

Shell statement on UK Government consultation: aligning UK international support for the clean energy transition

Shell¹ welcomes the opportunity to comment on the Government's proposed policy around support for overseas fossil fuels activity. We look forward to continuing engagement with the Government to understand the detail and definitions of this policy's implementation.

Shell supports bold action on climate

Shell fully supports the goals of the Paris Agreement and the UK's 2050 net zero emissions (NZE) target. To that end, Shell has set its own climate ambition. We hope that 2021 will see a major step forward in the collective effort to deliver the goals of the Paris Agreement. We wish the British Government success in its Presidency of COP26 and support the UK's strong leadership in the international climate debate. We understand that this will involve moving forward with bold climate and energy policy both at home and overseas, in order credibly to encourage others to raise ambition.

To deliver on net zero, the world needs to reduce significantly the amount of carbon-based energy in the global energy system, while continuing to meet the demand for energy that is expected to grow significantly in the next decades². This whole system transformation will require technological innovation, behaviour change and public policy that enables massive capital investment³. We believe there is a significant economic investment and job creation opportunity for the UK in this transformation, in developing technologies, products and services that can be exported to help other countries decarbonise.

Shell's ambition

Shell will play its role in helping society deliver net zero, in partnership with our customers, sectoral partners and the UK Government. In 2020, we announced our aim to be a net-zero emissions energy business by 2050, or sooner if possible, in step with society.⁴ We recognise that the task that lies ahead of us to meet this ambition is huge. Achieving it will mean reducing the emissions in our own business - both in the UK and abroad - and helping our customers to reduce their emissions by selling more lower-carbon products and helping them find ways to reduce their overall carbon footprint.

Sectoral approach

As we look ahead to COP26 it's clear that the world is not moving fast enough. We believe that, in addition to greater domestic ambition in NDCs, countries and industry need to pursue a series of international sectoral decarbonisation agreements to address energy use alongside energy supply and accelerate the transition to a net-zero carbon economy.

Pursuing sectoral decarbonisation will involve changes to supply chains and distribution networks, to institutions and infrastructure and to the shape of markets and the rules that govern them. It will require coordination by key players and Shell is keen to play our full and active part in supporting appropriate industry action.

¹ In this letter we use the term "Shell" to reference Royal Dutch Shell plc and its subsidiaries in general. The companies in which Royal Dutch Shell plc directly and indirectly owns investments, are separate entities.

² Even assuming significant future energy efficiency gains, global energy demand is expected to grow by 30% between 2015 and 2040, according to the International Energy Agency (IEA) New Policies Scenario.

³ IEA's 2020 Global Energy Outlook estimates global energy investment of \$68 trillion required in next 20 years to accelerate the energy transition and deliver global climate targets.

⁴ It is important to note that as of 8th February, Shell's operating plans and budgets do not reflect Shell's Net-Zero Emissions ambition. Shell's aim is that, in the future, its operating plans and budgets will change to reflect this movement towards its new Net-Zero Emissions ambition. However, these plans and budgets need to be in step with the movement towards a Net Zero Emissions economy within society and among Shell's customers.

Role of oil and gas

As stated above, Shell is working to help significantly reduce the role of carbon-based energies in the energy system in order to deliver on the ambitions of the Paris Agreement.

But even in a net zero world, external scenarios including those of the IPCC, indicate that some oil and gas will remain in the energy mix, especially for hard-to-abate sectors like aviation where low-carbon alternatives are not yet available. That underscores the importance of developing climate mitigations, such as carbon capture & storage and nature-based solutions, to achieve the net zero balance.

We also know that countries will move at different speeds in their energy transitions, depending on their natural resource and stage of development. In many parts of the world, factors such as a growing population and rising living standards will contribute heavily to an increase in energy demand. For some emerging markets, the fundamental challenge of getting access to energy will be a decisive factor in bringing people out of poverty. There may be remote communities who have no alternative but to develop fossil fuels to partner intermittent renewables, or unstable countries which risk collapse without sustainable income from natural resources.

The challenge is to find a way to meet this growing demand whilst ensuring greenhouse gas emissions fall.

UK overseas policy

Understanding that oil and gas will need to remain part of the energy system for some time, we believe that there are cases where the UK should adapt the timeline for part of its proposed policy towards support for oil and gas activity overseas. We believe this can be done in a way that is compatible with high international ambition on climate policy, while maximising the longer-term commercial opportunity stemming from clean growth for British businesses and broader British influence overseas.

We support the ending of Government funding support for overseas oil and gas projects in 2021 and a pivot to a focus on clean growth for trade promotion and diplomatic support.

While many major like-minded governments will align themselves with the UK approach and implement a similar policy regarding trade promotion and diplomatic support, other major powers will not and will instead continue to offer significant overseas incentives for oil and gas projects. We are concerned that an abrupt removal of UK Government engagement in certain markets overseas would result in other non-like-minded governments, with lesser climate ambitions, filling the market gap at lower cost and with higher carbon outcomes. This could result in the diminishing of British influence and a potential step backwards on decarbonisation in those markets.

Accordingly, in some instances, we believe that the ending of diplomatic support for overseas projects should be phased out over a longer period due to these geopolitical circumstances, provided that those projects (1) are competing against non-like-minded national companies, (2) advance the lowest possible carbon intensity, (3) enable those overseas markets to progress concrete, credible energy transitions, and (4) allow British companies to gain stronger footholds to ultimately promote clean energy growth products and services.

While the direct impact of the current UK policy proposal on Shell might be quite modest, we believe the impact of such a precipitous change on British companies in the supply chain could be more serious. The oil & gas/clean technology skills-base and services are highly integrated and increasingly geared towards clean technology. Abruptly removing valuable trade promotion and diplomatic support would put those companies at a competitive disadvantage in overseas markets, potentially damaging their commercial viability, with potential impacts for the UK's core 'net zero' skills base that is so critical to reaching the UK's own climate ambitions

The North Sea Transition Deal currently being negotiated between BEIS and the oil and gas sector in the UK Continental Shelf is a strong exemplar of how to create a bridge for system transition that gives industry a clear destination, with a route-map to guide the way. This model will enable industry to develop critical technologies like carbon capture and storage and clean hydrogen (blue or green), that will not only help the UK to achieve its decarbonisation objectives but also provide opportunities for UK companies to export technologies, products and services.

We are pleased that this policy consultation acknowledges that *“the oil and gas sector has a pivotal contribution to make to the UK’s energy transition, having many of the essential skills and capabilities in its world class supply chain to support the development of emerging clean energy technologies.”* Shell believes that, with the right support, the sector can make comparable contributions to the energy transitions in many other countries. Alongside our commercial activity, over recent years Shell has engaged with many countries, including India, Turkey and Brazil to discuss scenarios and the development of energy transition pathways and the policies needed to implement them.

Shell’s commitment

Shell has greatly valued the UK Government’s support for our international business for many years. It has contributed to our successes, helped create jobs in the UK and abroad, and also helped generate an economic dividend for the Treasury and our UK-based and global shareholders. We look forward to continuing our collaboration in the decades to come, helping to support the Government’s objectives overseas, particularly in accelerating the energy transition.

Shell commits that we will no longer seek diplomatic support from the UK Government for new unabated fossil fuels projects overseas. We also commit to encourage other markets to adopt a similar policy, through our advocacy in organisations like the OECD and B20. However, we have suggested some adjustments to the proposed policy in order better to support the sector in effecting the energy transition and delivering on the Government’s climate agenda.

Shell is fully committed to helping the UK Government and governments overseas meet their net zero targets, and we look forward to deepening our approach in the years to come.