

Shell in Australia

Submission to the Parliamentary Joint Committee on
Corporations and Financial Services

Inquiry into Corporate Responsibility and Triple-
Bottom-Line reporting

September 2005

Shell in the World

Royal Dutch Shell plc. is among the world's largest energy companies operating in more than 140 countries and territories and employs more than 112,000 people. Around the globe, Shell companies work in partnership with industry, government and society to deliver what is expected of us – economically, socially and environmentally. We invest and collaborate in the development of new technologies that will keep improving our performance. We are best known to the public for our service stations and for exploring and producing oil and gas on land and at sea; but we deliver a much wider range of energy solutions and petrochemicals to customers.

These include transporting and trading oil and gas, marketing natural gas, producing and selling fuel for ships and planes, generating electricity and providing energy efficiency advice. We also produce and sell petrochemical building blocks to industrial customers globally and we are investing in making renewable and lower-carbon energy sources competitive for large-scale use.

Our core values of honesty, integrity and respect for people define who we are and how we work. These values have been embodied for more than 30 years in our Business Principles, which since 1997 have included a commitment to support human rights and to contribute to sustainable development. Part of contributing to sustainable development is to continuously improve our social performance. This means respecting and safeguarding the health and safety of our employees and neighbours, reducing disruptions to the community and creating lasting social and economic benefits, for example by employing local people.

We need to interact with the communities wherever we work, to find appropriate ways to minimise negative impacts, create long lasting economic benefits, and contribute more generally to the well-being of the communities and broader society that grant our 'license to operate'. Interacting with communities is a key aspect of continuously improving our social performance.

We are strongly committed to safeguarding the health and safety of our employees and our neighbours. All our operations have health, safety, security and diversity standards in place.

Shell in Australia

Shell in Australia is a major energy company with more than 3400 employees. We trade with over 70,000 customers throughout the country and supply around quarter of Australia's petrol and diesel requirements. We have 20 seaboard storage terminals, production facilities in Newport (VIC) and Pinkenba (QLD) and operate refineries at Clyde (NSW) and Geelong (VIC) with a combined crude processing capability of some 213 kbd, which represents approximately 25% of Australia's refining capacity. We provide aviation fuel to over a third of Australia's big jet and general aviation markets. Our lubricants and greases are used by farmers, manufacturers, mining companies and major transport and shipping operators. Around one-third of Australia's roads are constructed using Shell bitumen. We also explore for, produce and supply natural gas to customers in Australia and overseas. The products we supply and the jobs we generate in producing and distributing these products help drive the Australian economy.

Executive Summary

- Shell welcomes the opportunity to provide a submission to the Inquiry;
- Shell is a regular contributor to local and global dialogue on the role of business, sustainable development, corporate social responsibility and the 'triple bottom line';
- Shell is a company which operates according to well recognised values and a set of business principles which underpin all that we do;
- Shell attaches high importance to reporting, assurance and performance assessment of all its operational activities;
- The global Shell Report (published annually since 1998) provides evidence of our commitment to reporting, assurance and performance assessment by independent parties;
- Shell leaders and employees have a high regard for the interests of our many stakeholders - whether business or non-business stakeholders;
- Shell believes an active and visible stakeholder engagement process is an essential ingredient of business success;
- Shell believes the existing legal frameworks in Australia are appropriate in regard to corporate responsibility. That is, Shell does not see a need for legislative or regulatory frameworks that specifically address or encourage corporate responsibility;
- Shell does not believe existing legal frameworks act as a disincentive for companies to pursue CSR;
- Shell sees CSR as an area of remarkable creativity and innovation in this market (and elsewhere) and believes that legislative or regulatory interventions could be counter-productive to such creativity and innovation;
- Shell recognises its obligations and responsibilities to stakeholders in the conduct of its business and does not support any move to mandate the manner in which companies seek to discharge their respective approaches to CSR. No one-size fits all and Shell believes it is for companies - unilaterally - to determine their approach to CSR;
- Shell believes existing reporting process in Australia are adequate for the delivery of CSR messaging to stakeholders;
- Shell does not see any need for regulatory, legislative or other policy approaches from other markets to be adopted or adapted for Australia.

Introduction

Shell - as a long standing local and global employer in the energy sector - welcomes the opportunity to contribute to the Inquiry into Corporate Responsibility and Triple Bottom Line Reporting being conducted by the Australian Parliamentary Joint Standing Committee on Corporations and Financial Services.

In this introduction, we describe Shell's commitment to the constituent elements of corporate social responsibility, as we see them. Further, we detail Shell's commitment to participate in both local and global discussions regarding the role and responsibilities of business and we set out the importance of reporting, assurance and performance assessment to ensure that companies are delivering against their stated policies, goals and commitments. Shell is deeply committed to its annual reporting and assurance process which is overseen by the Chairmen of the Shell companies operating around the world.

Shell has been a significant contributor to the global discussion on the role of business, corporate social responsibility and triple bottom line reporting particularly in the last decade but also, to some extent, for the last 30 or so years. There is hardly a book or paper on these subjects that does not reference the global energy industry and Shell in particular.

Shell has never backed away from involvement in these discussions and, in the eyes of some, was probably in the vanguard of companies prepared to speak openly about the challenges and dilemmas facing both multi-national business and large domestic business in the Internet Age. Shell first produced a global sustainability report - specifically addressing the triple bottom line - in 1998 and has produced annual Shell Reports, specifically on sustainability, every year since.

The first report entitled - *Profits & Principles - Does Their Have To Be A Choice (1998)* is often cited as a provocative contribution to the discussion concerning the role of business in modern society. The document was deliberately provocative in order to spark a debate which embraced 'stakeholders' who had views on the subject, but for a variety of reasons had not had their voices heard.

Royal Dutch Shell plc, of which Shell Australia is a part, is commercial in nature and has as its primary responsibilities - wealth generation, meeting customer needs, providing an acceptable return to investors and contributing to overall economic development.

But there is also an inseparable responsibility to ensure that our businesses are run in an ethical way and in line with Shell's own values. Equally important, we must show we are doing so, by providing independently verified assurance. This approach is fundamental to the health of the business and, as such, both compatible with and supportive of the primary economic responsibility.

We realise too that we must be part of the debate in order to learn from others, explain our actions and put our point of view forward. We may not always get it right, but we do strive to be good corporate citizens. We have a proud history of social responsibility and we want to build on that.

Shell's business principles (www.shell.com/sgbp) which have guided the company since they were formally implemented in the mid-1970s show that we are serious about our responsibilities to society, our shareholders, employees, customers and those with whom we do business.

It will be evident from what has been said above, that Shell does not regard corporate social responsibility as being confined to matters of philanthropy or what we prefer to describe as 'social investment.' Shell takes a much wider perspective of the concept of corporate social responsibility (CSR) and has contributed considerable effort and resources here in Australia, and elsewhere, contributing to public discussion of the many issues involved in addressing the so-called 'triple bottom line' of economic, environmental and social performance. Social investment, for Shell, is only an element, albeit an important one, within any assessment of the overall performance of an organisation's social responsibility.

Putting Principles into Practice

It is important for a business to set out its principles and aspirations for behaving responsibly, but for these to be of any real value they must be supported by a corporate culture that is committed to putting those principles into practice. A key element in that culture must be clarity about what corporate social responsibility means. For Shell it is a way of conducting our business which we believe helps us to be more successful. It is not an 'add on' but integral to our business. We believe setting the highest standards of behaviour, valuing the people who work in our organization helps us to create a sustainable business which delivers value for our stakeholders.

Corporate social responsibility is not itself our business but rather it is a way of conducting our business which, we believe helps us to be more successful over the long-term. To commit to a socially responsible way of working is not, as some critics claim, a distraction from our core business. Nor does it in any way conflict with our promise and our duty to deliver value to our shareholders – quite the contrary – it is compatible with and supportive of it.

Corporate social responsibility is part and parcel of the way a successful long-term business operates: it means setting the highest standards of governance and behaviour. It means valuing the people who work in our organization and contributing to the communities where we operate. And it means making profits since a failing, unprofitable company can, by definition, make no contribution to society.

Shell's response to the 'turn-of-the-millennium' shift in expectations has included a revision of our Business Principles to add specific commitments to respect human rights and to contribute to sustainable development. They are the essential areas covered by our approach to corporate social responsibility.

Contributing to sustainable development is not a single, self-contained activity, but rather a way of looking at everything we do. That view is confirmed by listening to all those who have an interest in what we do whether they be governments, non-governments, pressure groups, customers, employees or those who live near our installations.

Those insights help us to understand the impact - both positive and negative - of our activities and then to use that perspective to improve what we do.

Approach to reporting, assurance and performance assessment

We report openly on our governance, environmental and social responsibility because they affect our business performance today and our ability to win societal acceptance and achieve our strategy in the future. Reporting also helps build trust and motivates employees and business partners to improve their performance.

The global Shell Report is sent to more than 750,000 people around the world including our employees, shareholders and regulatory bodies. Another 51,000 viewed it on the web in 2004, where we also provide supporting information.

Evolving reporting

We believe sustainability reporting should focus on the issues and impacts that most affect business performance. That is why ***'Meeting the Energy Challenge'*** remains our theme and we explore different aspects of this challenge each year (***Sustainable Transport in 2003 and Energy Security in 2004***). It is why we focus our data reporting on the 12 Key Performance Indicators covering our main environmental and social impacts, using data from facilities where we have operational control. It is also why we strengthened the way we choose the issues and locations which we report. The selection process, described in full on our website (www.shell.com/sgbp) (www.shell.com/evandsociety/reportingandassurance) relies on our internal reputation risk and financial risk tracking systems to identify the issues and locations with the highest impact on our reputation or financial performance. Sustainability reporting must also respond to evolving requirements by corporate regulators for non-financial reporting. We consider The Shell Report to be one of our material disclosures to investors and other interested parties. In 2004, we improved internal checks and controls on all our disclosures, including The Shell Report, under the supervision of the Group Disclosure Committee. Sustainability reporting must also find different channels to meet different users' needs. For this reason, we provide a short report with an overview of key issues and impacts for general readers, supported by more detailed information on the web for specialists. We meet regularly with non-governmental organisations and analysts to address their specific information needs.

External assurance

We continue to have information in the Shell Report subjected to independent assurance by our auditors (KPMG Accountants N.V. and PricewaterhouseCoopers LLP). This helps us improve the quality of our data, manage our business better and increases trust. In this report, the auditors have carried out assurance work on selected financial, safety and environmental data and confirmed we have properly extracted selected data from our financial statements. They have also reviewed the other information in the report.

External performance assessments

Assurance is mainly about the quality of the information we report. Readers must translate this information into a judgment about our performance. To help them, we ask outside experts and people affected by our operations for their uncensored views on our progress at key locations. In 2004, we clarified the role of assessors and increased efforts to choose people who represent the whole community, a continuing challenge where communities are divided in their view.

Emerging guidelines

We again report in accordance with the Global Reporting Initiative (GRI) (www.shell.com) and describe our contribution to the United Nations (UN) Global Compact on our website.

Inquiry Terms of Reference

This section of the Shell submission addresses specifically the *'Terms of Reference'* as set out by the Parliamentary Joint Committee on Corporations and Financial Services.

Terms of Reference

a) The extent to which organisational decision-makers have an existing regard for the interests of stakeholders other than shareholders, and the broader community.

A key ingredient of the daily challenge faced by Shell in Australia delivering fuel to our many customers and ensuring that we do this safely and with no harm to the environment, is delivering on our commitment to our many non-business stakeholders. Shell has a major commitment to this aspect of our business and has demonstrated this over more than 100 years of doing business in Australia. Our processes have evolved and improved in line with community expectations.

First and foremost we focus our attention within those communities where we operate. For example we operate formal community liaison processes at both our two processing refineries Geelong (Vic) and Clyde (NSW), and also the Shell import / export terminal in Port Jackson (Sydney). At other terminals we operate processes that ensure open and direct communication with our neighbours, customers, suppliers, contractors and others with whom we have association.

A great deal of effort is devoted towards ensuring high quality interaction with stakeholders and Shell requires its most senior officers to make a commitment to engaging with the community in both formal and informal processes. Many people within Shell do so quite willingly and require little prompting to engage with non-business stakeholders. Given the nature of our industry, the products we sell and community disquiet about product pricing, some stakeholder engagement is challenging and at times even hostile. With this in mind, we ensure appropriate training and development for those with the task of direct engagement on these issues. Increasingly we are observing that our recruits and our employee base is seeking direct involvement in community initiatives and this is encouraged by formal policies allowing staff 'company time' to undertake community work.

Managing the interface with Government is a major task for organisations such as ours. Shell seeks to build and maintain effective relationships with governments at the local, state/territory and federal levels. This requires a heavy commitment from the leadership of the organisation. In addition, Shell gives emphasis to its relationships with bureaucracies and regulators around the country and time and resources are devoted towards building and maintaining effective relationships with the machinery of government.

Shell engages open and regular dialogue with stakeholders and this year alone we have conducted formal stakeholder engagements at both refineries – and the Sydney terminal - and with our Perth 'upstream' operations and many other organisations on specific product or pricing related issues.

b) The extent to which organisational decision-makers should have regard for the interests of stakeholders other than shareholders, and the broader community.

From the Chief Executive Officer of Royal Dutch Shell plc to the people selling our products around the world, there is recognition that gaining and maintaining the trust of stakeholders is a key element in our business success. Shell leaders are encouraged to become involved in the task of stakeholder engagement and to live the Shell values of honesty, integrity and respect for people.

Each year, the Chairman of Shell Australia hosts two separate leadership workshops at which matters pertaining to reputation of the business are discussed and actions agreed. Shell believes firmly that its decision makers should be very 'hands on' in managing issues relevant to their business and our reputation management plans are predicated upon our leaders agreeing to develop and maintain strong stakeholder relationships.

Making sense of the complexity of large organisations is essential in building the trust and confidence of our many stakeholders. It is with this in mind that we ask each of our leaders to identify their top 20-30 stakeholders and to actively engage with them during the course of the business year.

Shell believes its reputation is built on business performance and on meeting our commitment to operational excellence. Implementation of Shell Group strategy is supported by clear, consistent, simple and swift communication and - as stated - by building effective relationships with key stakeholders of whom we have many.

Detailed plans exist for communication and engagement with: shareholders, institutional investors and analysts, employees, media, government, NGOs, neighbours, customers, suppliers, contractors and all other interested parties. Shell implements extensive processes to measure, analyse and improve the way in which it engages with stakeholders. Shell is acutely aware of the connection between reputation and business performance and hence the strong, long-standing focus on leading by example.

c) The extent to which the current legal framework governing directors' duties encourages or discourages them from having regard for the interests of stakeholders other than shareholders, and the broader community.

As will be evident from what has been said above, Shell shares the view that company directors must be fully aware of the social and environmental impacts of their operations and should be current in their knowledge of such impacts. It is not sufficient for directors to concern themselves solely with the economic performance of the organisation and be blind to the two other - equally important - dimensions of the social and environmental consequences of their operations. This is well understood in Shell and many of our policies and practices underscore the importance our organisation attaches to the 'Triple Bottom Line'.

Company directors in all Shell companies have fiduciary duties to act in the best interests of the company. In order to do so they require an appreciation and understanding of the risks - both operational and reputational - in conducting the business of which they are a director.

Shell does not believe the existing framework (Corporations Act) discourages or precludes directors from having regard to the legitimate interests of stakeholders other than shareholders. In order that directors do perform in the 'best interests of the corporation and for a proper purpose' Shell believes it is essential that the considerations of non-shareholder stakeholders be taken into account. Ultimately, the legitimate interests of non-shareholder stakeholders are likely to impact, albeit indirectly, on the interests of shareholders and taking those non-shareholder stakeholder interests into account is therefore entirely consistent with existing provisions of the Corporations Act

Here in Australia, the Chairman has specific tasks under the terms of his appointment which require him to provide assurance to Royal Dutch Shell plc that due attention has been given to the interests of stakeholders as an essential part of managing Shell's reputation. Each year, the Chairman is required to sign letters of assurance that provide evidence of the various 'in country' initiatives that have been undertaken during the year. The annual country 'Reputation Plan' provides opportunity also for re-statement of the intentions of the leadership of the organisation to give proper consideration to the views of Shell's multifarious stakeholders.

Shell believes this should be a 'horses for courses' approach and that it is appropriate for companies - unilaterally - to determine how they seek to manage their approach to corporate social responsibility, sustainable development and to reputation enhancement. Those companies that do this well will be ultimately rewarded for doing so, while those that don't will suffer the reputational and, ultimately, business costs for not doing so.

d) Whether revisions to the legal framework, particularly to the Corporations Act, are required to enable or encourage incorporated entities or directors to have regard for the interests of stakeholders other than shareholders, and the broader community. In considering this matter, the Committee will also have regard to obligations that exist in laws other than the Corporations Act.

It is for the reasons outlined above that Shell believes legislative or regulatory intervention would be inappropriate in regard to corporate social responsibility. In saying this, we draw a distinction between CSR and corporate governance, where appropriately, legal mechanisms have been introduced to ensure higher standards of corporate behaviour both locally and internationally.

Legislation (other than the Corporations Act) already exists in many areas where non-shareholder stakeholders can be impacted. Obvious examples of this are in the environmental and occupational health and safety areas. Generally Shell believes that there is already far too much regulation in these areas and, particularly, a priority need for regulation at the different levels of government and between States to be rationalized.

Apart from those areas such as environmental and occupational health and safety where clearly a level of regulation is required, Shell believes strongly that the 'court of public opinion' is the most effective mechanism ensuring companies meet society's expectations. Shell further believes that there is merit in the larger corporations operating within the Australian market engaging - on a voluntary basis - with small to medium sized enterprise to share knowledge and experience in the area of corporate social responsibility. It has been a feature of the Australian market place in the last five to ten years that there has been a remarkable exchange of knowledge and experience amongst corporates regarding CSR. It is regrettable that

government has not been more visible in these fora as Shell believes there is much the government can learn from the private sector and vice versa in the area of CSR. Some state governments have taken the initiative and unilaterally engaged with business on ways in which business can be more active in the delivery of social need and it has been very pleasing to see these discussions leading to some highly effective collaboration between the private and public sectors.

Shell believes it is in encouraging such collaboration and the wider sharing of experience (gained locally and internationally) that real gains can be made to the betterment of society. Again, we re-state our view that legislative or regulatory intervention is unnecessary and would be likely to act as an anti-stimulant to innovative approaches and generally be counter-productive to positive outcomes for CSR.

e) Any alternative mechanisms, including voluntary measures that may enhance consideration of stakeholder interests by incorporated entities and /or their directors.

Aside from meeting its statutory requirements where it operates, Shell is signatory to a number of global reporting and assurance mechanisms, each of which is voluntary. Shell has ensured that its reporting processes are consistent with those outlined in the Global Reporting Initiative (GRI) and we are a foundation signatory to the United Nations Global Compact Principals. Further, Shell recognises the OECD Guidelines for Multinational Enterprise and has been a regular attendee at meetings on the Guidelines convened by the Treasury Department (FIRB) of the Australian Government. Shell convened a seminar on the Global Compact in Melbourne several years ago which was attended by more than 100 company representatives from around Australia.

Each of these voluntary mechanisms has assisted in providing opportunity for the sharing and exchange of knowledge and experience in the area of CSR and in sustainable development. They have had a positive impact in raising awareness of what is happening at a global level in the area of CSR and an equally positive impact in providing trigger points for the much wider sharing of experience amongst corporates on what they doing in the area. Shell welcomes the voluntary opportunities that arise - both locally and overseas - for the wider sharing of knowledge and experience and readily contributes to such interactions.

To this end, we see that voluntary mechanisms and company initiated processes have been successful in promoting CSR. Shell has itself published a series of booklets or primers - primarily (but not exclusively) for internal use - which seek to assist our business managers and company directors/officers to better understand many of the social dilemmas with which they may be faced in the conduct of their business. The titles of such primers include: *'Business and Human Rights'*; *'Dealing with Bribery & Corruption'* and *'Contributing to Sustainable Development'* (www.shell.com/sgbp/Dilemmas_primery) (www.shell.com/sgbp). These have been extremely effective in raising the level of internal discussion and understanding of these and associated issues. The response from our leadership has been very encouraging.

Shell believes much is to be gained by the further exchange of CSR experience between players in the private sector and between the private and the public sectors, but can see no merit in mandating mechanisms to achieve that.

f) The appropriateness of reporting requirements associated with these issues.

Shell supports the continued use of international mechanisms - such as the GRI and Global Compact - as avenues for reporting the activities of multinational corporations. Existing laws within the Australian market cover the public reporting requirements of companies and these appear to be working. In the case of Shell Australia, we are not listed in this market, but consistent with our commitment to openness and transparency, we annually produce a statement of operations which is presented in a format which seeks to detail performance on a 'Triple Bottom Line' basis. *Who We Are and What We Do (2005)* is presented in three identifiable sections: Economic Performance, Environmental Performance and Social Performance. This information is followed by a Business Review.

Survey feedback from our readers suggests they appreciate the segmentation of the three elements of 'Triple Bottom Line.'

We believe existing approaches to CSR reporting are satisfactory and appropriate.

g) Whether regulatory, legislative or other policy approaches in other countries could be adopted or adapted for Australia.

Consistent with our overall approach to answering the various issues raised as part of the Terms of Reference, we do not see any case for a regulatory or legislative approach to the further implementation or reporting of CSR. Shell shares the concern, expressed by the Business Council of Australia, that Australian business is already overburdened with regulation of one form or another and that further regulation - especially in this area - would be counter-productive. CSR is an area of corporate and business activity that gives rise to both innovation and creativity to the betterment of society as a whole. It would be greatly to the nation's disadvantage if a regulatory or legislative approach were to be adopted which resulted in the stifling of such creativity and innovation.

Australian companies are doing remarkable things in the area of CSR and it is pleasing to see governments recognise such innovation and activity in the form of State and Commonwealth Awards for CSR Excellence. The driver for improved corporate behaviour should rightly be 'principles-based' as opposed to regulatory or prescriptive in nature.

Shell believes Australia is witnessing a significant improvement in the social behaviour of corporations and businesses across the country and that customer preference and community expectation are playing a central role in fashioning the various CSR choices companies are making.

Increased sharing of experience, knowledge and understanding in the area of corporate social responsibility will be the biggest factor in further meeting community expectations in the years ahead.