BlackRock

Investment Stewardship

# Vote Bulletin: Royal Dutch Shell plc

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| Company | **Royal Dutch Shell plc (LSE: RDSA)** |
| Market and Sector | United Kingdom, Netherlands/Energy |
| Meeting Date | 18 May 2021 |
| Key Resolutions[1] | **Item 20**: Approve the Shell Energy Transition Strategy<br>**Item 21**: Request Shell to Set and Publish Targets for Greenhouse Gas (GHG) Emissions (Shareholder resolution) |
| Key Topics | Climate risk |
| Board Recommendation | The Board recommended voting FOR Item 20, and AGAINST Item 21 |
| BlackRock Vote | BlackRock voted FOR Item 20 because the resolution meets our expectations that companies have clear policies and action plans to manage climate risk. We voted AGAINST Item 21 because the points raised in it are addressed by the advisory shareholder vote proposed by management. |

## Overview

Royal Dutch Shell plc (Shell) is a major integrated oil and gas company based in the Netherlands, which operates through the following segments: Integrated Gas, Upstream, Downstream and Corporate.

BlackRock Investment Stewardship (BIS) has engaged with the company for several years to discuss corporate governance issues that we believe drive long-term shareholder value, including management and board oversight of climate-related risks and sustainability disclosures.

At the 2021 annual general meeting (AGM), management proposed, as a first for the industry, an advisory shareholder vote on the company's Energy Transition Strategy,[2] i.e., a "say on climate." As part of the resolution, Shell will publish an update to its Energy Transition Strategy every three years to 2050, with the next update expected before the AGM in 2024. Beginning in 2022, the company will offer shareholders an annual advisory vote on its progress towards achieving its stated plans and targets. According to the company, the "Board is fully aligned with this strategy and believes it will deliver value for our shareholders, our customers and wider society."[3]

[1] Royal Dutch Shell plc, "Notice of Annual General Meeting".

[2] Royal Dutch Shell plc, "Shell Energy Transition Strategy".

[3] Royal Dutch Shell plc, "Notice of Annual General Meeting".

## Rationale for BlackRock’s Vote

**Item 20: Approve the Shell Energy Transition Strategy (FOR)**

**BIS voted for this resolution because it meets our expectations that companies have clear policies and action plans to manage climate risk and provides a roadmap towards the company’s stated climate ambitions and targets.**

BIS considers Shell to be an industry leader on the management, oversight and disclosure of climate-related risks and opportunities. The company’s Energy Transition Strategy meets our expectations that companies have clear policies and action plans to manage climate risks and to realize opportunities presented by the global energy transition to a low carbon economy. Moreover, Shell is the first energy company to present its energy transition strategy to an advisory shareholder vote.

Shell is also committed to updating its Energy Transition Strategy every three years and to offer shareholders the opportunity to vote on progress annually, providing an on-going formal mechanism for signaling support for, or concern about, its actions. Shell’s Energy Transition Strategy is based on “the structure around the net-zero disclosure standard developed by Climate Action 100+ for the oil and gas industry,”[4] and includes a clear explanation of its plan to become a net zero emissions energy business by 2050.[5] The company publishes short-, medium-, and long-term greenhouse gas (GHG) emissions reduction targets in line with the goals of the Paris Agreement that cover scopes 1, 2 and 3 emissions.[6] Shell also already reports in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), which it began doing in 2018.[7] The 2021 Energy Transition Strategy provides more details on the company’s work to implement the recommendations of the TCFD.

Accordingly, BIS voted for this resolution to recognize the company’s progress, clearly-stated policies and action plans to manage climate risks, as well as our view that a management-proposed advisory vote on the company’s energy transition strategy is a pioneering initiative that could become an effective channel for shareholders to provide feedback. Regular review and an annual shareholder vote may also help accelerate progress on this issue, particularly as consensus is built amongst governments, companies, climate and energy experts, and society on the necessary transition pathway.

Notably, while BIS is supportive of this resolution at Shell for the reasons stated above, we will continue to take a case-by-case approach to “say on climate” resolutions more broadly.

**Item 21: Request Shell to Set and Publish Targets for Greenhouse Gas (GHG) Emissions (AGAINST)**

**BIS voted against this resolution because we prefer the annual “say on climate” advisory vote offered by management as a mechanism for shareholders to give feedback on the company’s climate strategy.**

The binding resolution requested that “*the company set and publish targets that are consistent with the goal of the Paris Climate Agreement: to limit global warming to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C. These quantitative targets should cover the short-, medium-, and long-term greenhouse gas (GHG) emissions of the company’s operations and the use of its energy products (Scope 1, 2, and 3). Shareholders request that the company report on the strategy and underlying policies for*

[4] Royal Dutch Shell plc, “Shell Energy Transition Strategy”.

[5] Royal Dutch Shell plc, “Our climate target”.

[6] Royal Dutch Shell plc, “Shell Energy Transition Strategy”.

[7] See previous footnote.

*reaching these targets and on the progress made, at least on an annual basis, at reasonable cost and omitting proprietary information.*"[8]

While we have some reservations about the language used in the supporting statement, we broadly support the specific ask of the resolution. Shell already publishes much of the information sought by the resolution through its current Energy Transition Strategy, but we prefer the annual "say on climate" advisory vote offered by management as a mechanism for shareholders to give feedback on the company's approach. We expect that Shell will continue to progressively refine GHG emissions reduction targets in its triennial transition strategy updates.

We note that the supporting statement of Item 21 mentions that "whatever metric is chosen (relative or absolute), the targets must be proven to lead to absolute emissions reductions compliant with the Paris Climate Agreement."[9] Our view is that investors would benefit from having greater specificity around what constitutes targets aligned with the Paris Agreement. We recognize that these methodologies are emerging, and we think that organizations like the Science-Based Targets Initiative will have an important role to play in defining the 'right' transition pathways for large energy companies. We think this will be essential to achieving broad-based support for transition strategies for large energy companies. However, until such methodologies are finalized and broadly adopted, we recognize that it might be challenging for any company to *prove* compliance with the Paris Agreement.

As previously discussed, we are supportive of Shell's current climate strategy, while acknowledging the need for regular revisions in light of regulatory and policy changes, as well as market and societal developments. We also value the annual advisory vote offered by management as a mechanism for shareholders to give feedback on the company's climate strategy. BIS will monitor Shell's progress on the energy transition strategy on an ongoing basis and will use its annual "say on climate" vote, as well as hold the company's directors accountable by voting against the re-election of relevant board members, should we have concerns with the planning, implementation or disclosures of the strategy.

***Post-AGM update***

On May 26, a Dutch district court ruled that Shell is required reduce its $CO_2$ emissions by 45% in 2030 to bring it in line with the Dutch Government's commitments to the Paris Agreement.[10] The decision also applies to Shell's supplier and customers. This is a significant acceleration on the company's current plan which targets a 20% reduction in Net Carbon Intensity (scope 1, 2 & 3) by 2030. We understand that the company will need to assess its course of action and plans in light of this new important development and look forward to engaging with them as they do so.

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[8] Royal Dutch Shell plc, "Notice of Annual General Meeting".

[9] See previous footnote.

[10] Royal Dutch Shell plc, "Shell response to Dutch court ruling in case brought by Milieudefensie".

## About BlackRock Investment Stewardship (BIS)

BlackRock Investment Stewardship (BIS) plays a key role in our fiduciary approach. As an essential component of our responsibility to our clients, we engage with companies to advocate for the sound corporate governance and business practices that drive the sustainable, long-term financial returns that enable our clients to meet their investing goals.

Our approach is from the perspective of long-term, minority shareholders in public companies on behalf of our clients. We look to boards and executive management to serve the interests of long-term shareholders and other stakeholders. Our active and ongoing dialogue with the leaders of these companies gives us a valuable perspective on their long-term strategies, financial performance, and the business challenges they face.

As stewards of our clients' assets we have a responsibility to make sure companies are adequately managing and disclosing environmental, social and governance (ESG) risks and opportunities that can impact their ability to generate long-term financial performance — and to hold them accountable if they are not. Engaging with companies is how BIS builds an understanding of a company's approach to governance and sustainable business practices, how we communicate our views, and how we ensure companies understand our expectations. If a company falls short of our expectations and we have been given the authority to vote the company's shares, we would hold them accountable by voting in the best long-term economic interests of those clients that have given us proxy voting authority. As detailed in our Global Principles, proxy voting involves logistical issues which can affect BlackRock's ability to vote such proxies, as well as the desirability of voting such proxies. As a consequence, BlackRock votes proxies on a "best-efforts" basis.

We are committed to transparency in our stewardship practices. Our vote bulletins provide detailed explanations of key votes relating to a range of business issues including ESG matters that we consider, based on our Global Principles, market-level voting guidelines, and engagement priorities, material to a company's sustainable long-term financial performance. We publish select vote bulletins after the shareholder meeting to provide transparency for clients and other stakeholders into our approach to the votes that we believe require more detailed explanation.