

Investment Stewardship

Vote Bulletin: POSCO International Corporation

Company	POSCO International Corporation (047050-KR)
Market and Sector	South Korea, Trading Companies & Distributors
Meeting Date	21 March 2022
Key Resolutions ¹	Item 2.1.2: Elect Noh Min-yong as Inside Director Item 2.3.1: Elect Hong Jong-ho as Outside Director
Key Topics	Natural capital, company impacts on people
Board Recommendation	The board recommends shareholders to vote FOR items 2.1.2 and 2.3.1
BlackRockVote	BlackRockvoted AGAINST items 2.1.2 and 2.3.1

Overview

POSCO International Corporation (POSCO Intl) is the trading arm subsidiary of South Korea's largest steelmaker, POSCO. Formerly known as Daewoo International and POSCO Daewoo, POSCO Intl engages in trading, resource development, and infrastructure-related businesses globally, and operates in industries ranging from steel and energy to agrobusiness.

Natural capital and company impacts on people, particularly as they relate to labor practices, deforestation, and community displacement, have been issues that have been in focus at the company for several years.²

BlackRock Investment Stewardship (BIS) has conducted multi-year engagements with the company to discuss their response to these concerns, as well as the management of other governance and sustainability matters that can affect long-term shareholder value.

In particular, BIS has been seeking to understand the company's management of palm oil-related risks and opportunities given that POSCO Intl has direct oversight of their palm oil operations in Indonesia.³ In the latest commentary on [our approach to engagement on natural capital](#), we discuss our view that long-term

¹ POSCO International, [Annual General Meeting circular](#)

² These include human rights and labour rights-related allegations, including the use of child labor and forced labor in POSCO Intl's cotton business [in Uzbekistan](#), deforestation and environmental degradation caused by their oil palm plantations [in Indonesia](#), as well as their complicity in the forced displacement of local communities due to the Shwe Gas Project [in Myanmar](#), amongst others.

³ Attention on POSCO Intl's issues increased in 2019 when an official complaint was filed with Korea's National Contact Point (KNCP) for the Organisation for Economic Cooperation and Development (OECD). The complaint against the company alleges breaches of the OECD Guidelines for Multinational Companies arising from adverse impacts at the company's 85%-owned subsidiary, [PT Bio Inti Agrindo \(PT BIA\)](#).

shareholder interests are best served when companies deal effectively with material environmental and social (E&S) factors relevant to their businesses. For companies – including those in the palm oil industry – whose business models have material dependencies or impacts on “natural capital”, i.e., the supply of the world’s natural resources from which economic value and benefits can be derived, we have found that the management of these factors can be a determinant of their ability to generate sustainable, long-term financial returns for shareholders, like BlackRock’s clients.⁴

POSCO Intl entered the palm oil business in 2011 by acquiring an 85% equity stake in PT Bio Inti Agrindo (PT BIA) which now has 34,000 hectares of concession area and two crude palm oil (CPO) mills located in Papua, Indonesia.⁵ Four non-governmental organizations (NGOs) have alleged that PT BIA is responsible for a range of adverse impacts stemming from their operations.⁷ These include large-scale deforestation of tropical rainforest and loss of biodiversity, failure to respect the principles of Free, Prior and Informed Consent (FPIC) with the customary owners of the land in developing the plantation, and the violation of the rights of local residents to unpolluted water by degrading the water quality of the Bian River.⁸

As part of our multi-year engagements with POSCO Intl on behalf of our clients and in line with our approach to engagement with palm oil companies, we have sought to better understand and assess the company’s strategy and processes to manage the environmental and social-related risks and opportunities associated with the palm oil industry, disclosures, as well the steps taken by the company to address and remediate grievances raised by stakeholders.

Rationale for BlackRock’s vote

Item 2.1.2: Elect Noh Min-yong as Inside Director (AGAINST)

Item 2.3.1: Elect Hong Jong-ho as Outside Director (AGAINST)

BIS did not support the proposed incumbent directors’ re-elections. While recognizing the company’s efforts and the progress to date, we believe the company can further improve the management of E&S risks associated with the production of palm oil.

As discussed in our commentary on [our approach to engagement with the palm oil industry](#), in 2021 BIS met with more than a dozen palm oil companies, including POSCO Intl, to better understand how companies in the sector address the E&S risks associated with palm oil production in order to protect shareholders’ economic interests. Through these engagements and public disclosures, we assess a company’s approach to the unique governance, oversight, strategy and management of risks and opportunities relating to palm oil, and their performance vis-à-vis their peers.

We recognize that, since our first engagement with POSCO Intl in 2016, the company has taken steps to strengthen and improve their management of E&S risks and opportunities relating to palm oil. For example, in March 2020 POSCO Intl became the first Korean company to commit to a No Deforestation, No Peatland and

⁴ See e.g. “[Why is Biodiversity Important](#)” in Natural Capital Coalition’s Integrating Biodiversity into Natural Capital Assessments, and [Biodiversity and the 2030 Agenda for Sustainable Development](#).

⁵ POSCO International Corporation, “[Indonesia Palm Oil](#)”.

⁶ A concession area is land allocated to companies by governments for oil palm plantations.

⁷ A coalition of four NGOs – Korean Transnational Corporations Watch (KTNC Watch), Yayasan Pusaka (Indonesia), WALHI Papua (Indonesia) and SKP KAMe (Indonesia) – filed a complaint against POSCO International, the National Pension Service and the Export-Import Bank of Korea. For more information: <https://www.business-humanrights.org/en/latest-news/ngos-from-korea-and-indonesia-file-oeed-complaint-against-posco-international-for-causing-palm-oil-abuses-and-national-pension-service-and-the-export-import-bank-of-korea-for-financing-the-abuses/>; <https://www.oecdwatch.org/complaint/ktnc-watch-et-al-vs-posco/>

⁸ KTNC Watch, PUSAKA, SKP-KAM, WALHI Papua, “[Unhealed Scars in Papua](#)”, December 2019.

No Exploitation (NDPE) policy,⁹ and now has a time-bound implementation plan for PT BIA to ensure compliance throughout the subsidiary's supply chain.¹⁰ The company also achieved their target of acquiring Roundtable on Sustainable Palm Oil (RSPO) certification in September 2021,¹¹ further signaling their ambition to produce more sustainable palm oil. Furthermore, in relation to the OECD complaint,¹² POSCO Intl has also been engaging directly with the complainants under KNCP procedures to achieve mediation for two years. The case was terminated in January 2022 as both sides failed to reach an agreement despite several attempts.¹³

As a long-term investor in POSCO Intl on behalf of our clients, BlackRock recognizes the complex environment in which the company operates and that it may take time to fully implement more rigorous policies and practices to manage E&S risks.

However, the company's current disclosures do not provide shareholders sufficient transparency into risks and liabilities relating to the adverse impacts associated with their operations. For instance, despite PT BIA's commitment to develop and publish grievance logs on their Sustainability Dashboard by the end of 2021,¹⁴ there remains a lack of clear disclosure and updates on any grievances reported through their grievance-handling mechanism.

In addition, the company has not provided investors with disclosures regarding their approach to remediating the 2019 OECD complaint or other allegations of environmental, human rights and labor rights-related issues that have been raised about the company. Investors are therefore unable to fully assess the company's capacity to mitigate and prevent grievances, controversies, or incidents of a similar nature in the future.

POSCO Intl's policies and disclosures also lag peers in the industry. For instance, despite the company's commitment to produce sustainable palm oil and extend their NDPE policy to all third-party suppliers at the group level, they have not yet established a robust traceability target and/or provided indications of when full supply chain traceability may be achieved. The company lacks detailed disclosures on their Operational Health and Safety (OHS) management system and relevant targets to ensure a safe work environment at their oil palm plantations.

While POSCO Intl's ambition and efforts to date in building a sustainable palm oil model show progress, we did not support the re-election of incumbent directors, Noh Min-yong (2.1.2) and Hong Jong-ho (2.3.1) at the 2022 Annual General Meeting of Shareholders (AGM) **due to our concerns about the lack of transparency in the company's processes and policies regarding palm oil. Investors will benefit if the company accelerates efforts to manage the E&S risks associated with the production of palm oil, and to achieve targets set out in the NDPE Implementation Plan within reasonable timeframes.**

As a fiduciary to our clients, the majority of whom are long-term investors, we will continue to engage with the company on their sustainable palm oil program and commitments, and to monitor for timely, fulsome disclosures on their policies and performance in relation to key E&S risks. We will also continue to track the company's progress on other risks and opportunities associated with the sector.

⁹ POSCO International Corporation, "2020 Sustainability Report". -

¹⁰ <https://ptbia.co.id/sustainability/ndpe/implementation-plan>

¹¹ <https://ptbia.co.id/sustainability/certification/rspo>

¹² Please see footnote 3.

¹³ YONHAP News Agency, "[POSCO International recommended corporate responsibility over Indonesia's palm oil biz](#)", January 2022.

¹⁴ <https://ptbia.co.id/sustainability/ndpe/implementation-plan>

About BlackRock Investment Stewardship (BIS)

Our clients depend on BlackRock to help them achieve their investment goals. These clients include public and private pension plans, governments, insurance companies, endowments, universities, charities and ultimately individual investors, among others. Consistent with BlackRock's fiduciary duty as an asset manager, BIS' purpose is to support companies which we invest for our clients in their efforts to create long term durable financial performance.

BIS serves as an important link between our clients and the companies they invest in – and the trust our clients place in us gives us a great responsibility to advocate on their behalf. That is why we are interested in hearing from companies about their strategies for navigating the challenges and capturing the opportunities they face. As we are long-term investors on behalf of our clients, the business and governance decisions that companies make will have a direct impact on our clients' investment outcomes and financial well-being.

We look to boards and executive management to demonstrate that they are taking into consideration the interests of long-term shareholders and other stakeholders. Our, often multi-year, dialogue with the leaders of these companies provides us the opportunity to improve our understanding of, and provide feedback on, the governance and sustainability (ESG) risks and opportunities that are material to their businesses and thus to their ability to generate long-term returns for our clients. For those clients who have given us authority, we vote proxies in their best long-term financial interests, in line with our public [voting guidelines](#) and informed by our analysis of company disclosures and, where relevant, our engagements.¹⁵

To support investors' assessment, it is helpful when companies provide timely, accurate, and comprehensive disclosure on all material governance and business matters, including sustainability-related issues. This transparency allows shareholders to better understand and assess how relevant risks and opportunities are being effectively identified and managed. Where company reporting and disclosure is inadequate or we believe the approach taken may be inconsistent with sustainable, long-term value creation, we will engage with a company and/or vote in a manner that signals our concerns.

We are committed to transparency in the stewardship work we do on behalf of clients. We inform clients about our engagement and voting policies and activities through direct communication and through disclosure on our [website](#). For shareholder meetings where a vote might be of particular interest to clients, we may publish a vote bulletin after the meeting, disclosing and explaining how we voted on key proposals.

Want to know more? blackrock.com/stewardship

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¹⁵ 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.