

INDUSTRY ASSOCIATION AUDIT RESPONSE TO AUDIT

April 2019

INDUSTRY ASSOCIATION AUDIT RESPONSE TO AUDIT

Anglo American sees real value in our membership of industry associations to enable¹ the sharing of best practice, the development of standards and the building of a common understanding of issues that affect our business, including the economies and societies in which we operate.

Industry associations vary significantly in their composition, focus and activities and the objective of our membership varies too across issue, geography and commodity. The positions advocated by a given industry association will consider a range of members' views, not all of which will fully align with Anglo American. This diversity of perspective is valuable and enables us to develop a deeper understanding of key issues affecting our industry. We believe that we should debate and shape opinions from within wherever possible.

We also recognise that it is important to review and understand the alignment between Anglo American's policy positions and those of our industry associations and to take action where necessary. In 2018 we commissioned ERM to undertake an independent assessment of our 71 industry associations around the world, and the alignment of our policy positions in relation to climate change and human rights.

Anglo American will complete an industry association audit at least every three years and will reinforce the oversight by our Code of Conduct team in ensuring that potential memberships of new organisations are fully assessed.

GENERAL RESPONSE

Material differences or suspected material differences were identified in less than 1% of cases. This is reassuring, demonstrating that the vast majority of Anglo American's memberships are in line with our policy positions in human rights and climate change.

At the same time, the audit has highlighted the challenge of being fully aligned with stated policy positions or public statements of our industry associations. As the ERM audit statement says,

"The industry associations included in scope vary in nature and can be difficult to directly compare. Categorising the alignment or otherwise of Anglo American's policy positions on Climate Change and Human Rights with the positions of the organisations of which it is a member was designed to overcome this, however in some cases the categorisation is subjective. Detailed comments were provided to and reviewed by Anglo American to support the categorisation."

The subjective nature of the assessment meant that further investigation was necessary in each case in order to understand fully whether the perception of difference matched the reality.

¹ In compliance with applicable law (including antitrust / competition law)

CLIMATE CHANGE POLICY POSITIONS

Specific responses to ERM's judgements regarding the material differences detailed on climate change are below.

World Coal Association (WCA)

Global network for the coal industry. Formed of major international coal producers. Works to demonstrate and gain acceptance for the role coal plays in achieving a sustainable, lower carbon energy future. Involved in lobbying.

ERM's audit perceived material differences in two policy areas:

Policy area: *Restricting global warming to 2 degrees*

Anglo American policy position:

"We support the clear, global and binding agreement to mitigate the impacts of climate change, limit global warming to 2 degrees and enable actions at regional and national levels."

Material difference(s):

WCA although recognising the need for emissions reduction, was found to make no specific recognition of the imperative to achieve the 2 degrees target. Whilst WCA recognises the importance of CCUS, and advocates HELE technology, it does not acknowledge the risks of lock-in of emissions inconsistent with a 2 degree pathway through building of new HELE coal-fired plants without CCS. WCA has a climate change position statement:

https://www.worldcoal.org/file_validate.php?file=Coal%20and%20climate%20change.pdf which is based upon outdated analysis (2015 NPS) from IEA and does not acknowledge IEA 2C scenarios.

All IPCC SR15 pathways show a significant reduction in coal with reductions in primary energy use of between -59% to -78% in 2030 relative to 2010. The 2016 WWF & Ecofys report "The incompatibility of high efficient coal technology with 2degree scenarios" report states 'that HELE coal-fired electricity generation is incompatible with the goal to keep temperature rise under 2 degree.' This suggests that HELE technologies do not align with restricting global warming to 2 degrees.

Anglo American view:

Our view is that the Paris agreement distinguishes between developed and developing countries in terms of the timeframe for the phase out of coal-fired power stations, with 2030 the target for developed countries and 2050 for developing countries and the WCA recognised that distinction in its position statement ahead of the Paris negotiations and continues to do so. At the same time, the WCA has always been clear that this is a pathway to emissions reductions, which includes High Efficiency Low Emission (HELE) technology but has to include Carbon Capture and Storage (CCS) deployment. A page on the WCA's website illustrates this point:

<http://www.worldcoal.org/reducing-co2-emissions/pathway-zero-emissions-coal>

The concluding paragraph reads: *"There is a clear pathway to zero emissions from coal, which starts with HELE and progresses to CCUS. We need greater action to accelerate the deployment of CCUS globally to ensure we meet the targets set in the Paris Agreement. Real solutions to climate change will only come through technological change and action on all low emission technologies, and it's vital that this includes CCUS."*

Separately, the WCA published a report in November 2018 "Driving CCUS deployment: The pathway to zero emissions from coal" which underlined their view on how vital a role Carbon Capture Use and Storage (CCUS) had to play, as the following quote demonstrates:

I

"The evidence is clear: the long-term goals of the Paris Agreement will require widescale deployment of CCUS across a diversity of applications, including electricity generation, industrial applications and bioenergy. Action to advance CCUS requires an international commitment with a broad constituency of support. This commitment must be backed by meaningful policies and associated incentives that enable a deployment trajectory consistent with limiting global warming to well below 2 degrees."

Action taken: We agree that the WCA factsheet does appear to use outdated numbers for its analysis and we have engaged with their team to ensure this is updated.

Policy area: Technology neutral, free-market energy mix

Anglo American policy position: "We support an honest, fact-based and open dialogue that engages all relevant parties, including utility companies, on how current fossil fuel producers and users can shape the future energy mix and be part of the transition to the low-carbon economy. Given that we are the world's largest producer of PGMs, we actively support and invest in the development of hydrogen fuel cell technologies through a range of partnerships, including the Hydrogen Council. We believe that hydrogen fuel cells have a significant role to play in a low carbon future, for example in the development of clean long-distance ground transportation. Hydrogen itself also has a key role to play, through its use in heating and many other energy intense applications."

Material difference(s): Whilst elements of WCA's position on a technology neutral, freemarket energy mix were found to align with Anglo American's policy position, other WCA actions appear to be significantly different. The WCA has in the past called for technology-specific changes in policy, for example, they supported the abandonment of the proposed Australian Clean Energy Target as in their view it would improve the investment prospects for HELE coal-fired generation (Ludlow, 2017). This is not considered to be aligned with Anglo American's policy position. WCA has also called on the World Bank to adopt a new approach to providing support for low emission coal power projects (World Coal Association, 2018). This includes supporting the switch to the best available HELE technology and leading to CCUS, which requires greater support to accelerate deployment. Overall, it was determined that Anglo American's policy position goes further in the pursuit of a technology neutral, free-market energy mix through the engagement with utility providers and its support for a low carbon energy mix.

Anglo American view: With regard to "technology neutral, free-market energy mix", this highlights an issue relevant to our membership of any single commodity or product grouping. Specifically, given the WCA's role as an organisation established to promote coal, it is logical that their focus would be on promoting coal and not other minerals and/or solutions. Our judgement is that whilst there is not complete alignment between the detail in our public policy position and that of the WCA, this should be interpreted in light of the single commodity nature of the WCA's work.

Conclusion: We see real value in continuing our membership of the WCA and have engaged throughout this review with them on these points and have seen a real willingness to take the points on board, understand them and respond. We will continue our engagement with WCA.

Mineral Council of Australia (MCA)

Represents Australia's exploration, mining and minerals processing industry, nationally and internationally, in its contribution to sustainable development and society. Involved in lobbying.

ERM's audit perceived material differences in three policy areas:

Policy Area: Paris Agreement

Anglo American policy position:

"We welcomed the Paris climate agreement signed in December 2015 at COP21. Anglo American is a signatory to the Paris Pledge for Action. We will work with governments, industry peers and civil society, both directly and through industry organisations, to support the development of effective and efficient policies."

Material difference(s):

The outcomes of MCA's Market Demand Study: Australian Export Thermal Coal suggested an increase of coal use for electricity generation within Asia and therefore pushing for further coal fired power stations to meet the rising demand. The projected increase in coal use by MCA was found to contradict the coal use projected within the IEA "SDS" 2 degree climate change scenario (Australasian Centre for Corporate Responsibility, 2018). Furthermore, an increase in coal use and further coal fired power stations was found to contradict the commitments made under the Paris Agreement, and therefore alignment with Anglo American's policy position.

Anglo American view:

We disagree with the basis on which ERM has reached its view on the Paris Agreement.

The report cited a study commissioned by the MCA in order to understand expected thermal coal demand across Asia. It did not promote thermal coal and was not linked in any way to the Paris Agreement.

In this regard, it does not reflect MCA policy or public advocacy in relation to climate policy, rather it provides an insight into expectations for Australia's thermal coal export markets.

Policy Area: Restricting global warming to 2 degrees

Anglo American policy position:

"We support the clear, global and binding agreement to mitigate the impacts of climate change, limit global warming to 2 degrees and enable actions at regional and national levels."

Material difference(s):

MCA was not found to explicitly acknowledge a 2 degrees target or support 'the clear, global and binding agreement to mitigate the impacts of climate change, limit global warming to 2 degrees and enable actions at regional and national levels', as Anglo American does. The MCA lobbying for a new HELE plant in Australia is considered to be inconsistent with a 2 degrees pathway, and therefore Anglo American's policy position, unless it is specifically teamed with CCS. The WWF and Ecofys report: "The incompatibility of high efficient coal technology with 2 degree scenarios" states, that 'HELE coal-fired electricity generation is incompatible with the goal to keep temperature rise under 2degree' (Ecofys (2016)).

The IPCC SR1.5 report states that Australia needs to retire 12 coal fired power stations by 2030 in order to avoid catastrophic climate change. In response to this report, the MCA stated that new HELE technology will be part of the energy mix to reduce global emissions (Slezak, 2018). Although the IPCC SR1.5 is explicitly a 1.5 degree pathway and Anglo American's stated position is to support a 2 degree pathway, Anglo American's policy position appears to go further in limiting global warming to 2 degrees than MCA's approach.

Anglo American view:

We accept that whilst the MCA do not explicitly mention a 2 degree target in their external communications on climate change they do, in their Energy and Climate position available on their website (<https://minerals.org.au/energy-and-climate-change>), recognise the Paris Agreement and acknowledge that “sustained global action is required to reduce the risks of human-induced climate change” and they support a transition to a low emissions global economy.

The encouragement of new build coal-fired power stations, with HELE technology linked to carbon capture and storage may appear to contradict the spirit of the Paris Agreement of the phasing out of coal-fired power generation in developed countries by 2030 and in developing countries by 2050. However, it should be noted that the approach the MCA has advocated, of replacing ageing infrastructure with such technology can reduce significantly emissions and is in line with Australia’s own commitments as detailed in their Nationally Determined Contributions.

Nonetheless, we see scope for the MCA to continue to communicate about the industry’s support for the Paris Agreement and be explicit in its support for limiting global temperature rise to 2 degrees.

Policy Area: Technology neutral, free-market energy mix**Anglo American policy position:**

“We support an honest, fact-based and open dialogue that engages all relevant parties, including utility companies, on how current fossil fuel producers and users can shape the future energy mix and be part of the transition to the low-carbon economy. Given that we are the world’s largest producer of PGMs, we actively support and invest in the development of hydrogen fuel cell technologies through a range of partnerships, including the Hydrogen Council. We believe that hydrogen fuel cells have a significant role to play in a low carbon future, for example in the development of clean long-distance ground transportation. Hydrogen itself also has a key role to play, through its use in heating and many other energy intense applications.”

Material difference(s):

MCA was found to have previously expressed support for a technology neutral and free-market energy mix. However, MCA was also found to have emphasised the importance of coal to Australia’s economy and lobbied for investment into low emissions technologies such as HELE technology and CCS. MCA has also suggested setting the threshold for the Clean Energy Target relative to technology specific factors while pushing for the removal of renewable energy subsidies (Hopkins, 2017). This is considered to be materially different from Anglo American’s policy position as it suggests that MCA does not support a technology neutral energy mix.

Further, MCA lobbying for the removal of renewable energy subsidies is considered to contradict Anglo American’s policy position on promoting the transition to a low carbon economy (Minerals Council of Australia, 2017).

Anglo American view:

It is clear that the MCA has advocated for various forms of technology in the recent past. Our view is that highlighting the benefits of a particular technology and advocating for a level playing field in policy formation is not inconsistent with a technology neutral approach. So, whilst we understand ERM’s judgement, we do not share it.

Conclusion:

We have and will continue to engage with the MCA to encourage a more explicit and vocal alignment of their position with the Paris Agreement, specifically limiting global warming to 2 degrees. In this regard, following our engagement, the MCA has already altered its Energy and Climate Statement on its website.

Hydrogen Council

Launched at the 2017 World Economic Forum at Davos in the presence of industry and policy leaders from Europe, Asia and the US, the *Hydrogen Council* is a global initiative of leading energy, transport and industrial companies with a united vision and ambition for hydrogen to foster the energy transition. Involved in advocacy. ERM's audit perceived material difference in one policy area:

Policy area: *The energy trilemma*

Anglo American policy position:

"There is a contemporary role for responsible and efficient coal mining. It contributes meaningfully to electricity in many developing countries and an energy transition will take time. Thermal coal makes up 37% of the global electricity mix, according to the IEA. It provides an affordable, readily available and reliable form of power generation that many countries, particularly in the developing world, continue to depend on to alleviate poverty and promote growth. We recognise that combustion efficiencies must play a critical role in reducing emissions, as they have the potential to almost halve carbon emissions from coal fired power stations."

Material difference(s):

The Hydrogen Council was not found to directly discuss the role of coal within the energy transition, but states that hydrogen can be an alternative within this transition (Hydrogen Council, 2017).

The Hydrogen Council's position on the energy trilemma is considered to go further, from a climate change perspective, leading to a quicker transition to a low carbon economy than Anglo American's policy position.

Anglo American view:

Similar to our assessment regarding technology neutrality and the Minerals Council of Australia, it is logical that an organisation established to promote one specific issue or commodity would not publicly support other commodities or products, but it is also worth noting that the Hydrogen Council acknowledges the importance of other commodities, products and technologies in the low carbon world. In this regard, ERM suggests that the Hydrogen Council expects a faster low carbon transition than our own position, which is based on judgement and about lobbying or external argument.

Conclusion:

We see no conflict with our position but will remain vigilant to detect and understand any gaps that might appear and consider action where necessary.

Fuel Cell and Hydrogen Energy Association (FCHEA)

Represents the leading companies and organizations that are advancing innovative, clean, safe, and reliable energy technologies. *FCHEA* drives support and provides a consistent industry voice to regulators and policymakers. Involved in both lobbying and advocacy.

ERM's audit perceived material difference in one policy area:

Policy area: *The energy trilemma*

Anglo American policy position:

"There is a contemporary role for responsible and efficient coal mining. It meaningfully contributes to electricity in many developing countries and an energy transition will take time. Thermal coal makes up 37% of the global electricity mix, according to the IEA. It provides an affordable, readily available and reliable form of power generation that many countries, particularly in the developing world, continue to depend on to alleviate poverty and promote growth. We recognise that combustion efficiencies must play a critical role in reducing emissions, as they have the potential to almost halve carbon emissions from coal fired power stations."

Material difference(s):

FCHEA was found to believe that hydrogen can provide the US with energy security, thus reducing reliance on foreign fossil fuels (Fuel Cell & Hydrogen Energy Association, 2018). This approach is materially different from Anglo American's policy position on the energy trilemma, and is considered to go further in terms of the transition to a low carbon energy system than Anglo American's policy position.

Anglo American view:

Similar to our assessment regarding technology neutrality and the Minerals Council of Australia, it is logical that an organisation established to promote one specific issue or commodity would not support publicly other commodities or products, but it is also worth noting that the FCHEA acknowledge the importance of other commodities, products and technologies in the low carbon world. In this regard, ERM suggests that the FCHEA expects a faster low carbon transition than our own position, which is based on judgement and about lobbying or external argument.

Conclusion:

We see no conflict with our position but will remain vigilant to detect and understand any gaps that might appear and consider action where necessary.

The Northwest Territories/Nunavut Chamber of Mines

Since 1967 the Northwest Territories & Nunavut Chamber of mines have represented mining and exploration through promotion of the industry and advising stakeholders on industry positions and initiatives. Involved in lobbying.

ERM's audit perceived material differences in one policy area:

Policy area: Price on carbon

Anglo American policy position:

"We support the use of fair and well-designed market-based instruments, such as carbon pricing. In regions where carbon pricing is an existing or emerging policy, we include carbon pricing in our budgets and project evaluations. We are supportive of the development of consistent policies across jurisdictions."

Material difference(s):

The NWT and Nunavut Chamber of mines sent their recommendation to the government stating that a carbon tax should not be applied to:

- The northern minerals industry;
- Emissions-intensive, trade-exposed industries; or
- Heating fuel when there is no alternative.

They stated that, due to the remote locations, lack of power and transportation infrastructure of the NWT mines, no viable alternatives to fossil fuels are available (The NWT & Nunavut Chamber of Mines, 2017). This is not in line with Anglo American's policy position on the price of carbon which is considered to be more forward thinking.

Anglo American view:

We recognise ERM's audit has highlighted that the NWT has argued against the application of a carbon tax in a certain circumstance. We believe that the ongoing discussion is not contrary to Anglo American's position on carbon pricing. We believe that any policy needs to be well-designed, fair and market-based. We continue to work with the Government of the Northwest Territories and the NWT/Nunavut Chamber of Mines on a carbon tax programme that is reflective of the realities of working in the NWT, including being sympathetic to the fact that most of the territory runs on diesel due to a lack of other power options.

Conclusion:

It is our opinion that the perception of a material difference by ERM is not supported by the facts of the specific context.

Human Rights Policy Positions

ERM conducted the same analysis for all 71 associations in relation to Anglo American's human rights policy positions. Their findings were as follows:

"In addition to the material differences identified, five suspected material differences on Human Rights positions were identified across three different industry associations. It has been recommended that Anglo American further investigates these suspected material differences."

Anglo American investigated each of the suspected material differences, involving experts in the business in relation to each relevant industry association. In each case we concluded that no material difference with our human rights policy positions existed and that we were comfortable not publishing these findings. In one instance, there are pending legal proceedings (unconnected with Anglo American), the outcome of which could change that judgement. We will continue to monitor these proceedings.

Conclusion:

We remain confident that there is no contradiction between our current human rights public policy positions and our membership of each of the 71 associations.