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Shell Took 16 Years to Warn Shareholders of Climate Risks, Despite Knowing in Private All Along

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It took oil company Shell more than 16 years to directly warn its shareholders that climate policy posed a financial risk to the company's business model despite knowing — in private and for decades — about the relationship between its products and climate change.

Shell started commissioning confidential work about the impact of burning fossil fuels on the global climate as early as 1981. However, analysis by DeSmog UK and DeSmog found that Shell did not start mentioning the possibility of climate change to shareholders in annual reports before 1991 — 10 years after the company started a research stream to study climate change.

Analysis of Shell's annual reports and financial records at the time show the company did not give a clear warning to its shareholders about the financial risks "related to the impact of climate change" and attached to their investments until 2004.

DeSmog UK and DeSmog have worked through Shell companies' annual reports submitted to the UK's Companies House and 10-K's and 20-F forms filed under the U.S. Securities and Exchange Commission (SEC) throughout the 1990s and early 2000s to compare what the company knew in private at the end of the 1980s and what it told its shareholders about the environmental and financial risks attached to their investment during the following decade.

Early Days

A black and white picture of the Shell Group's managing directors published in The Shell Transport and Trading Company's 1997 annual report.

What Shell knew about climate change at the end of the 1980s is well-established and revealed in a confidential report commissioned by and for Shell called "The Greenhouse Effect".

The report was dated 1988 and made public for the first time this year after being uncovered by Jelmer Mommers of *De Correspondent* and published on Climate Files. It reveals the company's examination of climate change had already been ongoing for at least seven years.

The 87-page report warned Shell that its own products were responsible for global warming and that “there is reasonable scientific agreement that increased levels of greenhouse gases would cause a global warming”.

Source: ‘The Greenhouse Effect’ 1988 report

By 1988, Shell knew that its fossil fuel products were contributing to climate change and that dangerous levels of warming could cause parts of the Earth to become uninhabitable. Yet, it took the company another decade, until 1997, to suggest that “environmental risks” could affect some of the statements the group made about its business operations.

Until 2005, Shell was registered as two different companies, Royal Dutch Petroleum Company in the Netherlands and the Shell Transport and Trading company in the UK, although both companies operated as a single-unit. The Shell Group also included a U.S.-based subsidiary, Shell Oil.

This analysis includes information provided to shareholders through Royal Dutch Petroleum annual reports from 1982-1997, Shell Transport and Trading’s annual reports from 1989 to 2004, filings from Shell Oil from 1993-1998, and Shell’s corporate responsibility reports starting in 1997.

Early 1990s: Controlling the Climate Change Narrative

Despite knowing about the consequences of burning fossil fuels in the early 1980s, Shell made no direct mention of carbon dioxide emissions, global warming, or climate change until 1991.

That year, a Royal Dutch Petroleum annual report recognised “the concern expressed by a number of experts that higher carbon dioxide emissions might increase the possibility of climate change.”

Source: Royal Dutch Petroleum Company’s 1991 annual report

The UK-based Shell Transport and Trading company first hinted at the impact of burning fossil fuels without using the term “climate change” in its 1992 report — the year of the first United Nations (UN) climate talks in Rio de Janeiro, Brazil.

Shell group chairman Peter Holmes wrote that the Rio de Janeiro conference had “set the environmental agenda for the coming years” and that environmental and development problems “can only be solved by true international cooperation” and “governments’ willingness to consult business and industry in drawing up laws and putting the emphasis on self-regulation”.

While Holmes chose not to mention the term “climate change” when addressing shareholders about the company’s financial situation, the same year, Shell was keen to show the public what it knew about the possible catastrophic consequences of global warming.

Footage of a 1991 public film about climate change released by Shell's film and video unit was rediscovered last year. The half-hour documentary called "Climate of Concern" shows that the company had a deep understanding of global warming 27 years ago.

The film warned that burning fossil fuels was warming the world and would cause extreme weather, floods, famines, and climate refugees.

There is no indication of how many people might have seen the film at the time of its release but the short documentary shows how Shell tried to shape its narrative around climate science and its impacts.

DeSmog UK and DeSmog found no evidence of Shell mentioning the film to its shareholders in its 1991 annual reports. A picture of the film's DVD case was however included on page 32 of Shell's 1997 sustainability report under a section titled "living up to our principles".

In this section, Shell said it was making efforts to encourage "open communication" and recognised that its "traditional corporate culture has not necessarily encouraged openness".

Source: The Shell Report/Shell sustainability report 1997

The cover of the film "Climate of Concern" was included as an example of the company's "award-winning film and video unit which produces documentaries that contribute to world debates on such issues as deforestation, water, soil erosion, and poverty". Climate change was not mentioned as a theme for the film and video unit's work.

1993: 'Possibility' of Climate Change but Business as Usual

The confidential report "The Greenhouse Effect" shows that Shell had a clear grasp of global warming and its causes by the late 1980s.

Yet, throughout the 1990s, the company continued to push mixed messages, acknowledging the "possibility of climate change" while emphasising the "scientific uncertainties" over the impact of increasing concentrations of carbon dioxide in the atmosphere.

Shell justified its business-as-usual approach by arguing that the world will continue to depend on fossil fuels "for years to come" to meet growing energy demand and ensure "sustainable development".

In its 1993 accounts, the Shell Group acknowledged the "possibility of climate change" as "probably the greatest environmental dilemma facing all of us" while emphasizing that "scientific uncertainty still surrounds the world's understanding of climate behaviour".

For the first time, Shell also recognised that "there is sufficient indication of potential risk for governments and industry to take prudent precautionary measures which are based on sound science and take account of the economic and social needs and aspirations of developing and developed countries".

Source: Royal Dutch Petroleum and The Shell Transport and Trading's 1993 annual reports

But despite knowing about the impact of burning fossil fuels on the climate, Shell told its shareholders it had to “continue to invest and provide for the future energy needs of society in ways which are environmentally acceptable” while ensuring “the economic viability of the industry”.

Shell knew of the huge environmental risks attached to its own products. In the 1988 report “The Greenhouse Effect”, Shell mentions “a second generation of studies” to answer questions about the future accessibility and costs of fossil fuels.

Yet, in 1993, Shell suggested to its shareholders that investments in the fossil fuel industry will continue to be profitable for years to come.

That year’s Shell Transport and Trading annual report filed at the UK’s Companies House stated that environmental expenditures and the carbon cost of new projects were “comparable to those faced by companies in other similar business” and that impact on the group’s future earnings would depend on “the ability to recover the higher costs on consumers and/or through fiscal incentives offered by governments”.

The company concluded that “over time there will be no material impact on the total of [the] Group companies’ earnings”.

A passage from Shell Oil’s 1993 10-K form filed under SEC in the U.S. told shareholders that Shell “can comply fully [with existing environmental laws] without material adverse impact on its financial position”.

Source: Shell Oil’s 1993 10-K form

Shell’s interpretation of environmental regulation and a growing cost of carbon as an “adverse” factor on its business interests contradicts its own findings in the “The Greenhouse Effect”.

The 1988 report concluded that climate change’s “potential implications for the world” were “so large that policy options would need to be considered much earlier” than the end of the century — or within seven years of 1993.

Instead, in 1993, Shell Transport and Trading Company argued that to meet growing energy demand “society will have no option but to use all available energy sources”, citing “plentiful” coal, the “vast potential” of natural gas”, and oil reserves “that have never been higher”.

Source: The Shell Transport and Trading’s 1993 annual report

The following year, in 1994, the Shell Group accounts stated that its companies “firmly intend to build on their significant strength in upstream and downstream oil, natural gas, and chemicals and their much smaller, but nevertheless significant, position in coal”.

Shell’s commitment to coal overlooked confidential warning in “The Greenhouse Effect” report that burning coal was causing more carbon dioxide emissions than other fossil fuels. At the time, the report recommended “a swing from coal towards gas”.

1996: Precautionary Measures to Tackle Climate Change

Three years on, the Shell group was still emphasising "uncertainties" about climate science but told its shareholders in its companies' annual reports that it would take "prudent precautionary action" to tackle the issue.

Source: Royal Dutch Petroleum and The Shell Transport and Trading Company's 1996 annual reports

That year, Shell also cemented its commitment to "sustainable development" which the company defined as "meeting the needs of the present generation without compromising the ability of future generations to meet their own needs" through economic development, environmental protection, and social responsibility.

1997: 'Possibility of Human Climate Change' and Cautionary Statement

In 1997, Shell's language when referring to climate change remained much unchanged.

The group companies' reports continued to describe the issue as "the possibility that human activities are causing damaging climate change". The same year, a majority of countries signed the Kyoto Protocol, the first international agreement on climate change which committed countries to set internationally binding emission reduction targets.

Source: Royal Dutch Petroleum and The Shell Transport and Trading's 1997 annual reports

The UK-listed Shell Transport and Trading Company added a cautionary statement to its annual report which identified "environmental risks, fiscal and regulatory developments" as variables which could affect the risk factors associated with "the oil, gas, chemicals, renewable resources, and coal businesses".

This was the first time the Shell Group mentioned the potential impact environmental risk could have on shareholders' investment in the company's fossil fuel products, according to DeSmog's analysis.

Source: The Shell Transort and Trading Company's 1997 annual report

The same year, Shell's sustainability report made the case for the intensification of the companies' oil and gas operations, blaming coal for being a "much larger carbon intensive resource".

Shell claimed that "all the world's estimated resources of conventional oil and gas could be consumed without raising atmospheric carbon concentration above the limits suggested by even the most pessimistic observers".

Source: The Shell Report/Shell sustainability report 1997

This is in direct contradiction with Shell's own findings more than a decade earlier in the

1988 “The Greenhouse Effect” report which identified the carbon dioxide emission share of each of the company’s fossil fuel products.

At the time, the report concluded that of “the total emission of 5.3 GtC, 44 percent came from oil, 38 percent from coal, and 17 percent from gas” — correctly suggesting that burning oil and gas would generate fewer carbon dioxide emissions than coal but would still contribute to the global warming effect.

Source: ‘The Greenhouse Effect’ 1988 report

Between 1993 and 1998, Shell Oil filed 10-K annual reports, available through the SEC’s public records archives in the U.S.DeSmog found no evidence that any of the filings mentioned the terms “climate change”, “global warming”, or “greenhouse gas”.

During the same period, the Shell group annual reports filed at Companies’ House in the UK all included references to “climate change” and set out the company’s response to environmental and development challenges.

Late 1990s and Early 2000s: Corporate Spin and Peddling Back Climate Science

In 1999, the Shell Group strengthened its language and told its shareholders about opportunities in the clean energy sector linked to “the need to respond to the threat of global warming”.

It added that Shell companies were cutting their greenhouse gas emissions and considering the potential carbon costs of its products.

Shell Transport and Trading also announced that a decision was taken in August 1999 for the company to divest its coal business.

But over the following years, the company appeared to back-peddle over how much it was ready to tell shareholders about the risks attached to their investments.

In 2000, the Shell Transport and Trading Company annual report stated that the Shell Group’s commitment to sustainable development justified the company supplying China with “coal gasification technology”, which it described as using “coal more efficiently and cleanly”.

Coal gasification is a technology that involves chemically transforming the coal into synthetic natural gas rather than burning it directly.

Laszlo Varro, former head of gas, coal, and power markets at the International Energy Agency (IEA) and now its chief economist, previously told the BBC that coal gasification is actually more carbon intensive than coal mining and is “not attractive at all from a climate point of view”.

In 2001, Shell labelled the issue “the perceived threat of global warming” and added that the “world’s dependency on hydrocarbons will remain for decades to come”.

In 2003, neither Royal Dutch Petroleum’s nor Shell Transport and Trading Company’s annual report explicitly mentioned “climate change”, “global warming”, or “greenhouse gases”.

Instead, the companies shunted discussion of the topic to that year's sustainability report called The Shell Report, a supplement that focuses on environmental and social issues, sent to investors alongside the annual report.

In that year's Shell Report, the company stated its concern about man-made climate change and added "action is needed now". That strong language was yet absent from the company's financial statement.

Source: The Shell Report/ Shell sustainability report 2003

2004: Climate Change Identified as a Financial Risk for Investment

In 2004, the Shell Group made a significant shift in the way it talked about climate change to its shareholders.

For the first time, Shell included a clear statement in its companies' annual report about the financial risk attached to investments in the companies' operations.

It warned shareholders that "government action" to reduce carbon dioxide emissions was leading to challenges to future oil and gas developments. Shell acknowledged that the risks attached to the delivery of new fossil fuel projects "could have an adverse impact on the group's operational performance and financial position".

Source: The Shell Transport and Trading Company's 2004 annual report

This was the first time Shell issued a clear warning to it shareholders about the financial risks attached to their investments — 16 years after it was first warned in detail about the role its own products played in contributing to dangerous global warming.

Responding to the findings, a Shell spokesperson told DeSmog:

> "Shell has long acknowledged the climate challenge, an issue that has been part of public discourse for many decades, and our position on climate change has been publicly documented for more than two decades through publications such as our annual report and sustainability report."
>
> "We take seriously our responsibility to report clearly and transparently on financial risks, which includes complying with U.S.Securities and Exchange Commission regulations. "

DeSmog's anlysis shows Shell's financial statements and corporate documents filed between the early 1990s and 2004 give an insight into how the company shaped and controlled its own narrative around global warming and its impact over the decades.

While Shell was comfortable using The Shell Report, sustainability reports, and its film and video unit to promote its clear understanding of climate science in the 1990s and early 2000s, it took the company much longer to overtly tell its shareholders of the financial risk climate policy and the impacts of global warming posed to their investments.

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