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PIRC opposes Shell chair and annual report over climate risks

Ahead of Shell's AGM (Tuesday 23 May 2023) proxy adviser PIRC has recommended investors vote against the company's chair and oppose its annual report for failing to address climate risks by setting adequate targets.

PIRC's report into Shell is part of the adviser's move to step up scrutiny of the decarbonisation ambitions of those companies facing heightened climate-related financial risks. The proxy adviser highlights the time since the Paris Agreement was signed and states that the lack of adequate targets is "considered to fall short of best practice and poses a major risk for investors."

The lack of an adequate short-term target is highlighted within the report. The report notes that while Shell has short- and medium-term targets there is specific concern that these targets are not aligned to a 1.5 degree pathway which is not heavily reliant on carbon offsetting. Such short-term targets are considered necessary to have a chance of staying within 1.5 degrees of global warming and essential for enabling investors to hold boards to account on the management of climate risks.

PIRC also advises voting against Shell's Energy Transition resolution. The adviser does so citing concerns that the company has not set absolute emission reduction targets for scope 3 emissions (all indirect emissions that occur in the value chain of the reporting company – e.g. the use of oil and gas) and the climate-related lobbying activity of trade associations of which Shell is a member. The adviser instead recommends investors vote in favour of a shareholder resolution filed by Follow This requesting the company align Scope 3 reduction targets with the goals of the Paris Climate Agreement.

The report follows similar recommendations the adviser made ahead of the recent BP AGM and draws on additional analysis as part of PIRC's new *Carbon 1.5* service focused on companies where climate-related risks are greatest. The new enhanced service applies to PIRC's standard voting recommendations rather than siloed into a separate climate service and seeks to hold directors to account for climate inaction.

Paul Hunter, Head of Policy, PIRC:

"Time is running out if we are to limit global warming to 1.5 degrees and reduce the climate risks facing investors. While targets are now being set, too often they are not aligned to a 1.5 degree pathway not heavily reliant on unproven offsetting technologies.

"Given both the scale of investment risks and the fact we are now seven years on from the Paris Agreement, the absence of adequate targets can only be viewed as an indicator of governance shortcomings. As such, PIRC is recommending investors hold board members to account where targets fall short of the climate expectations of responsible investors."

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A copy of the proxy report is available on request.

Notes to editors

About PIRC

Pensions & Investment Research Consultants Ltd (PIRC) is Europe's largest independent corporate governance and shareholder advisory consultancy with over 30 years' experience in providing stewardship and proxy research services to institutional investors on environmental, social and governance issues.

PIRC currently provides its services to over 100 clients globally. In total, PIRC's clients are stewards over a trillion pounds of beneficiary capital.

Adequate targets

PIRC assesses companies according to whether they have a commitment to net zero GHG emissions by 2050 at the latest and have short-, medium-, and long-targets. For targets to be deemed adequate they must cover relevant Scope 1, 2 and 3 emissions and company clearly states that the target is aligned with an appropriate 1.5°C scenario (IPPC SR15 Pathway 1; SBTi; IEA Net Zero).

Carbon 1.5: Climate voting designed for responsible investors

Time is running out to tackle climate change and mitigate your investment risks. Despite consistent investor calls for Paris aligned targets and plans, company progress has been patchy and slow. Even when faced with the urgency of the crisis and scale of the investment risks, standard climate proxy advice remains middle of the road. PIRC is changing this by providing responsible investors with a new Carbon 1.5 proxy voting service that makes your voice heard on climate.

The new service provides: Specific focus on the world's largest emitters where investment risks are greatest; Trusted proxy research into 1.5°C degrees aligned company targets covering all their emissions; Proxy voting recommendations that hold directors to account for climate inaction; and Proxy voting recommendations that escalate action according to how short a company is of investor expectations on 1.5°C targets.