

Shell directors not liable in U.K. for climate change policies

June 14, 2023

To add to climate change litigation in the recent past years, the United Kingdom High Court has now dismissed an environmental organization's derivative action against the board of directors of Shell plc (Shell). In [ClientEarth v. Shell plc and others \[2023\] EWHC 1137 \(Ch\)](#), the High Court found that the plaintiff failed to establish that the directors, in adopting Shell's energy transition strategy, were not acting reasonably in Shell's interests.

Background

The plaintiff, ClientEarth, is a private non-profit environmental law organization and registered charity. ClientEarth held a nominal number of shares in Shell, which allowed it to bring a derivative claim against Shell's directors under s. 260(1) of the U.K.'s Companies Act 2006. ClientEarth argued that Shell's directors failed to set appropriate emissions targets and that Shell's energy transition strategy was not aligned with the Paris Agreement on Climate Change 2015 (GTO).

ClientEarth argued that the directors failed to set an appropriate emissions target for Shell, that the directors' current climate strategy did not establish a reasonable basis for achieving a net-zero emissions target, and that the directors failed to comply with a Dutch court order which imposed a 45 per cent emissions reduction obligation on Shell to be achieved by 2030.

Under the U.K. Companies Act 2006, the court must authorize a shareholder to continue a derivative action against a company's directors. In order to obtain the court's permission to continue their claim, ClientEarth had to demonstrate that they had a prima facie case of there being no basis on which Shell directors could reasonably have come to the conclusion that their actions were in Shell's best interests.

Decision

While the Court found that ClientEarth established that Shell faces material and foreseeable risks as a result of climate change, ClientEarth did not demonstrate a prima

facie case of actionable breach of duty by the directors in the management of those risks.

ClientEarth’s argument relied on two statutory duties: the duty to promote the success of the company and the duty to exercise reasonable care, skill and diligence. ClientEarth also argued that Shell’s directors were also subject to six “necessary incidents” of their statutory duties:

1. a duty to make judgments regarding climate risk that are based upon a reasonable consensus of scientific opinion;
2. a duty to accord appropriate weight to climate risk;
3. a duty to implement reasonable measures to mitigate the risks to the long-term financial profitability and resilience of Shell in the transition to a global energy **system and economy, aligned with the global temperature objective of 1.5°C** under the GTO;
4. a duty to adopt strategies which are reasonably likely to meet Shell's targets to mitigate climate risk;
5. a duty to ensure that the strategies adopted to manage climate risk are reasonably in the control of both existing and future directors; and
6. a duty to ensure that Shell takes reasonable steps to comply with applicable legal obligations.

The Court found that these six “incidental duties” did not apply to Shell’s directors. The Court agreed with Shell that these “duties” were a way to impose specific obligations on the directors. This was not permissible; it was for the directors themselves to determine, in good faith, how best to promote the success of Shell.

Additional issues arose with respect to the remedies sought by ClientEarth, which consisted of mandatory orders requiring Shell to: (a) adopt and implement a strategy to manage climate risk in compliance with its statutory duties, and (b) comply immediately with a Dutch court order made by the Hague District Court in 2021. In [Milieudefensie et al. v. Royal Dutch Shell, ECLI:NL:RBDHA:2021:5339](#), the Hague District Court ruled that Shell was “obliged” to reduce emissions by 45 per cent by 2030 compared to 2019 levels, after environmentalist groups brought a class action against Shell for the breach of an “unwritten standard of care” rooted in article 162 of the Dutch Civil Code. In turn, ClientEarth sought Shell’s immediate compliance with the Dutch order. The U.K. High Court took issue with the nature of the relief ClientEarth sought, finding it was not sufficiently precise as to how it would be enforced.

ClientEarth’s materials raised significant evidentiary issues. ClientEarth’s claim was supported by witness statements by two ClientEarth lawyers. The Court placed very little weight on the opinions expressed in these witness statements, finding that they did not **establish a case that Shell’s directors were managing Shell’s business risks in a manner** that was not open for a board of directors acting reasonably. Additionally, the witness statements were not expert evidence on which the Court could properly rely.

The Court found that the evidence did not support a prima facie case that there was a universally accepted methodology as to the means by which Shell might be able to achieve its targeted reductions. The Court concluded that it was therefore difficult to **treat ClientEarth’s evidence as a proper basis to support an argument that the directors’ “pathway to achievement” of the targets was not reasonable.**

The Court also found that the “fundamental defect” in ClientEarth’s case was that it “completely ignores” the fact that the management of a business of Shell’s size requires its directors to take into account a range of considerations that often compete. The Court was “ill-equipped” to interfere with such management considerations.

Finally, the Court ruled that ClientEarth had an ulterior purpose for bringing the proceedings. ClientEarth only had nominal shares in Shell, while using an exceptional procedure in the form of a derivative action. ClientEarth sought relief of a considerable scope, complexity and importance. These factors gave rise to a “very clear” inference that ClientEarth’s real interest was not promoting the success of Shell for the benefit of its members as a whole. The Court also noted that member support for Shell’s current ESG goals counted strongly against granting permission for ClientEarth’s derivative action.

Takeaways

With the dismissal of ClientEarth’s lawsuit, the United Kingdom has declined to find directors liable for climate change policies. With that said, the U.K. High Court did not foreclose the possibility of finding a prima facie case if there was sufficient evidence of climate change impacts and complying with targets being brought in other circumstances, such as a smaller business model.

The issue of director liability for climate change has not yet been tested in Canada; however, this U.K. decision may have some influence on the prospect of director liability. Under provincial and federal corporate statutes, Canadian courts have adopted a comparable test for determining whether directors have used reasonable skill and judgment in discharging their duties. The ClientEarth decision may influence Canadian courts’ assessment of director liability.

Environmental considerations are currently being incorporated into statutes and guidelines that impact the Canadian industry, among others. Notably, Canada’s Office of the Superintendent of Financial Institutions (OSFI) has recently released a new [Guideline on Climate Risk Management](#). The Guideline recognizes the impact of climate change on managing risk in Canada’s financial system and shall be effective fiscal year-end 2024 for certain domestic banks and insurance groups headquartered in Canada, with a broader rollout for federally regulated financial institutions in 2025. The Guideline could provide guidance on the expectations in Canada for various industries.

Given the evolving governmental and legal framework regarding climate change policies, it is possible that a similar action to ClientEarth v. Shell plc could be brought in Canadian courts. This U.K. decision could signal that such a claim would be as unsuccessful against a Canadian energy company, especially without sufficient evidence, but nevertheless it remains a warning of the material risks that Canadian directors may face in the future.

Contact us

We encourage you to reach out to the contacts below or any BLG lawyer from our [Climate Change](#) or [Environmental Disputes](#) groups if you have any questions related to the above decision, or for more information on related topics.

The author would like to thank Janelle Gobin, Articling Student, for her generous contribution to this text.

By

[Matti Lemmens](#)

Expertise

[Environmental](#), [Environmental Disputes](#), [Environmental, Social and Governance \(ESG\)](#)

BLG | Canada's Law Firm

As the largest, truly full-service Canadian law firm, Borden Ladner Gervais LLP (BLG) delivers practical legal advice for domestic and international clients across more practices and industries than any Canadian firm. With over 725 lawyers, intellectual property agents and other professionals, BLG serves the legal needs of businesses and institutions across Canada and beyond – from M&A and capital markets, to disputes, financing, and trademark & patent registration.

blg.com

BLG Offices

Calgary

Centennial Place, East Tower
520 3rd Avenue S.W.
Calgary, AB, Canada
T2P 0R3

T 403.232.9500
F 403.266.1395

Ottawa

World Exchange Plaza
100 Queen Street
Ottawa, ON, Canada
K1P 1J9

T 613.237.5160
F 613.230.8842

Vancouver

1200 Waterfront Centre
200 Burrard Street
Vancouver, BC, Canada
V7X 1T2

T 604.687.5744
F 604.687.1415

Montréal

1000 De La Gauchetière Street West
Suite 900
Montréal, QC, Canada
H3B 5H4

T 514.954.2555
F 514.879.9015

Toronto

Bay Adelaide Centre, East Tower
22 Adelaide Street West
Toronto, ON, Canada
M5H 4E3

T 416.367.6000
F 416.367.6749

The information contained herein is of a general nature and is not intended to constitute legal advice, a complete statement of the law, or an opinion on any subject. No one should act upon it or refrain from acting without a thorough examination of the law after the facts of a specific situation are considered. You are urged to consult your legal adviser in cases of specific questions or concerns. BLG does not warrant or guarantee the accuracy, currency or completeness of this publication. No part of this publication may be reproduced without prior written permission of Borden Ladner Gervais LLP. If this publication was sent to you by BLG and you do not wish to receive further publications from BLG, you may ask to remove your contact information from our mailing lists by emailing unsubscribe@blg.com or manage your subscription preferences at blg.com/MyPreferences. If you feel you have received this message in error please contact communications@blg.com. BLG's privacy policy for publications may be found at blg.com/en/privacy.

© 2025 Borden Ladner Gervais LLP. Borden Ladner Gervais LLP is an Ontario Limited Liability Partnership.