Expectations for BP and Shell around climate risk shareholder resolutions

Executive Summary

This discussion paper seeks to inform investors' engagement with oil and gas companies, based on the recently agreed international target to limit global temperature rises to '*well below 2°C, with an ambition for 1.5*'.[1] Focusing on the areas of disclosure sought by investors in the 2015 shareholder resolutions filed and passed at BP plc and Royal Dutch Shell plc, the paper considers information that investors might expect to see in enhanced reporting from 2016, as each company develops a business strategy designed for resilience within a carbon-constrained economy.

Introduction

A shareholder's right to file special resolutions at a company is an important and powerful instrument. In the UK they are very rarely brought about, not least because of the significant legal and logistical hurdles involved in getting resolutions successfully filed. The act of filing a resolution at a FTSE100 company is thus a substantial milestone within a period of intensive investor engagement, invariably on a topic of strategic significance or risk.

In 2015, shareholder resolutions were filed at BP and Shell on the issue of '*strategic resilience for 2035 and beyond*' in the context of climate risk. These were coordinated by the Aiming for A coalition and supported by non-profits ShareAction and ClientEarth. With the backing of management, the resolutions were duly passed with votes of over 98%. Both firms are now legally required to include additional public reporting on climate risk from 2016 onwards. The passing of these resolutions marked a significant tidemark in shareholder engagement on climate change, setting the scene for future dialogue on strategic resilience. Understandings of climate risk are ever-evolving, and the companies should reflect this in reporting for 2016 and beyond.

Prior to UN negotiations at COP21 in December 2015, there was consensus amongst international policy frameworks, governments, investors and civil society that global temperature rises need to be limited to a maximum of 2°C. Indeed, this was an ambition recognised by the Oil and Gas Climate Initiative (OGCI), of which BP and Shell are both members. Whilst 2°C was considered striving, it still left vulnerable and low-lying societies exposed to desolation. The agreement reached at COP21 raised the bar of ambition, setting a new target for staying '*well below 2°C, with an ambition for 1.5*'. This new regulatory landscape creates an imperative for the development of corporate strategies for portfolio resilience consistent with this limit.

While recognising that corporate transition is non-linear and without a clearly-defined pathway, it is important that shareholders start to see substantive commitments from fossil fuel companies to ensure 1.5 – 2°C portfolio resilience.[2] As such, this document considers what corporate reporting around the five areas covered by the resolution might look like as the companies transition for consistency with this limit, setting expectations for disclosure in 2016 and onwards. Whilst it is recognised that some of the reporting processes contained in this document are currently under-developed, these should be areas marked for improvement going forward. Setting these aspirations will help companies ensure they are meeting stakeholders' expectations and, in turn, better equip investors – not least fiduciary investors – to exercise effective stewardship. Although framed specifically for BP and Shell, the principles behind these disclosure asks are applicable to the oil and gas sector more broadly.

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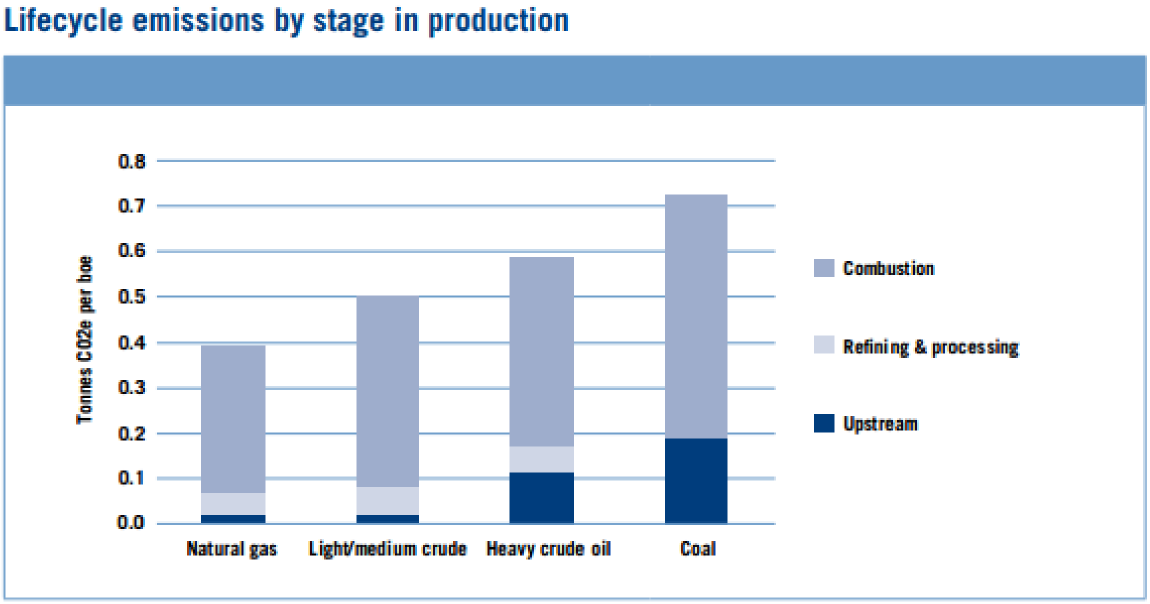
[1] UNFCCC (2015), *Adoption of the Paris Agreement (COP 21)*. Available online at: http://unfccc.int/resource/docs/2015/cop21/eng/l09r01.pdf

[2] Throughout this document, the focal point for disclosures of '1.5 – 2°C' refers to the new target as recognised by international law following COP21, wherein 1.5°C is the ambition and 2°C the absolute maximum.

1. **Ongoing operational emissions management**

As oil and gas companies prepare for the low-carbon transition, approaches to emission management need to be more nuanced, recognising and addressing the significance of downstream emissions. As the graph below shows, these make up the majority of the total tonnes of CO_2 emitted.



Source: Goldman Sachs, Dexia Asset Management; Industry sources

The 2015 shareholder resolutions focussed on operational emission management. BP and Shell each score a "B" carbon performance band (on an A-E scale) through CDP, a ranking based on companies' approaches to climate change mitigation, adaptation and transparency. The resolutions ask for more information on what is being done to achieve an "A" rating. The companies' operational emissions are significant: BP's direct GHG emissions were 48.6 million tonnes (Mte) in 2014,[3] whilst Shell's direct GHG emissions were 76 million tonnes on a CO_2-equivalent basis in 2014.[4]

Regarding strategies for emissions reductions, both companies have recently rejected adoption of group-wide operational emissions targets. Shell indicated that "*internal targets … cannot currently be meaningfully converted into a global intensity based target on a company-wide basis*",[5] and BP suggested that such an approach would not necessarily be constructive or meaningful – for example, gas may produce more operational emissions than oil.[6] Both companies instead noted that it would be more meaningful to steer for emissions reductions from the demand side.[7] Indeed, the most significant portion of the carbon lifecycle is in these downstream scope 3 emissions.

To reflect this, we expect to see the development of a holistic approach to emissions reduction that accounts for the total lifecycle. This allows the companies room for flexibility as they transition their portfolios away from high-carbon assets. Whilst acknowledging the current underdevelopment of reporting processes for measuring and setting targets on the reduction of total lifecycle emissions, we nonetheless expect to see commitment to such future benchmarking in 2016. Standardised measures would help inform shareholder stewardship over this area. Such a reporting strategy could consider analysis of the value chain to identify key intervention points, with complementary strategies for targeted reduction.

[3] http://www.bp.com/en/global/corporate/sustainability/environment/greenhouse-gas-emissions.html
[4] http://www.shell.com/global/environment-society/environment/climate-change/greenhouse-gas-emissions.html
[5] http://s01.static-shell.com/content/dam/shell-new/local/corporate/corporate/downloads/pdf/version-cdp-150629.pdf
[6] Transcripts of the questions and answers asked at the BP and Shell AGMs can be found in Appendix 3.
[7] http://s01.static-shell.com/content/dam/shell-new/local/corporate/corporate/downloads/pdf/version-cdp-150629.pdf

Proposals:

1. In 2016, we expect to see the companies make substantive commitments to developing a holistic strategy for emissions reductions that gives weighting to the total lifecycle, in a way that is consistent with limiting rises in global temperatures to 1.5 – 2°C.
2. Going forward, this strategy and its accompanying benchmarking and reduction targets should be clearly communicated to shareholders to allow for evaluation.

2. Asset portfolio resilience to post-2035 scenarios

To ensure portfolio resilience under scenarios that limit global temperature rises to the recently established global target of staying 'well below' 2°C, with an ambition for 1.5, there is a need for radical portfolio transformation. Shareholders have an interest in understanding how companies are preparing for resilience under these scenarios; both in terms of identifying risk through portfolio stress-testing, and describing how they would adapt under such carbon-constrained conditions.

There has been increased attention paid recently to the disruption of 'business as usual' (BAU) assumptions; for example, BP's Energy Outlook for 2035 considers the impact of alternative scenarios, including stricter climate policies and a growth of renewables in China. Nevertheless, there remains a lack of comprehensive testing around how the companies' portfolios would perform against these challenges, and how business models might be restructured for resilience under such scenarios.[8] Indeed, core business projections within this sector remain embedded in assumptions inconsistent with the IEA 450 scenario, which itself only leaves a 50% chance of limiting climate change to 2°C.[9]

The IEA 450 scenario is further limited in assuming high oil prices of $90 p/bbl., and has a conservative outlook on the take-off of renewables. Scenario planning for a low-carbon transition that is solely focussed on this model could leave firms blinkered to unprecedented shifts in demand, unforeseen drops in energy prices, and the scaling up of climate legislation.[10] There is thus a strong imperative for companies to expand portfolio testing to cover more ambitious scenarios compatible with a 1.5, 1.7 and 2 degree outcome; under a variety of low demand, low oil price scenarios. Such stress tests – including cost curves and sensitivity analysis to help identify high risk assets – should be performed on both the existing portfolio and pipeline projects.

Understanding how quickly the companies could adapt to different scenarios is also important for assessing strategic resilience. Relevant disclosures might include information regarding the proportion of capex allocated for base production, and for growth and expansion projects; and the proportion of these allocations currently committed and uncommitted.

As well as communicating the impact of these scenarios, there is a requisite for the companies to describe how they will respond. This should be done through an articulation of a transition strategy. Whilst understanding that portfolio transition for 1.5 – 2°C consistency is non-linear, in 2016, shareholders will expect to see commitments from the companies to develop business strategies for consistency with this target. Over time, investors will expect quantifiable measures and milestones to track how each firm is developing its business model. Possibilities include a combination of portfolio diversification, reduced capex and wind-down strategies for high carbon assets.

Proposals:

1. In 2016, we expect to see the companies offering analysis of the resilience of their existing portfolio and pipeline projects under 1.5, 1.7 and 2°C scenarios.
   a) Conduct stress test analysis on both the existing portfolio and new pipeline of projects, using cost curves and sensitivity analysis against different scenarios.

[8] http://www.bp.com/content/dam/bp/pdf/energy-economics/energy-outlook-2015/bp-energy-outlook-2035-booklet.pdf
[9] http://www.bp.com/content/dam/bp/pdf/energy-economics/energy-outlook-2015/bp-energy-outlook-2035-booklet.pdf
[10] http://www.carbontracker.org/report/lost_in_transition/

b) Regarding project economics, the reporting should include discussion on how projects (including exploration projects) fit into the aforementioned low carbon scenarios, offering the base planning assumption range and probabilities for these key variables.
c) Routine reporting should include disclosures relevant to the long-term net value of assets and flexibility of company portfolios.

2. Regarding the companies' response to these scenarios, in 2016 we expect to see commitment to the development and communication of transition strategies for portfolio resilience in scenarios consistent with limiting temperature rises to 1.5 – 2°C. Post-2016, we expect to see these fleshed out, with internal inquiries into how to best retain shareholder value. These strategies should be developed alongside quantifiable measures and milestones for evaluation.

3. Low carbon energy R&D and investment strategies

The resolutions asked the companies for '*post 2015 plans for low carbon technology'*. Both companies currently have investments in renewable and energy efficiency projects; CCS and wind farms in the case of Shell, and US wind and Brazilian biofuel for BP. There is a lack of transparency regarding the full extent of the companies' low carbon R&D strategies, and as such a corresponding need for better disclosure around the capital allocated to investment and research into alternatives.

In the transition towards a 1.5 – 2°C consistent portfolio, it is prudent for investment strategies to ensure economically optimal adaptation that accounts for the companies' skillsets, rather than presuming that transformation will necessarily lead to a refocus on renewables. As the OGCI report notes, whilst oil and gas companies are currently looking into renewables, they are also "*exploring new business models to ensure we can play a competitive and dynamic role in a low greenhouse gas future*".[11] Shareholders have an interest in the companies taking a pragmatic approach to future investment strategies, and our expectations reflect this.

Proposals:

1. In the long term, we wish to see commitments to investment strategies consistent with limiting temperature rises to 1.5 – 2°C.
2. In 2016, we'd expect to see a stated commitment to point 1 above, as well as consideration of how this might translate into R&D decisions going forward. This could be presented as a transition strategy, phasing out some forms of R&D expenditures and replacing them with others.

4. Strategic KPIs and executive incentives

The resolutions asked for disclosure around the companies' '*evolving approach to KPIs and executive incentives in light of the challenges of climate change'*. As the companies integrate a 1.5 – 2°C consistent transition into their business strategies, they must restructure strategic KPIs and executive incentives in a proactive, risk reducing manner. This needs to go beyond the current consideration of Health, Safety, Security and Environmental (HSSE) factors to reflect the more fundamental shifts in behaviour that will be required. As it has been noted throughout this document, transition will be non-linear and shareholders have an interest in seeing companies adapt in manners most optimal given their skillsets. The proposals are phrased to reflect this.

Proposals:

1. In the long term, we wish to see executive incentives restructured to embed a 1.5 – 2°C consistent transition into the companies' business strategies.
2. In the short term, we expect the companies to show movement away from incentives that encourage behaviour that is not compatible with an economically optimal 1.5 – 2°C business plan,

[11] http://www.oilandgasclimateinitiative.com/wp-content/uploads/2015/10/OGCI-Report-2015.pdf

such as metrics based on exploration volumes. We would also expect a wider review of current incentive structures to consider how they might be restructured in line with point 1 above.

5. Public policy interventions

The resolutions asked for increased disclosure on the companies' '*public policy programme in relation to climate risk, including positions on key policy measures, especially for the critical 2015 to 2020 policy making period'.*

To limit global temperature increases to 1.5°C and enable societies and ecosystems to adapt to physical impacts, action will be required at national, regional and global levels. There is a corresponding need for corporate lobbying to be undertaken in line with this ambition. Both companies are members of the OGCI, a collaborative wherein firms commit to develop common methodologies to measure climate-related impacts and contributions to solutions.[12] We would like to see the companies take this further through commitments to 1.5 – 2°C advocacy work and increased disclosure.

As the recent case of ExxonMobil having documents subpoenaed as part of an investigation by the New York Attorney General has demonstrated, investors have a clear interest in transparency around companies' interactions with the policy framework – including through think tank and advocacy groups.[13] Currently, there is a lack of information on the full scale of influence that companies exert on policy making procedures.

Proposals:

1. The companies signal their commitment to advocacy for government frameworks that limit climate change to 1.5 – 2°C. This should expand upon the current limited focus on the issue of the carbon market.
2. The companies should also conform to good practice in terms of transparency, including:
   a) Disclosure of memberships and total research allocation (including fees and staff time) of all entities with which the companies are linked or those that act on their behalf on issues of climate or energy policy, including: trade associations and federations, Chambers of Commerce, general business forums, PR consultants, think tanks, ad agencies, and special interest advocacy groups.
   b) Disclosures regarding the company's position on and engagement with key upcoming climate legislation, such as the European Union Emissions Trading Scheme (EU ETS) and the US Clean Power Plan.
   c) Disclosure of management oversight for ensuring consistency between the company's position and that of any trade associations to which the company belongs or is closely associated, with mechanisms in place to respond to misalignments.

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[12] http://www.oilandgasclimateinitiative.com/about/
[13] Mooney, C. (2015) *New York is investigating Exxon Mobil for allegedly misleading the public about climate change,* New York Times. Available online from: https://www.washingtonpost.com/news/energy-environment/wp/2015/11/05/exxonmobil-under-investigation-for-misleading-the-public-about-climate-change/ [Accessed: 10/11/2015]

Annex 1 – BP Resolution

Special resolution – strategic resilience for 2035 and beyond

That in order to address our interest in the longer term success of the Company, given the recognised risks and opportunities associated with climate change, we as shareholders of the Company direct that routine annual reporting from 2016 includes further information about: ongoing operational emissions management; asset portfolio resilience to the International Energy Agency's (IEA's) scenarios; low-carbon energy research and development (R&D) and investment strategies; relevant strategic key performance indicators (KPIs) and executive incentives; and public policy positions relating to climate change. This additional ongoing annual reporting could build on the disclosures already made to CDP (formerly the Carbon Disclosure Project) and/or those already made within the Company's Energy Outlook, Sustainability Review and Annual Report.

Supporting Statement

It is our intention that this is a supportive but stretching shareholder resolution. It has been prepared by the "*Aiming for A"* coalition of UK asset owners and mutual fund managers for a larger co-filing group.

The *"Aiming for A"* coalition includes the £150bn Local Authority Pension Fund Forum and the largest members of the £15bn Church Investors Group. The coalition was convened by CCLA Investment Management in 2011/12. The group is undertaking in depth engagement with the ten largest UK-listed extractives and utilities companies, with a particular focus on the companies' CDP performance bands[14].

There are several reasons why UK asset owners and mutuals have come together under the "*Aiming for A"* initiative to support extractives and utilities companies in their preparations for the low-carbon transition. These range from systemic risk management and our collective fiduciary duty to engage in economic transformation, through to amplifying longer-term investor voices and involving ultimate beneficiaries.

We believe that supportive but stretching shareholder resolutions can play a positive stewardship role in the UK. They could amplify the need to balance the short- and longer-term aspects of shareholder value creation.

The wider co-filing group includes asset owners and some of their fund managers, from both the UK and overseas. The asset owners span charitable foundations, Church investors pension funds and individuals (including clients of Rathbone Greenbank Investments). All the co-filers have been ably assisted by Client Earth and Share Action as part of their ongoing programme work.

Thanks to Mercer[15] and Carbon Tracker's[16] research, horizon-scanning investors are aware of the portfolio risks of public policy uncertainty and potential asset stranding. Major technology transitions are rarely smooth, and draconian policy action that has to be introduced quickly after prolonged delay increases risks to investors. The resolution covers five related areas:

1. **Ongoing operational emissions management**

   In 2014 BP reached a "B" carbon performance band (on an A-E scale) through CDP. Within the performance banding methodology considerable weight is given to operational emissions management, alongside strategic and governance issues like those below. The *"Aiming for A"* coalition and other investors are interested in how the company is maintaining progress towards reaching an "A", including

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[14] https://www.cdp.net/en-US/Pages/disclosure-analytics.aspx
[15] http://www.uk.mercer.com/newsroom/climate_change_scenarios.html
[16] http://www.carbontracker.org/our-work/

across companies where BP has a major shareholding. For further details see https://www.cdp.net/en-US/Programmes/Pages/CDP-Investors.aspx

2. Asset portfolio resilience to post-2035 scenarios

BP has a diverse portfolio of assets (operational and in reserve). The role of gas as a transitional fuel is well reflected in this portfolio, and the current resilience of the company's overall portfolio compares favourably with other oil and gas majors. We ask that an assessment of the portfolio's resilience against the range of IEA[17], and any other relevant post-2035, scenarios be outlined to investors in routine reporting from 2016. Investors are also interested in the role exploration, disposals and cash distributions to investors will play in the nearer term.

3. Low carbon energy R&D and investment strategies

BP has an Alternative Energy[18] business, and $8bn has been invested ahead of schedule. In addition, 20% of BP's R&D is already directed towards the low carbon transition. Investors are interested in BP's post 2015 plans in these areas, including any for carbon capture and storage (CCS).

4. Strategic KPIs and executive incentives

BP was one of the first oil and gas majors to signal a strategy of *"value not volume"*. Transitions that span decades are complex to manage and often require lead indicators and incentives. Investors are interested in BP's evolving approach to KPIs and executive incentives, in the context of the transition to a low carbon economy, including the role played by the reserves replacement ratio (RRR).

5. Public policy interventions

BP has co-ordinated its approach to public policy at group level since 2011 and recently joined over 70 countries and over 1000 companies in signing the World Bank statement for a price on carbon[19]. Investors are interested in BP's public policy programme, including positions on key policy measures, especially for the critical 2015 to 2020 policy making period.

Finally, we'd also like to highlight the global investor coalition on climate change's document outlining their expectations for oil & gas majors, which is available from: http://globalinvestorcoalition.org/. This builds on their carbon asset risk (CAR) initiative[20].

[17] http://www.worldenergyoutlook.org/weomodel/ (the WEO-2014 uses a scenario approach to examine future energy trends and has been extended to 2040 for the first time. It presents three scenarios: the New Policies Scenario, the Current Policies Scenario, and the 450 Scenario)

[18] http://www.bp.com/en/global/alternative-energy.html

[19] http://www.worldbank.org/en/programs/pricing-carbon

[20] http://www.ceres.org/press/press-releases/investors-ask-fossil-fuel-companies-to-assess-how-business-plans-fare-in-low-carbon-future

Annex 2 – Royal Dutch Shell Resolution

Special resolution – strategic resilience for 2035 and beyond

That in order to address our interest in the longer term success of the Company, given the recognised risks and opportunities associated with climate change, we as shareholders of the Company direct that routine annual reporting from 2016 includes further information about: ongoing operational emissions management; asset portfolio resilience to the International Energy Agency's (IEA's) scenarios; low-carbon energy research and development (R&D) and investment strategies; relevant strategic key performance indicators (KPIs) and executive incentives; and public policy positions relating to climate change. This additional ongoing annual reporting could build on the disclosures already made to CDP (formerly the Carbon Disclosure Project) and/or those already made within the Company's Scenarios, Sustainability Report and Annual Report.

Supporting Statement

It is our intention that this is a supportive but stretching shareholder resolution. It has been prepared by the "*Aiming for A"* coalition of UK asset owners and mutual fund managers for a larger co-filing group.

The *"Aiming for A"* coalition includes the £150bn Local Authority Pension Fund Forum and the largest members of the £15bn Church Investors Group. The coalition was convened by CCLA Investment Management in 2011/12. The group is undertaking in depth engagement with the ten largest UK-listed extractives and utilities companies, with a particular focus on the companies' CDP performance bands[21].

There are several reasons why UK asset owners and mutuals have come together under the "*Aiming for A"* initiative to support extractives and utilities companies in their preparations for the low-carbon transition. These range from systemic risk management and our collective fiduciary duty to engage in economic transformation, through to amplifying longer-term investor voices and involving ultimate beneficiaries.

We believe that supportive but stretching shareholder resolutions can play a positive stewardship role in the UK. They could amplify the need to balance the short- and longer-term aspects of shareholder value creation.

The wider co-filing group includes asset owners and some of their fund managers, from both the UK and overseas. The asset owners span charitable foundations, Church investors pension funds and individuals (including clients of Rathbone Greenbank Investments). All the co-filers have been ably assisted by Client Earth and Share Action as part of their ongoing programme work.

Thanks to Mercer[22] and Carbon Tracker's[23] research, horizon-scanning investors are aware of the portfolio risks of public policy uncertainty and potential asset stranding. Major technology transitions are rarely smooth, and draconian policy action that has to be introduced quickly after prolonged delay increases risks to investors. The resolution covers five related areas:

1. **Ongoing operational emissions management**

   In 2014 Royal Dutch Shell (Shell) achieved a "B" carbon performance band (on an A-E scale) through CDP. Within the performance banding methodology considerable weight is given to operational emissions management, alongside strategic and governance issues like those below. The *"Aiming for A"* coalition and other investors are interested in how the company is maintaining progress towards

[21] https://www.cdp.net/en-US/Pages/disclosure-analytics.aspx
[22] http://www.uk.mercer.com/newsroom/climate_change_scenarios.html
[23] http://www.carbontracker.org/our-work/

reaching an "A". For further details see https://www.cdp.net/en-US/Programmes/Pages/CDP-Investors.aspx

2. Asset portfolio resilience to post-2035 scenarios

Shell has a diverse portfolio of assets (operational and in reserve). The role of gas as a transitional fuel is increasingly well reflected in this portfolio. We ask that an assessment of the portfolio's resilience against the range of IEA[24], and any other relevant post-2035, scenarios be outlined to investors in routine reporting from 2016. Investors are also interested in the role exploration, disposals and cash distributions to investors will play in the nearer term.

3. Low carbon energy R&D and investment strategies

Shell is building its biofuel capacity through a joint venture with Brazilian firm Cosan[25] and has a flagship carbon capture and storage (CCS) project in Canada[26]. Investors are interested in Shell's post 2015 plans for low carbon energy, from R&D through to investments that could achieve commercial scale.

4. Strategic KPIs and executive incentives

Shell's new CEO has emphasised the importance of capital discipline[27].Transitions that span decades are complex to manage and often require lead indicators and incentives. Bearing in mind existing arrangements regarding the inclusion of sustainability factors in the annual bonus, investors are interested in Shell's evolving approach to KPIs and executive incentives, in the context of the transition to a low carbon economy, including the role played by the reserves replacement ratio (RRR).

5. Public policy interventions

Shell is a member of the Prince of Wales Corporate Leaders Group and has signed their Climate Change statements, including the recent Trillion Tonne Communiqué[28]. Investors are interested in Shell's public policy programme, including positions on key policy measures, especially for the critical 2015 to 2020 policy making period.

Finally, we'd also like to highlight the global investor coalition on climate change's document outlining their expectations for oil & gas majors, which is available from: http://globalinvestorcoalition.org/. This builds on their carbon asset risk (CAR) initiative[29].

[24] http://www.worldenergyoutlook.org/weomodel/ (the WEO-2014 uses a scenario approach to examine future energy trends and has been extended to 2040 for the first time. It presents three scenarios: the New Policies Scenario, the Current Policies Scenario, and the 450 Scenario)
[25] http://www.shell.com/global/environment-society/environment/climate-change/biofuels-alternative-energies-transport/biofuels.html
[26] http://www.shell.ca/en/aboutshell/our-business-tpkg/upstream/oil-sands/quest.html
[27] http://www.shell.com/global/aboutshell/investor/news-and-library/2014/2014-results-announcement-media-release1.html
[28] http://www.cisl.cam.ac.uk/Business-Platforms/The-Prince-of-Wales-Corporate-Leaders-Group/Communiques.aspx
[29] http://www.ceres.org/press/press-releases/investors-ask-fossil-fuel-companies-to-assess-how-business-plans-fare-in-low-carbon-future

Appendix 3 – Transcript from AGMs – Questions and Answers

BP AGM – 16th April 2015

1. Operational emissions management

Question:

My question concerns BP's approach to operational emissions management; focussing on the potential adoption of like-for-like emissions targets across subdivisions within the business.

It is positive to see BP succeed in reaching a "B" carbon performance band through CDP's tracking, and to learn this morning that the company is supportive of continued progress on emissions reductions in its operations.

Achieving further progress will require an ambitious approach to emission reductions. Since BP makes a case against the applicability of company-wide targets, it seems that to continue progress, BP should strongly reinforce local level performance management across the company's divisions; incorporating stretching like-for-like emission targets with public reporting on progress towards the targets.

Strong targets would focus on absolute emissions reductions rather than on carbon intensity, and use external agencies to set and monitor standards.

Will the board agree to adopt and publish absolute emissions reductions targets for key relevant divisions of the company to demonstrate your commitment to continued progress in emission reductions? If not, will the board please explain why BP has chosen not to adopt this practice, despite the fact that it would allow shareholders to make informed decisions with respect the long-term strategy of the company.

Response:

- "We don't think it is productive to go for targets" – it's not always that easy, e.g. gas is harder to get out of the ground so may produce more emissions. Targets are "not always productive" but the company is "keen' to get the right developments"
- "We are not ready to set targets on emissions"
- "If we are serious about a low carbon economy we need to steer from the demand side"
- Carbon pricing is critical to stimulate demand

2. Asset portfolio resilience to the International Energy Agency's (IEA's) scenarios

Question:

My question concerns BP's portfolio resilience to adverse climate change scenarios.

BP claims to take a dynamic approach to its investment strategy and portfolio resistance to changes in policy, market and technology conditions. This is done through assessing numerous variables including the effect of potential carbon polices, changing patterns in supply and demand, fluctuating oil prices and the role of evolving technologies.

A blind spot within this analysis is the lack of consideration of the IEA's 450 scenario. The 450 scenario sets out an energy pathway consistent with the goal of limiting the global increase in temperature to 2°C by limiting concentration of greenhouse gases in the atmosphere to around 450 parts per million of CO_2.

Without sound and transparent analysis which considers this scenario, it is unclear whether BP's portfolio would be robust in such a carbon restrained world. There consequently seems a need for the company to stress test business models against this scenario, and share the results openly with investors.

Would the board be willing to include a portfolio stress test for the 450 scenario? If this is not something that BP would consider, I would like an explanation as to why not, and what the company's contingency plans are if forced to adopt a business model based on a 2°C scenario.

Response:

- "It's hard to plan for anything other than what we believe will happen"
- "It's hard to plan for anything other than demand scenarios"
- In response to the question on whether they will stress test for the 450 scenario: "It's something we obviously will do"

3. **Low carbon energy research and development (R&D) and investment strategies**

Question:

My question regards low carbon energy research and development (R&D) and investment strategies, with a focus on BP's disclosure and long-term commitment to low carbon R&D.

The board has recognised the important role of low carbon technology in addressing the challenges of energy security and climate change, and you invested $8.3bn in renewable technologies between 2005 and 2013.

However, questions must be raised about BP's commitment to this strategy given the lack of targets being set for further investment and the decision to divest from or disband all alternative energies businesses, with the exception of Brazilian biofuels and US wind.

This heavy focus on Brazilian biofuels seems especially problematic given concerns raised that the land-use change associated with sugarcanes can negate any greenhouse gas emission saving, whilst raising important ethical concerns about food security.

Could the board please provide detail on BP's post-2015 approach to low carbon development and investment? I am particularly interested in plans to increase the proportion of R&D investment in low carbon ventures in comparison to fossil fuel explorations, and how BP seeks to expand its investments in growth-stage low-carbon start-ups.

Response:

- BP sold a solar business because it was not competitive – the business was making glass for solar panels in China and was not a profitable part of BP
- BP was early out of low carbon energy because they anticipated a carbon price
- It's very important there is a policy framework at Paris

4. **Relevant strategic key performance indicators (KPIs) and executive incentives**

Question:

My question concerns BP's strategic key performance indicators (KPIs) and executive incentives, focussing on how these are structured to reduce greenhouse gas emissions, and lessen emphasis on Reserve Replacement Ratio.

It is good to see these disclosed in the Annual Report, showing that incentives currently exist on greenhouse gas emissions, safety and operational risk, and reserve replacement ratios.

But, to assess the Board's commitment to transition to a low carbon economy, it would help to understand the strategic role of these incentives.

In future, to align with the need to keep within 2 °C of climate warming, incentives will need to reflect either a major corporate transformation or a managed decline strategy.

Performance targets should no longer include elements inconsistent with low carbon transition such as Reserve Replacement.

Will the board comment on how the design of incentives and KPIs is going to evolve in light of climate change?

<u>Response:</u>

- KPIs are something that could be reviewed
- Remuneration policy is much more difficult to review – it needs to be acceptable to all shareholders; it will take a while to be accepted
- Furthermore, there is a risk of huge pay-outs if a particular area moves very quickly

5. Public policy positions

<u>Question:</u>

I have a question concerning BP's approach to corporate lobbying, focussing on the company's apparently inconsistent public policy position on climate change. These matters are of particular concern in the critical 2015-2020 decision-making period.

Whilst you claim to take a co-ordinated approach to this, and recognise in your 2014 Sustainability Report that "governments must act by setting a clear, stable and effective carbon policy framework"; BP continues to fund individuals and groups that have lobbied against progressive policies on climate change. This is seen in the EU with your continued membership of trade associations such as BusinessEurope, CEFIC, FuelsEurope and OPG. A recent report from the Policy Studies Institute shows that these groups have adopted positions that would seem to fly against the positive statements appearing in your Sustainability Report.

This discrepancy makes the need for greater strategic consideration and disclosure on BP's public policy programme on climate change essential.

Could the board please clarify whether you support the lobbying position of these European trade associations? If not, is the board willing to make a public statement distancing BP from these organisations' lobbying positions on climate change, or indeed would you withdraw your membership as you did with ALEC?

<u>Response:</u>

- BP has been more clear than any other company
- BP is a member of a number of trade organisations; it's important to understand that you can be a member of an organisation to push on one particular area; but some organisations are involved in many different areas. That doesn't mean 'we automatically agree with everything they say'

Shell AGM – 19th May 2015

Public policy positions

Question:

I have a question concerning Shell's approach to corporate lobbying, looking at the apparently inconsistent public policy position on climate change.

On the surface, it appears Shell recognises the steps necessary for building a low-carbon economy. On your website, Chief Climate Change Adviser David Hone highlights the need for a strong carbon price and the essential role of renewables. This has been echoed in keynote speeches by CEO Ben van Beurden, and in your Annual Report. I commend these sentiments as they align with the scientifically-proven need for urgent action.

However, Shell has simultaneously been funding individuals and groups that have lobbied against progressive policies on both of these areas. A recent story in a major international newspaper showed that Shell lobbied to have binding renewable energy and energy efficiency targets reduced in the EU. Despite the aforementioned statements, it seems Shell has simultaneously been working to undercut investor confidence in low-carbon developments.

Similarly, your membership of EU trade associations – including BusinessEurope, CEFIC, FuelsEurope and OPG – seems inconsistent with your call for a strong carbon price. A recent report from the Policy Studies Institute shows that these groups have lobbied against reforms to the EU Emissions Trading System and the 2030 framework for climate and energy policies which might have encouraged the strong carbon price you claim is important.

I'm sure many of the shareholders here with me today will be concerned about the risk to our business associated with adopting one position, publicly, and another behind closed doors. With regards the aforementioned trade associations, could the board could please clarify whether you support their positions on climate change. If you do not, would you consider making a public statement distancing Shell from these organisations' lobbying positions, or indeed would you consider withdrawing membership.

Response:

- Shell wished to give clarity to their support for a strong carbon price, claiming that this was more sensible than a mandate on renewables. Suggested that focussing on renewables could increase co2 emissions. They are instead in favour of a market mechanism. They used a "smarter advocacy" with these things in mind. Thus, they did not deny the Guardian story. [30]
- On the topic of their membership of Cefic, the board mentioned that membership of such organisations is broad church, and they do not necessarily agree with everything put forward. By remaining a member, they can advocate for change from with. They have separately advocated in Brussels for different policies. So it seems that they have distanced but would not consider leaving.

Relevant strategic key performance indicators (KPIs) and executive incentives

Question:

My question concerns Shell's strategic key performance indicators (KPIs) and executive incentives, focussing on how these are structured to account for the long-term risk that climate change presents to your company.

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[30] http://www.theguardian.com/environment/2015/apr/27/shell-lobbied-to-undermine-eu-renewables-targets-documents-reveal

It's positive to see that Shell includes sustainability factors in the annual employee bonus. However, the risks of climate change sit on long-term horizons, whilst Shell's most far-sighted Long-Term Incentive Plan is just three years. This is worrying as most oil and gas projects take 10 years to bear fruit, at a minimum.

In light of this, I wish to ask whether the board has plans to structure future KPIs on a more long-term basis, in a way which will reflect the need for either a major corporate transformation or a managed decline.'

<u>Response:</u>

- The question on KPIs was given the briefest of answers – along the lines of 'thanks, we'll look into it'