
LEADERS & LETTERS

Nothing less than fundamental governance changes will satisfy Shell Group shareholders

*From Mr Eric Knight
and Mr Ted White.*

Sir, The views expressed at the recent meetings held between shareholders of the Royal Dutch/Shell Group and its board members, in which we participated, evidenced a powerful shareholder consensus concerning the need for a fundamental and wide-ranging re-examination of the special arrangements between the group parent companies and the manner in which the group is managed and governed. Protestations to the contrary notwithstanding, it remains our view – shared by many institutional shareholders – that, at the very least, a portion of the blame for the reserves debacle is to be attributed to the prevailing governance culture of the group and the absence of orthodox board structures. Whether or not this be true, this is the market's perception today.

As must have been apparent to the directors of Royal Dutch Petroleum and Shell Transport & Trading, many of their shareholders desire that this re-examination of board and management structures, a process Jeroen van der Veer, Shell Group president, has dubbed the "thinking phase", be both coherent and comprehensively transparent. In particular, we and other shareholders believe that, if the process is to be at all credible, the directors must disclose publicly the terms of reference of this review – namely: the specific issues to be considered; the composition of the body conducting it; and a timetable,

involving further shareholder consultation before formal approval of any changes is sought.

It was our collective hope and expectation that this rather basic information would be disclosed to shareholders concurrently with publication of the agendas for the group's annual general meetings on June 28. This opportunity has been lost. We now, therefore, explicitly request that the directors provide the market with this minimal level of disclosure – sufficiently in advance so as to enable shareholders to form a well-balanced point of view in preparation for the meetings.

We believe there is a significant opportunity for the group to repair some of the confidence that has been lost by conducting this process in a manner that embraces openness and candour.

We look forward to meeting the directors in The Hague and in London on June 28, and in anticipation thereof it may be of use to them to consider responses to the following questions, which may well be posed at each meeting:

- Please disclose to the assembly of shareholders the specific issues to be considered in the detailed re-examination of Shell's board and governance structures. Will the issues to be considered include at least the following: first, the role and authority of the chief executive and this person's formal relationship with the group's boards and senior management; second, the need for transparency with

respect to management succession; third, the need for shareholder involvement in board succession; and fourth, the composition of the group's boards?

- Could they please tell their shareholders who exactly will be conducting this re-examination, how this body's independence will be assured and what outside parties have or will be retained to assist this body?
- When will this body's findings be reported to the group's boards and to its shareholders? Will the group's shareholders be consulted with respect to alternative proposals put forward and, if so, when and in what manner will this consultation take place?

Finally, while we do not wish to be prescriptive about the most appropriate company structure for the Royal Dutch/Shell Group (a task best left to the boards and their professional advisers), we do wish to re-emphasise our belief that fundamental changes are required in the governance of Royal Dutch and Shell Transport, and that we and other shareholders will not be satisfied by compliance with minimal governance standards at the expense of this longer-term objective.

Eric Knight,
Managing Director,
Knight Vinke Asset Management,
New York, NY 10017, US

Ted White,
Director, Corporate Governance,
California Public Employees'
Retirement System (Calpers),
Sacramento, CA 95814, US