

# Vote Bulletin: China Shenhua Energy

Company	China Shenhua Energy Co., Ltd. (SHA: 601088; HK: 1088)
Market and Sector	China, Energy
Meeting Date	25 June 2021
Key Resolutions <sup>1</sup>	<b>Item 1:</b> Approve the report of the board of directors for the year ended 31 Dec. 2020 <b>Item 8:</b> Election of Mr. Yang Rongming as non-executive director
Key Topics	Climate and natural capital; company impacts on people
Board Recommendation	The board recommended voting FOR items 1 and 8
<b>BlackRockVote</b>	BlackRock voted FOR items 1 and 8

## Overview

China Shenhua Energy Co, Ltd. (Shenhua) is one of the world’s largest energy companies.<sup>2</sup> The Beijing-based company employs a total of 76,000 people globally and divides its operations across six business sectors: coal, electricity, railways, port handling, shipping, and coal-based chemicals.<sup>3</sup>

BlackRock Investment Stewardship (BIS) has had multiple engagements with Shenhua over the past year to discuss governance and sustainability issues that we believe can help drive long-term shareholder value, such as the management of climate-related risks and the company’s decarbonization plan. These discussions included extensive engagement with Shenhua about its involvement in overseas exposures, including a coal mine project in Australia that had prompted local concerns. We sought to understand the management of material business risks associated with the project, including its potential impacts on First Nation heritage sites and local communities. The company ultimately withdrew from the project in April 2021, and we continue to engage on a range of stewardship issues.

## Rationale for BlackRock’s Vote

**Item 1: Approve the report of the board of directors for the year ended 31 Dec. 2020**

**Item 8: Election of Mr. Yang Rongming as non-executive director**

**BIS voted FOR the approval of the report of the board of directors for the year ended 31 December 2020, and FOR the election of the new nominee – Mr. Yang Rongming – as non-executive director. We believe Shenhua has been responsive to shareholder concerns regarding climate-related risks and recognizes the need for clear plans to transition to a low-carbon economy and that the board will benefit from an**

<sup>1</sup> China Shenhua Energy Co., Ltd. “[Notice of Annual General Meeting](#),” 14 May 2021.

<sup>2</sup> Shenhua ranks 10<sup>th</sup> in S&P Global’s “[The Platts Top 250 Global Energy Company Rankings](#)” for 2020.

<sup>3</sup> China Shenhua Energy Co., Ltd. “[Company Profile](#).”

**opportunity to deliver on those commitments. BIS also believes that Shenhua can accelerate progress and improve its decarbonization plans by including short, medium, and long-term emissions reduction targets and by disclosing Scope 3 emissions.**

Shenhua initially obtained an exploration license for an overseas project in Australia in 2008, allowing it to explore 190 km<sup>2</sup> of agricultural land with recoverable reserves of approximately 290 million tonnes, total designed raw coal production capacity of 10 million tonnes/year, and designed service life for 24 years.<sup>4</sup> In January 2015, Shenhua's Environmental Impact Assessment for the project was approved, enabling it to apply for a mining lease to start coal production operations.<sup>5</sup> By 2017, a combination of factors, including serious concerns expressed by various stakeholder groups about natural capital sensitivities, resulted in a partial repurchase and withdrawal of the exploration license of approximately 100 km<sup>2</sup> within the Watermark exploration area.<sup>6,7</sup> The remaining portion of the project came under further scrutiny in 2020 when another company's project resulted in destruction of a First Nation heritage site.

Throughout 2020 and 2021, BIS held multiple engagements with Shenhua to discuss the potential risks of its involvement in the project. Engagements intensified after learning that Shenhua had applied for a mining lease in August 2020.<sup>8</sup> Given the heightened concerns about potential impacts of the company's mining operations on aboriginal heritage sites, BIS focused our discussions with the company on understanding how Shenhua had identified and planned to manage and mitigate such impacts on the environment and local communities. Specifically, in circumstances like these, BIS seeks to understand how companies engage with affected stakeholders. This includes whether companies obtain (and maintain) the free, prior, and informed consent of indigenous peoples for business decisions that affect their rights; protect cultural heritage sites; and provide access to resources and/or compensation in the event of displacement or destruction.

After continued engagement with BIS and other stakeholders, in April 2021 the company "reached a A\$100 million agreement with local authorities to withdraw its mining lease application and surrender its development consent for the project."<sup>9</sup> BIS views the announcement as a reflection of the company's growing awareness of sustainability risk – in particular natural capital and company impacts on people – as well as the larger matter of Shenhua's plans to transition to a low-carbon economy, which include targets to peak carbon emissions by 2025 and to become carbon neutral by 2060.<sup>10</sup>

BIS recognizes this progress however, we also believe the company's decarbonization plan can be further enhanced by setting short-, medium-, and long-term targets. In our engagements, BIS has shared our ask that companies disclose Scope 1 and 2 emissions and accompanying greenhouse gas (GHG) reduction targets. We have also clarified that long-term shareholders gain greater understanding of environmental risks affecting companies' value propositions when those in carbon-intensive industries, such as Shenhua, disclose Scope 3 emissions. BIS will continue to encourage Shenhua to set short-, medium-, and long-term emissions reduction targets and to disclose Scope 3 carbon emissions, which in our view, are integral components of a net zero commitment. BIS believes disclosing such information will allow investors to better measure and monitor how the company is integrating climate-related risks and opportunities into its business model in support of long-term value creation.

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<sup>4</sup> China Shenhua Energy Co., Ltd. "[Announcement on the Progress of the Watermark Project](#)," 12 July 2017.

<sup>5</sup> China Shenhua Energy Co., Ltd. "[Announcement on Progress of the Watermark Project](#)," 28 July 2018.

<sup>6</sup> Slezak, M. "[Shenhua coalmine scaled back as NSW government buys back part of licence](#)," The Guardian. 11 July 2017.

<sup>7</sup> See footnote #5 at page 2.

<sup>8</sup> China Shenhua Energy Co., Ltd. "[Announcement on the Progress of the Watermark Project](#)," 6 August 2020.

<sup>9</sup> NSW Government. "[NSW Government and Shenhua agree to end Watermark project](#)," 21 April 2021.

<sup>10</sup> China Shenhua Energy Co., Ltd. "[Promoting Determined Contributions to Protect the World – 2020 ESG Report](#)," Page 62.

## 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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