

Investor brief: Case for support of the Glencore thermal coal disclosure resolution

Co-filed shareholder proposal to Glencore plc (LSE: GLEN, JSE: GLN)

Ordinary resolution: Projected thermal coal production

Co-filed by: Legal and General Investment Management (LGIM), Ethos Foundation on behalf of Pensionskasse Post and Bernische Pensionskasse, Vision Super, HSBC Asset Management, Australasian Centre for Corporate Responsibility (ACCR), ShareAction

Summary

This investor brief outlines the case for support of the resolution co-filed by institutional investors at Glencore plc, asking our company to disclose how its projected thermal coal production and capital expenditure aligns with the Paris Agreement's goals and the International Energy Agency (IEA) Net Zero Emissions pathway. In 2021, Glencore gave its commitment to align its targets and ambition with the goals of the Paris Agreement. However, there is currently insufficient evidence to demonstrate that the company's planned thermal coal expansions are aligned with the Paris Agreement. Glencore has significant exposure to thermal coal, and given the material risks this holds in the energy transition, all investors will benefit from the clear disclosures outlined in this resolution.

This resolution has been co-filed by long-term institutional investors, some of whom have engaged with Glencore over several years. The co-filers include institutional investors Legal and General Investment Management (LGIM), Swiss based Ethos Foundation on behalf of Pensionskasse Post and Bernische Pensionskasse, Vision Super and HSBC Asset Management, along with responsible investment NGO ShareAction and The Australasian Centre for Corporate Responsibility (ACCR). In addition, in April 2023, nine institutional investors publicly declared indicative support for the terms of the resolution.

The resolution: Ordinary Resolution - Projected thermal coal production

That the Climate Action Transition Plan to be presented for a vote (by whatever name called) at the 2024 Glencore plc Annual General Meeting includes:

- A. Disclosure of how the Company's projected thermal coal production aligns with the Paris Agreement's objective to pursue efforts to limit the global temperature increase to 1.5°C;
- B. Details of how the Company's capital expenditure allocated to thermal coal production will align with the disclosure in a. above; and
- C. The extent of any inconsistency between the disclosure in a. above with the IEA Net Zero Scenario timelines for the phase out of unabated thermal coal for electricity generation in (i) advanced economies, and (ii) developing economies.

Rationale for a YES vote FOR Resolution 19

- It's necessary. Even after ongoing investor engagement, Glencore's 2022 Climate Report, published on 23 March 2023, refrained from providing clear disclosure on how forward thermal coal production is aligned with the Paris Agreement. Nor was there any guidance for shareholders on how thermal coal capex is aligned. It did outline a "plan to continue to progress various brownfield coal extensions or expansions", without providing clarity on the forward emissions impact. It also restated emissions reductions targets, yet did not verify if these targets were Paris-aligned considering the bulk of emissions are generated from coal.
- Glencore's disclosed annual emissions are significant at 280 Mt CO₂e (around 0.6% of total global emissions). Coal production, specifically thermal coal, is the largest driver of Glencore's emissions, with coal accounting for ~90% of emissions. Glencore's thermal coal business is exposed to significant risk in the energy transition and investors expect the company to be upfront about the level of exposure.
- The latest benchmark data by CA100+ for Glencore finds the company's medium and long term targets are not aligned with the goal of limiting global warming to 1.5°C. If Glencore wants investors to trust its strategy is both value accretive and Paris-aligned, then investors require clearer disclosure on the specific alignment of the coal business.
- The resolution is clear and specifically worded. Enacting this resolution would enable shareholders to verify how forward thermal coal production and capital expenditure is aligned with Glencore's own commitment to the Paris Agreement. This information could aid investors in decision-making regarding exposure to the thermal coal business and assist in determining if their investment in Glencore's coal production supports the objectives of the Paris Agreement. All long-term investors must have the ability to evaluate the company's exposure to financially material risks in the energy transition.
- The recent proposed Teck merger and coal demerger has shown that a major area of investor concern is Glencore's significant thermal coal exposure. This highlights how thermal coal exposure and a lack of evidence for Paris-alignment continues to be a material risk to Glencore's ambition to drive long term shareholder value. A vote for the resolution and the resultant disclosures would benefit all current and future shareholders.
- This is an appropriate and reasonable disclosure resolution. The resolution is clearly worded to seek specific improved disclosure with regards to thermal coal, without directing strategy in any way. The resolution also provides the board and executive with almost a year to produce an updated Climate Plan with enhanced thermal coal disclosure.

Discussion

Background

Over recent years, investors in Glencore have made significant progress in improving their company's emission targets, capping coal production and improving climate engagement. However,

these gains are being undermined by a lack of detail on how Glencore’s climate targets can be met alongside expansionary coal mining activities in Australia.

Glencore’s record on climate and environment disclosure is poor. For example, since 2018 Glencore has failed to participate in the global disclosure system for investors, companies, cities, states and regions, run by the not-for-profit group CDP. As such, Glencore has received “fail” scores.¹

In 2021, Glencore made a public commitment to “manage the decline of [its] fossil fuel portfolio in a responsible manner”, and stated that, “Glencore is committed to align its targets and ambition with the goals of the Paris agreement.”

At the 2022 AGM, 24% of Glencore’s shareholders voted against its climate plan, with concerns expressed about the expansion and opening of new coal mines in Australia, shortcomings in target-setting over the next decade, pro-coal lobbying, and board oversight.² This result triggered a requirement under the UK Corporate Governance Code for Glencore to engage with shareholders on its climate plan and publish an update on its findings.

On 28 October 2022, after shareholder engagement, Glencore released a statement to shareholders saying it would “enhance disclosures” regarding the “planning and progress around the execution of our climate change strategy” in its next climate progress report (to be published in March 2023), yet did not provide certainty that thermal coal and Paris alignment would be clearly addressed.

Due to the ongoing lack of clarity on thermal coal alignment, in late December 2022, a global coalition of institutional investors filed a shareholder resolution to Glencore seeking greater insights into the specific plan to align thermal coal production with emissions reductions commitments.

The 2022 Climate Report

In March 2023, Glencore released its climate progress report. The report restates Glencore’s commitment to the Paris Agreement and the objective of keeping global temperatures below 1.5°C, however it fails to demonstrate Glencore’s thermal coal business is aligned with the Paris Agreement, or that its capex commitments on thermal coal are Paris-aligned.

- Glencore said it plans to “continue to progress various brownfield coal extensions or expansions at existing mines”³, yet the forward emissions profile of these expansion projects is not disclosed, nor is the capex required to build out new pits over coming decades.
- When charting its emissions reductions targets, Glencore is persisting in using an IEA pathway that includes all fossil fuels, which includes the slower decline rate of gas. A coal specific pathway is more appropriate considering emissions from coal production make up ~90% of Glencore’s total emissions. Glencore has resisted investor encouragement to

¹ CDP Glencore analysis, accessed May 2023, <https://www.cdp.net/en/responses/35349/Glencore-plc>

² Bloomberg, 2022, Mining Giant Glencore Is Losing Support for Its Climate Plan, <https://www.bloomberg.com/news/articles/2022-04-28/support-for-glencore-s-climate-plan-ebbs-after-advisory-push>

³ Glencore, 2023, 2022 Climate Report, <https://www.glencore.com/.rest/api/v1/documents/529e3b5028692472bc9f97e143d73557/GLEN-2022-Climate-Report.pdf>

demonstrate alignment with the coal-specific pathway outlined in the IEA's Net Zero Emissions pathway.

Glencore has failed to make meaningful progress on demonstrating the specific alignment of its thermal coal business with the Paris Agreement, or to demonstrate Paris-aligned capex commitments on coal.

ACCR research (2023)

Analysis of Glencore's forward coal emissions profile indicates that based on current disclosures by Glencore and its stated strategy, the company's forecast cumulative emissions from coal production do not appear to be Paris-aligned.⁴

- Glencore's disclosed annual emissions are significant at 280 Mt CO₂e (around 0.6% of total global emissions). Coal production, specifically thermal coal, is the largest driver of Glencore's emissions, with coal accounting for ~90% of emissions.
- Glencore's ability to reach its own target of a 50% reduction in emissions by 2035 is achieved with the assistance of beneficial carbon accounting and a high emissions baseline year.
- Despite the benefits of selecting 2019 as the base year, Glencore's annual production from 2026 is consistently significantly above the 2022 IEA NZE coal aligned pathway.
- In its 2022 Climate Report Glencore said it is not planning to develop the Wandoan coal resource as a traditional coal mine. Instead, it is investigating a coal to hydrogen project, at 4Mtpa. Even if production is limited to 4Mtpa, Glencore does not appear to be aligning its forward coal production emissions with the 2022 IEA NZE coal pathway.

The proposed Teck merger and coal demerger

The disclosures sought in the resolution are becoming increasingly relevant as Glencore pursues a Teck merger and coal demerger. Glencore's thermal coal business is exposed to significant risk in the energy transition and all investors expect the company to be upfront about the level of exposure. Robust negotiations with Teck stakeholders appear set to ramp up over the coming period, and thermal coal exposure is likely to continue to be a sticking point.

"Thermal coal mines are contrary to the global decarbonization agenda. The Glencore proposal would force Teck shareholders to hold massive thermal coal exposure, which would be value destructive, drive away current and future investors who cannot hold thermal coal assets, and result in Teck's world-class steelmaking coal business trading at a discount." Statement from Teck Resources, on behalf of the Board and independent Special Committee, 3rd April 2023⁵

Thermal coal exposure continues to be a material risk to Glencore and its ambition to drive long term shareholder value. Glencore has not satisfied its current or potential future shareholders that its coal production is Paris-aligned. There is a persistent lack of trust in Glencore's comments that it is running down the coal business in line with Net Zero.

⁴ ACCR, 2023, Pre-AGM Analysis: Glencore plc, <https://www.accr.org.au/research/pre-agm-analysis-glencore-plc-2023/>

⁵ Teck, 2023, <https://www.teck.com/news/news-releases/2023/teck-board-of-directors-rejects-unsolicited-acquisition-proposal>

All long-term investors must have the ability to evaluate exposure to financially material risks in the energy transition. Whatever happens next for Glencore's coal business, voting for the thermal coal resolution is one way investors can signal the need for clear and reputable information to demonstrate genuine alignment of forward thermal coal production with the goals of the Paris Agreement.

Glencore's response to the resolution

In its Notice of Meeting (NoM) published 3rd May 2023, Glencore's board recommended a vote against the resolution, for three main reasons:

1. *“Unnecessary ... The Company's most recent Climate Report, published on 23 March 2023, clearly sets out details of the Company's strategy in respect of its coal portfolio and capital allocation.”*

As already outlined above, Glencore's 2022 Climate report does not disclose the forward emissions profile of its expansion projects, nor does it disclose to investors how the emissions from these thermal coal mine extensions will meet the company's commitment to the objective of keeping global temperatures below 1.5°C.

The ability to evaluate exposure to financially material risks, i.e. emissions from thermal coal, is necessary for all long-term investors. This is only becoming more necessary as investors seek to undertake due diligence to consider Glencore's proposal to decouple the coal business from the transition metals business. Glencore's aspiration to split out coal only reinforces the need for specific disclosure of how the thermal coal business aligns with the Paris Agreement.

2. *“Unclear ... It is unclear what exactly the resolution is calling for the Company to do.”*

The resolution is very clear. It was carefully drafted by long-term institutional investors, after years of corporate engagement with Glencore. Investors are simply seeking to obtain the details of thermal coal and climate alignment that have been missing from Glencore's disclosures to date.

In essence, the resolution clearly asks for:

- How its forward thermal coal production is Paris aligned
- How its CAPEX for thermal coal is Paris aligned
- If its thermal coal production aligns with the IEA NZE timelines for the phase out of unabated thermal coal for electricity - in both advanced and emerging economies.

In addition, the co-filers held a meeting with Glencore in March 2023, where the company was given an opportunity to outline its concerns with the resolution. Subsequent to that meeting, the co-filers offered Glencore further opportunities to outline any concerns, yet Glencore did not follow up. There are no grounds for the board to still be “unclear” about the resolution, it was filed in late December 2022.

3. *“Undermining of the Board's responsibility and accountability for the Company's strategy.”*

It is the board's responsibility to continue to drive company strategy, and nothing in this resolution limits or directs its ability to do so. What this resolution does clearly request is better disclosure of the forward emissions from thermal coal, compared to Paris-aligned pathways for coal. Investors should be privy to this information to inform investment decisions. Transition risks are material for all investors exposed to thermal coal, and the disclosures sought are practical and meaningful, without directing strategy in any way.

The resolution provides Glencore's board with scope, should the resolution be supported. For example:

- The resolution does not prescribe how the requested information should be disclosed.
- The resolution requests that the above disclosures are outlined in Glencore's next Climate Plan, which is a highly reasonable timeframe.
- The resolution references the IEA Net Zero Scenario and timelines for the phase out of unabated thermal coal for electricity. These pathways were produced by the IEA in 2021 and 2022. As there is likely to be an updated IEA Net Zero Scenario in 2023, Glencore may choose to demonstrate alignment with that updated version of the pathway. It would have been inappropriate for the resolution to prescribe a year, as this matter is easily dealt with by the company.

The supporting statement offers more context as to why the thermal coal resolution and disclosures would be useful. The supporting statement is *not binding* on the company and does not direct strategy. It also mentions other broader ESG-related issues surrounding coal and coal decline, such as Just Transition. The resolution and the supporting statement includes the phrase 'coal phase out', simply as coal phase out is the language used by the International Energy Agency, which is relevant for the resolution. Last year in October 2022, the IEA published a special report on the topic: Phasing Out Unabated Coal.⁶ Glencore was a formal member of the High Level Advisory Group for this report.

The board has a responsibility to provide clear disclosures on all material matters for investors. This is a disclosure resolution and cannot be read any other way.

The opportunity

By voting for the resolution, Glencore investors have a critical opportunity to improve the company's climate and coal-related disclosures. This will mean investors are better placed to meet their own climate objectives and Paris-alignment, and enhance their ability to evaluate exposure to financially material risks in the energy transition.

This is a highly reasonable and clear disclosure resolution, providing the board and executive with almost a year to produce an updated climate plan with enhanced thermal coal disclosure, with optionality for the company on how it presents the disclosures in its next climate plan.

⁶ International Energy Agency, 2022, <https://www.iea.org/news/iea-convenes-global-leaders-to-provide-guidance-on-new-landmark-report-on-delivering-a-secure-and-affordable-phase-out-of-coal-emissions>

Vote FOR Resolution 19, PROJECTED THERMAL COAL PRODUCTION.

Vote AGAINST the Climate Report 2022 in order to demonstrate that improvements are required.

Appendix A - Supporting Statement for the thermal coal resolution

Our Company made a welcome public commitment in 2021 to, “manage the decline of [its] fossil fuel portfolio in a responsible manner”, and stated that, “Glencore is committed to align its targets and ambition with the goals of the Paris agreement.” This commitment was accompanied with a medium-term 50% reduction of total (Scope 1, 2 and 3) emissions by 2035 on 2019 levels, which our Company stated was in line with the ambitions of the 1.5°C scenarios set out by the Intergovernmental Panel on Climate Change. However, it is unclear how our Company’s planned thermal coal production aligns with the global demand for thermal coal under a 1.5°C scenario.

Institutional investors in Glencore see immense opportunity for corporate value creation if it can be demonstrated that the Company’s thermal coal production does in fact align with the Paris Agreement’s objective of pursuing efforts to limit the global temperature increase to 1.5°C.

According to Glencore’s 2021 Annual Report, coal accounted for approximately 90% of Glencore’s total disclosed scope 1, 2 and 3 emissions. Our Company has significant exposure to thermal coal, which accounts for approximately 90% of its total annual coal production, based on Company disclosures. This high proportion of emissions from thermal coal production requires investors to have greater insights into the specific plan to align thermal coal production with emissions reductions commitments.

In 2022, our Company progressed its intention to gain approval for thermal coal expansions at the Glendell and Hunter Valley Operations coal mines. Thermal coal output recently increased due to the acquisition of 100% of the Cerrejón coal mine in Columbia.

Currently, there is insufficient evidence to demonstrate that our Company’s planned thermal coal expansions are aligned with the Paris Agreement or that these expansions correspond with a pathway to limit warming to 1.5°C.

Capex commitments could drive new opportunities

Capital expenditure for thermal coal is of particular significance for our Company’s corporate value given the high proportion of its emissions generated by coal production.

Our Company is well positioned to benefit in the new energy economy. It possesses significant potential to increase strategic focus on boosting transition metal production to aid renewable energy development. In contrast, thermal coal production faces declining demand and is misaligned with efforts to stabilise global temperature rise to 1.5°C. There is potential to enhance the Company’s valuation by aligning coal production to a 1.5°C pathway and accelerating investment in transition minerals.

Our Company will benefit from actively embracing the climate change challenge. By allocating capital to thermal coal expansion, Glencore is exacerbating its Scope 1 and 3 emissions impacts. We believe more value will be created for shareholders by allocating fossil fuel capex to the energy transition instead.

Corporate value would be better protected with greater disclosure of how our Company will align its capital expenditure plans with the Paris Agreement's objective to pursue efforts to limit the global temperature increase to 1.5°C.

'Just transitions' are less risky

Any transition that does not include the fair treatment of workers and communities can carry an additional set of risks for investors. The World Energy Outlook 2022 states, "people-centred and just transition policies will be vital to provide support for fossil fuel workers with limited transition prospects in energy or parallel industries." Investors would benefit from more information and for Glencore to outline its own just transition policies as part of the next Climate Action Transition Plan.

The IEA Net Zero Emissions Scenario provides timelines

The most recent 2022 IEA Net Zero Emissions (NZE) scenario offers a 1.5°C-aligned outlook for coal demand that considers the impact of the global energy crisis. Phasing out coal for electricity generation is a central pillar of the scenario, with demand falling by two thirds between 2021 and 2030. The report states, "Despite a temporary boost from the current energy crisis... the share of unabated coal in global electricity generation falls rapidly from 36% in 2021 to 12% in 2030, and to zero percent by 2040 and beyond."

Thermal coal demand will drop faster than coking coal demand over the period to 2030, falling by 50% compared to 30%, with both categories facing steeper declines after 2030. Overall declines in the NZE will be sharper in developed countries compared to developing countries. Between 2021 and 2030, coal demand will drop by around 75% in the developed world, and 40% in the developing world.

Currently, our Company does not clearly disclose the destination of its thermal coal exports. Enhanced disclosure would assist investors to understand the extent to which Glencore's thermal coal production is being exported to developed countries for power generation and if thermal coal production is aligned with the demand forecast applicable to each customer country.

While investors welcome our Company's ambition to be net zero by 2050, the next iteration of the Climate Action Transition Plan would be improved by enhanced disclosure of the forward projections for thermal coal production and more frequent reporting against key milestones towards the 2050 net zero ambition.

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