

## Investment Stewardship

# Vote Bulletin: Shell plc

Company	Shell plc (LSE: SHEL)
Market and Sector	United Kingdom, Energy
Meeting Date	23 May 2023
Key Resolutions <sup>1</sup>	<p><u>Management proposal(s):</u></p> <p><b>Item 25:</b> Approve the Shell Energy Transition Progress</p> <p><u>Shareholder proposal(s):</u></p> <p><b>Item 26:</b> Request Shell to Align its Existing 2030 Reduction Target Covering the Greenhouse Gas (GHG) Emissions of the Use of its Energy Products (Scope 3) with the Goal of the Paris Climate Agreement</p>
Key Topics	Corporate strategy, Climate risk
Board Recommendation	The board recommended shareholders vote FOR Item 25 and AGAINST Item 26
BlackRock Vote <sup>2</sup>	BlackRock voted FOR Item 25 and AGAINST Item 26

### Overview

Shell plc (Shell) is a globally integrated energy company headquartered in the United Kingdom.

BlackRock Investment Stewardship (BIS) engages with companies to better understand how company leadership identifies and manages the material risks and opportunities in their business model that, in our assessment, can impact their ability to deliver durable financial performance for long-term investors like BlackRock's clients. We also engage to provide an investor perspective on corporate governance practices.

BIS has had an extensive, multiyear engagement history with Shell, during which we've discussed a range of corporate governance topics that, in our assessment, are important for long-term financial value creation. This has included board composition, corporate strategy, and the board's oversight of and management's approach to climate-related risks and opportunities.

<sup>1</sup> Shell plc, "Notice of Annual General Meeting".

<sup>2</sup> BIS conducts proxy voting for those clients who authorize BIS to vote on their behalf. As part of BlackRock's Voting Choice program, eligible clients can have a say in the proxy voting process by selecting their own proxy voting policy or one of 14 available third-party policies. 47% (\$2.1 trillion of \$4.5 trillion) of our index equity assets are eligible to participate in Voting Choice, and clients representing 25% of the \$2.1 trillion in eligible assets are enrolled in Voting Choice. Currency shown in USD. Source: BlackRock. Data as of March 31, 2023.

## Rationale for BlackRock's vote

### **Item 25: Approve the Shell Energy Transition Progress (FOR)**

**BIS supported this management proposal in recognition of the delivery to date against the company's Energy Transition Strategy.**

Shell originally proposed their Energy Transition Strategy to shareholders at the May 2021 annual general meeting (AGM).<sup>3</sup> The 2021 proposal received nearly 89% support from shareholders, including from BIS. This decision to support was based on our assessment that management had established clear policies and action plans to manage climate-related risks and opportunities and had provided a well-defined roadmap towards the company's stated climate-related ambitions and targets. At Shell's May 2022 AGM, management proposed an advisory, non-binding shareholder vote on a report on the progress made to date against the Energy Transition Strategy. BIS supported that proposal based on the company's disclosure detailing Shell's delivery against their stated strategy.

At Shell's May 2023 AGM, the board submitted another resolution for an advisory vote "requesting shareholders support the progress against Shell's Energy Transition Strategy."<sup>4</sup> BIS also supported this proposal.

Shell's current disclosure states that the company aims to reduce their scope 1 and 2 greenhouse gas (GHG) emissions by 50% by 2030 compared to 2016 levels on a net basis. By 2022, operational emissions had been reduced by 30%.<sup>5</sup> In addition, in the past year, Shell has continued to deliver against their target to increase total capex spending on low- and zero-carbon energy. Last year, Shell spent \$3.5 billion of cash capital expenditure on renewables and energy solutions, of which \$2.9 billion was on low carbon energy solutions, up from \$2.4 billion spent on renewables and energy solutions in 2021, within which \$1.8 billion was spent on low carbon energy solutions.<sup>6</sup> Shell also acquired Sprng Energy,<sup>7</sup> one of India's leading renewable power platforms, and has agreed to acquire Nature Energy, the largest producer of renewable natural gas in Europe, representing an investment of around \$3.5 billion in new businesses to support their objective to deliver on Shell's Powering Progress strategy. This will increase the company's renewables capacity in operation and enable the company to develop low- and zero-carbon alternatives to traditional fuels.<sup>8</sup>

Overall, Shell has and continues to provide a clear assessment of their plans to manage climate-related risks and opportunities and has demonstrated continued delivery against their Energy Transition Strategy. Given that the speed and shape of a low carbon transition are unclear, company disclosures that include scenario analysis and provide context on the transition plan and targets, help investors' understanding of company-specific risks and opportunities. In our view, Shell's reporting and approach are aligned with our clients' long-term financial interests; therefore, we supported the management resolution.

### **Item 26: Request Shell to Align its Existing 2030 Reduction Target Covering the Greenhouse Gas (GHG) Emissions of the Use of its Energy Products (Scope 3) with the Goal of the Paris Climate Agreement (AGAINST)**

**BIS did not support this shareholder proposal because in our view, it was overly prescriptive and unduly constraining on management's decision making.**

A shareholder proposal on the agenda for Shell's May 2023 AGM requested that the company "align its existing 2030 reduction target covering the greenhouse gas (GHG) emissions of the use of its energy products (Scope 3)

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<sup>3</sup> Shell plc, "Shell Energy Transition Strategy", 2021.

<sup>4</sup> Shell plc, "Notice of Annual General Meeting", 2023.

<sup>5</sup> Shell plc, "Our progress towards net zero", 2022.

<sup>6</sup> Shell plc, "Annual Report and Accounts 2022", 2022.

<sup>7</sup> Shell plc, "Shell to acquire Sprng Energy group, one of India's leading renewable power platforms", 2022.

<sup>8</sup> Shell plc, "Annual Report and Accounts 2022". and "Our progress towards net zero", 2022. The Sprng Energy deal was completed in August 2022 and the Nature Energy acquisition was completed in February 2023. The \$2 billion investment in Nature Energy is not included in the calculation of the \$8.2 billion invested in low-carbon energy and non-energy products.

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.”<sup>9</sup>

In our commentary, “[Climate-related risk and the energy transition](#),” we discuss that, as investors, we find it helpful to be able to evaluate companies’ assessments of their emissions across their value chain, or scope 3 emissions, where appropriate, and efforts to reduce them over time. A growing number of companies have started disclosing scope 3 emissions estimates, which provide important insight into the full carbon component of companies’ goods and services. This further allows investors to evaluate the long-term risks and resilience of companies’ value chains. However, we recognize that the methodology, accounting, assurance, and regulatory landscape for scope 3 emissions is complex, varied, and still evolving. Double counting is also a legitimate concern. Accordingly, we understand that the scope 3 disclosures that companies are able to make at this time will necessarily be on a good faith and best-efforts basis.

Currently, Shell has set a target to reduce the net carbon intensity of their energy products by 20% by 2030 compared to 2016.<sup>10</sup> They have also developed and disclosed their approach to demonstrate how their targets are aligned with the goals of the Paris 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.<sup>11</sup>

From the shareholder proposal’s supporting statement, it appears that the proponent is requesting that the company set an absolute reduction target for their scope 3 GHG emissions. In our view, this is overly prescriptive and unduly constraining on management’s decision making. Adhering to the proponent’s ask would require Shell to reduce product sales or alter their business composition, which could impact the company’s financial strength and unduly constrain management. For those reasons, BIS determined that the shareholder proposal was not aligned with the financial interest of shareholders. As a minority investor on behalf of our clients, BlackRock relies on the boards and management teams of companies to implement the strategies they deem most appropriate with the objective of delivering durable long-term financial returns.

Therefore, BIS did not consider it in the financial interests of our clients to support this shareholder proposal. As discussed above, in our assessment of their Energy Transition Strategy, the company is addressing the risks and opportunities in their business model stemming from a low carbon transition and has demonstrated that they are delivering against their stated plan.

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<sup>9</sup> Shell plc, “[Notice of Annual General Meeting](#)”.

<sup>10</sup> On June 14, 2023, Shell’s CEO Wael Sawan announced to investors that the company would “abandon some previously set targets for low-carbon energy production” and “reinforced Shell’s commitment to oil and natural-gas production.” In the same announcement, the company reiterated “its commitment to long-range climate targets, including net-zero emissions by 2050” aiming to “strike a balance between maximizing value for shareholders while also preparing the company for a low-carbon future.” Source: The Wall Street Journal. “[Shell Courts Investors With More Cash, Cost-Cutting](#).” June 14, 2023.

<sup>11</sup> Shell plc, “[Our progress towards net zero](#)”, 2022.

## 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 as appropriate. 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-related 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.<sup>12</sup>

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 durable, 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](https://blackrock.com/stewardship)

[contactstewardship@blackrock.com](mailto:contactstewardship@blackrock.com)

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<sup>12</sup> 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.