

## Investment Stewardship Group

# Voting Bulletin: Woodside Petroleum Ltd.

As part of our fiduciary duty, BlackRock’s Investment Stewardship team (BIS) advocates for sound corporate governance and business practices that are aligned with long-term sustainable financial performance. This objective underpins all our engagements and votes at company meetings.

We engage company leadership on key topics emphasizing governance practices including management of environmental and social factors that potentially have material economic, operational or reputational ramifications for the company.

We determine our engagement priorities based on our observation of market developments and emerging governance themes, and evolve them year over year as necessary. The BIS team’s key [engagement priorities](#) include:

1. Board quality
2. Environmental risks and opportunities
3. Corporate strategy and capital allocation
4. Compensation that promotes long-termism
5. Human capital management

We are committed to enhancing the transparency of our stewardship practices. Where we believe it will help to understand our voting decisions at shareholder meetings, we will publish a Voting Bulletin explaining the rationale for how we have voted on select proposals, and (where relevant) provide information around our engagement with the issuer.

Company	<b>Woodside Petroleum Ltd.</b>
Market	Australia
Meeting Date	30 <sup>th</sup> April 2020
Key Resolutions	<p><b>Item 4a:</b> Special Resolution to Amend the company Constitution</p> <p><b>Item 4b (1-3):</b> Ordinary Resolution on Paris Goals and Targets</p> <p><b>Item 4c:</b> Ordinary Resolution on Climate-Related Lobbying</p> <p><b>Item 4d:</b> Ordinary Resolution on Reputation Advertising Activities</p>
Board Recommendation	<p><b>Item 4a:</b> AGAINST</p> <p><b>Item 4b (1-3):</b> AGAINST</p> <p><b>Item 4c:</b> AGAINST</p> <p><b>Item 4d:</b> AGAINST</p>
BlackRock Vote	BIS voted with management and withheld support for the relevant proposals.

## Overview

Woodside Petroleum Ltd. (“Woodside”) engages in the exploration, evaluation, development, and production of hydrocarbon and oil and gas properties.

There are four shareholder resolutions at its 2020 annual general meeting submitted by the Australian Centre for Corporate Responsibility (ACCR): (4a) An Amendment to the Constitution; (4b) Paris Goals and Targets; (4c) Climate Related Lobbying; and, (4d) Corporate and Sector Reputation Advertising.

BIS regularly monitors Woodside’s governance practices and risk profile as part of its responsibility to shareholders. In our recent engagement with the company’s board, we had extensive discussions on a range of material issues including, but not limited to, the company’s approach to the Task Force on Climate-related Financial Disclosures (TCFD), board composition and diversity, broad refreshment and supply chain-related issues.

## Rationale for BlackRock’s Vote

### 4a. Special resolution to amend the company constitution:

**The shareholders request that the following new clause 43A be inserted into the company’s constitution – “The shareholders in general meeting may by ordinary resolution express an opinion, ask for information, or make a request 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 an issue of material relevance to the company or the company’s business as identified by the company, and cannot either advocate action which 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.”**

This resolution is required under Australian voting rules, which require a change in the company’s constitution in order to file an underlying resolution. Therefore, a resolution calling for an amendment to the company’s constitution is necessary to allow for the three non-binding resolutions (4b, 4c, and 4d). A group of shareholders owning 5% of voting shares or 100 shareholders (with no minimum holding size or length of holding period) may file a resolution. BlackRock is generally not supportive of constitutional amendment resolutions as the relative ease of filing risks distracting and time-consuming proposals being submitted by shareholders whose interests are not necessarily aligned with those of the broader shareholder base. We believe shareholder proposals should be a tool used after engagement has failed, which in our experience is not the case here.

### 4b. Ordinary Resolution on Paris Goals and Targets: Shareholders request the Board disclose, in annual reporting from 2021 –

#### 4b. 1 Short, medium and long-term targets for reductions is the company’s Scope 1, 2 and 3 emissions (Targets) that are aligned with articles 2.1(a and 4.1 of the Paris Agreement (Paris Goals);

Based on Woodside’s existing reporting and our engagement to date, we believe the company recognizes the priority it must place on carbon disclosure and reduction targets. While we are supportive of the goals underlying the resolution, its bundled structure presents a challenge as Scope 3 emissions remain particularly complicated in the natural gas sector and will require time to define and implement as they encompass all indirect emissions of a company’s entire value chain. Nevertheless, we encourage the company to continue to review and set ambitious emissions targets as the natural gas sector improves its ability to understand and manage them.

Our view that the company is responsive to shareholder concerns regarding carbon disclosure and emissions targets draws on the fact that Woodside publicly recognizes the science of climate change, has committed to the Paris Goals, and stated its ambition of being carbon neutral by 2050. It has also established a Sustainability Division, which holds responsibility for carbon offsets and hydrogen business development, and publishes a separate sustainability report that discloses its climate change strategy, emissions reduction targets, and historical emissions performance. Finally, it’s most recent annual report also included a

reasonable start to continuously improve climate risk evaluations and disclosures by mapping them to the TCFD framework.<sup>1</sup>

#### **4b. 2 Details of how the company's exploration and capital expenditure, including each material investment in the acquisition or development of oil and gas reserves, is aligned with the Paris Goals;**

On our assessment, Woodside already substantively addresses the request made in the resolution. Woodside's capital expenditure disclosures incorporate the International Energy Agency's (IEA) Sustainable Development Scenario (SDS) into the values it uses to calculate levels of resilience and prioritize investments. While it is only one of several internal and external scenarios, the IEA's SDS does align to the Paris Agreement objective of holding the increase in the global average temperature to well below 2 °C above pre-industrial levels, this century.

#### **4b. 3 Details of how the company's remuneration policy will incentivize progress against the Targets.**

With regard to remuneration, Woodside's Corporate Scorecard includes a 25% component on "Material Sustainability Issues", including personal and process safety, environment, emissions reductions, and social license to operate. It also discloses performance outcomes against the scorecard, on metrics like emissions reduction improvements. BIS maintains the view that compensation committees are best placed to determine effective performance measures given members' knowledge of the company's strategic plans, the industry in which the company operates, and other issues internal and/or unique to the company.

#### **4c. Ordinary Resolution on Climate-Related Lobbying:**

**Shareholders request that the company conduct a review of its direct and indirect lobbying activities relating to climate, resources and/or energy policy (Review). A report summarizing the completed Review should be disclosed on the company's website by 31 October 2020.**

**The Review should cover a period of at least two years and should address the consistency of the company's lobbying activities with the goals of the Paris Agreement to limit global warming to well below 2 °C (Paris Goals).**

- i. Where the Review shows direct lobbying inconsistent with the Paris Goals, shareholders request that the Board disclose a strategy to prevent further lobbying inconsistent with those Goals**
- ii. Where the Review shows a record of lobbying inconsistent with the Paris Goals shareholders request that the Board disclose a remediation plan, agreed with the Industry Association. Shareholders recommend that the company suspend membership of an Industry Association where a remediation plan cannot be agreed (or the Board otherwise decides suspension is in the company's interests).**

Based on our analysis, Woodside's lobbying is consistent with its public position on climate change. Where differences are identified, the company discloses them openly. Our conditional support for management on this resolution is based on the company's public commitment to undertake a more comprehensive review of its industry association advocacy by November 2020.<sup>2</sup>

#### **4d. Ordinary Resolution on Reputation Advertising Activities:**

**Shareholders request that the Board review the company's -**

- 1. "Corporate Reputation Advertising" Activities, which are aimed primarily at increasing the standing of the company's brand in the community; and**
- 2. Support for 'Sector Reputation Advertising' activities undertaken by Industry Associations, which are aimed at influencing public perceptions of the oil and gas section;**

<sup>1</sup> Please see [https://files.woodside/docs/default-source/investor-documents/major-reports-\(static-pdfs\)/full-year-2019-results/annual-report-2019.pdf?sfvrsn=3f0c259f\\_12](https://files.woodside/docs/default-source/investor-documents/major-reports-(static-pdfs)/full-year-2019-results/annual-report-2019.pdf?sfvrsn=3f0c259f_12).

<sup>2</sup> Please see <https://www.woodside.com.au/sustainability/working-openly/membership-of-peak-industry-organisations>.

**This review is to be set against the standards set out in Chapters VI (Environment) and VIII (Consumer Interests) of the OECD Guidelines for Multinational Enterprises. Where ‘Reputation Advertising’ activities are found to be inconsistent with the OECD Guidelines, or where they are targeted at children, shareholders recommend that those activities (or, in the case of sector reputation advertising, the company’s support for them) be discontinued.**

Based on our evaluation, Woodside provides adequate transparency on their advertising activities and the community groups that they support. We recognize that there are a range of strongly held and differing views in the energy transition debate and maintain that all parties, including the company, are within their rights to state their views/engage in the discussion within OECD guidelines.

Furthermore, based on our research, there is no indication that Woodside’s sponsorships and community partnerships do not comply with relevant laws and the underlying principles of the OECD Guidelines for Multinational Enterprises.

We will continue to engage with the board and management of Woodside on a range of governance and material sustainability issues, including its long-term ambition for carbon neutrality. We will also monitor and provide feedback on the relevant disclosures and targets once published.