

Investment Stewardship

Vote Bulletin: Shell Plc

Company	Shell Plc (LSE: SHEL)
Market and Sector	United Kingdom, Energy
Meeting Date	24 May 2022
Key Resolutions ¹	<p>Item 20: Approve the Shell Energy Transition Progress Update (Management proposal)</p> <p>Item 21: Request Shell to Set and Publish Targets for Greenhouse Gas (GHG) Emissions (Shareholder proposal)</p>
Key Topics	Climate risk
Board Recommendation	The board recommended shareholders vote FOR Item 20 and AGAINST Item 21
BlackRockVote	BlackRock Investment Stewardship voted FOR Item 20 and AGAINST Item 21

Overview

Shell Plc (Shell) is a major integrated oil and gas company that operates through Integrated Gas, Upstream, Downstream and Corporate segments. The company was formerly based in the Netherlands and has recently moved their headquarters to the United Kingdom.

BlackRock Investment Stewardship (BIS) has engaged regularly with Shell over the last several years to discuss a range of corporate governance and sustainable business matters that we believe contribute to a company's ability to deliver the durable, long-term shareholder returns our clients depend on to meet their financial goals. This has included conversations about climate risk and opportunities, which BlackRock believes can be a defining factor in companies' long-term prospects.

In order to assess companies' strategies to navigate the energy transition, BIS engages with company management and, where we have authority to do so, votes proxies in the economic interests of our clients.² As discussed in our commentary, "[Climate risk and the global energy transition](#)," BlackRock's stewardship approach is based on our fundamental role as a fiduciary to our clients. As the world transitions to a low-carbon economy over decades, we are interested in hearing from the companies in which our clients are invested how they are assessing and managing the risks and opportunities arising from the low carbon energy transition,

¹ Shell Plc, "[Notice of Annual General Meeting](#)".

² Voting on our clients' behalf, when authorized to do so, is one of our core Stewardship responsibilities. Without exception, our decisions are guided by our role as a fiduciary to act in our clients' long-term financial interests. We aim to be a supportive, long-term focused shareholder who takes the context in which a company operates into consideration and makes voting decisions to advance our clients' interests. We make climate-related voting decisions after carefully assessing companies' risk oversight and mitigation, alongside their disclosures detailing how climate risk and opportunity are integrated into their strategy and plans.

while also considering the need for a reliable energy supply and a just transition. We look for companies to demonstrate they have strategies in place that address and are resilient to a range of scenarios, including likely decarbonization pathways well below 2°C, as well as global ambitions to limit temperature rise to 1.5°C.

As investors, we understand that net zero pathways will not be linear or streamlined; the macroeconomic environment, including energy markets, is complex and volatile, and there is a great deal of regulatory and geopolitical uncertainty.³ In this context, we believe the board and management are best positioned to determine what approach will best equip the company to navigate risks and opportunities in the context of the company's business model and sector. Thorough company disclosures allow investors to understand corporate climate action plans, track progress, and assess the strategic changes that a company may undertake to adapt their business models to respond to different energy transition scenarios.⁴

Rationale for BlackRock's vote

Item 20: Approve the Shell Energy Transition Progress Update (Management proposal) (FOR)

BIS supported this proposal in recognition of the company's disclosed energy transition plan to manage climate-related risks and opportunities and the company's progress against this strategy.

At the 2022 annual general meeting (AGM), management proposed an advisory, non-binding shareholder vote on the update of progress made to date against the company's Energy Transition Strategy.⁵ Shell originally proposed the Energy Transition Strategy to shareholders at their 2021 AGM, the first company to do so within the industry. The proposal received nearly 89% support, including from BlackRock.⁶ Our decision to support Shell's Energy Transition Strategy last year was based on our belief that it demonstrates clear policies and action plans to manage climate risk and opportunities, and that it provides a well-defined roadmap towards the company's stated climate ambition and targets.

BIS considers Shell to be an industry leader on the management, oversight and disclosure of climate-related risks and opportunities. Shell's strategy is consistent with what BIS looks for from companies to demonstrate that their strategy is likely to be resilient under a range of scenarios, including likely decarbonization pathways to limit global temperature rise to well below 2°C, ideally closer to the global aspiration of 1.5°C.⁷ In 2021, Shell included ambitious emissions reduction targets for all scopes (1, 2 and 3) across short-, medium- and long-term timeframes, including an aspiration to reduce the net carbon intensity of the portfolio of energy products sold by 45% by 2035 and 100% by 2050 from a 2016 base year. This is equivalent to a target to reduce total absolute emissions to net-zero by 2050. Since then, Shell has updated the company's emissions reduction targets to reduce scope 1 and 2 emissions by 50% by 2030. In addition, the company removed a previous condition included in the original Energy Transition Strategy to achieve net-zero emissions by 2050. Specifically, Shell had tied the ability to achieve net-zero emissions by the mid-century with society's progress towards that aspiration. That conditional requirement is no longer included.

Moreover, in the past year, Shell has made large investments in low-carbon fuels, renewables and hydrogen, while also significantly growing their power business to 1.6 million retail customers by the end of February 2022

³ BlackRock Inc., "[Managing the Net-Zero Transition](#)", February 2022.

⁴ We recognize that companies cannot deliver the energy transition in isolation. A range of stakeholders, including policy makers and consumers, have a role to play to ensure a better equilibrium between supply and demand, given the global economy's current dependence on traditional energy sources and the parallel need to invest in cleaner energy alternatives and other technologies. In our engagements we may also discuss how companies see their role in achieving that equilibrium.

⁵ Shell, "[Energy transition progress report 2021](#)".

⁶ BlackRock Investment Stewardship, "[Vote Bulletin: Royal Dutch Shell plc](#)", May 2021.

⁷ IPCC, "[Global Warming of 1.5 °C](#)".

from 900,000 at the end of 2020.⁸ Shell expects around 33% of total expenditure (cash capital expenditure and operating expenditure) to be on low and zero-carbon products and services in 2022, increasing to 50% in 2025. Acknowledging that any material reduction of scope 3 emission ultimately relies on broad changes in the demand for energy, Shell has also taken a leadership position within the industry and played a key role in developing over fifty collaborations such as those with Baker Hughes⁹ and RWE¹⁰ aiming to drive corporate efforts and investment in the global energy transition.

Overall, BIS recognizes that Shell has a clearly disclosed plan to manage climate-related risks and opportunities and has started to make progress against the plan. Therefore, we believe our support for this proposal is in the best long-term economic interests of our clients.

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

BIS did not support this shareholder proposal because we believe that it is not additive to Shell’s Energy Transition Strategy and that the company’s ability to set absolute short- and medium-term scope 3 emissions reduction targets is impeded by the current uncertainty around the pace of declines in oil and gas demand as well as energy security considerations.

The shareholder proposal 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).”¹¹

Notably, the proposal asks that Shell set absolute short- and medium-term scope 3 emissions reduction targets that are aligned with the Paris Climate Agreement. The issue of scope 3 emissions is complex, particularly for the oil and gas industry. In our commentary, [Climate risk and the global energy transition](#), we describe our view that scope 3 emissions are a major global societal issue and, for companies where they are material, the prospect of future policy changes could affect the economic viability of their business models.

As discussed in our commentary, we welcome disclosures on how companies are considering scope 3 GHG emissions, the impacts of the energy transition on their stakeholders and operations, and how they will contribute to a reliable and affordable energy system over time. Many companies are already providing robust disclosures on scope 3 GHG emissions, which we recognize are provided on a good-faith basis as reporting methods develop. Over time, the development of a widely accepted approach to consistently measure and disclose scope 3 GHG emissions would both reduce the reporting burden on companies and improve the quality of information available to investors.

At this stage, however, we view scope 3 emissions differently from scope 1 and 2, given methodological complexity, regulatory uncertainty, concerns about double-counting, and lack of direct control by companies.

In our view, Shell’s ability to set aspirational absolute scope 3 emissions reduction targets is also impeded by the current context of significant uncertainty about the pace of declines in oil and gas demand as well as energy security considerations. We note that companies face particular challenges in the near-term, given under-investment in both traditional and renewable energy, exacerbated by the current geopolitical environment. In

⁸ For example, the company has 38 GW of renewable generation capacity in the pipeline, and in 2021, they started production from 30 megawatts (MW) of electrolyzers that can produce around 4,300 tonnes a year of decarbonized hydrogen. Looking ahead, in the UK the company “plans to invest £20-25 billion (\$26-33 billion) over the next ten years, mostly in low- and zero-carbon projects including offshore wind, hydrogen and charging for electric vehicles, subject to Board approval.” Shell, “[Energy transition progress report 2021](#)”.

⁹ Shell Plc, [website](#)

¹⁰ RWE, [website](#)

¹¹ Shell Plc, “[Notice of Annual General Meeting](#)”.

recent [research](#), the BlackRock Investment Institute (BII) viewed that reducing reliance on Russian energy in the wake of the invasion of Ukraine means that net exporters of energy are likely to be required to increase production, while net importers are expected to accelerate efforts to increase the share of renewable energy in their systems. This set of dynamics will – at least in the short- and medium-term – drive a need for investment in both traditional and renewable sources of energy. In addition, Shell’s main source of scope 3 emissions is its marketing business which sells over threetimes more oil and gas products than the oil and gas the company extracts. A prescriptive short-term absolute scope 3 target inconsistent with the expected near-term increase in energy demand could restrict Shell’s ability to contribute to a just energy transition.

As previously discussed, we also believe that the company is actively addressing the risks and opportunities stemming from the global energy transition through their Energy Transition Strategy, and we welcome the progress made to date against this plan. As a result, we do not believe it is in the best economic interests of our clients, the asset owners, to support this shareholder proposal.

About BlackRock Investment Stewardship (BIS)

Our clients depend on BlackRock to help them achieve their investment goals. These clients include public and private pension plans, governments, insurance companies, endowments, universities, charities and ultimately individual investors, among others. Consistent with BlackRock's fiduciary duty as an asset manager, BIS' purpose is to support companies which we invest for our clients in their efforts to create long term durable financial performance.

BIS serves as an important link between our clients and the companies they invest in – and the trust our clients place in us gives us a great responsibility to advocate on their behalf. That is why we are interested in hearing from companies about their strategies for navigating the challenges and capturing the opportunities they face. As we are long-term investors on behalf of our clients, the business and governance decisions that companies make will have a direct impact on our clients' investment outcomes and financial well-being.

We look to boards and executive management to demonstrate that they are taking into consideration the interests of long-term shareholders and other stakeholders. Our, often multi-year, dialogue with the leaders of these companies provides us the opportunity to improve our understanding of, and provide feedback on, the governance and sustainability (ESG) risks and opportunities that are material to their businesses and thus to their ability to generate long-term returns for our clients. For those clients who have given us authority, we vote proxies in their best long-term financial interests, in line with our public [voting guidelines](#) and informed by our analysis of company disclosures and, where relevant, our engagements.¹²

To support investors' assessment, it is helpful when companies provide timely, accurate, and comprehensive disclosure on all material governance and business matters, including sustainability-related issues. This transparency allows shareholders to better understand and assess how relevant risks and opportunities are being effectively identified and managed. Where company reporting and disclosure is inadequate or we believe the approach taken may be inconsistent with sustainable, long-term value creation, we will engage with a company and/or vote in a manner that signals our concerns.

We are committed to transparency in the stewardship work we do on behalf of clients. We inform clients about our engagement and voting policies and activities through direct communication and through disclosure on our [website](#). For shareholder meetings where a vote might be of particular interest to clients, we may publish a vote bulletin after the meeting, disclosing and explaining how we voted on key proposals.

Want to know more? blackrock.com/stewardship

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¹² 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.