What does the advocacy group the Australian Centre for Corporate Responsibility (ACCR) have in common with the Local Government Super fund, the Church of England Pensions Board, and the Seventh Swedish National Pension Fund?

Quite a lot, it seems. These three institutional investors joined with the ACCR to co-file a shareholder resolution on climate change at mining giant Rio Tinto's Australian annual general meeting in Melbourne yesterday. While Rio's board advised shareholders to vote against the resolution, there was a very healthy showing of 18.3% shareholders voting in support (over 20% including abstentions).

The resolution called on Rio to review and comprehensively report on its membership of industry associations such as the Minerals Council of Australia (MCA). The MCA's pro-coal political lobbying has been distinctly at odds with the position of companies such as Rio, which publicly support measures to reduce carbon emissions in line with the Paris climate agreement.

Read more: ***Is BHP really about to split from the Minerals Council's hive mind?***

This alliance between civil society and institutional investors is significant for several reasons.

Institutional investors (large investors such as superannuation funds which pool money to buy shares and other assets) are increasingly concerned about the long-term resilience of their investments to the business risks posed by climate change.

For an energy-hungry miner such as Rio, these risks include changing energy prices and markets, as well as operational disruptions caused by climate impacts such as storms, floods, and droughts.

Investors want companies to disclose these risks fully and to outline how they will manage them to maintain company value over the long term. As the Rio resolution suggests, they also want companies to be transparent and consistent in their approach to climate change. Paying multimillion-dollar memberships for industry associations that lobby against climate action is inconsistent with the long-term investment goals of such shareholders.

New phenomenon

Shareholder resolutions on climate change are a relatively new phenomenon in Australia. In the United States, however, there is a long history of using resolutions to pressure companies to address human rights abuses and change their approach to issues like climate change .

In Australia, advocacy groups such as ACCR (and its counterpart Market Forces) have taken up this tool more recently and lodged resolutions to Australian banks, utilities, oil and gas companies, insurers , and now the big miners, asking for improved disclosure and better management of climate risks.

What's more, institutional investors are increasingly backing these requests . This latest resolution to Rio Tinto is also reportedly supported by key voting advisors ACSI and Regnan, as well as other major Australian super funds .

As a result, it marks a significant shift in investor culture in Australia, signalling an increased willingness to engage proactively and publicly on environmental, social and governance issues.

Compared with the US and UK, shareholders in Australia have more limited rights to bring resolutions to an AGM expressing their views or requesting that certain actions be undertaken by company management. Australian court decisions have upheld a strict division of powers between company management and shareholders. Nonbinding advisory resolutions on matters that interfere with company management are not permitted. This means shareholders must lodge a special resolution to change the company constitution to allow them to put forward an advisory resolution on a substantive matter such as climate change.

This is not only clunky and inefficient, but also acts as a significant deterrent for investors to support a substantive resolution with which they would otherwise concur. There are renewed calls for law reform, widely supported by institutional investors and also, increasingly, by some of the companies facing these resolutions, to change the law to allow for a more consistent and orderly approach in Australia.

Do these resolutions actually change behaviour?

From their brief history in Australia so far, it appears that shareholder resolutions on climate change, together with a range of other influences, do have the potential to drive change. Many Australian companies that have faced these resolutions so far have responded with significant improvements in climate risk disclosure and management.

Santos recently released its first Climate Change Report; AGL has developed a long term energy transition strategy; and BHP Billiton (which faced a similar resolution to Rio Tinto on its membership of industry associations in 2017) has announced its withdrawal from the World Coal Association and reviewed its other industry association memberships, including the MCA.

While these developments are undoubtedly the result of many factors – including technology and market developments, behind-the-scenes engagement with investors on climate risks, and increased pressure from financial institutions and regulators – it seems that shareholder resolutions can help to focus a company’s attention on ensuring its climate stance is defensible to shareholders. The impact of these resolutions in Australia may also be a function of their relative novelty compared with other jurisdictions such as the United States.

Read more: ***Why has BHP distanced itself from legal threat to environment groups?***

This week's resolution at Rio Tinto signals a coming of age for investor engagement on climate change in Australia. Shareholder resolutions have clearly become an important part of the toolbox for civil society in Australia seeking to influence corporate decision making on climate change.

As mainstream investors come on board with these resolutions, their potential impact is heightened considerably. For their part, Australian institutional investors seem to be increasingly willing to stand behind calls for better disclosure and management of climate risks by the companies in which they invest, including by forming new alliances and supporting the use of these more activist tools.

In a country with a relatively conservative approach to investor engagement, these are important cultural shifts. They offer promising signs that Australian businesses and investors are taking a more considered and proactive approach on climate risks.

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