BorgWarner, Inc. (BWA)
Proposal 7: Just Transition Report
Proponent: Domini Impact Investments
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Resolved: Shareholders request that the Board of Directors publish a just transition report, disclosing how BorgWarner is assessing, consulting on, and addressing, the impact of its climate change-related strategy on relevant stakeholders, including but not limited to its employees, workers in its supply chain, and communities in which it operates, consistent with the ILO’s “just transition” guidelines. The report should be updated annually, at reasonable cost, and omit proprietary information.

Supporting Statement: Shareholders recommend the report include, at Board discretion:
• A set of measurable, time-bound indicators, such as those recommended by Climate Action 100+, World Benchmarking Alliance, or the Glasgow Financial Alliance for Net Zero -- and progress against such indicators; and
• Disclosure on the company’s stakeholder engagement process in developing its just transition plan, such as participating stakeholders, key recommendations, and progress on recommendations made.

Summary:
1. BorgWarner, as a key player in the automotive industry, anticipates significant changes to its business over the next several years to advance the Charging Forward strategy. A robust just transition plan that integrates human capital planning into the climate strategy can help BorgWarner mitigate operational risk and challenges.
2. Investors recognize that a just transition – ensuring that workers and communities are not left behind - is critical to long-term value creation, minimizing disruption, and achieving climate objectives. Companies that engage key stakeholders to support the transition will be better prepared and demonstrate their readiness for the transition.
3. There is strong and increasing support for the just transition, and reporting methodologies are available to support companies in providing enhanced, comparable, and decision-useful disclosure.

Background:

A just transition involves moving the global economy towards net zero while understanding, and then mitigating, any potentially negative impacts to workers, suppliers, and communities. At the company level, preparing workers for the transition can help ensure continuity of operations, attract and retain talent, and capitalize on new opportunities brought by the shift to electrification. At the systemic level, failure to achieve a just transition may result in large scale social disruption and may slow the pace or adoption of the low-carbon transition, creating problems from which investors will be unable to diversify.

The International Labour Organization (ILO)’s guidelines for a just transition published in 2015, are well established, serving as a framework for both countries and businesses to create decent jobs and promote social protection as the economy moves toward carbon neutrality. The ILO notes that “A Just
Transition needs to be prioritized by countries and businesses around the globe right away, as a matter of urgency.ii The Paris Agreement, with which BorgWarner has aligned its climate commitments, also highlights “the imperatives of a just transition of the workforce and the creation of decent work and quality jobs” for achieving global climate goals. There is increasing investor support of just transition disclosure, as demonstrated through new benchmarks, investor statements and inclusion of just transition in the Climate Action 100 Benchmark.

BorgWarner has a commitment to make the transition toward electrification of transportation, which in fact is already well underway through the Charging Forward strategy, including in the form of acquisitions and dispositions. However, the Company faces potential business risks if it does not fully address workforce needs and community impacts during this transition to electrification. While it has disclosed some isolated efforts on workforce engagement or training, and says that it is already “assessing and disclosing impacts on its workers and communities in which it operates,”iii what is lacking is a framework for systematic workforce and community engagement, that indicates depth and reach, and disclosure that provides insights on the learnings, for example on skills needed, roles affected, and how these impacts are being addressed through the climate strategy – in the form of a just transition report. It is not “premature” to disclose this, as the Company’s opposition statement argues, but would demonstrate that as this plan unfolds, it is a holistic, comprehensive, and stakeholder informed climate strategy that is more likely to be resilient and successful. Proponents believe investors would benefit from disclosure of the just transition strategy.

Rationale for a “YES” vote:

1. **A robust just transition plan can help BorgWarner mitigate operational risk and challenges related to workforce planning.**

As noted in the proposal, failure to understand the implications of and properly prepare its workforce for the transition to electrification may disrupt BorgWarner’s current operations, such as through significant changes to the number of workers it employs, the skills they must possess, or the quality and benefits of jobs. It may also impact the size and location of the company’s manufacturing facilities, which may in turn affect the communities in which BorgWarner operates through changes in local economic activity and tax revenue. Investors seek additional information that cross-functional teams in senior management and risk management functions – from personnel to community engagement to climate scenario analysis – are looking at the intersection of these issues, and on how the Company is planning to address these risks to its operations.

The upcoming spin-off of BorgWarner’s fuel systems and aftermarket segments, expected to be called PHINIA,iv presents one such opportunity for the Company to become a market leader in just transition planning, but it also presents potential risks if the Company does not adequately prepare for a just transition. As the Company prepares to split into two entities, the timing appears ripe for embedding a focus on just transition into how PHINIA will approach its strategic planning, especially as its planned business segments are among those most at risk as a result of the climate transition. BorgWarner has 52,7000 employees worldwide,v and the disposition will likely affect a significant segment, yet existing disclosures do not outline these impacts, relocations, or layoffs, nor the associated stakeholder engagements. For example, it is not known whether employees that have previously received training
are part of the business unit included in the PHINIA spin-off. Furthermore, in the absence of just transition disclosure, stakeholders are unable to put workforce and plant closure announcements in context and understand their connection to the climate strategy. One such example is the recent announcement of plans to close a plant in Lansing, New York, impacting 280 jobs, in part noting decreased need for valvetrain production which is used in internal combustion engines.\textsuperscript{vi} It is unclear if this is isolated, connected to the PHINIA spin-off, or if these are workers who will be upskilled or relocated. Such information is needed to understand the scale of the potential job losses and their impacts on the workforce and on the communities where they live, where BorgWarner may be a primary employer, as well as to ensure a skilled and ready workforce is prepared to move the climate strategy forward.

BorgWarner notes in the opposition statement that it expects its combustion-related portfolio to grow and that “the existing skillsets of our workforce will be crucial to execute on those opportunities.” Investors are concerned that the Company may not have fully evaluated and analyzed these impacts, including through consultation with those people who may be impacted, and may be under-estimating the impacts to workers and communities resulting from the pace and scale of change that is necessary to transition to electric vehicles and meet global climate goals. Business planning for continued growth of the company’s combustion portfolio might instead leave it exposed to operational and workforce-related challenges. This anticipated growth in combustion may also conflict with BorgWarner’s recent commitment to setting greenhouse gas targets through the Science Based Targets initiative (SBTi), as well as recent shifts in the regulatory environment, where states like California, Massachusetts, Oregon, and Washington have announced plans to phase out the sale of gas and diesel-powered vehicles by 2035.\textsuperscript{vii}

In addition, clarity on the shifts to size, scope, and nature of employee skills, wages, benefits, and diversity, equity, and inclusion (DEI), would be beneficial. It would reassure investors, as well as the Company’s own workforce, that the Company has insight and awareness of how the workforce will evolve alongside the Company, and that it is agile and well-positioned to deploy its workforce where needed, especially in a competitive employment environment. Instead, disclosure paints a somewhat conflicting picture, noting in the opposition statement that it anticipates growth in the workforce for an expanding combustion portfolio, while other disclosures note training of employees for the transition toward electrification, while the PHINIA spin-off appears to include the combustion-based business. Disclosure is also needed on how relevant workers across the business are being equipped and trained to meet the Company’s needs and how the training offered aligns with the Company’s overall climate strategy. BorgWarner states in its 2022 10-K that “the Company provided more than 112,000 hours of training to salaried employees in the year ended December 31, 2022.”\textsuperscript{viii} However, out of context this information is not that helpful; it does not describe the nature of that training, which salaried workers were selected for it, if those workers were retained, and what (if any) training was offered to non-salaried employees, who make up 68% of its workforce.\textsuperscript{ix} Should BorgWarner have the opportunity to pivot more heavily into electric vehicle components than currently planned, ensuring that it is well positioned and that its talent pool is well-equipped will be essential.
2. **Investors recognize that a just transition is critical to long-term value creation, minimizing disruption, and achieving climate objectives.**

Much of the focus on just transition has been on coal, energy, and electric utilities, which require significant draw down of fossil fuel infrastructure and jobs. Similarly, automotive, as the third largest emitter, is now broadening the focus of climate transition planning to address a just transition of the workforce and impacted communities. BorgWarner’s customers are already moving in this direction. BorgWarner will demonstrate its readiness and strategic resilience by disclosing its just transition strategy and meet its customer demands.

- Ford, which accounted for 13% of BorgWarner’s 2022 consolidated net sales, is targeting 50% of its global vehicle sales to be electric by 2030. The company published a human rights report in 2022 that addressed just transition, in which it disclosed plans to offer its retraining and upskilling programs to members of the communities in which it operates who are not already employed by the company.
- General Motors (GM), one of BorgWarner’s three primary North American customers, plans to sell only zero-emission vehicles by 2035. GM has committed to prioritizing equitable climate action as it transitions to an electric vehicle future.
- Stellantis, another of BorgWarner’s three primary North American customers, is targeting 100% of European and 50% of U.S. vehicle sales to be electric by 2030. The company discusses its commitment to social dialogue, a key component of the ILO’s just transition guidelines, in its Corporate Social Responsibility report.
- Volkswagen, which accounted for 8% of BorgWarner’s 2022 consolidated net sales, is targeting unit sales of electric vehicles of 70% in Europe and over 50% in the U.S. and China by 2030. Volkswagen details its emerging perspectives on just transition in the “People in the transformation” section of its sustainability report.

These key customers understand the important role workers and communities play in achieving a successful transition to electrification. As their own just transition reporting and planning become more sophisticated, their attention will likely turn to the preparedness of suppliers like BorgWarner.

The International Energy Agency notes that the disruption to local economies through job losses in a transition without proper just transition planning can be profound. The Company’s current disclosure does not adequately explain the potential impacts of how retraining and retention can avoid this, particularly among its non-salaried workforce. The Company’s 10-K states that 13% of the Company’s US-based workforce is unionized, and it is unclear how the Company’s training for those workers differs from non-unionized workers. This information provides additional rationale for the Company to refocus its transition strategy to a just transition strategy; the Company may risk increased scrutiny from its customers, in addition to its workforce and community partners, if it fails to adequately prepare for the coming transition.
3. There is strong and increasing support for the just transition, and reporting methodologies are available to support companies in providing enhanced, comparable, and decision-useful disclosure.

In April 2020, xxiv 161 investors representing USD $10.2 trillion in assets signed the Statement of Investor Commitment to Support a Just Transition on Climate Change, xxv which recognizes that the “responsible management of workforce and community dimensions of climate change are increasingly material drivers for value creation.”

While the opposition statement notes that the Company met with a set of stockholders who are pleased with its sustainability strategy and ESG integration practices, this proposal does not argue that BorgWarner is lagging on ESG as a whole. Rather, the proposal seeks more robust disclosure on an emergent risk for the company - how BorgWarner is preparing its workforce for the transition from combustion to electrification in order to fill the gaps in current reporting, which is high-level and absent of specific key performance indicators.

BorgWarner’s opposition statement says “The ILO’s Just Transition standards are nascent and still in ‘beta’ form” and points to an “absence of established standards.” These comments are misleading and misrepresent the just transition landscape. As previously noted, the ILO’s just transition guidelines xvi were published in 2015 and are widely accepted as best practice. At least five additional shareholder resolutions focused on just transition have highlighted the ILO’s guidelines. The World Benchmarking Alliance (WBA)’s Just Transition Methodology was published in 2021, and was developed in partnership with a global community including the International Labour Organisation (ILO), International Trade Union Confederation (ITUC), BSR, B Team, Grantham Research Institute, Ceres, Institute for Human Rights & Business (IHRB), Africa Investor Group, International Institute for Environment and Development (IIED). It provides a roadmap for companies across six indicators, against which companies can report, and investors can evaluate comparable data. xvii A recent open letter to oil and gas companies highlighting WBA’s just transition work was supported by 54 investors. xviii

The Climate Action 100+ Net Zero Company Benchmark, xxix which defines key success indicators for business alignment with the goals of the Paris Agreement to limit global temperature rise to 1.5°C, commonly viewed by investors as a useful tool for analyzing companies’ climate transition strategy, includes Just Transition as one of ten disclosure indicators. The Benchmark framework was developed in consultation with 50 signatory investors, investor network experts, leading climate research and data organizations and corporate stakeholders and was published in October 2021. xxi Benchmark assessments are currently utilized by 700 signatory investors representing $68 trillion in assets under management to inform engagement with focus companies. The framework and methodology are publicly available, and thus can be utilized as a resource by any interested investor. The just transition indicator was introduced in beta form to seek stakeholder input and test its methodology. This indicator assesses companies’ commitment to just transition principles and whether they implement their decarbonization strategies in line with those principles, among other elements. An updated indicator, informed by a public feedback consultation, is due out shortly. The initiative has stated that the Benchmark will continue to evolve to best reflect investor priorities. As such, the Spring 2023 updated 5just transition indicator will reflect the most salient and up-to-date investor expectations. This could
provide a meaningful framework for BorgWarner to provide relevant, high quality, and repeatable disclosures.

Models from other sectors can also help inform pieces of reporting expectations, in the context of a complete just transition strategy. For example, AEP discloses estimated economic and employee headcount impacts resulting from plant closures, and Southern Company has published a report on just transition that elaborates on its approach to stakeholder engagement and board oversight of just transition. Duke Energy lays out a set of actions it pledges to take regarding stakeholder engagement, including to “solicit early input from environmental justice communities and use this feedback to inform our business decisions,” as well as to “engage and assist communities that experience adverse economic effects from fossil fuel plant closures as we continue our transition to cleaner energy sources.” PPL includes a table in its sustainability report outlining the forums in which it engages its stakeholders.

Additional resources are available to help investors assess the quality of companies’ climate transition plans. Groups like the Glasgow Financial Alliance for Net Zero and the We Mean Business coalition have developed guidance on what a climate transition plan should entail, and just transition planning is a core element.

For all reasons noted above, just transition standards and expectations are available, already in use, and understood by many companies, investor, and stakeholders.

**Conclusion**

BorgWarner notes in its opposition statement that it “already has a sustainability program that includes assessing and disclosing impacts on its workforce and communities in which it operates,” however current disclosures are insufficient for understanding the Company’s assessment process and the extent to which impacts are being managed. The Company also states that its time would be better spent “continuing to engage with all our stakeholders.” This is exactly the sentiment of this proposal, which recommends that the Company provide more detailed disclosure of its stakeholder engagement process. BorgWarner notes the important role of its people in achieving its goals. It is because of this that supporting this proposal is warranted. Investors are asking the company to provide further disclosure on this important Company value and how the company is addressing the impacts of its climate strategy on its key stakeholders.

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