



## ALERT SERVICE

1 MAY 2024

SHELL PLC

### Agenda AGM, 21 May 2024

1.	Receipt of Annual Report & Accounts	Resolution
2.	Approval of Directors' Remuneration Report	Resolution
3.	Reappointment of Dick Boer	Resolution
4.	Reappointment of Neil Carson	Resolution
5.	Reappointment of Ann Godbehere	Resolution
6.	Reappointment of Sinead Gorman	Resolution
7.	Reappointment of Jane Holl Lute	Resolution
8.	Reappointment of Catherine Hughes	Resolution
9.	Reappointment of Sir Andrew Mackenzie	Resolution
10.	Reappointment of Sir Charles Roxburgh	Resolution
11.	Reappointment of Wael Sawan	Resolution
12.	Reappointment of Abraham (Bram) Schot	Resolution
13.	Reappointment of Leena Srivastava	Resolution
14.	Reappointment of Cyrus Taraporevala	Resolution
15.	Reappointment of Auditor	Resolution
16.	Remuneration of Auditor	Resolution
17.	Authority to allot shares	Resolution
18.	Disapplication of pre-emption rights	Resolution
19.	Authority to make on-market purchases of ordinary shares	Resolution
20.	Authority to make off-market purchases of ordinary shares	Resolution
21.	Authority to make Political Donations and Expenditure	Resolution
22.	Shell's Energy Transition Strategy 2024 Resolution	Resolution
23.	<b>Shareholder resolution</b>	<b>Resolution</b>

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## EXPLANATION

### 23. Shareholder resolution

#### *Contents of the shareholder resolution<sup>1</sup>*

As in previous years, Shell received a resolution by Follow This, a group of shareholders that encourages Shell to take leadership in the energy transition to a net-zero emission energy system. This year, the resolution was co-filed by a group of 27 institutional investors incorporated in Belgium, France, the Netherlands, the UK, the USA, Sweden, and Switzerland.<sup>2</sup> The shareholder resolution requests the company to align Shell's medium-term emissions reduction targets covering the greenhouse gas (GHG) emissions of the use of its energy products (Scope 3) 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 rise to 1.5°C. The strategy for how to achieve this target is entirely up to the Board.

In the supporting statement, Follow This remarks that the company's medium-targets are not Paris-aligned. Follow This refers in that respect to the Climate Action 100+ benchmark and claims that no third-party source indicates that Shell's medium-term targets are aligned with a 1.5°C warming scenario. According to Follow This, the company does not sufficiently demonstrate how it will reach the medium-term GHG reduction targets, which means it is unclear how the underlying approach contributes to significant reductions in global emissions this decade. Follow This further remarks that a lack of Paris-aligned targets poses significant risks to the company, such as regulatory risks, the loss of market opportunity, litigation and a 'carbon lock-in'. Follow This writes that by adopting Paris-aligned targets, the company can spur innovation both internally and in the market as a whole. It would also send a signal to policy makers that will help to advance necessary regulation. As such, Paris-aligned targets will help to protect the company's long-term value.

#### *Shell Directors' response to the shareholder resolution<sup>3</sup>*

Shell's Board of Directors considers the shareholder resolution not in the best interest of the company, its shareholders as a whole, its customers and the climate, and unanimously recommends the Shell shareholders to vote against the resolution. The Board believes that the shareholder resolution, if adopted, will have a material negative financial impact, will not mitigate global warming – it could potentially have the opposite impact and also negatively impact energy security.

The Board further remarks that the contents of the resolution itself is unclear, generic, and would create confusion as to Board and shareholder accountabilities. The Board must rely on the supporting statement to understand what is being asked of the company.

The Board remarks that it believes that Shell's targets and ambitions to reduce emissions, with the goal of becoming a net-zero emissions energy business by 2050, support the more ambitious goal of the Paris Agreement to limit global warming this century to 1.5°C above pre-industrial levels. The Board states that the supporting statement of the Follow This resolution suggests a further reduction of Scope 3 emissions. Doing so, without changing demand and the way in which customers use energy, would effectively mean handing over retail and commercial customers to competitors. This would materially affect Shell's financial strength and limits its ability to generate value for shareholders. It would also reduce Shell's ability to play an important role in the energy transition by working with its customers to reduce their emissions.

The Board finally notes that the world needs secure, affordable, and low-carbon energy. Shell wants to continue to provide the energy the world needs today, while working with customers and governments to change the way energy is consumed tomorrow. "Supporting our customers as they decarbonise

<sup>1</sup> The full text of the shareholder resolution and the supporting statement can be found on p. 8 of the Shell [Notice](#) of the Annual General Meeting 2024.

<sup>2</sup> See for the [list](#) of co-filers: <https://www.follow-this.org/press-release-co-filers-shell/>.

<sup>3</sup> The full text of the Shell Directors' response to the shareholder resolution can be found on p. 9-10 of the Shell [Notice](#) of the Annual General Meeting 2024.

their businesses and lives by offering low- and zero-carbon products and services is at the heart of Shell's energy transition strategy", according to the Board. The Board underlines that its strategy supports a balanced and orderly energy transition, while accelerating the shift to low- and zero-carbon energy.

### General remarks

The shareholder resolution is a so-called special resolution. A special resolution can only be passed by the general meeting if at least 75% of shareholders' votes are in favour of the resolution. If the resolution passes, it will legally bind the Shell Board of Directors to carry out the resolution.

Shell offers its shareholders to cast an advisory vote on its own Energy Transition Strategy 2024 under resolution 22.<sup>4</sup>

### Reasons for alert

Eumedion issues an alert when the agenda of a general meeting contains a controversial voting item, for example if a proposal is regarded to be in conflict with Dutch corporate governance best practices. **However, in this instance the purpose is to flag a shareholder resolution that is widely debated and for which the company Board has issued a recommendation to vote "Against". The text of this alert supports shareholders in casting an informed vote at the upcoming general meeting and should not be interpreted as a suggestion to vote either for or against the resolution.**

The question at stake is whether Shell's 2030 Scope 3 GHG emissions reduction targets are Paris-aligned. Below are Eumedion's reflections on this question.

### Shell's medium-term Scope 3 emissions reductions target and ambition

- Shell has set one **relative** Scope 3 medium-term emissions reduction **target** and one **absolute** Scope 3 medium-term emissions reduction **ambition**.
  - The relative emissions reduction target relates to the net carbon intensity (NCI) of the energy products Shell sells and amounts to 15-20% by 2030 (compared with 2016 baseline). This 2030 target (range) has been watered down this year. In the 2021 Shell Energy Transition Strategy the 2030 target was set at 20% (i.e. no target range). The 2030 target update originates from Shell's strategic shift to focus on commercial customers more than on retail customers in its power business. This leads to a lower expected growth in total power sales to 2030 than previously planned. Selling lower-carbon power to customers and reducing oil products sales in Transport are the largest drivers of Shell's carbon-intensity reductions to 2030. As reflected in the first table below, the carbon intensity of power is (much) lower than that of oil products. And as the second table shows, Shell had to buy almost 5 times as many carbon credits in 2023 as in 2022 to realise the NCI reduction target (range) of 6-8% in 2023.<sup>5</sup> A further acceleration of the number of carbon credits to be purchased in the upcoming years is probably not a sustainable solution for Shell.

#### Carbon intensity of energy products

	gCO <sub>2</sub> e/MJ			
	2023	2022	2021	2016
Oil products and gas-to-liquids	91	91	91	89
Gas	66	65	66	67
Liquefied natural gas (LNG)	70	70	70	71
Biofuels	39	39	41	40
Power [A]	49	58	66	59

[A] In 2021, we changed our approach to the estimation of the emissions intensity of the power we sell. This prospective change was the main driver for the intensity increase compared with 2016.

#### Carbon credits

	Million carbon credits [A]			
	2023	2022	2021	2016
<b>Total carbon credits [B]</b>				
Included in Shell's NCI metric [C]	20.0	4.1	5.1	0.0
Excluded from Shell's NCI metric [D]	1.8	1.7	1.3	0.0

[A] One carbon credit represents the avoidance or removal of one metric tonne of CO<sub>2</sub> equivalent.

[B] Represents credits relating to transactions occurring in the financial year irrespective of the actual retirement date. Retirements from registries may take place after the year-end. Excludes carbon credits transactions executed by Shell on behalf of/with third parties without a link to Shell activities.

[C] Carbon credits associated with the sale of energy products and carbon credits used to compensate for Shell Group emissions including operational emissions and emissions associated with the use of sold products.

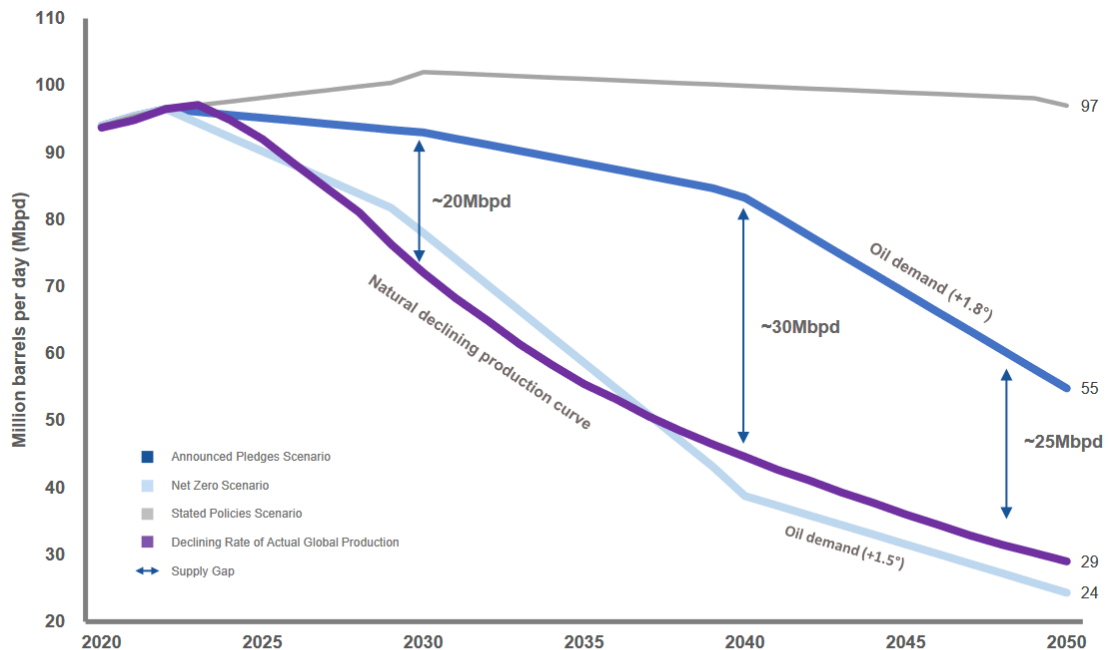
[D] Carbon credits retired in relation to sales of non-energy products and Shell's internal activity like corporate travel.

*For the same reasons and acknowledging uncertainty in the pace of change in the energy transition, Shell has further chosen to retire its earlier communicated 2035 target of 45% NCI reduction.*

<sup>4</sup> Shell's [Energy Transition Strategy 2024](https://www.shell.com/agm) has been published on the Shell website (www.shell.com/agm).

<sup>5</sup> The tables are copied from p. 106 of the Shell [Annual Report and Accounts 2023](https://www.shell.com/annual-report).

- The absolute emissions reduction ambition relates to the customer emissions from the use of Shell's oil products<sup>6</sup> and amounts to 15-20% by 2030 (compared with 2021 baseline). This a newly formulated ambition, included in the Shell Energy Transition Strategy 2024. Shell has dared for the first time to (partly) set an absolute Scope 3 emissions reduction ambition as it expects to sell more low-carbon products and solutions, and less oil products and diesel. It can be considered to be a rather progressive ambition taking into account the world oil demand outlook in various scenarios as shown in the graph below (based on the scenarios of the International Energy Agency and the independent research and energy intelligence company Rystad Energy).<sup>7</sup>



Source: IEA scenarios, Rystad Energy, 2023

- However, Shell expects its **total Scope 3 emissions** to remain more or less flat until 2030, with growth in emissions from increased LNG sales (by 20-30% between 2022 and 2030)<sup>8</sup> offset by a decline in oil product sales, in line with the earlier-mentioned Shell's new absolute Scope 3 emissions reduction ambition for oil product sales.<sup>9</sup>

### **Are Shell's medium-term Scope 3 emissions reductions target and ambition Paris-aligned?**

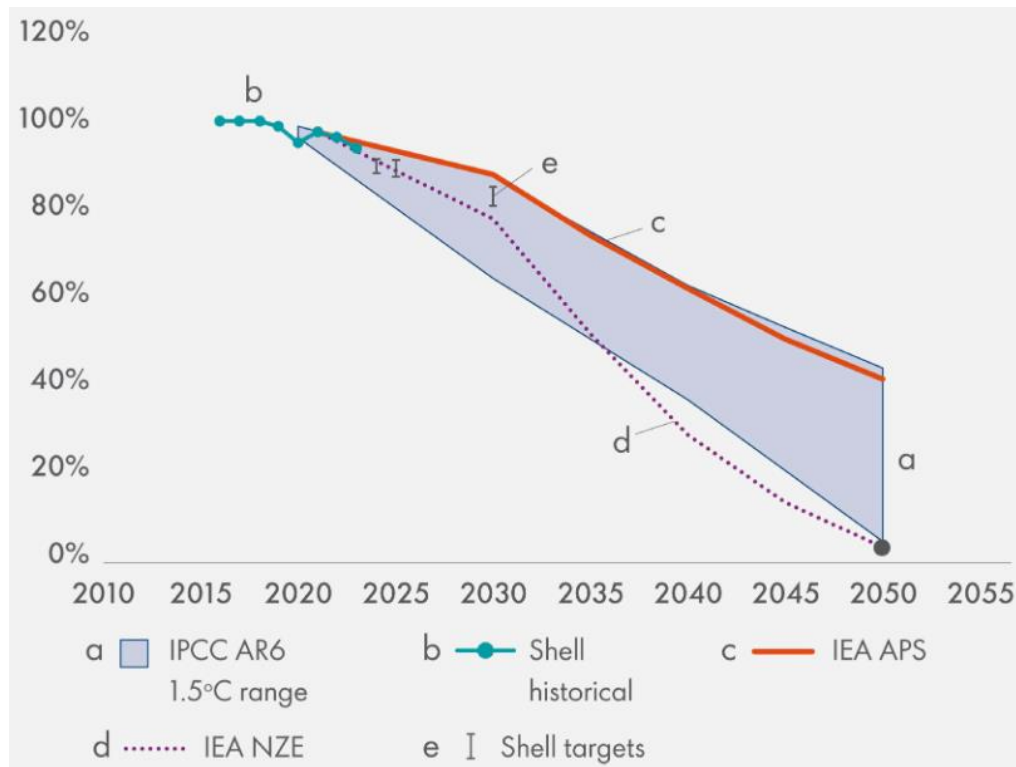
- Unfortunately, the Science Based Targets initiative (SBTi) has paused fossil fuel company target validation and commitments until further notice. Therefore, Shell's Scope 3 target-setting has not been verified by SBTi yet.
- Shell itself believes that its medium-term Scope 3 emissions reduction target and ambition are aligned with the more ambitious 1.5°C goal of the Paris Agreement. Shell has included the following graph in the Shell Energy Transition Strategy 2024 that should illustrate this (by using the 1.5°C scenarios developed for the Intergovernmental Panel on Climate Change (IPCC)'s Sixth Assessment Report):

<sup>6</sup> Scope 3, Category 11.

<sup>7</sup> Although by 2023 Shell already reduced its Scope 3 emissions from oil products by 9% (versus 2021), mainly driven by repurposing Shell's refineries into energy and chemical parks to deliver more lower-carbon, high-value, sustainable products for Shell's customers.

<sup>8</sup> See the [investor presentation](#) for Shell's 2023 Capital Markets Day, slide 23.

<sup>9</sup> See Shell's [written response](#) (dated 12 April 2024; p. 25, under section 8.2.3) to questions from the judges' panel in Shell's appeal to the Milieudéfensie Court Case.

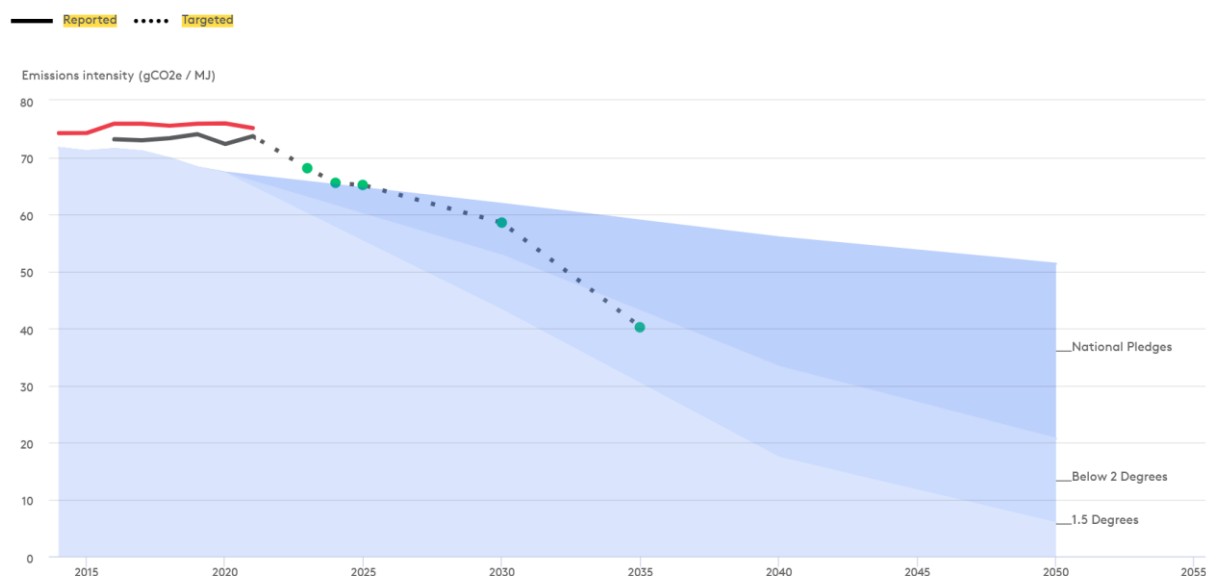


- As illustrated in the graph above, Shell's medium-term Scope 3 emissions reduction target and ambition are positioned within the range of the 1.5°C pathway in 2030. As Shell has used the latest IPCC report, Shell's Scope 3 emissions reduction target and ambition are based on the latest science, as required by the Corporate Sustainability Reporting Directive. Moreover, the independent auditors of EY have reviewed these disclosures.<sup>10</sup>
- Many institutional investors use the Transition Pathway Initiative Centre (TPI) as an independent, authoritative source of research and data into the progress being made by the corporate world in making the transition to a low-carbon economy.<sup>11</sup> TPI assess a company's performance and progress in the energy transition against an internationally agreed benchmark. TPI assessed Shell's former 2030 NCI reduction target (20%) on 30 June 2023. This latest assessment shows that Shell's former target is not Paris-aligned (see figure below). It can therefore be expected that the same will be true of the updated 2030 NCI target. The now withdrawn 2035 NCI target was only aligned with the below 2°C scenario and not with the below 1.5°C scenario.<sup>12</sup> Shell's goal of becoming a net-zero emissions energy business by 2050 was considered to be 1.5°C aligned by TPI in 2022, but not anymore in 2023. In its Energy Transition Strategy 2024, Shell remarks: "This is the result of TPI's approach to accounting for customer mitigation actions".

<sup>10</sup> The independent EY auditors remark in their auditor's report that Shell's operating plan reflected the expected financial impact of management's current planned actions (i.e. Shell's stated climate targets) to address the identified climate change risks.

<sup>11</sup> TPI is a global initiative led by asset owners and supported by asset managers. In 2017 TPI launched a research programme to assess the world's biggest companies from high emitting sectors on the transition to a low carbon economy. TPI's academic partner is the Grantham Research Institute on Climate Change and the Environment, which is based at the London School of Economics and Political Science (LSE).

<sup>12</sup> <https://www.transitionpathwayinitiative.org/companies/shell>.



- As the Climate Action 100+ assessment of Shell's (former) 2035 NCI reduction target was based on TPI's carbon performance methodology, also Climate Action 100+ concludes in its 2023 assessment that Shell's (former) medium-term Scope 3 emissions reduction target is not aligned with the goal of limiting global warming to 1.5°C.<sup>13</sup>
- Please keep in mind that under UK Company Law and the UK Corporate Governance Code the Board's role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.<sup>14</sup> That implies that sustainability is not the only factor that a Board has to take into account when taking strategic and policy decisions on the energy transition, but also the factors availability and affordability of energy.

### **Contacts with the company and the proposer of the resolution**

*Shell's response to a draft of this alert was:*

"Shell has set targets and ambitions that it believes are in line with the 1.5°C goal of the Paris Agreement and it is making good progress towards achieving these targets and ambitions. Its strategy supports a balanced and orderly energy transition, while accelerating the shift to low- and zero-carbon energy. Resolution 23, if passed, would weaken the Company's ability to deliver its strategy, would restrict the Company's role in the energy transition and is against good governance. Follow This continues to present an energy transition narrative that does not recognise accountability for use of energy. That has, on balance, a negative impact on the climate."

*Follow This's response to a draft of this alert was:*

- "Shell not reducing emissions this decade, not aligned with Paris Agreement
- Shareholder resolution filed to align Shell's targets with Paris Agreement
- Shell's Energy Transition Strategy 2024 (ETS24) moves further from Paris alignment
- Shell decreased 2030 emissions target from 20% to 15-20%, removed 2035 target
- Testimony in Dutch court: Shell won't reduce total Scope 3 emissions by 2030 due to LNG growth
- Shell aims to reduce customer emissions by 15-20% by 2030, but only addresses oil products, not all Scope 3 emissions
- MN, CA100+ company lead investor with €140 billion assets, supports resolution due to excessive fossil LNG growth
- Shell's belief in Paris-aligned targets unfounded; no third-party confirmation of alignment with 1.5°C warming scenario"

<sup>13</sup> See: <https://www.climateaction100.org/company/royal-dutch-shell/#skeletabsPanel1>.

<sup>14</sup> Principle A of the [UK Corporate Governance Code](#).

**DISCLAIMER**

This is an alert for the participants of Eumedion with regard to a specific agenda point of a general meeting of shareholders. It is not a voting advice.