Australian Government
Commonwealth Superannuation Corporation

Examples of payoff from engagement

Company: Diversified mining & metal producer

Credentials: Early adopter of the transparent reporting standards advocated by the international Task Force on Climate related Financial Disclosures (TCFD) in June 2017.

Purpose of engagement: Oct 2017

- Test extent to which Board-level thinking was being influenced by the disclosure reported including scenario analysis.
- Probe the challenge that their South African energy coal division presented, at that time, to achieving their targets for net neutrality by 2050.
- Given that the mine was integral to energy supply in that region & the company had a "life of mine" contractual obligation.

Outcomes of engagement:

- One month after the Oct 2017 meeting, the company announced its intention to sell the South African energy coal division; and outlined plans for long-term decarbonisation to drive their strategic shift to base metals which are positively leveraged to new tech/decarbonisation trends.
- Provided evidence that the Board was acting not just reporting – and felt supported to do so by long-term investors.
- However, it also highlights the elephant in the room: while the company is transitioning very effectively, reducing risk and making returns more sustainable for investors in the process – the sale of its South African coal mine just transferred ownership. It did not change the impact of that mine's activities on climate trajectories.
- Thus, divestment is a good marketing pitch; and it can change the outcomes for one company; but it may not actually result in any material impact on the environment overall.

Recent example - two chemicals companies

- Our agents have engaged with two chemicals companies over many years in relation to legacy chemical sites and rehabilitation liabilities.
- The subject of our concerns have been the adequacy of rehabilitation provisions. Specifically we asked Directors and management of their personal satisfaction in relation to these provisions at specific locations.
- We contend that this enquiry has contributed to greater Board focus and arguably higher quality outcomes in some sites and projects.

Recent example – fuel company

- We have been engaging with this company, via our partners, for many years. The company published its first sustainability report in 2018; initiated support of achieving a 2030 climate target; and has followed through by investing in alternative energy technologies including wind and solar.
- Engagement with the company gives us confidence that the company has a robust understanding of the science of climate change and are actively investing in measures to reduce their emissions and thereby be viable participants in the new energy regime.

Engaging oil and gas companies to support a safe, robust and fair transition

Our managers have had ongoing engagement with management and directors in the oil and gas sector, based on the fact that gas will play an increasingly dominant role in the interim as the global economy de-carbonises. As the transition fuel of choice, Liquified Natural Gas (LNG) is a lower emission alternative to coal, supporting the transition to lower carbon while renewable energy, storage and transmission technology ramp up to scale. For example, a number of oil and gas companies are also investing in technology to reduce emissions (carbon capture and storage particularly and potentially hydrogen).

Supporting German electricity provider into renewables

Our engagement with a German electricity provider has seen reduction in vastly reducing its coal-based generation capacity and carbon footprint. This is despite the negative carbon scoring on the company based on historical reliance on coal. By 2030 the company plans to approximately halve CO_2 emissions again versus 2019 levels, and by 2040 the company plans to have achieved carbon neutrality by withdrawing from coal-based sources and investing in renewable generation.

Low-carbon aluminium contracts

In June 2020, the London Metal Exchange announced plans to allow trading of a "low-carbon" aluminium contract, enabling consumers of the metal to purchase material with a lower carbon footprint. Our manager, on behalf of us and their other clients, engaged with both a consumer staples and motor vehicle company to better understand their climate actions relating to this new contract. We wrote to both corporations to ask whether each company would stipulate that suppliers must move to use the lower-carbon aluminium where available:

The consumer staple company confirmed that they are moving to lower the carbon footprint of their supply chain by increasing the percentage of recycled material in each tonne of aluminium used and committed to lower emissions by 2030.

The motor vehicle company disclosed about 2% of emissions caused by their vehicles come from their plants. Their sustainable purchasing strategy aims to reduce the CO_2 emissions from suppliers. All companies supplying parts for electric vehicles, including batteries, are mandated to use renewable energy or purchase certificates until they can decarbonise themselves. The company have also introduced a policy of paying a premium for low CO_2 materials, including aluminium, if other quality parameters stay constant and supplies are adequate.