October 14th 2020

Shell response to the public consultation on the revision of the Energy Taxation Directive
Shell Companies EU Transparency Register: 05032108616-26

Shell[1] welcomes the EU's Green Deal and supports anchoring the 2050 climate neutrality target in EU legislation through the European Climate Law. The Shell scenario A climate-neutral EU by 2050 explores a possible, but highly demanding pathway to achieve Net Zero Emissions in the EU's energy system by 2050. To accelerate the deployment of low carbon technologies needed to achieve climate neutrality, industry needs clear goals and predictable policies to provide the business case for investment. The revision of the Energy Taxation Directive (ETD) is an opportunity to contribute to this. Energy taxation, via the ETD, is an important element of ensuring a coherent, credible, and cost-effective policy framework to incentivize action to get the EU to net-zero emissions by 2050.

We believe the ETD review should be driven by the following objectives:

- Aligning energy taxation in the EU with the EU Green Deal. This would require the energy taxation framework to be linked to CO2 content to enable lower carbon energies to compete with more CO2 intensive energies.
- Using energy taxation to enable decarbonization, to complement other instruments such us the EU Emissions Trading System (ETS) Directive;
- Ensuring competitiveness of emissions intensive and trade exposed assets whilst driving investment in low carbon technologies.

We would suggest the following principles for consideration for reviewing the ETD:

1. **Ensuring the ETD better reflects the relative emissions intensity of different fuels in transport and heating.**
   Post-review, the ETD should be an instrument that supports CO2 emissions reduction. In its current form, it focuses on energy reduction and energy efficiency, and is less effective in supporting the development, investment in or use of low carbon fuels. In order to support European business as well as European consumers to move to climate neutrality within the timeframe foreseen, the energy tax should be directly linked to the CO2 released at consumption of the fuel. Specifications need to be included in the EU ETD on exactly how the CO2 emission intensity is [to be] determined and exactly how the CO2 emissions are linked to the volume of the fuel. The ETD should specify not only the minimum rates for the energy taxation as it currently does. The revised ETD should equally require that the nominal tax rates set by the member states will only be in alignment with the ETD if the relative difference in the minimum rates (which should be CO2 emissions based) are reflected in the nominal rates of the member states.

2. **Ensure the ETD aligns with various relevant instruments and policies and minimizes overlap.**
   The ETD – post review – should be aligned and avoid overlap with legislation that is instrumental to effectively reduce CO2 emissions in the EU, such as EU ETS, Renewable

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Energy Directive, Energy Efficiency Directive, and vehicle emissions performance standards. This alignment should also include fiscal and trade related directives such as the EU Customs Code as well as the State Aid regulations. The review of State Aid guidelines should be reflected in the ETD post review in the sense that tax rates as well as exemptions and reductions set and agreed in the EU ETD should no longer require additional checks for State Aid concerns.

Carbon pricing should be considered in the ultimate tax burden on the fuel as efficiently as possible. Other instruments [besides tax, whether pricing related, regulations or compensation through other means] may need to be considered to manage that tax burden, in order to ensure that the energy taxation is as simple as possible whilst considering the overall burden for businesses and consumers. This interaction with other instruments will need to be reflected in or referred to in the ETD post review.

3. **Consider and use the potential of the ETD in driving convergence in the price pressure on carbon between sectors covered by the EU ETS and sectors not covered by the EU ETS**
   The ETD should ensure a CO2 related cost is included in energy used in sectors outside the EU ETS. Energy taxation can ensure CO2 cost consideration is included in all sectors, if the ETD review results in linking the minimum and effective energy tax rates to the relative CO2 content of the fuels and energy consumed.

4. **Consider CO2 leakage and ensure a predictable and cost-effective decarbonisation trajectory.**
   Achieving the 2050 NZE goal will take considerable investments as well as cost for energy consumers. The potentially negative impacts of increased (social) cost for energy and CO2 emissions should be considered. This could partly be addressed by ensuring that the ETD becomes as cost-effective as possible, ensuring that any potential for increasing simplicity of the mechanics of the ETD - scope determination, measuring, reporting, collecting and auditing – is considered. Besides alignment with other CO2 emissions reducing instruments, the working of the EU ETD post review needs to avoid a cascading of taxation at various levels of the value chain.
   The ETD should ensure increased costs do not lead to loss of competitiveness for businesses. It will probably also require other, non-ETD instruments to address the potentially increased cost for businesses and consumers.
   As energy technologies are evolving and energy sources become more varied, the ETD should include systems that allow for a flexible but predictable taxation. Special attention should be given to technological innovations of the generation, storage, sinks such as CC(U)S and Nature Based Solutions, and use of new energy sources. Cost effectiveness also requires the ETD to be as fraud proof as possible.

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Cautionary Note:

On March 4, 2020, the EU Commission proposed the European Climate Law that would establish a legally binding target of net-zero greenhouse gas emissions by 2050. Shell strongly supports the proposed European Climate Law and its binding target of net-zero greenhouse gas emissions by 2050.The report called "A climate-neutral EU by 2050", mentioned in this submission, contains an assessment of what we believe may be needed to decarbonise the energy system in order for the EU to meet the proposed target of net-zero greenhouse gas emissions by 2050. This overview is not intended to be proscriptive and there are other pathways for the EU to follow in reaching the target. It is important to note that the suggestions contained in the report are those to be taken by the EU, and not necessarily Shell. While Shell is supportive of the EU target of net-zero greenhouse gas emissions by 2050, our current business plan is not consistent with the proposed EU target. However, as announced on April 16, 2020, Shell aims to be a net-zero emissions energy business by 2050. Accordingly, we expect that over time, our business plan will change as society and our customers move toward meeting the goals of the Paris Agreement. We believe that the proposed European Climate Law is a significant step in this journey.

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This submission 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 Royal Dutch 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 Royal Dutch 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", "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 Royal Dutch Shell and could cause those results to differ materially from those expressed in the forward-looking statements included in this submission, 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 submission 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's Form 20-F for the year ended December 31, 2019 (available at **www.shell.com/investor** and **www.sec.gov**). These risk factors also expressly qualify all forward-looking statements contained in this submission and should be considered by the reader. Each forward-looking statement speaks only as of the date of this submission. 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 submission.