



## FREQUENTLY ASKED QUESTIONS (FAQ) ON DUTCH DISTRICT COURT LEGAL CASE

Questions that have been updated since the FAQ was first published on June 4, 2021 are marked with an '\*'.

### Contents

Q1: What was the case about? .....	2
Q2: What legal basis is there for the Dutch Court to make this ruling over Shell and covering “global CO <sub>2</sub> emissions”? .....	2
Q3: What reason did the court give for specifying a net 45% reduction by 2030 as compared to the 2019 level? .....	3
*Q4: What is the scope of the ruling and what does “immediately enforceable” mean? .....	3
Q5: Has the court introduced any financial penalties to enforce compliance with its ruling, especially with regard to it being immediately enforceable? .....	4
*Q6: What is the process for any appeal? .....	4
*Q7: Why appeal when you have said you want to rise to the challenge of the court’s ruling? .....	4
*Q8: What will Shell do now to comply with the ruling? .....	5
Q9: How does the ruling relate to Shell’s Powering Progress strategy? .....	5
Q10: How do Shell’s existing targets compare to the ruling? .....	6
Q11: Why has Shell argued that this court decision will not help address the wider climate challenge? .....	7
*Q12: The court states that Shell needs to do its part even if society/our customers move slower. Does that make sense? .....	8
Q13: Shell has the target to become a net-zero energy business, but the court is demanding faster action. Does that mean Shell has not taken action yet? .....	8



On Wednesday May 26, 2021, the District Court in The Hague delivered its ruling in the climate change case filed against Royal Dutch Shell plc (“Shell”) by Milieudefensie (Friends of the Earth Netherlands), other NGOs and a group of private individuals.

On June 9, 2021, Ben van Beurden published his response to the ruling.

Here we address a number of frequently asked questions, providing an update to the FAQ document first published on June 4, 2021.

## **PART 1: The Milieudefensie case and the court ruling**

### **Q1: What was the case about?**

In their claims, Milieudefensie, six other NGOs and 17,000 individuals sought:

1. A declaration that the current combined annual volume of carbon dioxide (CO<sub>2</sub>) emissions of Shell is unlawful and must be reduced.
2. A declaration and injunctive order (an order that requires a party to do or stop doing a specific action) that Shell reduce the net CO<sub>2</sub> emissions of the Shell group, including the energy products sold, by 2030 as compared to 2019 by 45%, 35% or 25%. “Net CO<sub>2</sub> emissions” means the emissions from our operations and from the fuels and other energy products we sell to our customers, lowered by the emissions that are captured and stored or balanced with offsets, such as planting trees and protecting nature.

While the court found that Shell is not currently acting unlawfully, it ruled that Shell must reduce the CO<sub>2</sub> emissions of Shell group operations and energy-carrying products sold by 45% (net) by the end of 2030 compared to its emissions in 2019.

### **Q2: What legal basis is there for the Dutch Court to make this ruling over Shell and covering “global CO<sub>2</sub> emissions”?**

The Dutch court has jurisdiction over Shell because it is headquartered and has its principal place of business in the Netherlands.

The court based its findings on an unwritten duty of care, or an implicit responsibility to prevent harm, under Dutch law. In addition, the court regarded climate change as a human rights issue and stated it is universally accepted that all companies must respect human rights and must assess any actual or potential negative impacts on human rights from their own activities or as a result of their business relationships. The court said that the consequences of climate change in the Netherlands and the Wadden region (islands and a body of water near the North Sea)



pose a threat to the human rights of Dutch residents and the inhabitants of the Wadden region.

The court refers to worldwide emissions, not only emissions within the Netherlands. The court refers to emissions reduction in absolute terms, not carbon intensity.

The court has ruled that Shell must reduce emissions, but it has made a distinction between different kinds of emissions. First, Shell's direct emissions, also known as "Scope 1". For these emissions, the court has imposed a so-called "obligation of results", which means the predetermined reduction of 45% must be met. For the emissions caused by our energy suppliers ("Scope 2") and the emissions caused by our customers when they use the products we have sold them ("Scope 3"), the court has imposed a "significant best-efforts obligation". The meaning of "significant best efforts" is still being analysed.

Our emissions for Shell operated entities as calculated for the purposes of our annual Sustainability Report for 2019, showed that the Scope 1 emissions were 70 MTPA; our Scope 2 emissions were 10 MTPA<sup>1</sup>. Our Scope 3 emissions, on an equity basis, were 1551 MTPA. More than 90% of our emissions come from the use of the fuels and other energy products we sell.

### **Q3: What reason did the court give for specifying a net 45% reduction by 2030 as compared to the 2019 level?**

The court decided that in order to limit global warming to 1.5 °C, the world should choose reduction pathways that reduce CO<sub>2</sub> emissions by net 45% by 2030 relative to 2010 levels. The court specifically referred to the IPCC, UNEP, Paris Agreement, IEA and other international bodies, agreements and policies. The court chose 2019 rather than 2010 levels as the basis for this decision because Milieudefensie had specifically requested the 2019 date.

### **\* Q4: What is the scope of the ruling and what does "immediately enforceable" mean?**

According to the ruling, the reduction applies to both Shell's own emissions (Scope 1) where the court has imposed an obligation to achieve the specific result of a 45% reduction; and the emissions of our energy suppliers (Scope 2) and customers (Scope 3) for which the court imposed a so-called "significant best-efforts obligation".

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<sup>1</sup> Our Scope 1 emissions for all of our consolidated entities, even those that we do not operate, was 86 MTPA and 9 MTPA for Scope 2.



More than 90% of our emissions come from our customers' use of the fuels and other energy products we sell. This is therefore a far greater challenge because the ruling effectively holds Shell accountable for a global issue requiring action from all quarters. It also sets a target for Shell that exceeds the most ambitious policy pathways set out by governments today.

The court has specifically stated that Shell has the "total freedom to comply with its reduction obligation as it sees fit". The court allows for compensation of CO<sub>2</sub> emissions, for example through carbon capture and storage or nature-based solutions, such as planting trees and protecting nature.

Following a specific request from Milieudefensie, the court ruled that the decision is immediately enforceable against Shell and should not be suspended pending an appeal.

**Q5: Has the court introduced any financial penalties to enforce compliance with its ruling, especially with regard to it being immediately enforceable?**

The court found that Shell is not currently acting unlawfully and there is no ruling on potential liability in relation to future actions. The court did not order any potential sanctions against the company in relation to compliance with the judgment.

**\* Q6: What is the process for any appeal?**

Shell has the option to file an appeal with the Dutch Court of Appeal within three months of the ruling and we have confirmed that we will appeal the District Court ruling. We would expect the appeal to take between 2-3 years. Any appeal in the Netherlands is completely "de novo", which means all issues and evidence can be reheard.

**\* Q7: Why appeal when you have said you want to rise to the challenge of the court's ruling?**

We firmly support the need for more urgent climate action, but effectively addressing the climate challenge requires a different approach. One that is global, collaborative and incentivises all players to act in coordination with each other. We will appeal the ruling because a judgment against Shell will not bring about the fundamental change needed to the whole energy system.



The ruling imposes the equivalent of regulation against one company but without setting the clear policy and regulatory framework that is needed to drive change across the global energy system.

Ambitious policies and fair and equitable legislation are required to enable business and society together to take the steps needed to reduce emissions more quickly and at scale. Policy cannot just focus on the supply of carbon-based energy but must urgently focus on how to deliver fundamental changes in the way we consume energy.

Without collaborative efforts to achieve structural changes in energy demand, and the substitution of carbon-based energy over time, this court order will not support meaningful global emissions reductions. Instead, if it were to lead to reductions in sales without shrinking demand, it risks simply shifting Scope 3 emissions from one supplier to another.

## **PART 2: What the ruling means for Shell's strategy**

### **\* Q8: What will Shell do now to comply with the ruling?**

The court states that by 2030 the Shell group will have to reduce net emissions by 45%. It is up to Shell to decide how to do this. We want to rise to the challenge and accelerate our Powering Progress strategy. This means we will seek ways to reduce emissions in a way that remains purposeful and profitable.

Our intent is to step up and accelerate our transition to net-zero, not only to reduce our own emissions but to effect change in the wider energy system. We want governments to go further and faster as this will allow us to step up and scale-up our low carbon businesses.

### **Q9: How does the ruling relate to Shell's Powering Progress strategy?**

In February 2021, Shell announced its Powering Progress strategy, including our targets to become a net-zero emissions business by 2050, in step with society's progress towards achieving the Paris goal. In our Energy Transition Strategy, published in April 2021, we laid out in detail how we plan on playing a leading role in helping society tackle climate change. This strategy will allow us to transform our business, and requires us to work with our customers, sector by sector, to decarbonise the energy system. As part of this strategy we have set short, medium and long-term carbon targets aimed at providing a roadmap that will allow us to align our business, and our sector with the goals of the Paris agreement. At our Annual General Meeting on May 18 this year, 89% of our shareholders voted in favour of this strategy. Our strategy was published after the hearing, and therefore not taken into consideration in the court's decisions. Our strategy shows that we agree that society needs to take urgent action



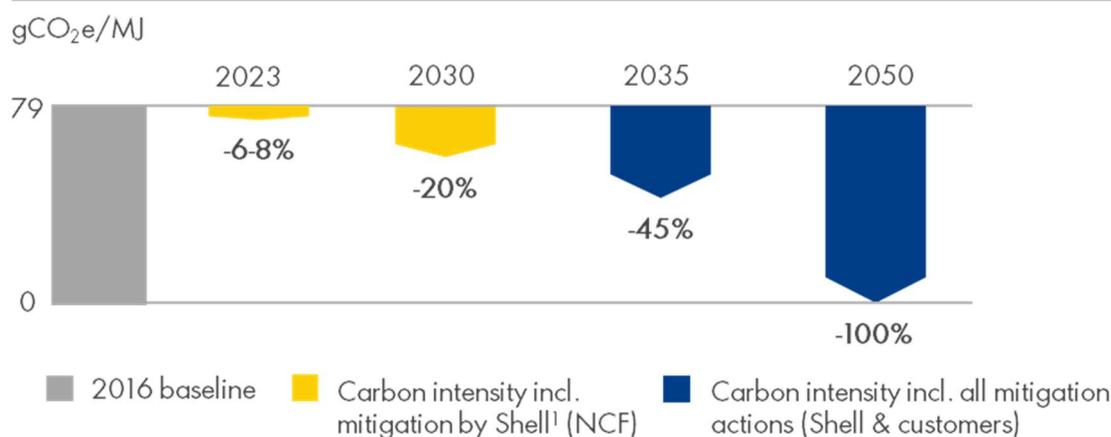
on climate change. It also shows that we are determined to play our part, and how we intend to do this. This is why we are investing billions of dollars in low-carbon energy, including electric-vehicle charging, hydrogen, renewables and biofuels, while continuing to serve our customers with the energy and products they need today. We are investing in our gas business, as natural gas emits between 45% and 55% less emissions than coal when used to generate electricity and less than one-tenth of the air pollutants. This is one of the significant contributions Shell can make to reducing global emissions, where more than 750 million tonnes of CO<sub>2</sub> savings have been achieved as a result of coal-to-gas switching over the last decade.

In parallel we are working with our customers and their sectors to help them find their own pathways to achieve net-zero emissions. We believe this will help grow demand for alternative low-carbon products and allow us to scale up our low-carbon energy businesses even more quickly.

### Q10: How do Shell's existing targets compare to the ruling?

Shell has set a target to become a net-zero emissions energy business by 2050, or sooner, in step with society's progress towards achieving the Paris goal. We believe our total absolute emissions peaked in 2018 and we will bring them down to absolute net-zero by 2050. We have also set short and medium-term targets to reduce the carbon intensity of the energy products we sell. The court ruling is related to the path to net-zero emissions as an agreed end point.

### Reducing the carbon intensity of all energy sold



Our intensity reduction target of 20% by 2030 includes the mitigation by Shell whereas the 45% by 2035 and 100% by 2050 includes all mitigation actions including increased energy



efficiency, carbon storage and any offsets by our customers. In all cases the targets include Scope 1, 2 and 3, which means they include all emissions from the production, processing, transport and use of the energy and energy products we sell. The court has ruled that Shell should achieve a 45% absolute emissions reduction by 2030, which would be a change from an intensity target to an absolute target and an acceleration of our timeline by five years.

We prefer carbon intensity targets to measure our progress because we think they are the clearest way to demonstrate that we are shifting the mix of energy products we provide over time, thereby changing the overall energy system and helping the world achieve net-zero emissions. As well as focusing on our own emissions, we want to help bring down the carbon intensity of the entire energy system by helping our customers decarbonise. This starts with building the infrastructure for zero- and low-carbon energy solutions. When that infrastructure achieves scale, our customers will be able shift to low-carbon energy products and services, and at that time we expect see carbon emissions come down more rapidly. We believe our short, medium and long-term carbon targets provide a clear emissions reduction pathway that is in line with the Paris agreement.

### **Q11: Why has Shell argued that this court decision will not help address the wider climate challenge?**

The energy transition is a challenge for everyone in the world. We do not believe lawsuits against one company will result in changes that help to address climate change. When Shell takes steps to meet an order to reduce emissions, we may sell certain assets or reduce sales in certain sectors; however, the demand for the oil and gas products would remain the same. And other companies would step in to meet that demand. Changing the brand above the fuel pump or selling a processing unit for another company to operate does not address the fundamental task of changing the type of energy the world uses. Most emissions come from the use of fuels and other energy products sold. So, helping our customers to change the type of energy they use stands at the centre of our energy transition strategy. It is where we can help make the biggest difference: by working sector by sector to help grow the demand for low-carbon energy products and services.

An example is the Rotterdam Clean Energy Hub in the Netherlands, which is in development. In Rotterdam, we are planning to build the largest hydrogen plant in the world. In this plant green hydrogen will be produced through electrolysis – a process in which water is split into hydrogen and oxygen using renewable electricity from the Hollandse Kust wind farm. This green hydrogen will go to Shell’s petrochemical plant in Pernis at first, to help lower emissions of our chemicals business. The availability of hydrogen will allow heavy duty transport customers to invest in hydrogen fuelled trucks. In this way, we can help a sector lower its



emissions, and at the same time lower the emissions of the use of the products we sell, or our “Scope 3” emissions.

**\* Q12: The court states that Shell needs to do its part even if society/our customers move slower. Does that make sense?**

We believe the biggest contribution we can make to the overall energy transition is to work with our customers to grow demand for low, or no-carbon products, therefore reducing emissions from the use of our products. But we cannot control our customers’ emissions. So, our strategy is to work, sector by sector, with customers, governments and wider society to establish rapid and realistic ways to get to net-zero.

Globally, we are already investing billions of dollars in lower-carbon energy, including electric vehicle charging, hydrogen, renewables and biofuels. It is important for companies to be “in step” with society – we cannot sell what people don’t want or use and will not buy. Of course, we want to increase the demand for these products and scale up our new energy companies even faster.

**Q13: Shell has the target to become a net-zero energy business, but the court is demanding faster action. Does that mean Shell has not taken action yet?**

On the contrary. In recent years, and even the last few months, we have taken significant steps to accelerate the transition of our business to net-zero emissions, which includes working with our suppliers, customers and other partners in helping to reduce their emissions. To find the solutions the world needs, we continue to engage in dialogue with NGOs, industry partners, governments, academia, shareholders and wider society. Here are some recent decisions and milestones on our journey so far to become a net-zero energy company:

- We have updated our capital allocation and have provided details about how we will increase our investments in our Growth pillar over time. We are shifting capital from our Upstream business to our Transition and Growth businesses. For example, in Upstream we invested around \$10-12 billion per year in the period 2017 to 2019. The outlook is \$7-9 billion per year.
- We are making significant changes to our businesses – especially in Upstream, as well as in Chemicals and Products – and we are growing our Marketing businesses, and building new businesses in Renewables and Energy Solutions. For example, in Q1 2021 we



announced that we had already achieved the divestment target of \$4 billion on average per year. The divestments are all assets in the Upstream and Transition pillars.

- We are reshaping our company. Although the new organisation is smaller and will have lower costs, a key driver for the change was to restructure our company to deliver our updated strategy.
- We are introducing carbon budgets for our businesses to steer decisions that drive down emissions. In this way we will decouple our business growth from carbon growth, transforming what we sell and what we produce. This is an internal process as part of the annual planning process.
- We have changed our staff and executive incentive structures to reflect the importance of carbon management and carbon targets. For example, in 2021, we increased the weighting of the Energy Transition performance metric in the Long-term Incentive Plan (LTIP) from 10% to 20%.
- We are working hard to improve our operational efficiency. For example, we are making good progress on the reduction of methane emissions and routine flaring, and we publish these figures every year in our Annual Report.
- We are working with sectors, governments and policymakers to support the energy transition. We support the Paris Agreement and the global drive to achieve net-zero emissions and are increasingly transparent in our lobbying activities. For example, we published our latest Industry Associations Climate Review in April 2021, extending our coverage to 36 industry associations – selected in collaboration with Climate Action 100+.

### **Key reference materials**

Press release July 20, 2021: <https://shell.com/media/news-and-media-releases/2021/20-july-press-release.html>

Shell Energy Transition: <https://www.shell.com/energy-and-innovation/the-energy-future/shell-energy-transition-strategy.html>

Shell Energy Transition – Frequent Asked Questions:

<https://www.shell.com/investors/investor-presentations/2021-investor-presentations/shell-energy-transition-strategy-2021.html>

Shell Emissions Explainer: [www.shell.com/emissionsexplainer](http://www.shell.com/emissionsexplainer)

**Royal Dutch Shell plc**  
**July 20, 2021**



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## Cautionary Note

The companies in which Royal Dutch Shell plc directly and indirectly owns investments are separate legal entities. In this FAQ “Shell”, “Shell Group” and “Group” are sometimes used for convenience where references are made to Royal Dutch Shell plc and its subsidiaries in general. Likewise, the words “we”, “us” and “our” are also used to refer to Royal Dutch Shell plc and its subsidiaries in general or to those who work for them. These terms are also used where no useful purpose is served by identifying the particular entity or entities. “Subsidiaries”, “Shell subsidiaries” and “Shell companies” as used in this FAQ refer to entities over which Royal Dutch Shell plc either directly or indirectly has control. Entities and unincorporated arrangements over which Shell has joint control are generally referred to as “joint ventures” and “joint operations”, respectively. Entities over which Shell has significant influence but neither control nor joint control are referred to as “associates”. The term “Shell interest” is used for convenience to indicate the direct and/or indirect ownership interest held by Shell in an entity or unincorporated joint arrangement, after exclusion of all third-party interest.

Shell’s operating plan, outlook and budgets are forecasted for a ten-year period and are updated every year. They reflect the current economic environment and what we can reasonably expect to see over the next ten years. Accordingly, Shell’s operating plans, outlooks, budgets and pricing assumptions do not reflect our net-zero emissions target. In the future, as society moves towards net-zero emissions, we expect Shell’s operating plans, outlooks, budgets and pricing assumptions to reflect this movement.

This FAQ contains forward-looking statements (within the meaning of the U.S. Private Securities Litigation Reform Act of 1995) concerning the financial condition, results of operations and businesses of Shell. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. Forward-looking statements are statements of future expectations that are based on management’s current expectations and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in these statements. Forward-looking statements include, among other things, statements concerning the potential exposure of Shell to market risks and statements expressing management’s expectations, beliefs, estimates, forecasts, projections and assumptions. These forward-looking statements are identified by their use of terms and phrases such as “aim”, “ambition”, “anticipate”, “believe”, “could”, “estimate”, “expect”, “goals”, “intend”, “may”, “milestones”, “objectives”, “outlook”, “plan”, “probably”, “project”, “risks”, “schedule”, “seek”, “should”, “target”, “will” and similar terms and phrases. There are a number of factors that could affect the future operations of Shell and could cause those results to differ materially from those expressed in the forward-looking statements included in this FAQ, including (without limitation): (a) price fluctuations in crude oil and natural gas; (b) changes in demand for Shell’s products; (c) currency fluctuations; (d) drilling and production results; (e) reserves estimates; (f) loss of market share and industry competition; (g) environmental and physical risks; (h) risks associated with the identification of suitable potential acquisition properties and targets, and successful negotiation and completion of such transactions; (i)



the risk of doing business in developing countries and countries subject to international sanctions; (j) legislative, fiscal and regulatory developments including regulatory measures addressing climate change; (k) economic and financial market conditions in various countries and regions; (l) political risks, including the risks of expropriation and renegotiation of the terms of contracts with governmental entities, delays or advancements in the approval of projects and delays in the reimbursement for shared costs; (m) risks associated with the impact of pandemics, such as the COVID-19 (coronavirus) outbreak; and (n) changes in trading conditions. No assurance is provided that future dividend payments will match or exceed previous dividend payments. All forward-looking statements contained in this FAQ are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Readers should not place undue reliance on forward-looking statements. Additional risk factors that may affect future results are contained in Royal Dutch Shell plc's Form 20-F for the year ended December 31, 2020 (available at [www.shell.com/investor](http://www.shell.com/investor) and [www.sec.gov](http://www.sec.gov)). These risk factors also expressly qualify all forward-looking statements contained in this FAQ and should be considered by the reader. Each forward-looking statement speaks only as of the date of this FAQ, 20 July 2021. Neither Royal Dutch Shell plc nor any of its subsidiaries undertake any obligation to publicly update or revise any forward-looking statement as a result of new information, future events or other information. In light of these risks, results could differ materially from those stated, implied or inferred from the forward-looking statements contained in this FAQ.

The content of websites referred to in this FAQ do not form part of this FAQ.

We may have used certain terms, such as resources, in this FAQ that the United States Securities and Exchange Commission (SEC) strictly prohibits us from including in our filings with the SEC. Investors are urged to consider closely the disclosure in our Form 20-F, File No 1-32575, available on the SEC website [www.sec.gov](http://www.sec.gov).