change transition opportunities and minimise transition risks by aligning its strategy and capex plans with a 1.5°C scenario, and doing everything within its power to ensure this outcome is achieved.

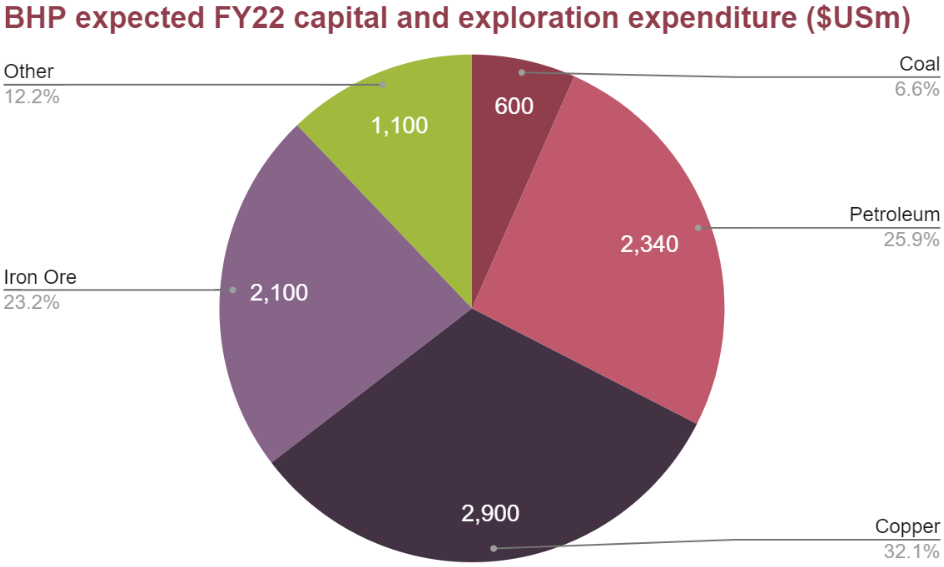
Increasing stranded asset risk

Despite the NZE2050 findings and BHP's own scenario analysis, and in contradiction of the company's support for global climate goals, it plans to waste capital on new fossil fuel exploration and production, antithetical to a net-zero by 2050 outcome.

This is likely due to the fact that our company "uses the [3°C] Central Energy View and [2.5°C] Lower Carbon View as inputs to our planning cases" (p. 19).

BHP has thereby aligned planning and strategy decisions with these higher warming scenarios, in which its asset portfolio would be significantly less valuable, and the global economy fails to meet the Paris Agreement's climate goals.

As discussed above, the commitment to integrate one or more Paris-aligned scenarios into planning does not mean strategy and capex will be aligned with these scenarios, only that they will be considered along with scenarios consistent with the failure of Paris.

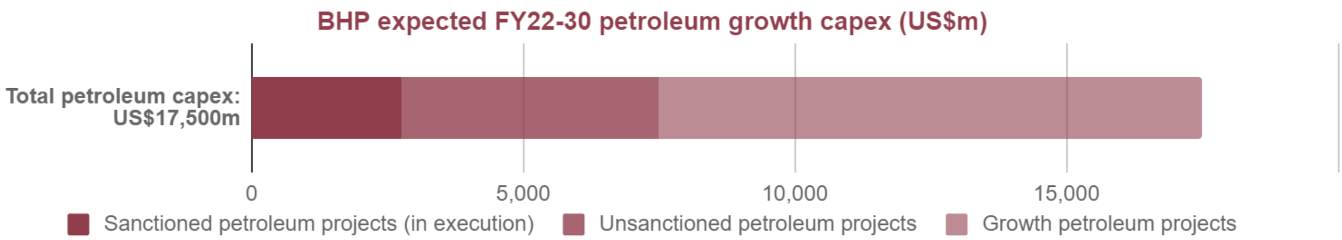


Source: BHP 2021 Results Presentation, p. 48-50

Petroleum

Petroleum is expected to account for 26% (US$2.34 billion) of BHP's total FY22 capital and exploration expenditure. BHP projects US$10 billion in FY22-FY30 capex on three major petroleum growth projects with final investment decisions targeted in 2021, 2022 and 2026. BHP also has seven sanctioned (up to US$2.75 billion in FY22-FY30 capex) and seven unsanctioned (up to US$4.75 billion in FY22-FY30 capex) growth projects linked to existing assets (2021 Results Presentation, p. 35-36).

While new oil and gas projects are clearly incompatible with NZE2050, Carbon Tracker has also found 72% of BHP's total available capex opportunities (2019-2030) would be stranded under the IEA's Sustainable Development Scenario (p. 5), which does not reach net-zero emissions until 2070.



Source: BHP 2021 Results Presentation, p. 35-36

Rather than waste capital developing additional stranded petroleum assets, regardless of whether BHP shareholders are exposed to them directly or through a merged entity, BHP should instead direct that capital to opportunities that present value in a net-zero by 2050 scenario.

Coal

BHP projects US$600 million in FY22 capital and exploration expenditure on coal (2021 Results Presentation, p. 50). BHP produces over 40 Mt of metallurgical (coking) coal each year (p. 243), with some mining leases expiring as late as 2043 and options to renew those leases (p. 231). In fact, the BHP Mitsubishi Alliance (BMA) metallurgical coal joint venture has recently applied to extend the life of its 15 Mtpa capacity Caval Ridge mine in Queensland by 31 years to 2056.

In NZE2050, "Demand for coking coal falls at a *slightly* slower rate than for steam coal, but existing sources of production are sufficient to cover demand through to 2050" (p. 103). **Any capex to expand or extend metallurgical coal production would therefore be incompatible with NZE2050.**

BHP is looking to sell its stake in the smaller of its metallurgical coal ventures (BHP Mitsui Coal), as well as its Mt Arthur thermal coal mine (p. 7). Having so far failed to find a buyer for Mt Aruther, BHP is seeking approval to extend its lifetime by 19 years to 2045. The Mt Arthur business (New South Wales Energy Coal) recorded a total impairment of US$1.7 billion (after tax) in FY21, with the overall recoverable amount of that business now *negative* US$300 million (2021 Results Presentation, p. 45, 60). Mt Arthur reportedly faces US$1 billion in site remediation costs. BHP's is reportedly already forcing some workers at Mt Arthur to move interstate or resign, a move which has been labelled "appalling" treatment of workers by the Construction, Forestry, Maritime, Mining and Energy Union.

Despite the clear declines in coal production required under a net-zero by 2050 scenario, BHP is seeking to expand and extend its production, while simultaneously attempting to avoid its environmental and social responsibilities by divesting some coal assets.

Divestment plans insufficient to manage all risks

Mt Arthur provides an example of BHP's apparent approach to fossil fuel production and climate risk: facilitate expansion, then divest and attempt to avoid responsibilities such as achieving real world emission reductions, employee support, and site remediation.

This strategy is further evidenced by the proposed deal to merge the petroleum business with Woodside. If the proposed Woodside merger goes ahead, BHP's current shareholders would remain exposed to the increasing stranded asset risks associated with further capex being directed to petroleum projects that are incompatible with a net-zero by 2050 scenario, via the Woodside shares they would receive in the deal.

Support for this resolution is required for shareholders to avoid exposure to Woodside's increasing production plans, and instead ensure BHP manages its fossil fuel assets in line with shareholders' best interests.

Increasing physical risks

Facilitating expansion and extension of fossil fuel production, which is incompatible with limiting warming to 1.5°C and achieving net-zero emissions by 2050, increases physical climate change risks. This risk is amplified in the event that BHP partially or fully divests its fossil fuel production assets to companies with even less regard for managing climate risk. Universal owners should be extremely concerned about the prospect of BHP creating opportunities for itself or other companies to pursue additional fossil fuel production that will only exacerbate physical climate impacts.

The IPCC's Sixth Assessment Report shows that at the current level of warming (around 1°C above pre-industrial levels), human-induced climate change is already increasing many weather and climate extremes around the world, including heatwaves, heavy rain events, and droughts. Every fraction of a degree of further warming increases the severity of these impacts. The difference between 1.5°C and 2°C of warming would result in (see Summary for Policymakers p. 23):

- 62% increase in the frequency of extreme heat events, with events that occurred once in 50 years on average in a climate without human influence occurring every 3.6 years on average at 2°C;
- 13% increase in heavy rainfall events, with events that occurred once in 10 years on average in a climate without human influence occurring every 5.9 years on average at 2°C;
- 20% increase in drought in dry regions, with events that occurred once in 10 years on average in a climate without human influence occurring every 4.2 years on average at 2°C.

BHP operates in some of the hottest and driest parts of the world, and mining projects are inherently susceptible to flooding in heavy rainfall events. The company's assets and employees, and therefore production and revenue, face significant risk from the physical impacts of climate change. As shown by the IPCC, these risks become increasingly severe beyond 1.5°C of global warming.

A regularly-cited study has estimated the value at risk of global financial assets due to physical climate impacts at US$24.2 trillion by 2100, although even this figure is expected to be an underestimate. **Investors should therefore be doing everything within their power to ensure companies and assets they are exposed to act to limit warming to 1.5°C. BHP, however, is pursuing and facilitating expansionary fossil fuel production plans incompatible with that goal.**

Reputation risks

In the face of rapidly increasing action to limit climate change, this resolution seeks to avoid sudden and unplanned job losses as a result of market shocks as the global energy system decarbonises, affording staff the opportunity to be retrained, financially supported and assisted in finding future employment. It is also intended to avoid the financial shocks of stranded assets, wasted capital and unpredictable revenues. Finally, it aims to ensure alignment of BHP's strategy and capital expenditure plans with its public statements and commitments regarding climate change.

BHP repeatedly claims leadership on climate action (see especially p. 2). Selling its fossil fuel assets and allowing others to expand and extend production, which is incompatible with global climate goals, would completely undermine these claims.

Failure to disclose the plans requested by this resolution would therefore represent a failure by BHP to protect its reputation. Sale of fossil fuel assets to parties seeking to irresponsibly extend and expand production would similarly be seen as BHP shirking its responsibilities to support employee transition plans and rehabilitate asset sites, and wilfully contradicting its climate claims.

Engagement

Market Forces has engaged with BHP on the issue of climate change risk management for many years. In 2019, when BHP committed to produce scope 1, 2 and 3 emission reduction targets, aligned with the Paris Agreement and guided by a set of principles, Market Forces agreed to not proceed with a resolution we had prepared with shareholders. Since then however, the company has failed to set targets or outline a strategy to reduce its significant scope 3 emissions (and therefore transitional climate risk exposure) related to its fossil fuel products.

This resolution seeks to address that gap in BHP's climate risk planning and disclosure. The specific requests and draft wording of this resolution were first put to BHP in March 2021, and engagement has continued regularly since then. However, BHP has so far failed to commit to producing disclosures that would meet, or substantially meet, the requests set out in the resolution.

Shareholder support for this resolution is therefore required to ensure the company appropriately manages the climate change-related transition, physical, and reputation risks posed by its fossil fuel assets.

Shareholders are also urged to vote against BHP's Climate Transition Plan.