

The EU Climate Law recognises the balance inherent in net-zero through the inclusion of carbon removals to attain and potentially exceed the EU's 2030 greenhouse gas (GHG) emissions reduction target and to meet its 2050 climate neutrality target. Achieving net zero emissions in the EU by 2050 will require aligned policies to guide us towards such an outcome.

Starting with the end in mind of net zero emissions in 2050, we propose a series of steps that will encourage investment in carbon sinks from today onwards. An early milestone will be the creation of a certification process for removals within the EU. Shellⁱ welcomes the initiative of the European Commission to develop such framework by 2023. Verified carbon removal units are needed to limit cumulative GHG emissions and to allow some parts of industry and various energy system services to continue operating past 2050.

Carbon removal certification will need strong governance that ensures high levels of integrity and sustainability as well as accounting; a clearly defined scope for activities and rules on eligibility together with robust monitoring, reporting and validation. Further, nature-based carbon removals should take into account the specific biodiversity and nature conservation benefits of projects and their contribution to local communities. These are also important considerations in creating a sustainable EU bioeconomy.

Once a transparent and robust carbon removal certification framework is in place then trading of such credits would promote significant private investment carbon removal techniques, development and project deployment.

The EU ETS is currently an allowance issuance and surrender system, which points to a change in its structure at some point to reflect the gradual reduction of allowances as the EU advances towards climate neutrality and the need to enable the use of carbon removal units to compensate residual emissions. This would require the introduction of a unit into the EU ETS that represented a ton of carbon dioxide removed from the atmosphere and permanently sequestered. From 2050, when the EU Climate Law requires the EU to achieve net-zero emissions, the EU ETS would then become a system without allowances that managed the balance between remaining emissions and sinks, at least until emissions actually reached zero. Policy makers would need to define the parameters of the unit such that it could be relied upon to provide sufficient volume for the required balance. The units would be made available for sale to emitters from projects that sequestered carbon dioxide. Governments would of course be involved in issuance of units to the sequestration projects against verified permanent storage of carbon dioxide.

A further consideration would be when such a unit is introduced into the EU ETS and how sufficient removal capacity is developed prior to 2050 to ensure there is enough available when net-zero emissions is required. This will be a judgment call arrived at through transition scenario analysis. However, the point in time when the unit will first be needed is not 2050, but when the allowance decline pathway first crosses the actual decline in emissions pathway. The expansion of the ETS introduces more activities that may have remaining emissions in 2050, meaning sink units will become more important.

Up until that point when the allowance decline pathway first crosses the actual decline in emissions, the ETS could be used to support investments in nature without impacting requirements to reduce anthropogenic sources of GHG emissions and without impacting ETS allowance values. The approach

would enable Member States to enhance their natural sinks in line with the 2030 Climate Target Plan through additional private investment at the project-level.

Under this approach, a portion of the annual allowances (EUAs) would be removed from the cap and replaced by an equal number of nature-based rights certificates (NRCs). The quantity of NRCs would relate directly to the collective ambitions of Member States to expand carbon removals through natural sinks. Covered entities under the ETS would have the choice to purchase NRCs at auction and/or EUAs at auction. At the end of the compliance period for every tonne of emissions, emitters would be required to surrender an EUA or else transfer an approved nature-based carbon removal credit along with each NRC held (or else pay a penalty). Importantly, the carbon removals embodied by the nature-based credits would not accrue to the ETS party but to a Member State.

In conclusion, Shell would encourage the Commission to consider the following policy approach in chronological order:

- develop a robust certification framework for carbon removals which ensures a high degree of environmental integrity and drives private investment into projects that help meet the nature carbon sink ambition set out in the European Climate Law;
- pilot, for a limited time, up to the point where allowances decline faster than emissions, a scheme allowing the purchase of NRCs and nature-based carbon removal credits aligned with the EU targets for natural sinks; then
- allow direct ETS compliance in the 2030s through surrender of carbon removal credits within a set limit up to attainment of net zero emissions; and
- sustain carbon removal credit market after the cap has reached zero by 2050.

We appreciate the opportunity to engage in a dialogue on the role of carbon removals in reaching net-zero emissions in the EU and would welcome the opportunity to share our further thinking on this.

¹ The companies in which Royal Dutch Shell plc directly and indirectly owns investments are separate legal entities. In this document “Shell” is 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. 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, in step with society. 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”