

# Rio Tinto resolutions and statements

## **Resolution 1 – Amendment to the Constitution**

To amend the constitution to insert beneath Clause 57 ‘Annual general meetings’ the following new sub-clause 57(d): “The Company in general meeting may by ordinary resolution express an opinion or request information about the way in which a power of the Company partially or exclusively vested in the Directors has been or should be exercised. However, such a resolution must relate to a material risk as identified by the Company and cannot either advocate action that would violate any law or relate to any personal claim or grievance. Such a resolution is advisory only and does not bind the Directors or the Company.”

## **Supporting Statement 1**

Shareholder resolutions are a healthy part of corporate democracy in many jurisdictions. For example, in the UK shareholders can consider resolutions seeking to explicitly direct the conduct of the board. In the US, New Zealand and Canada shareholders can consider resolutions seeking to advise their board as to how it should act. As a matter of practice, typically, unless the board permits it, Australian shareholders do not enjoy the same rights as their UK, US, New Zealand or Canadian counterparts in this respect.

A board of Directors is a steward for shareholders and accountability for the discharge of that stewardship is essential to long-term corporate prosperity.

In some situations the appropriate course of action for shareholders dissatisfied with the conduct or performance of the board is to seek to remove directors individually. However in many situations a better course of action is to formally and publicly allow shareholders the opportunity at shareholder meetings such as the AGM to alert board members that the shareholders seek more information or favour a particular approach to corporate policy.

The Constitution of Rio Tinto is currently not conducive to the right of shareholders to place advisory resolutions on the agenda of a shareholder meeting. This is contrary to the long-term interests of Rio Tinto, the board and all shareholders.

Passage of this resolution will simply put our company in a similar position regarding shareholder resolutions as any listed company in the UK, US, Canada or New Zealand.

We encourage shareholders to vote in favour of this resolution.

## **Resolution 2 - Risk appetite to scope 3 emissions**

Recognising the company's commitment to the Task Force on Climate-related Financial Disclosures and the aims of the Climate Action 100+, shareholders request the company disclose, in subsequent annual reporting, a risk appetite statement that:

- a) clarifies, using quantifiable metrics and targets, the company's risk threshold to scope 3 greenhouse gas emissions over the short-, medium- and long-term, and
- b) omitting proprietary information, describes measures the company can and will take in order to reduce the degree of risk exposure to scope 3 greenhouse gas emissions in line with stated thresholds.

## **Supporting statement 2**

Our Strategic Report (2020 annual report) cites transition to a low-carbon future as one of the principal risks facing Rio Tinto. Specifically, the company acknowledges "Our risk is that we do not adapt competitively to the requirements of a low-carbon future, including expectations of Scope 3 commitments in the products we produce and the way we operate our business, resulting in reputation damage with key stakeholders eroding investor confidence, market value and business resilience."<sup>1</sup>

Shareholders agree that scope 3 emissions present serious financial and non-financial risks to our company.

### Rio Tinto's scope 3 emissions liability

Rio Tinto's scope 3 greenhouse gas emissions in 2020 were 519 million tonnes of carbon dioxide equivalent (Mt CO<sub>2</sub>e),<sup>2</sup> making scope 3 the overwhelming proportion (94%) of our total emissions profile. To demonstrate scale, our scope 3 emissions are roughly equivalent to the greenhouse gas emissions released throughout all of Australia.<sup>3</sup>

Scope 3 emissions are generated downstream from our operations, as the commodities we sell (such as iron ore for use in steelmaking) are used and converted into other products. These emissions are therefore not directly attributed to the company. However, as requirements and efforts increase globally to reduce greenhouse gas emissions in line with the Paris Agreement, our customers may not survive the need to rapidly decarbonise, or face hefty carbon pricing liabilities resulting in lower demand and/or higher costs passed through to us as the suppliers of raw materials.

According to IPCC analysis, holding warming to 1.5°C will require emissions from industry, including steelmaking, to fall by around 40% from 2010 levels by 2030.<sup>4</sup> In 2020, Rio Tinto's iron ore business accounted for almost 80% of our company's total underlying EBITDA.<sup>5</sup>

The Carbon Pricing Leadership Coalition has found that a US\$40-80 per tonne carbon price would be required in 2020 and \$50-100 per tonne by 2030 in order to drive transitions in line

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<https://www.riotinto.com/-/media/Content/Documents/Invest/Reports/Annual-reports/RT-Annual-report-2020.pdf>, 97

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<https://www.riotinto.com/-/media/Content/Documents/Invest/Reports/Climate-Change-reports/RT-climate-report-2020.pdf>, 5

<sup>3</sup> <https://www.industry.gov.au/publications/national-greenhouse-gas-inventory-june-2020>

<sup>4</sup> [https://www.ipcc.ch/site/assets/uploads/sites/2/2019/02/SR15\\_Chapter2\\_Low\\_Res.pdf](https://www.ipcc.ch/site/assets/uploads/sites/2/2019/02/SR15_Chapter2_Low_Res.pdf), 139

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<https://www.riotinto.com/-/media/Content/Documents/Invest/Reports/Annual-reports/RT-Annual-report-2020.pdf>, 1, 2

with the Paris Agreement.<sup>6</sup> If the climate impacts of our scope 3 emissions profile were priced according to the 2020 range, we would have been at risk of exposure to a liability of up to US\$21-US\$42 billion, equivalent to 46.5%-93% of our 2020 revenue or 0.9-1.7 times our 2020 underlying EBITDA.<sup>7</sup>

Rio Tinto acknowledges our internal carbon prices “are not consistent with the expectation of climate policies required to accelerate the global transition to meet those goals [of the Paris Agreement].”<sup>8</sup> The company is therefore likely to be undervaluing the risk attached to our scope 3 emissions.

#### Defining a risk threshold

Our risk management policy states “Risk management is an integral part of how we protect and create value and is fundamental to achieving sustainable business benefit and competitive advantage”.<sup>9</sup> Further, our risk management standard defines risk tolerance as “the limit of a risk exposure within the risk tolerance range which invokes proactive risk management in order to meet the planned objective”.<sup>10</sup>

It is necessary to have a risk appetite statement that clarifies our risk tolerance by:

1. quantifying the degree of risk shareholders are being exposed to by the company as a result of exposure to scope 3 emissions, and
2. providing context and direction to actions taken by the company to reduce its exposure to scope 3 emissions within acceptable levels.

Our tolerance to future levels of scope 3 emissions should be defined in terms of Mt CO<sub>2</sub>e, consistent with current reporting metrics.

Our 2020 annual report identifies four goals in relation to scope 3 emissions:

- Work with customers on steel decarbonisation pathways and invest in technologies that could deliver reductions in steelmaking carbon intensity of at least 30% from 2030.
- Work in partnership to develop breakthrough technologies with the potential to deliver carbon neutral steelmaking pathways by 2050.
- Continue to scale up the ELYSISTM breakthrough technology enabling the production of zero-carbon aluminium.
- Meet our ambition to reach net zero emissions from shipping our products by 2050.

These are all measures the company should be taking. However, without the company defining its risk threshold to scope 3 emissions exposure in future, there is no way to appreciate the extent to which these actions reduce exposure to scope 3 emissions to within acceptable levels.

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<sup>6</sup> <https://apo.org.au/node/175011>

<sup>7</sup>

<https://www.riotinto.com/-/media/Content/Documents/Invest/Reports/Climate-Change-reports/RT-climate-report-2020.pdf?rev=c415a8138bd7408496ccb3834511abc0>, 39

<sup>8</sup>

<https://www.riotinto.com/-/media/Content/Documents/Invest/Financial-news-and-performance/Results/RT-Annual-results-2020.pdf?rev=4c9dd85a0ebc423f8b928e0dc1a7a237>. 44

<sup>9</sup>

<https://www.riotinto.com/-/media/Content/Documents/Sustainability/Corporate-policies/RT-Risk-policy.pdf>

<sup>10</sup>

<https://www.riotinto.com/-/media/Content/Documents/Sustainability/Corporate-policies/RT-Risk-management-standard.pdf>

Rio Tinto has a history of underinvesting in measures intended to reduce scope 3 emissions. For example, in December 2020 we committed to invest US\$10 million with China Baowu “in low-carbon steelmaking projects and research.”<sup>11</sup> For context, this investment amounts to less than 0.08% of Rio’s planned \$13 billion capital expenditure over the next two years.

Defining our risk tolerance to scope 3 emissions over the short-, medium- and long-term would set the context for actions by the company to invest in technological development, undertake partnerships with clearly defined outcomes, plan for changes to our customer base or mix of commodity sales, or any other action we may undertake to reduce our scope 3 emissions exposure. It would also provide investors the opportunity to understand the extent to which this company is prepared to be exposed to scope 3 emissions over time, in order to make decisions about the security of their own capital.

#### Investor expectations

The TCFD recommends companies describe the targets used to manage climate-related risks and opportunities and performance against targets.<sup>12</sup>

The Climate Action 100+, a group of more than 540 investors managing over \$52 trillion in assets, also expects companies to “reduce greenhouse gas emissions across the value chain, consistent with the Paris Agreement’s goal of limiting global average temperature increase to well below two degrees Celsius above pre-industrial levels, aiming for 1.5 degrees”.<sup>13</sup>

This resolution is therefore aligned with the interests of investors seeking greater information on the company’s management of the risks stemming from our scope 3 emissions profile and we encourage all shareholders to vote in favour of this resolution.

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<https://www.riotinto.com/en/news/releases/2020/Rio-Tinto-advances-climate-partnership-with-China-Baowu-Steel-with-US10-million-investment>

<sup>12</sup> <https://www.fsb-tcf.org/wp-content/uploads/2017/06/FINAL-2017-TCFD-Report-11052018.pdf>, 14

<sup>13</sup> <https://www.climateaction100.org/approach/the-three-asks/>