

# Vote Bulletin: BP Plc

Company	<b>BP Plc (LSE: BP)</b>
Market and Sector	United Kingdom/Energy
Meeting Date	12 May 2021
Key Resolutions <sup>1</sup>	<b>Item 13:</b> Approve Shareholder Resolution on Climate Change Targets
Key Topics	Climate risk
Board Recommendation	The Board recommended voting FOR all management resolutions (Items 1-12) and AGAINST this shareholder resolution (Item 13)
<b>BlackRock Vote</b>	BlackRock voted FOR all management resolutions (Items 1-12), including the re-election of all directors, and FOR the shareholder resolution on climate change targets (Item 13)

## Overview

BP Plc (BP) is an integrated oil and gas company, operating through the following segments: Upstream, Downstream and Rosneft. The company was founded in 1909 and is headquartered in London, the United Kingdom.

BlackRock Investment Stewardship (BIS) has engaged extensively with the company to discuss corporate governance and sustainability issues that we believe drive long-term shareholder value. These included, among others, the management, oversight, and disclosure of climate-related risks and opportunities. Most recently, we engaged with the company and discussed the shareholder resolution included on the ballot at the 2021 annual general meeting (AGM).

## Rationale for BlackRock’s Vote

### Items 1-12: Management resolutions<sup>2</sup> (FOR)

**BIS is supportive of BP’s management team, including the company’s climate strategy. For this reason, we voted FOR all management resolutions, Items 1-12. BIS is also supportive of BP’s Board of Directors, including in their oversight of the company’s climate strategy.**

As outlined in our [EMEA proxy guidelines](#), at companies where we have concerns about the quality of a company’s strategy, disclosures and/or oversight of risk, our standard course of action would be to hold

<sup>1</sup> BP Plc, “[Notice of BP Annual General Meeting 2021](#)”.

<sup>2</sup> See previous footnote.

directors accountable with votes against their re-election. At BP, that is not the case: we supported the re-election of all directors.

### **Item 13: Approve Shareholder Resolution on Climate Change Targets (FOR)**

**BIS voted for this shareholder resolution. While recognizing the company's efforts to date and direction of travel, supporting the resolution signals our desire to see the company accelerate its efforts on climate risk management.**

The shareholder resolution requested that the company “set and publish targets that are consistent with the goal of the Paris Climate Agreement: to limit global warming to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C. These quantitative targets should cover the short-, medium-, and long-term greenhouse gas (GHG) emissions of the company's operations and the use of its energy products (Scope 1, 2 and 3). Shareholders request that the company report on the strategy and underlying policies for reaching these targets and on the progress made, at least on an annual basis, at reasonable cost and omitting proprietary information.”<sup>3</sup>

We believe that BP is substantially already aligned with the ask of the resolution and should continue to progressively refine its GHG emissions reduction targets.

Currently, the company has set an ambition to be net zero by 2050 or sooner,<sup>4</sup> which includes short-, medium- and long-term scope 1, 2 and 3 emissions reduction targets.<sup>5</sup> For scope 3, BP aims to reduce the carbon intensity of the products it sells by 50% by 2050 or sooner.<sup>6</sup> In addition, the company plans to increase the proportion of investment in non-oil and gas businesses, and to reduce the methane intensity of its operations by 50%.<sup>7</sup> Furthermore, the company aligns its reporting with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and the sector-specific standards of the Sustainability Accounting Standards Board (SASB).<sup>8</sup> BP's climate strategy is consistent with our belief that the companies that critically evaluate their current baseline, set rigorous GHG emissions reduction targets, and act on an accelerated timeline are those most likely to avoid operational disruption in the future.<sup>9</sup>

Nonetheless, it is still early days and the company will need to continue to clarify and demonstrate continued progress on its communicated goals to shareholders. **For example, we believe that investors would benefit from having greater specificity around what constitutes targets aligned with the Paris Agreement.** We recognize that these methodologies are emerging, and we think that organizations like the [Science-Based Targets Initiative](#) will have an important role to play in defining the ‘right’ transition pathways for large energy companies. We think this will be essential to achieving broad-based support for transition strategies for large energy companies. Supporting this resolution signals our belief that BP has a credible climate strategy which it needs to implement and continue to refine as the industry's understanding of the necessary transition pathways advances.

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<sup>3</sup> BP Plc, “[Notice of BP Annual General Meeting 2021](#)”.

<sup>4</sup> BP Plc, “[BP sets ambition for net zero by 2050, fundamentally changing organisation to deliver](#)”.

<sup>5</sup> BP Plc, “[Notice of BP Annual General Meeting 2021](#)”.

<sup>6</sup> See previous footnote.

<sup>7</sup> See previous footnote.

<sup>8</sup> BP Plc, “[Task Force on Climate-related Financial Disclosures](#)”, and “[SASB index 2020](#)”.

<sup>9</sup> Support is also consistent with our [request](#) that companies align to a scenario in which global warming is limited to well below 2° C and is consistent with a global aspiration to reach net zero GHG emissions by 2050.<sup>9</sup> We discuss in our commentary, “[Climate risk and the transition to a low carbon economy](#),” that investors and other stakeholders will look at companies' disclosures to analyze how climate risk is integrated into their long-term strategies and evaluate their preparedness for a transition to a low-carbon economy.

While we support the specific language of the resolution – which, although broad, is clear and unambiguous – we have reservations about some of the language used in the supporting statement. We note that the supporting statement, with which the company is not required to adhere, mentions that “whatever metric is chosen (relative or absolute), the targets must be proven to lead to absolute emissions reductions compliant with the Paris Climate Agreement.”<sup>10</sup> Until methodologies and transition pathways are finalized and broadly adopted across the industry, we recognize that it might be challenging for any company to *prove* compliance with the Paris Agreement.

We also note the claim made by the proponent in a formal presentation to investors that “BP should go back to the drawing board and disrupt its current business plans which involve an increase in emissions.”<sup>11</sup> We do not agree with this assertion, and had this language been present in the formal shareholder documentation, we would not have been able to support the resolution. On the contrary, we consider it appropriate for the board to continue in its current assessment of the company’s strategy to ensure it remains relevant and consistent with BP’s stated ambition of alignment with the Paris goals.

## Summary

BIS supports BP’s climate strategy and the Board of Directors in their oversight of the company’s climate strategy. At companies where we have concerns about the quality of a company’s climate strategy and its implementation, disclosures and/or oversight of climate risk, our standard course of action would be to hold directors accountable. BIS supported the re-election of all directors.

BIS voted for the climate-related shareholder resolution because we see it as a means to reiterate our expectation that BP progressively refine its GHG emissions reduction targets. This is both complementary to BP’s current activity plans and actions, and consistent with what BIS would expect of large energy companies like BP. We believe that progress aligned with the shareholder resolution will be essential to achieving broad-based support for the transition strategies of large energy companies. Supporting this resolution signals our belief that the company should continue to make progress, both on its strategy and in demonstrating the validity of its targets.

## BlackRock Fundamental Active Equity (FAE) Vote Rationale

BIS is strategically positioned as an investment function and interfaces with BlackRock’s various portfolio management groups, including the fundamental active equity (FAE) team. BIS confers with, and engages alongside, FAE portfolio managers where an issue is closely related to long-term shareholder value, e.g. deciding how to vote on a material financial transaction. To enable FAE portfolio managers to execute votes in a manner consistent with their view of what is in the best interests of the clients invested in their funds, they have full discretion to vote the shares in the funds they manage based on their own analysis of the economic impact of a particular ballot item.

FAE notes the hugely complex challenge of simultaneously decarbonising the world’s global energy system whilst still ensuring “access to affordable, reliable, sustainable and modern energy for all.”<sup>12</sup> In that context, FAE believes the major European International Oil Companies (IOCs) have already taken a clear sector lead in terms of setting out ambitious scope 1, 2 and 3 GHG emissions targets aimed at reaching net zero by 2050 or earlier. In particular, BP made a significant strategic change and commitment at its investor update in August 2020,<sup>13</sup> demonstrably closing the gap with its closest European peers.

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<sup>10</sup> BP Plc, “[Notice of BP Annual General Meeting 2021](#)”.

<sup>11</sup> Follow This, “[Why should investors vote for the climate resolution at BP \(resolution 13\)?](#)”

<sup>12</sup> [UN Sustainable Development Goal #7](#)

<sup>13</sup> BP Plc, “[BP’s New Strategy To Deliver Net Zero Ambition](#)”

FAE notes that both ISS and Glass Lewis recognise that BP has set out clear targets around scope 1, 2 and 3 emissions and thus has largely met the resolution. As a binding resolution, were it to pass with at least 75% support, FAE believes it would in effect require management to reassess its targets. FAE also notes that the company remains covered by the Climate Action 100+ resolution from 2019, which substantially covers the material proposed in the Follow This resolution, including asking the company to publish details on, and its progress against, the alignment with the Paris Goals of its capex and its metrics and targets.

FAE notes that the Climate Action 100+ resolution was carried by almost 98% of the votes cast, whilst the Follow This resolution at the 2019 AGM, which was substantially identical to the one it has tabled here, attracted support from around just 8% of the votes cast.

Finally, whilst FAE considers the wording of the resolution in and of itself to be relatively innocuous, it believes that a vote for this resolution would send a clear signal to the management team that it is not comfortable with the strategy, has no confidence in the targets and/or simply does not believe the intent of the company.

FAE – like BIS – has no such concerns. However, while BIS has expressly noted above that its support for Item 13 does not indicate any lack of confidence in BP's management, in addition to the rationale set out here, FAE is using its vote against the resolution as an expression of its support for management.

FAE was aligned with the views of BIS on the remaining items under consideration.

## About BlackRock Investment Stewardship (BIS)

BlackRock Investment Stewardship (BIS) plays a key role in our fiduciary approach. As an essential component of our responsibility to our clients, we engage with companies to advocate for the sound corporate governance and business practices that drive the sustainable, long-term financial returns that enable our clients to meet their investing goals.

Our approach is from the perspective of long-term, minority shareholders in public companies on behalf of our clients. We look to boards and executive management to serve the interests of long-term shareholders and other stakeholders. Our active and ongoing dialogue with the leaders of these companies gives us a valuable perspective on their long-term strategies, financial performance, and the business challenges they face.

As stewards of our clients' assets we have a responsibility to make sure companies are adequately managing and disclosing environmental, social and governance (ESG) risks and opportunities that can impact their ability to generate long-term financial performance – and to hold them accountable if they are not. Engaging with companies is how BIS builds an understanding of a company's approach to governance and sustainable business practices, how we communicate our views, and how we ensure companies understand our expectations. If a company falls short of our expectations and we have been given the authority to vote the company's shares, we would hold them accountable by voting in the best long-term economic interests of those clients that have given us proxy voting authority. As detailed in our [Global Principles](#), proxy voting involves logistical issues which can affect BlackRock's ability to vote such proxies, as well as the desirability of voting such proxies. As a consequence, BlackRock votes proxies on a "best-efforts" basis.

We are committed to transparency in our stewardship practices. Our vote bulletins provide detailed explanations of key votes relating to a range of business issues including ESG matters that we consider, based on our [Global Principles](#), [market-level voting guidelines](#), and [engagement priorities](#), material to a company's sustainable long-term financial performance. We publish select vote bulletins after the shareholder meeting to provide transparency for clients and other stakeholders into our approach to the votes that we believe require more detailed explanation.

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