Statement by Adam Matthews, Church of England Pensions Board & Co-lead for Climate Action 100+ engagement with Royal Dutch Shell,

following the publication of their Energy Transition Strategy

We are at the start of a crucial transition decade during which companies will make decisions that will determine if they, but also if society, will achieve the Goals of the Paris Agreement. Oil and gas remains part of the global economy today, and even under the most ambitious scenarios, will continue to do so but on significantly declining trajectories. The vast majority of oil and gas is still produced by national and private oil and gas companies. In response to investor engagement however, different paths are emerging for how a publicly owned oil and gas company can transition. Following continued engagement with Climate Action 100+ (CA100+) Shell has set out the first of its three transition strategies that will be put to shareholders for an advisory vote during this transition decade. The company target is clear: To achieve net zero absolute emissions reduction by 2050 or sooner.

Investor engagement with Shell has delivered tangible outcomes and will continue to do so. This engagement will focus on achieving alignment (by 2023) to the recently launched, and demanding, CA100+ Net Zero company benchmark.

As a result of continued investor engagement Shell was the first oil and gas company to break ranks and acknowledge their responsibility to address scope 3 emissions, which account for the vast majority of the "life-cycle" emissions from the burning of the products they sell and society uses. Shell were the first oil and gas company to set targets to reduce those emissions and the first to include performance indicators for achieving those targets in their executive remuneration. Shell were the first in their industry to respond to investor concerns that corporate climate lobbying through industry associations impedes ambitious policy implementation and they have put various associations on notice. Today Shell is the first oil and gas company to give its shareholders the opportunity for an advisory vote on its energy transition plans. These have all been areas of engagement with investors from CA100+.

With this latest important step in Shell's transition from an oil and gas producer to be an energy company, a multi-decadal transition is clearly underway. This is not the end of investor engagement. In line with the Climate Action 100+ benchmark, there will be continued engagement on ensuring absolute emission equivalent targets sit alongside short- and medium-term intensity targets, and the need for further evidence of alignment of capital expenditure. Aspects of the strategy are dependent on significant scaling of technology such as CCUS (carbon capture, utilisation and storage) and hydrogen and credible provision of biodiversity off-sets. These dependencies and uncertainties are all areas for further engagement and will require Shell to provide evidence of delivery of its strategy.

As investors we are unquestionably entering a more complex phase in corporate engagement and individually each investor will make a judgement on whether this latest step in Shell's transition is sufficient. **In the context of the progress that Shell has made as a result of engagement and the commitment from the company's leadership to continue to meaningfully engage on the remaining areas of the Climate Action 100+ benchmark, the Church of England Pensions Board is likely to vote to support this energy transition plan.** A vote in support will be contingent on evidenced progress and recognising that along with other shareholders we have an ongoing opportunity to hold Directors to account on the delivery of the plan, to vote on progress on an annual basis, and to vote on future plans. All of this is in addition to continued in-depth engagement by CA100+.

As a long-term investor, we recognise that this plan must, and we have good reason to anticipate will, continue to evolve rapidly as Shell tests and develops approaches with its customers. In light of this opportunity to vote on the company's own energy transition strategy and the progress made, we do not see a need to vote in favour of the Follow This Resolution at the AGM. However, we expect to support Follow This resolutions at other companies where progress is not so obvious.

The Church of England Pensions Board believes Shell is starting to transition and the pace of change is only going to continue in response to engagement with its shareholders. As we see progress with some parts of the oil and gas sector, this is the time for a global price on carbon to increase the pace of change across the whole sector. This is an intervention that has long been called for. It is long overdue, but with COP26 in November, surely now is the time.

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Read Shell's full announcement, here.

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