



## Voting on Shell's social and environmental performance

### Introduction

Shell's Annual General Meeting (AGM) was held on Tuesday 16 May in The Hague, The Netherlands. One of the resolutions voted on at the AGM – relating to Shell's social and environmental performance – had been requisitioned by a number of shareholders co-ordinated by the UK Ecumenical Council for Corporate Responsibility (ECCR). The resolution was defeated by a significant majority with 83% voting against and 11% abstaining from voting the resolution. In this article, we describe the background to the resolution and set out both our reasons for voting against the resolution and our recent engagement with Shell on the issues to which the resolution related.

### Background

ECCR proposed the resolution (see Box 1) because of its concerns relating to the loss of production, environmental costs and reputational risks faced by Shell. ECCR specifically highlighted issues surrounding Shell's operations in three countries:

- Nigeria: the company has been criticised for poor stakeholder engagement, lack of transparency, and perceived environmental and human rights abuses;
- Ireland: Five local residents were imprisoned for denying the company access to land at the Corrib gas field development;
- Russia: Concerns have been expressed about the company's Sakhalin II Project relating to impacts on the endangered Western Grey Whales and the local fishing industry.

ECCR's view is that these issues result largely from Shell's failure to carry out effective and complete environmental and social impact assessments of new developments or modifications to existing facilities, and its failure to develop and abide by memoranda of understanding entered into with local communities.

### Insight's perspective on the resolution

We were first made aware of the resolution in December 2005, when we were approached by ECCR to provide comments on the draft text. We wrote to ECCR acknowledging the concerns that underpinned the organisation's decision to propose the resolution, but explained that the resolution was not worded in a manner that would enable us to support it. Following the AGM – where the resolution proposed was virtually identical to that originally proposed in December 2005 – we wrote to ECCR to set out our views on the resolution. There were four reasons for not supporting the resolution:

1. We have had extensive discussions with Shell about its operations in both Nigeria and Sakhalin, as well as about its overall governance of these projects. We have expressed concern that the company has failed to effectively manage the social and environmental issues around these projects. In response, Shell has made a number of important changes to its management and oversight of these projects, by strengthening the management teams as well as the oversight role of its board-level Social Responsibility Committee. Given our ongoing and constructive engagement, we were of the view that

supporting the resolution would have sent the wrong signal to the company, thereby potentially undermining the progress that has been made to date.

2. The specific objectives of the resolution were unclear. While ECCR's statement in support of the resolution refers to Sakhalin, Lough Corrib and Nigeria, it was not clear how the resolution relates specifically to these projects. In our comments on the draft resolution, we noted that if the aim of the resolution was to encourage the company to take specific actions on specific projects, then the proposed actions should be explicitly stated in the resolution.

3. Certain elements of the resolution appeared redundant in the context of Shell's existing social and environmental procedures. For example, Shell has extensive programmes of stakeholder engagement around its major projects, produces detailed social and environmental assessments for such projects, and has comprehensive audit/assessment procedures in

place. In many of these areas, Shell's processes and procedures are recognised as international best practice.

4. Certain of the suggestions, e.g. requiring the company to sign a Memorandum of Understanding (MOU) with stakeholders on all projects, seemed inappropriate. We recognise that there are situations where MOUs may provide a useful framework for responding to stakeholder concerns, but we see significant difficulties with demanding this as a standard part of all operations. There are two reasons for our concern, namely that such MOUs risk by-passing or undermining the legitimate regulatory and oversight role of governments, and that the requirement to have an MOU may create a significant social and financial liability for the company, in particular if this clause is interpreted as requiring all local community stakeholders to support the MOU. If the intention is not to have all community stakeholders to sign such an MOU, then who legitimately represents these stakeholders?

### Box 1: Text of resolution presented at Royal Dutch Shell's AGM

At this, the first Annual General Meeting of Royal Dutch Shell, the shareholders request that, in the interests of the good reputation of the Company, and the avoidance of costly delay to, or interruption of, production, and for the present and future peace, safety, environment and prosperity of local communities directly affected by the Company's operations:

1. The Directors undertake, in all the Company's international exploration and development operations, to collaborate with local stakeholder communities in order to reach, before project works begin, a mutually acceptable Memorandum of Understanding based on an independently conducted and transparent Social and Environment Impact Assessment;

2. The Directors undertake on the acquisition of companies (or assets and operations of other companies) to exercise due diligence in respect

of risk, by subjecting social and environmental reports relating to business operations and activities to qualified independent assessment, and to revise the Company's plans or adopt alternative methods of extraction and refinement in the light of such assessments;

3. The Directors institute rigorous policies in risk assessment and community consultation particularly when proposing to use unproven techniques such as untested gas production and processing on peat and in proximity to occupied dwellings, or when operating in ice-congested waters;

4. The Directors ensure, through proper oversight by the Board's Social Responsibility Committee, that all policies, procedures and standards on environmental and social issues are rigorously enforced at all stages of project planning and operation;

5. The Directors report to the shareholders by the 2007 AGM how the Company has implemented these measures.

## Engagement with Shell

After the resolution was lodged, Insight – together with Hendersons and F&C – met with Shell's Chief Financial Officer (CFO) on 30 March 2006 to discuss the resolution and Shell's response. We used the meeting as an opportunity to discuss the operation of Shell's Social Responsibility Committee and, more broadly, the steps the company is taking under the new corporate structure to ensure that sustainability issues are taken fully into account from the earliest stages of project development onwards.

Shell explained that the role of the Social Responsibility Committee is to oversee Shell's performance on social, ethical and environmental issues. Following the unification of the company, the Committee appointed a new chair, Wim Kok, and decided to review the manner in which it operates. Shell then prepared a list of projects where health, safety or environmental issues are of particular concern which the Committee used to prioritise sites to visit. In the preceding year, it had visited Sakhalin (twice); Corrib; Pinedale, Wyoming; Port Arthur; Norco and New Orleans. The Committee has also played a very active role in setting the agenda for such visits and in deciding who to meet. According to Shell, once on site it engages extensively with local management and has stimulated changes in several projects as a result. For example, it highlighted the case of the Corrib gas project where, following the Committee's visit, the local management put together a new plan for community engagement

and employed new staff to implement the plan. With respect to Sakhalin, the Committee played a key role in the decision to reroute offshore pipelines to avoid a whale feeding area. Following each visit, the Committee prepares a report that is presented to the main board which is considered in addition to routine board discussions of major projects.

Shell also described its efforts to improve early-stage environmental and social impact assessments by using better techniques to draw in the perspectives of external stakeholders.

## Future engagement

In the meeting with the CFO, we requested a meeting with Wim Kok to discuss the role of the Committee further. We are awaiting confirmation of this meeting. We also suggested that the Committee publish a formal annual statement detailing its activities. This could include: an outline of the Committee's role and objectives; a description of the activities it has undertaken over the previous period; a summary of the key issues it has identified; details of the recommendations it has made to the board, and; the actions that have been or will be taken in response. We suggested that a statement of this nature would do much to restore stakeholders' confidence in Shell's commitment to the highest sustainable development standards by demonstrating real leadership in the governance of these issues.

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