

## Investment Stewardship

# Vote Bulletin: Equinor ASA

Company	<b>Equinor ASA (Oslo Exchange: EQNR)</b>
Market and Sector	Norway, Oil and Gas
Meeting Date	11 May 2022
Key Resolutions <sup>1</sup>	<p><b>Item 10:</b> Approve Company's Energy Transition Plan (Advisory Vote)</p> <p><b>Item 11:</b> Instruct Company to Set Short, Medium, and Long-Term Targets for Greenhouse Gas (GHG) Emissions of the Company's Operations and the Use of Energy Products</p> <p><b>Item 12:</b> Introduce a Climate Target Agenda and Emission Reduction Plan</p> <p><b>Item 13:</b> Establish a State Restructuring Fund for Employees Working in the Oil Sector</p> <p><b>Item 14:</b> Instruct Company to Stop all Oil and Gas Exploration in the Norwegian Sector of the Barents Sea</p> <p><b>Item 15:</b> Instruct Company to Stop all Exploration Activity and Test Drilling for Fossil Energy Resources</p> <p><b>Item 16:</b> Increase Investments in Renewable Energy, Stop New Exploration in Barents Sea, Discontinue International Activities and Develop a Plan for Gradual Closure of the Oil Industry</p> <p><b>Item 17:</b> Instruct Board to Present a Strategy for Real Business Transformation to Sustainable Energy Production</p> <p><b>Item 18:</b> Instruct Company to Divest all International Operations, First Within Renewable Energy, then Within Petroleum Production</p> <p><b>Item 19:</b> Action Plan for Quality Assurance and Anti-Corruption</p>
Key Topics	Climate risk, human capital management
Board Recommendation	The board recommended shareholders vote FOR Item 10 and AGAINST all shareholder proposals (Items 11-19)
BlackRock Vote <sup>2</sup>	BlackRock Investment Stewardship voted FOR Items 10 and 19, and AGAINST Items 11-18. We voted in favor of all management resolutions.

<sup>1</sup> Equinor, "[Annual general meeting](#)".

<sup>2</sup> The BlackRock Fundamental Equity (FAE) Team voted AGAINST Item 19. Please see the end of this Vote Bulletin for the FAE team's vote rationale.

## Overview

Equinor ASA (Equinor) is a Norway-based energy company engaged in oil and gas exploration and production activities. The company is controlled by the Government of Norway (with a shareholding of 67%).<sup>3</sup>

BlackRock Investment Stewardship (BIS) has engaged regularly with Equinor over the last several years to discuss a range of corporate governance and sustainable business matters that we believe contribute to a company's ability to deliver durable, long-term shareholder returns our clients depend on to meet their financial goals. This has included discussions on material climate risks and opportunities, which BlackRock believes can be a defining factor in companies' long-term prospects.

In order to assess companies' strategies to navigate the energy transition, BIS engages with companies and, where we have authority to do so, votes proxies in the economic interests of our clients.<sup>4</sup> As discussed in our commentary, "[Climate risk and the global energy transition](#)," BlackRock's stewardship approach is based on our fundamental role as a fiduciary to our clients. As the world transitions over decades to a low-carbon economy, we are interested in hearing from the companies in which our clients are invested how they are assessing and managing the risks and opportunities arising from the decarbonization of the global economy, while also managing for a reliable energy supply and a just transition. We look for companies to demonstrate they have plans that are resilient under likely decarbonization pathways to limit temperature rise to well below 2°C, ideally closer to the global ambition of 1.5°C.

As investors, we understand that net zero pathways will not be linear or streamlined; the macroeconomic environment, including energy markets, is complex and volatile, and there is a great deal of regulatory and geopolitical uncertainty.<sup>5</sup> In this context, we believe the board and management are best positioned to determine what approach will best equip the company to navigate risks and opportunities in the context of the company's business model and sector. Thorough company disclosures allow investors to understand corporate climate action plans, track progress, and assess the strategic changes that a company may undertake to adapt their business models to respond to different energy transition scenarios.<sup>6</sup>

At Equinor's 2021 annual general meeting (AGM), we [supported](#) a shareholder proposal requesting that the company "set and publish targets that are consistent with the goal of the Paris Climate Agreement: to limit global warming to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C."<sup>7</sup> Our voting on our clients' behalf, where so authorized by them, signals our support for — or concerns about — a company's approach and will always be undertaken with the appropriate consideration of our clients' long-term economic interests as their fiduciary.<sup>8</sup> While we recognized the company's efforts, we

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<sup>3</sup> Equinor, "[Our shareholders](#)". Distribution of shareholders at year end 2021.

<sup>4</sup> Voting on our clients' behalf, when authorized to do so, is one of our core Stewardship responsibilities. Without exception, our decisions are guided by our role as a fiduciary to act in our clients' long-term financial interests. We aim to be a supportive, long-term focused shareholder who takes the context in which a company operates into consideration and makes voting decisions to advance our clients' interests. Climate-related voting decisions carefully assess companies' risk oversight and mitigation, alongside their disclosures detailing how climate risk and opportunity are integrated into their strategy and plans.

<sup>5</sup> BlackRock Inc., "[Managing the Net-Zero Transition](#)", February 2022.

<sup>6</sup> We recognize that companies cannot deliver the energy transition in isolation. A range of stakeholders, including policy makers and consumers, have a role to play to ensure a better equilibrium between supply and demand, given the global economy's current dependence on traditional energy sources and the parallel need to invest in cleaner energy alternatives and other technologies. In our engagements we may also discuss how companies see their role in achieving that equilibrium.

<sup>7</sup> Equinor, "[Shareholder proposals and board response to Equinor's AGM 2021](#)".

<sup>8</sup> We recognize that some of our clients may take a different view, and more of our clients are interested in having a say in how their index holdings are voted. Beginning in 2022, BlackRock is taking the first in a series of steps to expand the opportunity for clients to participate in proxy voting decisions where legally and operationally viable. To do this, BlackRock developed new technology and worked to enable a

believed that supporting the resolution could further accelerate the company's progress on climate risk management. Since then, Equinor has made notable improvements to its climate-related disclosure and strategy.

## **Rationale for BlackRock's vote**

### **Items 3-10, 20-29: Management proposals (FOR)**<sup>9</sup>

#### **BIS is supportive of Equinor's management team, including the company's climate strategy.**

In the ordinary business of the AGM, Equinor's management included a number of management proposals ranging from the approval of the meeting notice and agenda to director re-elections. We supported all management resolutions on the agenda, including the advisory, non-binding proposal on the company's Energy Transition Plan (Item 10).<sup>10</sup>

BIS supported Item 10 in recognition of Equinor's disclosed plan to manage climate-related risks and opportunities and the company's progress against this plan. We believe that Equinor's climate-related disclosure is robust, and clearly outlines the company's decarbonization efforts (please see below for further details).

### **Item 11: Instruct Company to Set Short, Medium, and Long-Term Targets for Greenhouse Gas (GHG) Emissions of the Company's Operations and the Use of Energy Products (AGAINST)**

### **Item 12: Introduce a Climate Target Agenda and Emission Reduction Plan (AGAINST)**

**BIS did not support these shareholder proposals because we believe that the company has disclosed a plan to manage climate-related risks and opportunities. We also recognize the progress Equinor has made against this plan to date.**

At the 2022 AGM, Equinor received two similar shareholder proposals requesting the company to set, implement and publish emissions reduction targets that are consistent with achieving the global 1.5°C increase target under the Paris Agreement.<sup>11</sup> In our assessment, there is a significant amount of overlap between information sought in the shareholder proposals and Equinor's existing Energy Transition Plan.

In March 2022, Equinor published an Energy Transition Plan that focuses on cashflow generation from highly "focused, carbon efficient oil and gas production." The plan also calls for accelerating investments in renewables (particularly offshore wind), the development of blue and green hydrogen and building carbon capture and storage (CCS) value chains.<sup>12</sup>

Equinor's plan includes an ambition to reach a 40% reduction in scope 1, 2 and 3 net carbon intensity by 2035 (and 20% by 2030) and a commitment to increase investments in renewables and low carbon solutions to more than 50% of gross annual investments by 2030 (vs 4% of capex in 2020) whilst growing cash flows and returns in the meantime.<sup>13</sup> Equinor's plan is consistent with what BIS looks for from companies to demonstrate that their strategy is resilient under a range of scenarios, including likely decarbonization pathways to limit temperature rise to well below 2°C, ideally closer to 1.5°C.

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significant expansion in proxy voting choices for more clients. For more information see: <https://www.blackrock.com/corporate/about-us/investment-stewardship/proxy-voting-choice>

<sup>9</sup> Equinor, "[Annual general meeting](#)".

<sup>10</sup> Equinor, "[Energy Transition Plan: Equinor aims to be a leading company in the energy transition](#)".

<sup>11</sup> Equinor, "[Proposals from shareholders and response from the board of directors](#)".

<sup>12</sup> Equinor, "[2022 Energy transition plan](#)". 22 March 2022.

<sup>13</sup> See previous footnote.

In line with United Nations' Intergovernmental Panel on Climate Change's (IPCC) 1.5 pathway,<sup>14</sup> Equinor has also committed to reduce scope 1 and 2 GHG emissions by 50% by 2030 relative to 2015 levels with 90% of the decreases being met by absolute reductions.<sup>15</sup>

In addition to our view that the company is actively addressing the risks and opportunities stemming from the global energy transition, we note that companies face particular challenges in the near term, given under-investment in both traditional and renewable energy, exacerbated by the current geopolitical environment. In recent [research](#), the BlackRock Investment Institute (BII) viewed that reducing reliance on Russian energy in the wake of the invasion of Ukraine will impact the net zero transition that is already underway. Net exporters of energy are likely to be required to increase production, while net importers are expected to accelerate efforts to increase the mix of renewable energy in their systems. This set of dynamics will – at least in the short- and medium term – drive a need for investment in both traditional and renewable sources of energy.

Moreover, in our view, Equinor's ability to set short-term, absolute scope 3 emissions reduction targets, as prescribed in Item 11, is impeded by the current context of significant uncertainty about the pace of declines in oil and gas demand paired with energy security considerations.

Overall, based on BIS' analysis and engagement with Equinor, we consider the company to have made a clear commitment through the Energy Transition Plan to align their business model with the goals of the Paris Agreement.

### **Items 11-18: Shareholder proposals (AGAINST)**<sup>16 17</sup>

**BIS did not support these shareholder proposals based on our assessment that they are overly prescriptive in nature, unduly constraining on management, and in some cases redundant given the company's existing practices and disclosure.**

The majority of the shareholder proposals at Equinor's 2022 AGM addressed a range of social and climate-related issues, including the introduction of a state restructuring fund for those employees working in the oil sector (Item 13), the cessation of oil and gas exploration activity in the Norwegian Sector of the Barents Sea (Item 14), the immediate cessation of all exploration activity and test drilling for fossil fuels (Item 15), increase renewables investments (Item 16), present a strategy for sustainable energy production (Item 17) and to divest all international operations (Item 18).

BIS voted against these proposals as, on our assessment, they are overly prescriptive and stray into micromanagement of business decisions that we do not believe to be the domain or responsibility of shareholders. As discussed in our paper, "[2022 climate-related shareholder proposals more prescriptive than 2021](#)", BIS is not supportive of shareholder proposals that do not promote long-term shareholder value and/or are unduly prescriptive. Without exception, our decisions are guided by our role as a fiduciary to act in our clients' long-term economic interests.

Furthermore, it is not BIS' position to tell companies what their strategies should entail.<sup>18</sup> Rather, based on a company's disclosures, we assess the robustness of their climate action plan, board oversight and business

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<sup>14</sup> IPCC, "[Global Warming of 1.5 °C](#)".

<sup>15</sup> Equinor, "[2022 Energy transition plan](#)". 22 March 2022.

<sup>16</sup> Equinor, "[Proposals from shareholders and response from the board of directors](#)". In Norway, only one share is required to submit a resolution for shareholder consideration at each annual general meeting.

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<sup>18</sup> BlackRock engages on long-term corporate strategy, purpose and financial resilience to understand how companies are aligning their business decision-making with their purpose and adjusting their strategy and/or capital allocation plans to address the risks and

model in addressing the risks and opportunities presented by the global energy transition. We also believe that in some cases, such as Items 16 and 17, there is significant overlap with other proposals.

**We therefore do not believe it is in our clients' long-term economic interests to support these shareholder proposals.**

#### **Item 19: Action Plan for Quality Assurance and Anti-Corruption (FOR)**

**BIS supported this shareholder proposal because, in our view, these are material issues for the company, and we see potential areas for improvement.**

The shareholder proposal requested that the board “give a special account of and outline a specific action plan to actively monitor and better document internal quality assurance within safety, risk and financial management, including detailed audits and HSE [health, safety, and environment] risk management.”<sup>19</sup> The proposal specifically asks the board if there is a plan to prevent the company “from getting involved in corruption, laundering, violation of human rights, and sanctioned businesses in its projects abroad.”

Equinor currently addresses the issues of safety, bribery and corruption in their 2021 Sustainability Report and on the company’s website.<sup>20</sup> According to the company, serious incident frequency and accidental oil spills have been decreasing between 2017-2021. That said, the company recognizes that the frequency of personnel injuries is still higher than peers and industry benchmarking.

Regarding bribery and corruption, Equinor’s disclosure is robust and points to the company policy whereby business integrity risk assessments as well as risk mitigating activities are integrated in all phases of project development. In the past, Equinor has decided to exit countries when the risk level was assessed as being too high. Moreover, in addition to dedicated compliance personnel, Equinor has a business integrity program that provides relevant training and raises awareness amongst all of its employees.<sup>21</sup> In addition to the publicly available Code of Conduct,<sup>22</sup> Equinor discloses payments to governments annually.<sup>23</sup>

However, we believe that support for the proposal is warranted given that the issues of health and safety and bribery and corruption are material risks for the company. As the company recognizes, their performance could be enhanced in some areas including reducing the frequency of personnel injuries, and our vote is intended to encourage management in those efforts. In our assessment, the proposal is not overly prescriptive nor unduly constraining on management’s basic decision-making.

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opportunities of their operations to deliver long-term value for their shareholders. We are not in the position, nor do we seek, to dictate a company’s strategy or its implementation.

<sup>19</sup> Equinor, “[Proposals from shareholders and response from the board of directors](#)”.

<sup>20</sup> Equinor, “[Equinor annual and sustainability reports for 2021](#)”, 18 March 2022, and “[Health, safety and security](#)”.

<sup>21</sup> Equinor, “[Proposals from shareholders and response from the board of directors](#)”.

<sup>22</sup> Equinor, “[Ethics and compliance in Equinor](#)”.

<sup>23</sup> Equinor, “[Governance and transparency](#)”.

## **BlackRock Fundamental Equity (FAE) Vote Rationale on Item 19**

BIS is strategically positioned as an investment function and interfaces with BlackRock's various portfolio management groups, including the Fundamental Equity (FAE) team. BIS confers with, and engages alongside, FAE portfolio managers where an issue is closely related to long-term shareholder value, e.g. deciding how to vote on a material financial transaction. To enable FAE portfolio managers to execute votes in a manner consistent with their view of what is in the best interests of the clients invested in their funds, they have full discretion to vote the shares in the funds they manage based on their own analysis of the economic impact of a particular ballot item.

The FAE team elected to vote AGAINST Item 19. Key to this decision were the following factors:

1. Management confirmed that they have had exhaustive third-party validation (legal) and auditing carried out across their processes for Risk, Corruption, Bribery and Safety. This external verification supports FAE's view that Equinor's processes are of a high standard both in absolute and relative terms;
2. The proponent called out specific mention of safety (fatalities and injuries) as well as cost overruns at the Martin Linge development project. However, these issues occurred prior to the company assuming operatorship and therefore does not impact the team's view on Equinor's rigorous standards.

FAE was aligned with the views of BIS on the remaining items under consideration.

## 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.<sup>24</sup>

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](https://blackrock.com/stewardship)

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<sup>24</sup> 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.