

## Engagement objective

### Environment



Effective water risk management strategy in place, with focus on water-stressed assets



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BHP Group (BHP) has set goals to reduce its fresh water extraction and to collaborate on integrated water resource management in all the catchments where it operates. Hermes EOS has engaged with the company since 2015 towards meeting these milestones and on developing a robust water risk management strategy.

### Background

Water is a critical input for the mining industry. Water scarcity or excess, variability and quality can impact a miner's ability to process and transport ore, suppress dust and store mining waste (also known as tailings). Climate change is already exacerbating water-related issues, as we have seen in the prolonged droughts in Chile and Australia, and floods in northern Brazil. This has forced investment in new solutions to access water, such as the US\$3.4bn invested in a new water desalination plant to provide water to the Escondida copper mine in Chile, which is majority-owned by BHP.

Competing demands for water from both industrial and domestic users based in the same catchment area, often areas where water is already scarce, are a potential source of tension between miners and local communities, putting their social licence to operate at risk. An effective water management framework should include actions at asset-level but also, critically, at basin-level in co-ordination with other water users and authorities.

### Our engagement

BHP has shown leadership in the mining industry regarding its awareness of the climate change risks to its business, following the publication of its first climate change portfolio analysis in 2015. While welcoming the new level of reporting, we were concerned that the company should show similar leadership in its ability to understand and manage the water-related risks to its business, and to report these to investors.

We started engaging with BHP on water-related risk management in 2015. We engaged regularly at management and board level including with: the head of sustainability in 2015, 2016 and 2017; the chair of the board in 2017; and the chair of the sustainability committee in 2018. We acknowledged that water risk analysis and reporting is different to that for climate change and generally more challenging, as consolidated reporting does not provide enough information about water risks. Asset-level assessment and disclosure is necessary due to

the site-specific nature of water-related risks. As we raised these issues, we were assured of the priority given to water management by the board and its commitment to showing leadership on the issue.

Our engagement included attending an investor roundtable, convened by the company, on the importance of water risks and how best to appraise and report on these. We also provided feedback on its developing water management framework, in conjunction with a group of selected investors.

### Changes at the company

We were pleased to see the company's first enhanced water report published in 2018, which disclosed the company's performance and risks at individual asset level, consistent with our expectations. It also presented a five-year target approved by the board to reduce fresh water withdrawal by 15% (2017-2022) and a long-term goal, in line with UN Sustainable Development Goal 6, to collaborate on integrated water resource management in all the catchments where BHP operates by 2030.

### Company overview

BHP is a natural resources company, extracting, processing and marketing commodities such as iron ore, coal, copper, nickel and oil. It has operations in Australia, South America and North America.

The company has two parent companies, BHP Group Ltd, listed in Australia, and BHP Group Plc, listed in London, but it operates as a single economic entity run by a unified board of directors and management team.

The company's water stewardship policy appears reasonably comprehensive and is based on five pillars: risk, value, technology, disclosure and collective action.

- Risk and value: the company will fully integrate water-related issues and effectively value water in the decision-making processes
- Technology: the application of new technologies will be a key component in the improvement of water management practices
- Disclosure: the step-change in disclosure brought about by the inaugural water report prompted the company to refine its water data collection systems and develop a deeper understanding of the materiality of water risk at each site
- Collective Action: BHP will seek to collaborate with stakeholders in each catchment area to address shared water-related issues

**Next steps**

We continue to engage with BHP on water stewardship, providing feedback on its progress towards its medium and long-term water management targets. We also engage with the company on diversity across the workforce, remuneration policy, community relations and tailings storage facilities safety standards.

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