13 January 2020

To the President, Governing Body and Endowment Trustees of St John's College

# Endowment Investments in Fossil Fuel Companies

**Executive Summary**

*Who are we?*

We are representatives of Fossil Free SJC, a college campaign to move our investments out of fossil fuel companies. The college has £3.5 million invested in BP and £4.6 million in Shell. Our petition in support of divestment has received over 200 signatures from St John's students, which represents a third of the student body. Furthermore, both the JCR and MCR have passed motions in favour of divestment.

*Why are we writing?*

In Trinity Term 2019, we met with Andrew Parker (Principal Bursar) and John Kay (Investment Officer) to speak about the college investment policy. During this meeting, they explained to us that the college seeks to positively engage with fossil fuel companies, rather than remove the investment. They sent a letter to BP and Shell expressing the concerns of the student body. Both companies sent materials in response, and this letter explains why we think their response does not show sufficient activity on behalf of these companies to prevent a climate crisis. We are now calling on the college to introduce a policy prohibiting investment in fossil fuel companies.

The United Kingdom is in the privileged position of hosting the critical 26th United Nations Conference of the Parties (COP26) meeting in Glasgow in November. The goal of COP26 is to secure national carbon emission reduction commitments such that global warming over pre-industrial levels is limited to 1.5°C, and should in no circumstances exceed 2.0°C as outlined in the Paris Agreement of 2015.

In many respects, the UK has been a pioneer with respect to climate change mitigation. The cross-party supported Climate Change Act 2008, which set a net zero carbon target for 2050, was a landmark piece of legislation globally. Further, under the leadership of the Bank of England, the UK financial sector has recognised that it has a key role to play in the transition to a zero-carbon economy.

As we enter 2020, the banking, insurance and pension fund sectors are formally integrating climate change factors into their strategic and tactical asset-allocation decision-making. A minority of these moves are due to legislative or regulatory direction, but the majority stem from the recognition by senior executives and board members that the transition toward a zero-carbon economy is now unstoppable.

Financial asset owners within the charitable endowment sector are not removed from these considerations. Consequently, we believe that investment in fossil fuel companies is not in the interests of future beneficiaries of the endowment fund since it promotes dangerous climate change. Further, as the Bank of England has repeatedly warned, investment in fossil fuel companies is a potential source of increased risk and of inferior return.[1]

As an example of the need for fresh thinking, we reference the endowment fund's investment in Shell, referring to the Principal Bursar's correspondence with Shell in letters dated 22 May 2019 and 17 July 2019 (attached).

In assessing Shell's position toward climate change, let us start with their commitment to the Paris Agreement's temperature rise target as stated on page 11 of its 2018 Annual Report.[2]

While Shell commits to limit temperature rise to 1.5°C, it does not commit to the emissions target reductions needed to achieve such a goal. Rather, Shell has proudly promoted a carbon footprint target reduction of 20% by 2030 and 50% by 2050. Unfortunately, a close examination of Shell's methodology reveals that its 'carbon footprint' definition refers to $CO_2$ intensity per one kilowatt-hour of energy produced. This is a relative carbon emissions target, not an absolute one. The Paris Agreement, IPCC, and UK Climate Change Committee (CCC) all specify absolute carbon budgets and targets as the cornerstone of effective mitigation policy. The UN's Carbon Emissions Gap Report 2019 provides the current state of play in this regard.[3]

Based on Shell's current investment program, the company's $CO_2$ emissions are set to rise rather than fall for the foreseeable future. Unfortunately, Shell does not publish absolute emission projections. Nonetheless, according to the oil consultancy Rystad Energy, Shell is forecast to increase its oil and natural gas production by 38% through to 2030, overtaking ExxonMobil to become the largest oil company in the world.[4] Production increases are coming from shale oil, deep sea oil and conventional oil platforms as well as natural gas. Please refer to Shell's "Our Major Projects" web page for details.[5] In short, Shell is completely outside of the Paris carbon-emission targets.

With respect to Shell's role in furthering the low-carbon transition, Tjerk Huysinga, Executive Vice President Investor Relations, overstates Shell's investment in low-carbon fuels, renewable energy and charging points for electric vehicles (as per his letter dated 17 July 2019). I urge you to put Huysinga's claims in the context of the presentation accompanying Shell's Management Day June 2019.[6]

Page 11 shows that Shell intends to invest $25-29 billion in fossil fuel projects between 2021 and 2024 against $2-3 billion in what it terms "emerging power themes"; in other words, 10 times as much investment is going into fossil fuels as compared with zero-carbon transition sectors. On page 81 of the presentation, renewable energy generation capacity is to go from one gigawatt in 2018 to five gigawatts in 2024, which looks impressive until subject to some analytical rigour. Total worldwide renewable energy capacity in 2018 was 2,351 gigawatts and is projected to reach 3,722 gigawatts by 2024.[7][8] Thus Shell's much-vaunted 5 gigawatts translates into only 0.13% of global renewable capacity; in short, Shell's renewable energy investment efforts are completely immaterial.

We believe that the President, Governing Board and trustees of the endowment fund understand the threat posed by climate change. Based upon current nationally determined contributions under the Paris Agreement, the present global carbon emissions trajectory takes the world up to around 3°C of warming by the end of the century.[9] Further, there is a substantial risk that warming could be greater, especially if fossil fuel companies are allowed to burn all of their oil and gas reserves.[10] The IPCC's "Global Warming of 1.5°C" report set out the consequences of exceeding the Paris targets.[11] Subsequent IPCC reports such as the "Special Report on Climate Change Land" explain that under 3-4°C of warming numerous earth systems will be subject to severe and irreversible impacts.[12]

Beyond the direct effect of fossil fuel activity on the climate, the work of these companies has historically counteracted the charitable aims of the college to further research. A 2019 Influence Map report[13] found that the five largest publicly traded oil and gas majors, including Shell and BP, have invested at least $1B since 2015 to undermine climate-related research through lobbying and misinformation campaigns.

Fiduciary duty is defined as acting with honesty and prudence toward the beneficiaries of a trust. Investing in fossil fuel companies that are propelling the world toward 3 or 4°C of warming is not, we believe, a prudent course of action and is also not a sensible policy even taking a risk-and-return perspective alone. Investment in these companies also counteracts the charitable aims of the college. We thus call on the President, Governing Body and Endowment Trustees to move investments out of companies that are undermining climate change mitigation and invest in those that are helping to support the transition to a zero-carbon economy. At the meeting with our investment managers, Cazenove, they confirmed that they can divest our endowment from the fossil fuel industry. Such action would protect the interests of the Endowment Fund's beneficiaries and allow St John's College to maintain teaching and research excellence for decades to come.

Yours,
Ankit Ranjan (JCR), Sam Garratt (MCR), Tunrayo Adeleke-Larodo (MCR)
On behalf of the Fossil Free SJC campaign

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[1] Bank of England, 2015, Speech by BOE Governor Mark Carney, *Breaking the Tragedy of the Horizon – Climate Change and Financial Stability* (the first in a sequence of speeches by the BOE Governor regarding climate change risk and the financial sector including financial asset owners), https://www.bankofengland.co.uk/speech/2015/breaking-the-tragedy-of-the-horizon-climate-change-and-financial-stability

[2] Shell *Annual Report 2018*, https://reports.shell.com/annual-report/2018/

[3] UN *Emissions Gap Report 2019*, https://www.unenvironment.org/interactive/emissions-gap-report/2019/

[4] As reported in The Guardian, 10 October 2019, https://www.theguardian.com/environment/2019/oct/10/oil-firms-barrels-markets

[5] Shell, *Our Major Projects*, https://www.shell.com/about-us/major-projects.html

[6] Shell, *Shell Management Day June 2019*, https://tinyurl.com/ygkg9mfb

[7] International Renewable Energy Agency (IRENA), *Renewable Capacity Statistics 2019*, https://www.irena.org/publications/2019/Mar/Renewable-Capacity-Statistics-2019

[8] IRENA, *Renewables 2019*, https://www.iea.org/reports/renewables-2019/power

[9] World Meteorological Organisation, *United in Science 2019*, https://public.wmo.int/en/resources/united_in_science

[10] See reports put out by the NGO Carbon Tracker for analysis of stranded carbon assets.

[11] IPCC, 2018, *Global Warming of 1.5°C*, https://www.ipcc.ch/sr15/download/

[12] IPCC 2019, *Climate Change and Land*, https://www.ipcc.ch/site/assets/uploads/2019/08/4.-SPM_Approved_Microsite_FINAL.pdf

[13] Influence Map, *How Big Oil Continues to Oppose the Paris Agreement*, https://influencemap.org/report/How-Big-Oil-Continues-to-Oppose-the-Paris-Agreement-38212275958aa21196dae3b76220bddc

*From the Principal Bursar*

# ST JOHN'S COLLEGE

OXFORD • OX1 3JP

Mr Ben van Beurden
Chief Executive, Royal Dutch Shell plc
PO box 162
2501 AN The Hague
The Netherlands

22nd May 2019

Dear Mr van Beurden

I am writing in my role as the Principal Bursar of St John's College Oxford. The College has a significant shareholding in your company. The investment strategy of the College is largely shaped by the views of the Investment Officer, John Kay, who encourages the College to seek investments in companies that we believe are likely to be productive and flourishing in 40 or 50 years time.

We hold shares in your company on this principle. Recently, the College has received a petition signed by 145 of our students asking us to divest from all fossil fuel investments. As 145 students represent nearly 25% of our student body, we want to take these concerns seriously. On the other hand, John Kay and I have argued that engagement with companies that supply energy is a better way to achieve the goal of carbon reduction, which is sought by these petitioners. It seems particularly evident that, if your company does plan to be in business in 40 years time, your activities today will be critical to your ability to be in the energy market in the future.

I promised the students that I would write to you to express their concerns and I would be very grateful to receive your comments on their concerns. I will of course pass on any reply to them directly. I appreciate that you may have available document or other literature that already addresses these questions and I would be very grateful to receive those as part of your reply.

I look forward to hearing from you or your delegated representative.

Yours sincerely

Professor Andrew Parker

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ST JOHN'S COLLEGE

OXFORD . OX1 3JP

17 July 2019,

Dear Professor Andrew Parker,

On behalf of Shell and Mr Ben van Beurden, thank you very much for your letter and for your constructive approach.

Our society today faces a dual challenge: how to make a transition to a low carbon energy future, while also extending the economic and social benefits of energy to everyone on the planet. This is an ambition that requires a change in the way energy is produced, used and made accessible to more people while drastically cutting emissions. Oil and gas will continue to be a vital part of the energy system for years to come, alongside renewable electricity, biofuels and hydrogen. In Shell we see a commercial opportunity in participating in the global drive to provide more and cleaner energy solutions, and we are already a willing and able player in the energy transition. Let me elaborate a little bit more on these points.

By 2050, the number of people on the planet is expected to rise to 9.8 billion. At the same time, energy demand is forecasted to increase by a third, with a steep rise in China, India, Africa, the Middle East and South-east Asia. Today, oil, gas and coal make up around 80% of the world's energy mix. The remaining fifth comes from biomass, waste, nuclear, hydro, geothermal and renewables such as solar and wind. More energy use from this current mix means more carbon dioxide, which in turn leads to climate change. Thus, for the society to meet the goals of the Paris Agreement, the world must change the way it uses energy and the types of energy it demands.

The global energy system has already begun the transition to lower carbon energy future, but this transformation will span decades and requires realism, investment, innovation and unprecedented collaboration. It will feature the evolution of established components of the system, such as oil and gas, as well as new and emerging energy options, including hydrogen. All energy sources have a role to play, and we need to move beyond a narrow focus on promoting renewables as these address only specific aspects of the wider challenge. For example, some critical parts of the world's economy, such as iron, steel, cement, plastic and chemicals industries, long distance heavy goods transportation and aviation rely on hydrocarbons and currently cannot be electrified, or only at a prohibitively high cost. Thus, as some sectors will continue to rely on hydrocarbons in the future, solutions are needed for the energy transition to continue, including switching from coal to cleaner-burning gas, investing into carbon capture and storage and nature based solutions, such as reforestation.

Shell supplies around 3% of the energy the world uses. We want to play our part and contribute to the global effort to tackle climate change as we provide energy the world needs. Shell is ready to use a variety of tools to achieve this like providing lower-carbon fuels to customers, providing renewable power from solar and wind, pulling through demand by growing the number of charging points for battery electric cars and developing gas markets for power and transport. In Shell we also look to develop carbon capture and storage technology and we work with nature, in forests and wetlands, to help compensate for those emissions that are hard to avoid. We also continue to grow the role of natural gas – which emits between 45% and 55% lower greenhouse gas emissions than coal when used to generate electricity – to fuel transport, heat and light homes, and power industries. Gas already comprises about half of Shell's total production.

Investing in assets that will remain financially resilient in the energy system of the future is key to delivering a world-class investment case to Shell's investors. We have assessed our short and medium-term financial and portfolio resilience in the years to 2030 by examining the impact of potential changes in demand for oil and gas on our cash flow. We believe that we have a resilient business portfolio that can adapt to changes the energy system might see. We have a clear and competitive path forward, participating alongside and in step with global efforts to shift to a low-carbon future.

In 2017, Shell was the first international oil and gas company to introduce an ambition to reduce the Net Carbon Footprint of the energy products we sell, expressed as a carbon intensity measure, taking into account our full lifecycle emissions. These include emissions from our own operations, from the use of the energy products by our customers, as well as those generated by third parties in our supply chains. That means fewer greenhouse gases emitted on average with each unit of energy we sell – by around 20% by 2035 and by around half by 2050. While our ambition is long term, in the beginning of 2019 we have set an unconditional three-year target to reduce our Net Carbon Footprint by 2% to 3% compared to 2016. Our executives pay is now linked, in part, to this target.

Shell, which has been in business for more than 100 years, is determined to remain competitive in this changing world. We acknowledge and agree with the importance attached by our investors, including your esteemed organisation, to the issue of climate change, and also agree that our future success is contingent on our ability to effectively navigate the risks and the opportunities presented by climate change. We intend to adapt, innovate and play our part in the global drive to provide more and cleaner energy solutions for all in a sustainable future.

More information on Shell's approach towards managing climate risk is available in the following publications (attached for your reference) and on our website www.shell.com :

- Shell Energy Transition Report, 2018
- Shell Scenarios (in particular, Sky Scenario)
- Sustainability Report, 2018
- Shell's Net Carbon Footprint ambition

I hope this information sufficiently addresses your question. Thank you for your attention.

Sincerely,

Tjerk Huysinga

Executive Vice President Investor Relations

Royal Dutch Shell