

Climate Transition Action Plans: Investor expectations for the mining industry

September 2022



Investor Group on
Climate Change

About IGCC

- IGCC represents investors with funds under management of \$3.6 trillion in Australia and New Zealand and \$33 trillion globally.
- Includes many of the world's largest asset managers, and Australia's largest superannuation funds.
- Many IGCC members are setting their own net-zero portfolio targets – requiring wide engagement on decarbonisation.
- IGCC works with members on climate-related risks and opportunities.
- Convener of initiatives such as Climate Action 100+ and the Net Zero Asset Managers initiative.



Climate change is a financial risk

- Climate change is a “foreseeable, material and actionable” risk.
- Climate change is a systemic threat to the financial system and presents a material risk to the investment returns of investors.
- Central banks and national financial regulators are increasingly warning of the financial risks of climate change.
- Investors have a clear legal obligation to manage climate risks.
- Director duty for managing climate risk is also established.
- There are risks to financial investors via both transition risks (the move away from existing industries) and by physical risks (the impacts of climate change).



How investors manage climate risk

There are typically three actions investors take to reduce climate risk in their portfolios:

1. Strategic asset allocation.
2. Engagement and alignment across asset classes.
3. Policy and advocacy.

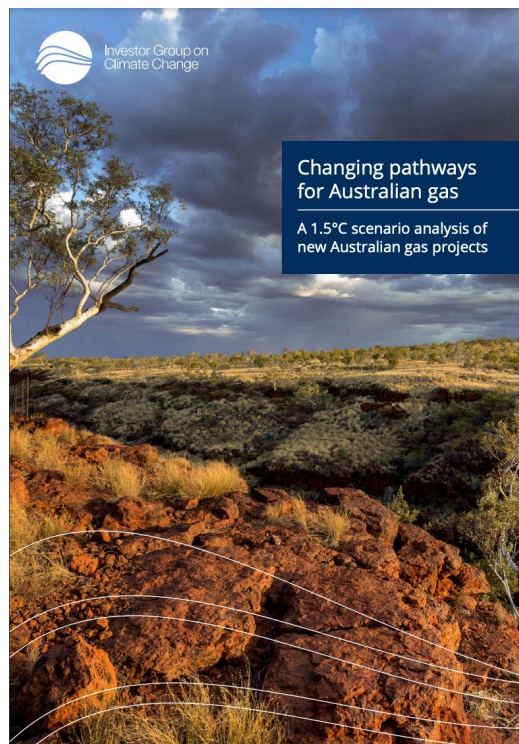
IGCC works with investors to facilitate action across all of these themes.

Our **corporate engagement** work focuses on reducing climate risk across fixed income and equities asset classes by facilitating engagement and alignment.



Source: Net Zero Investment Framework

Research to support corporate engagement



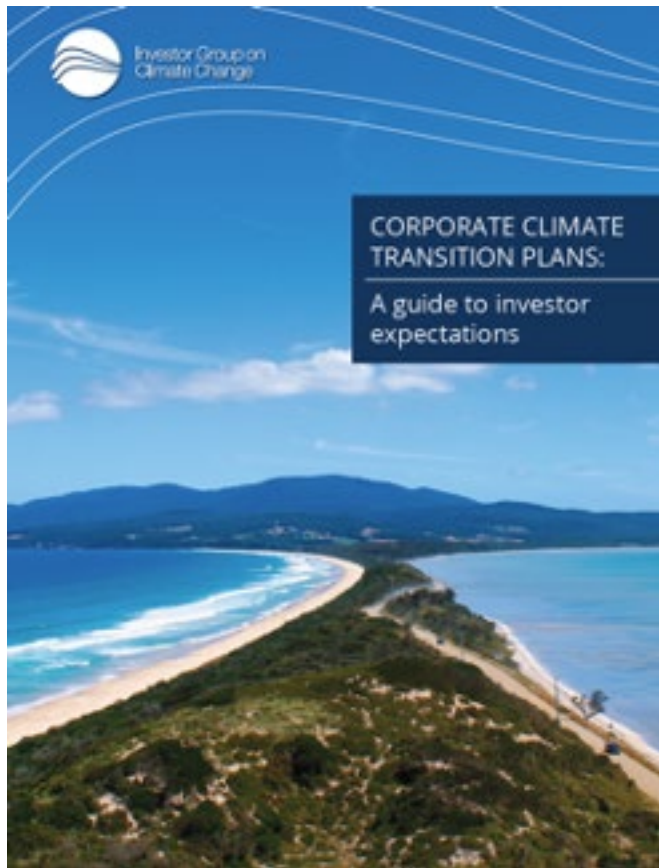
Climate transition action plans

- Corporate net zero commitments and interim targets.
- Policy and regulatory shifts eg. mandatory climate disclosure, greenwashing regulation, taxonomies, and guarantee of origin schemes.
- COP26 net zero commitments.
- Investor commitments to net zero and interim targets – NZAOA, GFANZ, NZAMI, PAIL etc.
- A “Say on Climate” for investors (8 of 14 Australian CA100+ companies have committed).



Investor expectations guide

- **A transition plan** is a time-bound plan that outlines how a company will align its business model with net zero by 2050 ambitions.
- **This report consolidates existing guidance** over transition plans.
- This guidance is **sector agnostic**.
- It sets out investor expectations for net zero aligned corporate transition plans.



Alignment with existing work



Say On Climate:

Shareholder Voting on
Climate Transition Action Plans



SCIENCE
BASED
TARGETS

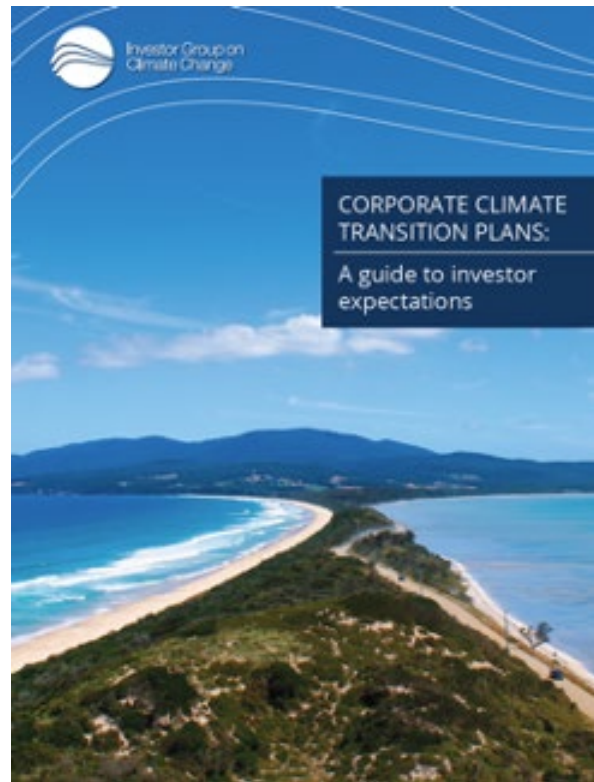
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION



TASK FORCE ON
CLIMATE-RELATED
FINANCIAL
DISCLOSURES



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Climate Change



Five principles for credible climate transition plans

1	Set comprehensive (short, medium and long-term) science-based quantitative targets across all material emission scopes.
2	Outline a strategy to deliver targets, identifying expectations and quantifiable impacts across each emissions source.
3	Set sector specific commitments and actions aligned with 1.5C decarbonization pathways using credible pathways.
4	Ensure investment commitments (CapEx) are disclosed and align with targets.
5	Commit to annual transparent disclosure and monitoring with external verification.

**Which of these is your organization already disclosing?
Which would be a gap?**

Structure of the report

1

• The 5 principles

1. Set comprehensive, science-based quantitative targets across all material emission scopes.
2. Outline a strategy to deliver targets, identifying expectations and quantifiable impacts.
3. Set sector-specific commitments and actions aligned with 1.5 °C decarbonisation pathways.
4. Ensure investment commitments (CapEx) align with targets.
5. Commit to annual transparent disclosure and monitoring with external verification.

2

• The investor expectations under each principle

Table 1. Summary of expectations for principle one

1.1	Net zero ambition date should be set relative to the most granular, ambitious, science-based 1.5 °C decarbonisation pathways available for the sector. Material Scope 3 emissions should be included in net zero commitments.
1.2	Targets should cover at least 95% of Scope 1 and 2 emissions (additional disclosure should include sites covered by this target).
1.3	Companies should set separate short-, medium- and long-term targets that are consistent with a net zero pathway (see principle three for sector-specific requirements) and covers all material emissions. Targets should be measured as a reduction in actual emissions relative to emissions in a historical base year (not avoided emissions relative to a 'business as usual' projection). The years 2030 and 2050 have become key dates following the Intergovernmental Panel on Climate Change's special report on global warming of 1.5 °C [1]. However, the company may specify different dates, depending on the sector's pathway to net zero.
1.4	Targets should be set for the firm's most material Scope 3 emissions and be explicit about which

1.7	Target baselines are representative of the business and usually the most recent year (a multi-year average may be used). Targets should be set against the most recent base year unless significantly affected by COVID-19, in which case, the base year of 2019 is recommended or a three-year average, as described by the Greenhouse Gas Protocol. If the relevance of the target is compromised by a material change in the company's structure, base year inventory or projections/assumptions, the target should be re-baselined with a clear explanation of the reason and method	SBTi Criteria and Recommendations v5 [28]	The choice of base year must be no earlier than 2015. Targets should be recalculated to reflect significant changes that compromise relevance and consistency of the existing target. Targets must be reviewed (and recalculated if necessary) every 5 years, if Scope 3 pass the 40% threshold of aggregate emissions, or if there are significant changes (e.g., boundary changes, company structure/activities, adjustments to inventory, changes to projections).
		GHG protocol A Corporate Accounting and Reporting Standard [29]	Most companies select a single year as their base year. If a single year's data is not representative, a multi-year average may be used. Targets should be recalculated to reflect significant changes that compromise relevance and consistency of the target. Companies may also use a rolling base year.
		TCFD Guidance on Climate-related Metrics, Targets, and Transition Plans [10]	Targets should be reviewed at least every five years and updated if necessary.
		SBTi Net Zero Standard [18]	Base year emissions should be representative of a company's typical GHG profile, and must be no earlier than 2015.

Engagement & Voting - Investors View

Engagement



Issue



Company



- Member organisations
- Sell side analysts
- Activist groups
- ESG Research firm
- Independent advice
- In-house research

Resolution



Company



Shareholder

Voting

Investor

Manager

Discuss

Review

Discuss

Engage

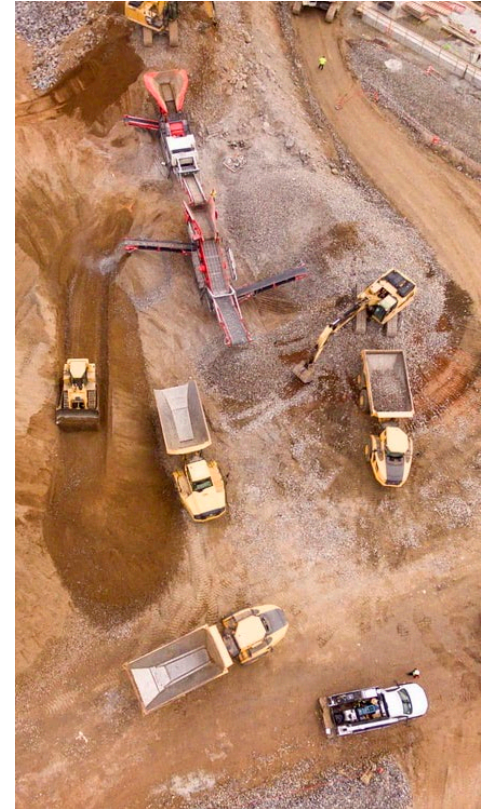
Discuss



Vote

Investors engaging on climate with mining sector

- Diversified mining is a large complex sector crucial to the net-zero (1.5°C) transition:
 - hitting emissions targets requires rapid cuts in thermal coal production (in particular).
 - low cost transition metals are vital for decarbonising other sectors and lack of investment in raw materials may delay transition (eg electric vehicles).
 - extractive sector has a range of E, S and G risks associated with it.
- Investors seeking to accelerate the broader transition to net-zero are engaging with this sector to support and better understand challenges and opportunities it faces.
- Sector faces unique challenges related to scope three emissions, capex disclosure and green revenues.



Setting a sector specific standard



167 companies
annually assessed
includes 14 miners



Existing CA100+ Benchmark Indicators		
Indicator	Request	Supporting text. "The company ...
1	Ambition: Net-zero GHG Emissions by 2050 (or sooner) ambition	has set an ambition to achieve net-zero GHG emissions by 2050 or sooner
2	Long-term (2036-2050) GHG reduction target(s)	has set a target for reducing its GHG emissions by between 2036 and 2050 on a clearly defined scope of emissions
3	Medium-term (2026 to 2035) GHG reduction target(s)	has set a target for reducing its GHG emissions by between 2026 and 2035 on a clearly defined scope of emissions
4	Short-term (up to 2025) GHG reduction target(s)	has set a target for reducing its GHG emissions up to 2025 on a clearly defined scope of emissions
5	Decarbonisation Strategy (Target Delivery)	a decarbonisation strategy that explains how it intends to meet its long and medium-term GHG reduction targets
6	Capital Alignment	is working to decarbonise its capital expenditures
7	Climate Policy Engagement	has a Paris Agreement-aligned climate lobbying position and all of its direct lobbying activities are aligned with this
8	Climate Governance	board has clear oversight of climate change
9	Just Transition [Beta]	need[s] to account for the imperatives of a just transition of the workforce and the creation of decent work and quality jobs
10*	TCFD Disclosure	has committed to implement the recommendations of the Task Force on Climate related Financial Disclosures (TCFD)

Issues your transition plan might need to include

Topic	Issues to consider
Net zero alignment 1.5C or well below 2C alignment of pathway	Which scenario will you use? How will you set and verify your targets? Scope 2 emissions – can you switch to renewables quickly eg. via a PPA.
Scope three emissions targets and commitments	How will you set out your value chain What are “material” scope 3 emissions for your business Quantitative targets for energy commodities Shipping/transportation can be an opportunity for target setting Partnerships and collaborations can be useful where decarbonization is challenging
Capital allocation and strategy	Overall strategy, quantified by source What is your capex plan for decarbonization Does it align to your targets and temperature goal
Green revenues	What is your strategy (if any) to develop transition or green commodities that will help decarbonize the rest of the economy? Have you got a target for green revenues?
Governance issues	Closure and divestment of fossil fuel assets (noting divestment is not always the best option) Remuneration links – are your executives incentivized to achieve your climate targets Do you have board knowledge of climate risks Just transition for workers and communities



How would you engage with this company?

Case study

Company 'Aussie Minerals Ltd' primarily produces iron ore, thermal coal and met coal for export mostly to Asia. It has a highly experienced board with mining experience as well as backgrounds in politics and law. Climate change has been acknowledged as a material risk overseen by the board.

It has released a "Climate Transition Action Plan" in response to pressure from investors to set out more detail on its long-term response to climate change.

In the plan it announces public scope 1 and 2 targets: to be net-zero by 2050 and to reduce emissions by 25% by 2030. It intends to achieve most of these goals through electrification and converting to renewables. The target is not verified but the company claims it is Paris Aligned. It includes little detail about its pathway beyond 2030. It has no plans to phase out production of thermal or metallurgical coal.

Results of scenario analysis have been released in a TCFD report using the IEA's sustainable development scenario. The analysis shows continued growth well into the 2030s.

Aussie Minerals has invested \$10m into an iron ore decarbonisation pilot project with a steelmaker in China \$2m into a land reforestation project. Aussie Minerals sees these investments as key to meeting its net zero target.

Aussie Minerals has just announced it is applying to open a new thermal coal mine in the Bowen Basin to run until 2060.

If you were an investor in this company – what would your engagement objectives be?

How would you vote (for, against, abstain) on this plan if it were put to a shareholder vote?