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UK's largest mobilisation of shareholders asks Shell to prove controversial oil sands are sustainable.

A coalition of institutional and individual investors has succeeded in filing a resolution for the forthcoming AGM of Royal Dutch Shell plc, calling on the company to report on the investment risks associated with Canadian oil sands projects and their plans to address them.

The resolution comes amid growing questions from investors, analysts and NGOs about the financial, environmental and social implications of these projects.

The resolution's 142 co-filers include fund managers, pension funds, foundations and faith groups. Major backers from the investment world include The Co-operative Asset Management, the UNISON Staff Pension Scheme and a significant contribution from Rathbone Greenbank clients. The initiative is co-ordinated by FairPensions, which is urging investors to vote for the resolution and to engage with other energy companies with similar operations to address the financial and other risks involved.

The oil sands are the second largest oil resource in the world comprising some 173Bn barrels in reserves. Converting it into usable form of fuel produces on average 3 times the greenhouse gas emissions compared to conventional oil extractionⁱ

Even using the oil industry's favoured measure from oil well to car exhaust oil from this source emits between 15% and 40% more greenhouse gases than the average of conventional sources. Industry claims about the affordability and efficacy of carbon capture and storage as a solution to oil sands' financial and environmental problems are also increasingly questionedⁱⁱ.

Canada is already on course to miss its Kyoto protocol targetsⁱⁱⁱ and the expansion of oil sands will make all but impossible any efforts to cut emissions on 1990 levels.

Oil sands are now prompting legal challenges from local indigenous communities such as the Beaver Lake Cree Nation, who are affected by pollution, deforestation and wildlife disturbance from oil sands developments. They claim breaches of the constitutional rights protecting their traditional livelihoods.

The resolution and accompanying supporting statement raise "*concerns for the long-term success of the company arising from the risks associated with oil sands*", specifically pointing to expected carbon price rises, oil price volatility, expected fluctuations in demand, regulation of greenhouse gas emissions, and the legal and reputational risks arising from environmental damage and impairment of traditional livelihoods. 30% of Shell's total reserves are in oil sands^{iv}, which also have particularly high operating costs.

During 2009, The Co-operative Asset Management led 44 institutional investors backed by \$3 trillion of assets in a letter to 19 oil sands companies arguing that the industry had failed to justify the financial prudence of oil sands developments, given present costs and externalities

Chief Executive: Catherine Howarth | Chair of Trustees: Jeremy Nicholls
Trustees: Stuart Bell | Sam Clarke | David Davies | Stephen Hine | Jenine Langrish | Jennifer Morgan | Tim Valentine | Paul Watchman

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soon to become additional costs, like carbon and land remediation^v. The investors spelt out concrete steps companies should adopt to mitigate these risks. Meanwhile, other oil and gas analysts were arguing that the high price of oil required to make oil sands extraction economic acts as a brake on the wider economy, encouraging demand destruction, and thus tending to cancel out the need for marginal, more expensive oil sources like oil sands. Deutsche Bank concluded that *“The value of... Canadian heavy oil sands... could be far lower than the market currently expects.”*^{vi}

Catherine Howarth, Chief Executive of FairPensions said “The coalition of shareholders which FairPensions has galvanised to file this resolution brings together both domestic and overseas shareholders, and the full spectrum of investors from major fund managers to small shareholders. All are united in registering concern with the risks involved in Canadian oil sands, and this reflects rising public concern not just with oil sands but with companies' impact on climate change. We expect that Shell's 2010 AGM could prove a watershed in the history of corporate accountability”

Niall O'Shea, Head of Responsible Investing at The Co-operative Asset Management said: “Given Shell's level of commitment to oil sands there is a greater obligation to shareholders to reassure how it would cope under a number of scenarios. What if carbon capture and storage proves too costly in the oil sands? What if sustained high oil prices and carbon regulation combine to lead to switching away from marginal, high-cost, high-carbon sources? And then there's the cost of cleaning up the locality. Companies must be more rigorous and transparent with their investors. “We acknowledge Shell has already done some work in this area but it does not go any where near far enough to allay our concerns.”

Colin Butfield, WWF-UK Head of Campaigns, said: “We need far greater disclosure of carbon liabilities and general environmental risk for the investment community, in particular with regard to unconventional energy projects such as the oil sands in Canada. This is vital for the drive towards a low carbon global economy.”

John Sauven, Executive Director of Greenpeace UK said: “The exploitation of the tar sands is an environmental scandal on a massive scale, and is set to become a campaign battleground for years to come. Shell's shareholders should know that once the public finds out what's really going on in Canada the company's reputation will suffer badly, and no amount of expensive advertising will help.”

James Marriott of PLATFORM said: "The resolution highlights the fact that the macro-economics surrounding the oil sands developments pose serious threats to investors in Shell, whilst the projects themselves threaten First Nations communities and the global climate - we urge the company to pursue a different course."

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For a copy of the resolution and supporting statement, images or any other document cited in this press release, please email duncan.exley@fairpensions.org.uk

Notes for editors:

About the resolution

The resolution was filed on December 31st. Royal Dutch Shell has confirmed that the resolution is valid, and will be discussed at their AGM on 18th May 2010.

The resolutions state *“That in order to address our concerns for the long term success of the Company arising from the risks associated with oil sands, we as shareholders of the Company direct that the Audit Committee or a Risk Committee of the Board commissions and reviews a report setting out the assumptions made by the Company in deciding to proceed with oil sands projects regarding future carbon prices, oil price volatility, demand for oil, anticipated regulation of greenhouse gas emissions and legal and reputational risks arising from local*

environmental damage and impairment of traditional livelihoods. The findings of the report and review should be reported to investors in the Business Review section of the Company's Annual Report presented to the Annual General Meeting in 2011."

About FairPensions

FairPensions campaigns for UK pension funds and fund managers to adopt responsible investment practices, managing environmental, social and governance (ESG) issues which have the potential to be financially relevant.

FairPensions is supported by a number of leading charities and trade unions, including ActionAid, BECTU, CAFOD, Community, CWU, ECCR, EIRiS, GMB, NUJ, Occupational Pensioners' Alliance, Oxfam, Traidcraft, Unison, Unite and WWF, as well as thousands of individuals.

www.fairpensions.org.uk

References:

ⁱ Charpentier, A.D., Bergerson, J.A., and MacLean, H.L. "Understanding the Canadian oil sands industry's greenhouse gas emissions" in *Environ. Res. Lett.* January-March 2009.

ⁱⁱ For example, see WWF/CFS "[Carbon Capture and Storage in the Alberta Sands - a Dangerous Myth](http://www.wwf.org.uk/news_feed.cfm?3403/Carbon-capture-wont-stop-tar-sands-threat)" 2009; available at http://www.wwf.org.uk/news_feed.cfm?3403/Carbon-capture-wont-stop-tar-sands-threat

ⁱⁱⁱ In 2007 Canada's GHG emissions were 26% higher than 1990 levels and 34% higher than its then agreed Kyoto target.

^{iv} http://www-static.shell.com/static/investor/downloads/presentations/2009/john_abbott_08072009.pdf

^v "Investment in Canada's Oil Sands" letter written by Ceres and UKSIF and signed by 44 institutional investors, 8th July 2009, available online at <http://www.co-operativecampaigns.co.uk/toxicfuels/downloads/UNPRI-investor-letter-on-oil-sands.pdf>

^{vi} Deutsche Bank Global Market Research, 04 October, 2009. *The Peak Oil Market: Price Dynamics at the end of the oil age.* p.5.