

Case study: Royal Dutch Shell plc (Shell)

AGM | 18th of May 2021

Shell will be the first major Oil and Gas company to hold a Say on Climate vote. In February 2021 Shell announced a revised group strategy, “Powering Progress” which included an update to its emission reduction targets. We anticipate Shell's climate transition strategy and targets will be further detailed when it releases its climate transition plan in April 2021 ahead of its AGM in May. This may include new targets and details on its strategy. We take a closer look at how Shell may score on current commitments at its upcoming climate vote.

1: How might Shell score against our proposed climate plan voting guidelines?

Shell climate vote 2021 | ACCR climate plan guidelines

ACCR assessment: Shell would NOT be able to meet the key criteria that we have set out in our proposed climate plan voting guidelines.

Targets and Strategy

Shell does not have absolute short-term and medium-term emissions reduction targets.

- Shell's targets are intensity based, implying no fixed carbon budget.
- Targets exclude emissions from its Chemicals business (est.14-18 Mt of scope 3 CO₂e).
- Current targets are not aligned with a 1.5 degree pathway.
- CA100+ benchmark assesses Shell as “No” against medium and short-term target alignment with a 1.5 degree pathway, disclosure indicator 3.3 and 4.3.

To meet this criteria Shell would need to announce:

- Absolute short-term and medium term targets aligned with a 1.5 degree pathway. Shell may have to revisit its goal to increase annual gas production by ~20% by 2025¹.
- Include 95% of total scope 1, 2 and 3 emissions (inclusive of Chemicals)
- For each of these targets be more explicit and comprehensive in how it identifies and quantifies actions to reduce emissions, including the contribution of carbon offsets, CCS, impact of divestments and avoided emissions.
- Align capital expenditure with its short and medium-term targets (1.5 degree pathway).

Climate Lobbying

- Influence Map rate Shell as a C- compared to our guideline rating of C+. We note Shell has improved the rigour of its industry review in FY21.

Climate governance

- Executives FY21 Long Term Incentive Plan (LTIP) will be 20% weighted to Energy Transition, this includes its 2022 emission intensity targets as well as measures to drive future intensity reductions, CCS, biofuels, and then also in contrast, metrics for growing

¹ Shell announced plans for 7M tonnes p.a of new LNG capacity by mid decade. Compared to FY20 LNG production of 33M tonnes (total LNG liquification volumes FY20 Annual report)

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its power business (i.e increased gas and renewables). Other metrics with a 20% weighting are absolute Free Cash Flow targets, and relative Return on Average Capital Employed, growth in Cash Flow from Operations and Total Shareholder return (TSR). LTIP vesting can be up to 200% of the original shares allocated depending on performance.

- Executives FY21 Annual Bonus will have a 15% weighting to progress in Energy transition, including execution of Greenhouse Gas (GHG) abatement projects 5% and GHG emissions intensity targets for key lines of business 10%.
 - To meet this criteria Shell needs to link absolute short and medium-term targets to executive remuneration.
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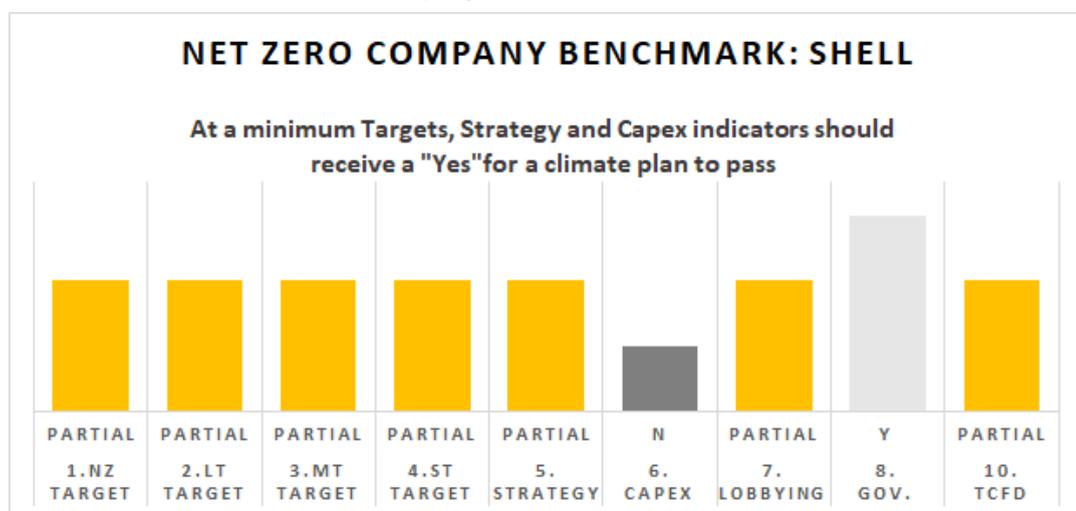
2. How might Shell’s climate plan perform using the Net Zero Company Benchmark?

CA100+ released its first Net Zero Company Benchmark assessments for focus companies in March 2021. Against the nine disclosure indicators Shell received seven “Partial”, scoring a “Yes” for climate governance and “No” for capital allocation alignment. This was based on Shell’s climate commitments at the end of 2020, prior to its February 2021 update.

For Shell to obtain a “Yes” vote that is aligned with the Net-Zero Company Benchmark we believe it would need to address the following areas:

- **Targets to include relevant scope 3 emissions.** Shell does not include emissions from its Chemicals and lubricants business in its net zero target. This is a relevant scope 3 emission as categorised by CA100+. We note, Shell also does not include these scope 3 emissions in its short/medium/long term intensity targets although note this is not reflected in the benchmark assessment.
- **Short and medium-term targets should be Paris-aligned.** At its February update Shell increased its emission intensity targets, from a 35% to 45% reduction by 2040, and introduced a 20% reduction target by 2030. Although it is difficult to know how this will map to sectoral assessment undertaken by TPI we don’t see this as being consistent with a Paris-aligned pathway.
- **Decarbonisation strategy should be more detailed.** Shell requires more explicit quantification of the actions required to meet its emission reduction targets. It is also heavily reliant on CCS and nature-based offset solutions which are specifically discouraged by the benchmark.
- **Capital allocation should be Paris-aligned .** Shell scored “No” on all sub-indicators measuring alignment of capex with the ParisAgreement. In its assessment Carbon Tracker identified US\$3.94bn of upstream oil & gas capex in 2019 inconsistent with the IEA’s Beyond Two Degrees Scenario, and 66% of future capex inconsistent with IEA’s Beyond Two degrees scenario.

Chart: Shell CA100+ Net Zero Company Benchmark disclosure assessment



Source: CA100+ Net Zero Company Benchmark

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We have set out Shell's current (pre 2021 Transition Report) climate commitments against the key disclosure areas included in the CA100+ Net Zero Company Benchmark.

Table 2: Shell climate disclosures Feb 2021 based on CA100+ Net Zero Company Benchmark indicators

Disclosure Indicator	Shell Commitment/disclosure	ACCR assessment
1. Net-zero GHG emissions by 2050 or sooner	Target: To be a net-zero emissions energy business by 2050. This includes scope 1, 2, 3.	<ul style="list-style-type: none"> Target excludes GHG emissions from Shell's Chemical business (we believe represents ~14-18 Mt of CO₂e). Our assessment assumes these will be largely scope 3. This is considered a relevant scope 3 emission for Shell. We note that statements regarding Shell's targets appear caveated, i.e will be "in step with society".
2. Long-term (2036-2050) GHG reduction target(s)	Net zero target as above. Intensity target: 100% reduction by 2050 .	<ul style="list-style-type: none"> As above, excludes relevant scope 3 emissions.
3. Medium-term (2026-2035) GHG reduction target(s)	Intensity target: 20% reduction by 2030, and a 45% reduction by 2035.	<ul style="list-style-type: none"> No medium-term absolute GHG reduction targets, intensity targets only. The impact on absolute emissions is unclear.
4. Short-term (up to 2025) GHG reduction target(s)	Intensity target: 6-8% reduction by 2023. Does not include mitigation actions by Shell or customers.	<ul style="list-style-type: none"> No short-term absolute GHG reduction targets, intensity targets only. The impact on absolute emissions is unclear.
5. Decarbonisation strategy	2030 identified milestones: <ul style="list-style-type: none"> Operational efficiency Low carbon power business Low carbon fuels Carbon Capture and Storage (CCS) Natural sinks Oil production peaked in 2019. Expect oil production to decline by 1-2% a year until 2030. No new frontier exploration entries after 2025. Natural gas shift. Percentage of total gas production to rise to 55% or more by 2030. By 2030, end routine flaring of gas from the assets Shell operates. By 2025, keep methane emissions intensity of Shell-operated assets to below 0.2%. 	<ul style="list-style-type: none"> Business milestones described, but not with sufficient quantification or clarity. Heavily reliant on carbon-offsets (120mtpa nature-based solutions) and CCS (~25mtpa), needs to be limited and realistic. Not aligned with benchmark guidance that carbon offsets should be "avoided and limited". No explicit green revenue targets only commitments for investment in renewables.

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6. Capital allocation alignment	<p>Capital expenditure commitment per annum (Feb 2021)</p> <ul style="list-style-type: none"> • \$2-3 billion in Renewables and Energy Solutions, • \$3bn in Marketing (customer-facing/distribution business) • \$8 billion in Upstream, • \$4 billion for Integrated Gas, • \$4-5 billion in Chemicals 	<ul style="list-style-type: none"> • Shell has not committed to align capital expenditure with emission reduction targets or the Paris agreement.
7. Climate policy engagement	<ul style="list-style-type: none"> • In FY21 Shell published a detailed review of 36 of its industry associations. An industry association review is published annually • In its FY21 review Shell found material misalignment with the Queensland Resources Council, it will monitor its position and make a decision regarding its membership in October 2021. • Shell assess industry association for alignment with the Paris-agreement and the goal of net zero emissions by 2050. • Political payments are not permitted by Shell.² 	<ul style="list-style-type: none"> • Shell measures industry alignment against six principles, including “energy transition” in which it considers natural gas as a key fuel, and use of “carbon sinks”. • Unclear if Shell’s current policies permit funding of public figures that have views not aligned with the Paris agreement (we note reports of Shell in the 1990’s funding climate science denier Frits Böttcher). • Influence Map rate Shell as a C-, noting it continues to advance for fossil fuel production and consumption. • Regarding net zero targets, Shell qualifies its use noting, “the nature and pace of change will vary between countries and regions, reflecting different types of economies and development priorities”
8. Climate governance	<ul style="list-style-type: none"> • The Board is responsible for climate change risk. • The CEO and Executive Committee, and Executive Vice President, Safety & Environment, are the - most senior executives responsible for climate change. • Shell has linked Energy Transition to its annual bonus and LTIP for FY21. This includes performance against its near-term emission intensity targets, but also includes metrics to increase production of gas. 	<ul style="list-style-type: none"> • Climate change director skills are unclear. Shell should conduct and disclose its boards skills matrix specifically identifying climate change skills needed by the board. • Key Performance Indicators should be linked to absolute emission reduction targets and not include targets to increase fossil-fuels.
9. Just transition	<p>No just transition plans disclosed.</p>	<ul style="list-style-type: none"> • Shell should consider the societal impact from high reliance on Nature Based Carbon offsets.
10. TCFD disclosure	<ul style="list-style-type: none"> • TCFD supporter since 2017. • TCFD disclosures provided in Shell Energy Transition report. 	<ul style="list-style-type: none"> • Scenario analysis of a 1.5C scenario does not extend to key assumptions, risks and opportunities at a company level.

Source: Shell company disclosures

² [Shell Industry Associations Climate review update 2020](#)

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Table 3: Royal Dutch Shell's Energy emission reduction targets, excludes Chemicals division

Year	April 2020	February 2021 updates
2021	2-3%	-
2022	3-4%	-
2023	6-8%	-
2030	-	20% (new)
2035	35% ³	45% (increased)
2050	65% ²	100% (increased)
2050	Net Zero Emissions (scope 1, 2, 3)	Unchanged (Set April 2020)

Source: Shell company disclosures

Shell gas capital expenditure and expansion

- The Special Report on Global Warming of 1.5°C from the Intergovernmental Panel on Climate Change (IPCC) projects that the share of primary energy provided by gas must decline by 20-25% by 2030, and by 53-74% by 2050 (relative to 2010).
- Carbon Tracker analysis for the Net Zero Company Benchmark identified 66% of Shell's future capex to be inconsistent with IEA's Beyond Two degrees scenario.
- This includes capex at LNG Canada, one of the two assets flagged that will contribute to Shell's plans to increase gas production by 7Mt p.a. by 2025. The other asset contributing to the expansion is Nigeria LNG (Final Investment Decision taken May 2020).
- In April 2020, Shell made a FID to develop the first phase of Arrow Energy's Surat (coal seam) Gas Project in Queensland, Australia, expected to bring up to 90 billion cubic feet per year of new gas (~1.8Mt LNG) by 2030 (50% partner with PetroChina).

³ Carbon intensity including all mitigation actions of Shell and customers. (reduction from 2016 base year - NCF 79g CO₂e/MJ)