

SHELL SHOCKED: BUT WHAT ABOUT ITS CUSTOMERS & SUPPLIERS?

It is an understatement to say that last week was a ground-shifting week for the oil industry on the climate change front. Nowhere else were the tremors stronger than in The Netherlands, where in a class action lawsuit, The Hague District Court ordered Royal Dutch Shell (RDS) to reduce its CO₂ emissions 45% by 2030, as compared to 2019 levels. The news of this decision has reverberated throughout the globe since it was announced on May 24th. However, there is one aspect of this decision that has received quite a bit less attention. It is an aspect that Shell's customers and suppliers should closely monitor.

Shell's obligation to reduce its CO₂ emissions ***also extends to customers and suppliers***. Companies have been incorporating the activities of customers and suppliers into sustainability strategies for some time now. (These are commonly referred to as Scope 3 emissions.) What appears to be novel here though is a court order requiring a company to do so. Although it is not entirely clear how this part of the order will be enforced, the press release itself does use the phrase "best-efforts" as opposed to stronger, more mandatory language.

It is important to remember that Shell is a lot more than a global oil and gas company. Shell is a major manufacturer of chemicals and catalysts. It is also a significant licensor of chemical and refining process technology. Thus, it will be interesting to see the extent of the impact of this decision on, among others, users of Shell's process catalysts and licensees of its process technology.

In the coming months, Shell's customers and suppliers may find themselves responding to sustainability and climate change questionnaires that are even more extensive and detailed than usual. Would-be acquirers of such suppliers and customers may also ask questions during the due diligence process about Shell-related greenhouse gas reduction commitments. And sooner rather than later, customers and suppliers of other global organizations with significant carbon footprints may find themselves in situations similar to those of Shell's customers and suppliers.

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