# PENSIONS COMMITTEE 13TH SEPTEMBER 2024

# PUBLIC QUESTION TIME

## 1. Question from Dr. Jamie Russell

The Shropshire Pension Fund invests in Glencore, the world's largest exporter of thermal coal. In August, Glencore announced it was abandoning plans to spin off its coal business and would continue to invest in polluting coal against the advice of the UN IPCC, the International Energy Agency, and leading climate scientists. Meanwhile, Glencore's updated Climate Action Transition Plan (CATP) abandons the Paris-aligned pathway stating, 'Our targets are not aligned with the IEA's Net Zero Emissions (NZE) Scenarios'. The company also uses an inflated baseline to measure its progress against emissions reduction targets. For example, Glencore is already measuring a 22% emissions decrease from its baseline – despite increasing coal output in 2023 – which means it is only expecting to achieve a 3% emissions reduction between now and 2030 (the 2030 target is 25%). It has also dropped its coal production cap and introduced a new 2030 emissions target which is less ambitious than its previous one. Effectively, Glencore has said it is not intending to decarbonise in line with the landmark Paris Agreement... Is the fund happy to invest in companies that are ignoring the Paris Agreement and, if so, how does this impact Shropshire Council's climate emergency declaration?

**Response:**

The Fund's strategy is centred on active ownership rather than divestment. Remaining invested in Glencore allows investors to engage with the company, using the influence as shareholders to advocate for stronger climate action. The aim is to push Glencore towards adopting more ambitious targets, greater transparency, and a clearer alignment with the goals of the Paris Agreement. As part of our pool's participation with Climate Action 100+, LGPS Central and the Fund's investment managers and stewardship providers engage directly with Glencore to encourage them to set more robust, Paris-aligned targets and improve their climate strategy.

Additionally, Glencore's decision not to spin off its coal assets means that these remain within a company with which we are actively engaged. This allows investors to continue to influence Glencore's management and climate strategy directly, rather than having the assets managed by a separate entity with potentially less transparency and engagement opportunities. In contrast, other miners such as BHP and Anglo American have pursued asset disposal strategies to meet emissions targets - meaning that they lose control of how these assets are run and what emissions pathway they are aligned with - rather than committing to a responsible and managed exit from existing thermal coal operations.

Glencore's Climate Action Transition Plan lays out the company's plan to phase out thermal coal gradually, which is a step in the right direction. We note that the company's emissions targets place it under the International Energy Agency Announced Pledges Scenario, which it considers more realistic than Net Zero Emissions. However, investors expect more accelerated action and are continuously engaging with Glencore to update their Climate Action Transition Plan to incorporate new assets, such as those from Elk Valley Resources. We acknowledge that there are questions around Glencore's choice of baseline year and the removal of production cap. While we do engage on these topics, an updated Climate Action Transition Plan with more ambitious targets, along with the company's adherence to such targets would go a long way to allay fears over these issues.

Elk Valley Resources focuses on metallurgical coal, which is essential for processing transition metals critical to the green energy transition. By advocating for such updates, the aim is to align Glencore's strategy with more sustainable pathways. It is important to highlight that Glencore also plays a critical role in the supply of key metals essential for the transition to a low-carbon economy. These include cobalt, copper, and nickel, which are vital for the production of renewable energy technologies, electric vehicles, and battery storage. The Fund's investment in Glencore supports this broader transition strategy. Additionally, Elk Valley Resources focus on metallurgical coal, which is imperative for processing these transition metals, aligns with our belief in a managed, responsible transition. We are closely monitoring Glencore's integration of Elk Valley Resources assets into their Climate Action Transition Plan and will advocate for alignment with ambitious emissions reduction targets. This approach ensures that any short-term gains from thermal coal are reinvested in greener sectors, thereby facilitating a more responsible transition.

Glencore has also committed to providing detailed climate-related disclosures in line with the Task Force on Climate-Related Financial Disclosures guidelines. We see their transparency and willingness to engage in dialogue with investors as a positive step. Through our engagement, we aim to influence Glencore's future climate strategies, ensuring that they move towards more robust and Paris-aligned targets. We expect Glencore to update their Climate Action Transition Plan to incorporate the assets and activities of Elk Valley Resources, which would provide a clearer and more comprehensive pathway towards reducing carbon emissions while supporting the global transition to cleaner energy. This is in line with the Pension Funds own climate strategy approved at Pension Committee.

## 2. Question from Mrs Kris Welch

In 2020, Shropshire councillors voted to divest the £2b pension fund from fossil fuels. However, the Pension Fund Committee voted to ignore this request. Since then the fund has remained invested in major fossil fuel companies (including BP and Shell), using the argument that engagement with these companies is more effective than divestment. In August 2024 scientists made the landmark announcement that the 1.5C climate target agreed at Paris is now 'essentially impossible' due to our failure to curb emissions quickly enough ('Best-case Scenario for Climate Change is Now 1.6C of Warming' *New Scientist* 19 Aug 2024). Will the fund apologise for its part in NOT responding to the climate emergency declared by Shropshire Council in time to 'keep 1.5C alive'?

**Response:**

As responsible investors, the Fund shall deploy all stewardship tools at its disposal to achieve its climate change strategy. Our approach encompasses stewardship activities, such as engagement and voting. The Fund also engages with our external managers, to ensure that they remain invested in companies which share our Responsible Investment commitments, and with regulators to finance and advance towards a low carbon economy.

The Fund recognises the critical need to prevent further climate change and the need for an orderly decarbonisation of the real economy to protect the value of our investments from the risks associated with a warming climate. However, we do not consider that the exclusion of fossil fuels from our holdings would have been the appropriate response to these risks, nor do we believe that this response would be effective at preventing further climate change. Conversely, we believe by divesting from high emitting companies we would be forfeiting our ability to influence these companies while providing an opportunity for less climate-conscious investors to purchase these assets, investors who may be more interested in the short-term financial returns rather than the long-term benefits of a transitioned economy. We believe divesting from these companies acts counter intuitively to our interests of pursuing an orderly transition.

The transition to a low carbon economy presents opportunities as well as risks and fossil fuel companies can benefit from and contribute to this transition. We recognise, the need to continue engagement and the need to advocate for greater ambition to realise an orderly transition. However, we acknowledge the action already taken by companies and consider that responsible investors have played a significant role in encouraging this change and promoting longer term thinking amongst corporate management.

Both Shell and Bp are positioned to benefit from several opportunities associated with the transition, such as developing low-carbon solutions including renewables and hydrogen. Both companies have made notable efforts to expand their business operations in areas such as solar, wind and hydrogen. Both companies are also investing in carbon capture and storage, which could make an important contribution to the achievement of net zero ambitions. Both companies have targets and strategies in place to meet net zero. We are cognisant that progress needs to be accelerated, we note that their approach to climate change is more advanced than many of their peers whose shares are held by less climate-conscious investors.

In our 2023 TCFD report on our website, the Fund demonstrated a positive reduction towards net zero, as the Financed Emissions (Scope 1 & 2) associated with the Fund's Equity portfolio are approximately 46% lower than in 2020 which strongly suggests that the Fund is progressing towards the achievement of its net zero ambition by 2050 or before.

3. **Question from Mr Paul Cooper**

As a Shropshire County Pension Fund Member I am alarmed at the acceleration of climate breakdown and the growing impact of its effects on people and planet, year after year. 2024 is on track to be the hottest in human history.
The Shropshire County Pension Fund continues to invest in fossil fuel resources, the production and use of which is largely to blame for the climate-induced food, water and forced migration crises we are witnessing in earth's hotter countries. Without doubt these crises will spread across the globe, risking the lives of our children and grandchildren - yours and mine.
Fund members would like a public vote on divesting from fossil fuel companies. Can you tell us when members will be given a say? I note that there's been no AGM since 2020.

**Response:**

Shropshire County Pension Fund keeps its investment strategy under constant review and has in recent years moved its UK equities into global sustainable products, moved its passive funds into a Low Carbon Index and committed the increased allocation to equities agreed in June 2023 into sustainable equities. This has resulted in a decrease in the Funds financed emissions figures of 46% as of December 2023 since 2020 and means that 70% of the Funds equities are invested in low carbon and sustainable investments.

The Funds Climate Stewardship Plan also reflects these changes with the Funds top 10 emitters coming from a cross section of sectors from technology to energy showing the importance of taking a view at the whole economy level and not just concentrating on specific sectors.

The Fund delegates responsibility for individual stock selection to Investment Managers, provided they meet the overall aims of the Fund and its ambition to be Net Zero by 2050. Whilst climate continues to see the most attention, the Fund requires all its Investment Managers to monitor all Environmental, Social and Governance (ESG) risks within a portfolio. Individual members of the Shropshire Pension Fund do not make investments decisions on the Funds behalf, this is the responsibility of specialist investment managers in accordance with LGPS Investment Regulations.

The Funds approach to delivering the content of the AGM was agreed at Committee in June 2023 and is detailed in our communication strategy on our website. Whilst we have a number of different communication channels to raise issues, we have only received a handful of requests for either an AGM or to divest from fossil fuels out of the total Fund membership of over 53,000. We will continue to keep this position under review and monitor the views of all stakeholders.

## 4. <u>Question from Ms Joanna Blackman</u>

Earlier this year, Shell published its latest “energy transition strategy”, which included abandoning a key climate target for 2035 and weakening another goal for 2030.

The oil major “updated” its previous target to make a 20% cut between 2016 and 2030 in the total “net carbon intensity” of all the energy products it sells to customers. This target has now been reduced to between 15-20%.

Within Shell’s strategy, chief executive, Wael Sawan, writes that this change reflects “a strategic shift” to focus less on selling electricity, including renewable power.

Instead, the company says investment in oil and gas “will be needed” due to sustained demand for fossil fuels. It emphasises the importance of liquified natural gas (LNG) as “critical” for the energy transition and says it will grow its LNG business by up to 30% by 2030.

This amounts to a bet against the world meeting its climate goals, with the International Energy Agency (IEA) and others concluding no new oil-and-gas investment is needed on a pathway to 1.5C – and warning against the risk of “overinvestment”.

Elsewhere in the report, Shell notes that it has “chosen to retire [its] 2035 target of a 45% reduction in net carbon intensity” due to “uncertainty in the pace of change in the energy transition”.

What are the Committee’s views on this and how has the Committee challenged Shell’s backtracking through its policy of engagement ?

**Response:**

Shell is a large contributor to our financed emissions and therefore very closely monitored. The Fund regularly engages with the company through our external stewardship providers and external investment managers. These engagements are driven by our belief that companies which are aligned with the Paris Agreement are more likely to be able to deliver sustainable long-term returns.

Beyond the downside risk associated with climate change, oil and gas companies are also positioned to benefit from the opportunities associated with the energy transition and have the expertise and capital required to support the low-transition economy. They are also investors in low-carbon solutions such as hydrogen power and carbon capture and storage. While these technologies are yet to be proven at scale, almost all net zero scenarios, including the International Energy Agencies Net Zero by 2050 scenario, assume the adoption of these technologies.

Despite the recent target adjustments, the company is decarbonising faster than its peers, and notably adopted an absolute scope 3 emissions target for oil products. Shell's carbon intensity is 56% lower than the sector average, and Shell has cut its absolute scope 1 and 2 emissions by 31% since 2016. Although these can be seen as positive actions, we believe further disclosures and clarifications should be sought.

We are therefore seeking clarification on why non-oil products are not included in the new scope 3 target. In addition, we are seeking clarification on alignment between the company's capex strategy and net zero targets – this encompasses Shell's long-term plans regarding gas production. We did not support Shell's "Energy Transition Strategy" at the 2024 AGM and reached out to our external managers to ensure these considerations were also incorporated in their voting. As you might be aware, the resolution "Energy Transition Strategy ("Resolution 22")" attracted 22% voting dissent from investors. The company acknowledged "that level of votes on Resolution 22 requires them to explain what actions they intend to take to consult shareholders in order to understand the reasons behind the result, and report back within six months".

We are in the cohort of investors which are currently engaging with Shell to seek clarity on the Company's net zero strategy. LGPS Central are scheduled to meet with a representative of the Company in this quarter. LGPS Central believe their previous engagements, along with likeminded investors and organisations (e.g. Institutional Investors Group on Climate Change) have positively shaped the advancements in the company's climate strategy.