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The energy company intends to set three- to five-year targets starting in 2020 to reduce its net carbon footprint on an annual basis.

Shell Links Pay, Emissions

By Sarah Kent

LONDON—**Royal Dutch Shell** PLC plans to set short-term carbon-emissions targets and link them to executive pay, the company said Monday, capitulating to months of investor pressure.

The decision marks a step toward delivering on ambitious long-term climate goals by one of the world's biggest oil companies, though details regarding Shell's exact plans remain vague.

The company said it would provide three- to five-year targets beginning in 2020 to reduce its net carbon footprint on an annual basis. It plans to incorporate the targets into a revised remuneration policy, which will be subject to a shareholder vote in 2020.

The move marks an about-face in Shell's view on targets, and comes after long-term goals to reduce the company's carbon footprint—including emissions by drivers who burn Shell fuel—faced criticism for lacking more immediate accountability.

As recently as May, Shell Chief Executive Ben van Beurden defended the company's stance and pushed back against firm targets, describing them as "onerous and cumbersome."

But months of engagement with institutional investors have helped soften the company's outlook, sending a clear signal to other big oil companies about the kind of pressure and investor demands they can expect to face going forward.

Shell's commitments, though still vague, might supply an industry benchmark. They "provide a model for others across the sector to follow," said Stephanie Pfeifer, CEO of the Institutional Investors Group on Climate Change, a European forum for investor collaboration on climate issues that represents investors with over €21 trillion ($23 trillion) in assets under management.

While other large European oil companies have already set near-term targets to reduce emissions, Shell's long-term goals are among the most ambitious in the industry. Its plans to link those targets to executive pay also put it at the forefront of industry action on climate change.

CEO Ben van Beurden objected to firm emissions targets as recently as May.

For instance, Norwegian oil company Equinor ASA, formerly known as Statoil, already counts the carbon intensity of its oil and natural-gas production as a key metric when deciding its chief executive's pay. But Shell's plans could make it the biggest oil company yet to link executive pay to specific climate targets.

The company has also suggested that its new compensation structure could go further than competitors' existing policies, requiring Shell executives to meet ambitious commitments that incorporate total emissions associated with the company.

The announcement comes as governments meet in Poland for climate-change talks to complete rules for how the Paris Climate Agreement will be implemented.

Investors have also been stepping up their engagement with companies, reflecting concerns over the risks associated with holding fossil-fuel producers.

Shell's announcement was made in conjunction with Climate Action 100+, a group of more than 300 investors with over $32 trillion in assets under management. Launched last year, the group's aim is to push the biggest corporate emitters to cut emissions and improve disclosure and governance on climate issues.