Investment Stewardship Group

# Voting Bulletin: Royal Dutch Shell plc

As part of our fiduciary duty, BlackRock's Investment Stewardship team (BIS) advocates for sound corporate governance and business practices that are aligned with long-term sustainable financial performance. This objective underpins all our engagements and votes at company meetings.

We engage company leadership on key topics emphasizing governance practices including management of environmental and social factors that potentially have material economic, operational or reputational ramifications for the company.

We determine our engagement priorities based on our observation of market developments and emerging governance themes and evolve them year over year as necessary. The BIS team's key engagement priorities include:

1. Board quality
2. Environmental risks and opportunities
3. Corporate strategy and capital allocation
4. Compensation that promotes long-termism
5. Human capital management

We are committed to enhancing the transparency of our stewardship practices. Where we believe it will help to understand our voting decisions at shareholder meetings, we will publish a Voting Bulletin explaining the rationale for how we have voted on select resolutions, and (where relevant) provide information around our engagement with the issuer.

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| Company | **Royal Dutch Shell plc** |
| Market | United Kingdom and Netherlands (dual-listed) |
| Meeting Date | 19th May 2020 |
| Key Resolutions | **Item 21:** Request Shell to Set and Publish Targets for Greenhouse Gas (GHG) Emissions |
| Board Recommendation | **Item 21:** AGAINST |
| BlackRock Vote | BIS voted AGAINST the shareholder resolution. |

BIS believes that as companies face material climate risks, they must demonstrate that management have assessed how climate may impact operations and determined an appropriate business strategy. As we describe in our commentaries on our Approach to Engagement on Climate Risk and Emissions, Engagement, and Transition to a Low-Carbon Economy, we expect robust disclosures of climate-related risks and opportunities in line with the recommendations of the Sustainability Accounting Standards Board (SASB) and the Task Force on Climate-related Financial Disclosures (TCFD). Greater transparency will contribute to improved market-level data, better engagements with shareholders, and more informed voting decisions aligned with long-term value creation.

## Overview

Royal Dutch Shell plc (Shell) is an energy company based in the Netherlands. It is dual-listed in the United Kingdom and the Netherlands.

Shell is a leader among its peers regarding existing disclosures. The company makes comprehensive climate related disclosures in a dedicated Climate Report (aligned with TCFD),[1] in the sustainability report,[2] and the annual report.[3] This includes an extensive discussion of its business resiliency.

As a fiduciary on behalf of our clients, BIS has engaged with Shell over the past several years on a range of governance and material sustainability topics, including climate-related disclosures. As part of our engagement and voting process, we reviewed relevant company disclosures ahead of this year's annual general meeting. **Shell's disclosures are consistent with our expectation of large carbon emitters with a previous history of engagement with BIS on the topic.**

## Rationale for BlackRock vote

The shareholder proposal (Item 21) requested that Shell set and publish targets across Scope 1, 2 and 3, aligned with the Paris Agreement. The proponent argued that Shell's ambition to reduce its net carbon intensity by 50% by 2050 in a growing energy system would not ultimately lead to the level of absolute emissions reduction necessary to achieve the goals of the Paris Agreement. The proponent asked for more "aspirational" targets.

Since the submission of the shareholder proposal, Shell has updated its climate commitments to more aggressively reduce its carbon footprint, and to become a "net-zero emissions energy business" by 2050 or sooner.[4] This commitment now includes:

- **Scope 1&2: net zero** on all emissions from the manufacture of all products by 2050;
- **Scope 3:** reducing the Net Carbon Footprint of its energy products by around 65% by 2050 (up from a previous target of around 50% ), and by around 30% by 2035 (up from a previous target of around 20%), both now consistent with the Paris Agreement goal to limit the average temperature rise to 1.5 degrees Celsius;
- A transition towards serving businesses and sectors that by 2050 are also net-zero emissions.

BIS has been engaged with Shell on its climate commitments for a number of years and was engaged with the company throughout the process of this latest upgrading of its commitments. Most of Shell's Scope 3 emissions are the Scope 1 emissions of their customers. Because no single oil & gas company is fully in control of the global energy mix, Shell's Scope 3 commitments will only be achievable if key stakeholders such as policymakers, businesses and consumers accelerate the development and use of low-carbon technologies, incentivize more energy efficiency, reduce demand for fossil fuels, and remove emissions from the atmosphere.

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[1] For more information, please see: https://www.shell.com/energy-and-innovation/the-energy-future/shell-energy-transition-report/_jcr_content/par/toptasks.stream/1524757699226/3f2ad7f01e2181c302cdc453c5642c77acb48ca3/web-shell-energy-transition-report.pdf.

[2] For more information, please see: https://reports.shell.com/sustainability-report/2019/servicepages/downloads/files/shell_sustainability_report_2019.pdf.

[3] For more information, please see: https://reports.shell.com/annual-report/2019/servicepages/downloads/files/shell_annual_report_2019.pdf.

[4] For more information, please see: https://www.shell.com/media/news-and-media-releases/2020/responsible-investment-annual-briefing-update.

In determining our vote, we took into consideration that Shell already had some of the most ambitious climate targets in the industry on all relevant scopes (1,2,3), and that the company already makes strong TCFD disclosures. Furthermore, the shareholder resolution refers to Shell's previous climate commitments, which are now out of date and have been superseded by renewed and stronger commitments. As a result of Shell's responsiveness, BIS considers the request made in the resolution to have substantively been delivered.

Finally, we understand from our engagement with the company that the recently revised targets will be kept under review, with a view to evolving them even further if possible. We will be monitoring closely the delivery against the targets set out to date. We will hold the management and board directors to account for lack of progress on their delivery through future voting on director elections. For now, we note that Shell's existing disclosure of 3-year net carbon footprint targets already makes the company a sector leader in the global oil & gas industry.

**Given the company's progress towards aligning its reporting with TCFD recommendations, which has been one of BIS' key requests of large carbon emitters, and its responsiveness to shareholder engagement on portfolio resilience and reduction of scope 1, 2, and 3 GHG emissions, we are supportive of management for the time being.**

For these reasons, BIS voted with management on all resolutions at the AGM.

We will continue to engage with the company on its governance practices, reporting on material factors including the alignment with the SASB guidelines, and on the development of its plans to achieve its ambitious climate commitments.