

Vanguard Investment Stewardship Insights

Voting insights: Climate-related proposals at Royal Dutch Shell



May 2021

Vanguard publishes Investment Stewardship Insights to promote good governance practices and to provide investors and public companies with our perspectives on important governance topics and issues that come up for shareholder votes.

Company: Royal Dutch Shell plc

Meeting date: 18 May 2021

Proposals: Item 20 – Approve Shell’s Energy Transition Strategy;
Item 21 – Approve Shareholder Resolution on Climate Change Targets



How the funds voted

At the annual meeting for Royal Dutch Shell Plc (Shell), the UK-listed Dutch energy company, the Vanguard funds voted in favour of an advisory management proposal seeking approval of the company’s energy transition strategy. The funds voted against a binding shareholder resolution that asked that the company’s board adopt emission-reduction targets aligned with the Paris Agreement goals and publish a yearly report on any progress it has made toward those goals.

Vanguard’s principles and policies

Boards are responsible for overseeing a company’s long-term strategy and any material risks. As part of our Investment Stewardship activities, we regularly assess how well a board of directors oversees the company’s strategy and assess the board’s own role in identifying, mitigating and disclosing material risks that may affect long-term shareholder value. Climate change is such a material risk to our investors’ portfolios.

We look for companies to exhibit three key elements of sound climate-change risk management:

- A climate-competent board that can foster healthy debate on climate topics, challenge management assumptions and make thoughtful and informed decisions regarding these risks.

- Robust risk oversight and mitigation measures, including setting targets aligned with the Paris Agreement and integrating climate-risk considerations into strategic business planning and capital allocation decisions.
- Effective and comprehensive disclosures, both qualitative and quantitative, to show progress over time, preferably written in accordance with the Task Force on Climate-related Financial Disclosures (TCFD) frameworks.

Our previous Insights pieces provide more details on our views on climate-competent boards, risk oversight and mitigation of climate risks, and key considerations for effective disclosure, as well as on how Vanguard evaluates climate-related shareholder proposals.

Engagement and voting history

As one of the world’s largest energy companies, Shell faces significant material climate-related risks and has long been subject to scrutiny from activist investors on its strategic response to climate change.

Since 2016, Shell has received resolutions from shareholder activist groups requesting bolder action on its climate change strategy and reductions of its greenhouse gas (GHG) emissions. Although those resolutions did not pass, they drew increasing support from shareholders; in 2019, a resolution was withdrawn following engagement with shareholders and commitments by the company to reduce the net carbon footprint of its energy products.

Vanguard has maintained a constructive dialogue with members of Shell’s board and company leaders over many years. Climate change strategy, targets, and risk management have been frequent topics of our discussions.

The Vanguard funds did not support previous shareholder resolutions asking Shell for more ambitious GHG targets, because we considered those too prescriptive given the company's extensive reporting and its efforts to set increasingly ambitious targets.

In 2020, Shell announced that it aimed to become a net-zero company by 2050 or sooner, and in 2021 it unveiled a new strategy and interim targets to deliver on that ambition, including raising its target from 65% to 100% reduction of its net carbon footprint by 2050. Shell also announced it was offering investors an advisory vote on its strategy (a "say on climate" vote).

Analysis and vote rationale

Our analysis of the most recent climate-related proposals included engagements with Shell's leaders and with the activist investor group.

The activist investor group recognised Shell's progress in recent years but said Shell's strategy represented long-term promises rather than an absolute commitment. It argued that Shell's intermediate targets and capital expenditures would not lead to Paris-aligned absolute carbon-emission reductions in this decade, and that the company needed a clear signal from shareholders to take stronger action.

Our discussions with Shell covered its energy transition strategy to achieve net zero by 2050 in step with society's progress towards the goal of the Paris Agreement on climate change.

We queried Shell's chosen metrics and targets, and we specifically probed its use of emission intensity instead of absolute emission reductions to drive the decarbonisation roadmap. We challenged the company to explain the pace of its plans in the coming years and on the assumptions that guided it to consider the strategy as being aligned to the Paris Agreement goals.

Shell's leaders stated a commitment to increase targets over time as technologies mature and as different sectors and actors (including customers and governments) converge on emission-reduction pathways. They expressed confidence

that the company would achieve net zero by 2050, and they explained that current short- and medium-term carbon-intensity targets were set following scenario analysis aligned with the Paris Agreement goals to limit the rise in average global temperature to 1.5°C above preindustrial levels. They also stressed that their targets cover the full range of emissions (Scope 1, 2 and 3) for all of Shell's energy products, not just its production process.

In the wake of new policy announcements and regulatory initiatives, market sentiment regarding increasing stranded asset risks in the oil and gas sector is evolving. While we remain conscious of these dynamics, we also recognise the significant challenges inherent to the business transformation of a major energy company.

Shell's management team has regularly evaluated its plans and raised its ambitions in response to shareholder feedback, and the company provides comprehensive climate-related disclosures. In our assessment, the activist shareholders' climate proposal was not addressing a material gap, as Shell's leaders have committed to continue developing their energy transition strategy consistent with the Paris Agreement goals. The Vanguard funds voted against the shareholder proposal and in favour of the management proposal.

Shell's energy transition strategy was approved with 88.7% of votes in favour. The activist investor's resolution drew 30.5% of votes in support. Although this is below the 75% threshold required to pass, the vote provides a notable indication that many shareholders would like Shell to be more ambitious on climate. The level of support for the resolution also triggers a requirement in the UK for Shell to further engage with shareholders to discuss their feedback and concerns.

In our engagements, we have encouraged Shell's leaders to look for opportunities to reduce emissions and consider the pace of the transition to support long-term, sustainable value creation. We will continue to actively engage with Shell on this topic in the coming months and year.