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## **Pension funds oppose Shell pay over lack of safety targets**

- 1.1. Local authority pension funds are being urged to vote against the remuneration report of Shell at its forthcoming AGM following the company's failure to link directors' management of non-financial issues, such as health and safety, with long-term pay awards.
- 1.2. The £75bn Local Authority Pension Fund Forum (LAPFF) whose members own over 1% of Shell shares, believes the company should link management of non-financial issues such as health and safety to its long-term incentive plan (LTIP). Currently there is only linkage to the annual bonus and the sustainable development component of the bonus, which covers a range of non-financial factors including safety, represents a maximum of only 5% of a director's potential pay package.
- 1.3. The Forum does not consider this to be an adequate incentive, given the critical importance of issues like safety in the oil sector. As such the Forum has recommended that its members vote against the company's remuneration report. Looking forward, LAPFF has proposed that Shell's LTIP, which represents 54% of directors' pay mix, should contain safety-related and other non-financial business performance elements.
- 1.4. The Forum also has concerns about Shell's climate change targets. The Forum is not convinced that Shell's target to reduce emissions to 5% below 1990 levels by 2010 is adequate. While a reduction in emissions has been achieved between 2004 and 2006, the target effectively allows for a 20% increase in emissions between 2006 and 2010 rather than providing a real incentive for further emissions reduction. An adjustment of Shell's target is called for in the bonus calculation, to ensure that directors are adequately stretched before receiving a payout. In addition the Forum has concerns that the target could in part be met by the progressive elimination of flaring in Nigeria, which it considers to be a compliance issue rather than a voluntary act.
- 1.5. LAPFF chairman Cllr Darrell Pulk said: "If companies believe that issues such as climate change, or safety, are critical to their future success then they need to make this crystal clear in the manner in which they reward their directors. Simply linking a small portion of the annual bonus to non-

financial targets does not focus executives enough on the longer term instead of the quarterly results treadmill. These are long-term issues, so why not link them to long-term incentives? This is not just an issue for Shell, or for the oil sector. It is something all companies and their investors should be considering. As long-term shareholders we need to ensure that we are incentivising our directors to manage these issues effectively.”

1.6. The Forum has been engaging with Shell for 18 months, initially focusing on climate change, but more recently addressing both climate change and health and safety in a remuneration context.

1.7. Shell’s AGM is scheduled for 15<sup>th</sup> May.

#### About LAPFF:

The Local Authority Pension Fund Forum (LAPFF), which was set up in 1991, is a voluntary association of 39 public sector pension funds based in the UK. It exists ‘to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which they invest.’ The Forum’s members currently have combined assets of over £70 billion.

#### **For further information contact:**

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