RATHBONES

SHELL: ADDRESSING CLIMATE RISK

WHAT'S THE ISSUE?

The **Paris Agreement** is an international accord to limit global warming, adopted at the 2015 UN Climate Change Conference. Countries have agreed to work to keep temperature increases to less than 2°C above pre-industrial levels, and preferably to 1.5°C. This is the generally accepted estimate for what is required for the world to reach net zero carbon emissions by the middle of this century.

The **International Energy Agency** (IEA) has said that for this to happen, energy groups must stop all new oil and gas projects. It calls this its **'Net Zero by 2050 pathway'**. However, many energy companies continue to develop new fields.

Rathbones was one of 27 institutional investors that co-filed a shareholder resolution ahead of Shell's May 2024 annual general meeting (AGM). It called on the company to align its Scope 3 medium-term emissions reduction targets with the Paris Agreement. **'Scope 3 emissions' covers those outside its direct operations**, such as when a car burns petrol produced by Shell. The bulk of its emissions are Scope 3. By medium-term, we mean targets for 2030.

The resolution also noted that the company had only partially disclosed a target for Scope 3 emissions to align them with the IEA's Net Zero by 2050 blueprint. Moreover, those medium-term Scope 3 targets that it had published were only partly aligned with Net Zero by 2050.

The company had also met in full only two of the ten indicators set by **Climate Action 100+** (CA100+). This is an investor group that presses the highest-emitting companies to set stretching targets – and accompanying strategies – to cut emissions.

The company had in fact gone backwards by removing a target to cut net carbon intensity – emissions per unit of energy – by 45% by 2035, compared with 2016.

WHAT DID WE DO?

We believe the Chair of the board, Andrew Mackenzie, ultimately shoulders the most responsibility of all board members for failing to effectively supervise the management of risks for the company and its shareholders,

So at the AGM we abstained on his re-election. This is an escalation from previous years when our stance was to support management. We also voted against the company's energy transition plan, which sets out its strategy for moving towards net zero.

Ahead of the AGM we also declared on the **Principles for Responsible Investment** (PRI) website our intention to support shareholder resolution on carbon emissions.

The PRI is a global initiative, backed by the United Nations, committed to advancing responsible investment through collective action on six aspirational principles. For example, Principle 1 is: "We will incorporate ESG issues into investment analysis and decision-making processes."

WHAT HAPPENED?

We were disappointed to see that the shareholder resolution we co-filed received only 18.6% support, lower than previous years' resolutions calling for more action on climate change.

Altogether, 9.8% of shareholders voted against the re-election of the Chair.

The energy transition plan backed by management saw the greatest opposition, at 21.9%. This was above the 20% threshold at which votes against management are put onto the **Investment Association's Public Register**. That means management must publish a statement within six months saying how it's responded to shareholders' concerns.

Shell's investor relations department contacted Rathbones to arrange a meeting to discuss the voting results and the company's climate strategy.