



The monitor:

Assessing Shell's progress
in meeting the
Climate Case verdict



milieudefensie
Friends of the Earth Netherlands

“There is a rapidly closing window of opportunity to secure a liveable and sustainable future for all (very high confidence).

The choices and actions implemented in this decade will have impacts now and for thousands of years (high confidence).

Rapid and far-reaching transitions across all sectors and systems are necessary to achieve deep and sustained emissions reductions and secure a liveable and sustainable future for all.”

IPCC Headline Statements from the AR6 Synthesis Report ¹

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Summary

In 2018, Milieudefensie (Friends of the Earth Netherlands) announced it would take legal action against oil and gas giant Shell over its emissions of harmful greenhouse gases. The case launched in 2019. In 2021, the Court ruled in favour of Milieudefensie in this groundbreaking Climate Case, ordering Shell to reduce its CO₂ emissions by net 45% by 2030 relative to 2019. The Court, in its ruling, leaves no doubt that big polluters like Shell have a proportionate responsibility to contribute to limiting dangerous climate change.

Almost two years on, according to Shell itself, the company is well on track to achieve the 'Paris' objectives. Indeed, Shell maintains that, based on its *Powering Progress strategy* that was published after the ruling, the Court would have come to a radically different judgment.

In this report, Milieudefensie checks the facts to see if Shell's new corporate policy does indeed align the company with the Paris Agreement and brings it on course to comply with the ruling in the Climate Case.

Unfortunately, this does not seem to be the case. Rather, it's business as usual for Shell:

Instead of speeding up investments in sustainable alternatives and phasing out the production of oil and gas, the company continues to focus on maintaining society's large-scale and lasting dependence on fossil fuels.

- Shell will continue to invest extensively in existing and new oil and gas projects, in disregard of the fact that, demonstrably, there is no room for this in the carbon budget still available under the Paris Agreement's 1.5°C pathway.
- Only 1.5% of Shell's investments go into renewable energy (wind & solar).

- Shell has no reduction target for 95% of its emissions and as such, according to its own statements, does not expect an emission reduction until 2030.
- Shell is aiming to dilute its average 'carbon intensity' by 2030, simply by adding low-carbon products and services to its (growing) fossil portfolio.
- Shell is heavily committed to carbon capture and storage and "offsetting" CO₂ emissions to protect its oil and gas investments and continues pumping as usual.
- Meanwhile, Shell lobbies intensively – both individually and in conjunction with other large oil and gas companies and their trade associations – to influence climate and energy policy and safeguard its business interests. At the same time, Shell uses smart PR to depict itself as a sustainable leader and frontrunner in the energy transition.

This demonstrates that Shell is not on track to comply with the ruling in the Climate Case. Shell may have revised its corporate policy, but it continues to fail in making an adequate contribution to the global task of staying within the danger limit set in the Paris Agreement.

Table 1

Is Shell acting in line with the verdict and the Paris 1.5 °C scenario?		
<p>New oil and gas extraction</p>		<ul style="list-style-type: none"> ■ Shell's CEO Wael Sawan: 'Cutting oil and gas production is not healthy' ■ Shell invests in new oil and gas fields: 1.5 billion USD/year for new frontier exploration until 2025 ■ Shell's stake in 756 undeveloped oil and gas projects could increase Shell's CO₂ emissions by 4.3 GT: 30 times the annual CO₂ emissions of the Netherlands.
<p>Transition fuels and renewables</p>		<ul style="list-style-type: none"> ■ Shell hangs back on green investments ■ Only 2-4 billion of the 23-27 billion USD that Shell invests in 2023 will go to its Renewables and Energy Solutions division.² ■ According to Shell, low-emission and emission-free activities also include, inter alia, its filling stations (that mainly sell fossil fuels), biofuels with a high carbon footprint and controversial off-setting schemes. Shell even includes the sandwiches it sells at the gas stations in its Energy Transition Spend. ■ In 2021, Shell only spent 1.5% of its total investment expenditure on real renewables (wind & solar). ■ In 2022, Shell spent 2.9 billion USD on wind and solar. This is still a mere 8%.
<p>Absolute emission targets for all scopes</p>		<ul style="list-style-type: none"> ■ Shell wants to cut emissions by 50% for Scope 1 and 2, amounting to a 2.5% reduction of Shell's total emissions. ■ No reduction target for Scope 3 (= 95% of the emissions associated with the Shell Group). ■ Reduction of carbon intensity per unit of energy through carbon credits and nature-based offsetting schemes instead of real emission cuts. ■ Shell's 'average carbon intensity reduction' target of 20% by 2030 will lead to 0% change in Shell's total emissions.³

Is Shell acting in line with the verdict and the Paris 1.5 °C scenario?

Carbon offsetting instead of real reductions



- Shell focuses on carbon capture and storage (CCS) and aims to compensate for 9% of its total emissions per year (120 Megatons CO₂) through nature-based carbon offset projects.
- To mitigate dangerous climate change, greenhouse gas emissions must radically be reduced. Carbon capture and storage and CO₂ compensation schemes are no substitute for the necessary emission cuts.

Transition speed

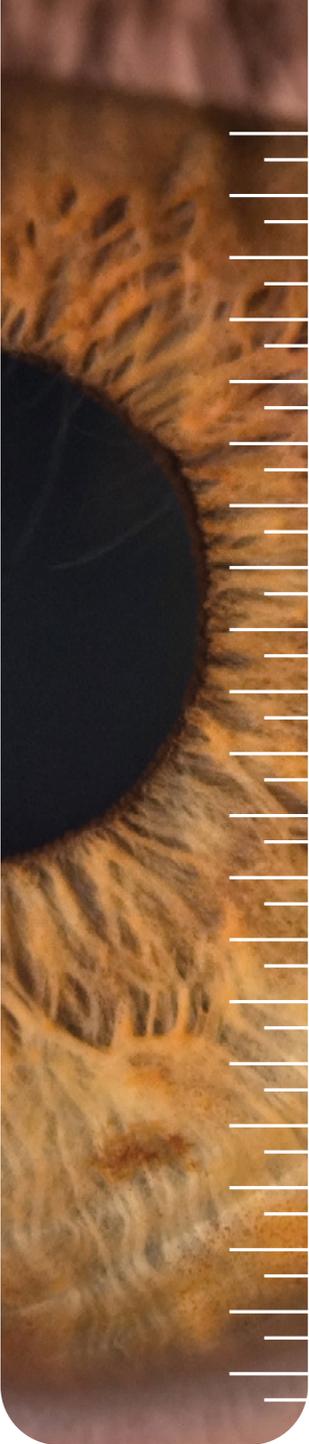


- Shell only wants to execute the energy transition 'in step with the pace and extent of change or customers' and other stakeholders' demand for low carbon products.'⁴
- The ruling in the Climate Case emphasizes that Shell must take more responsibility. The ruling clearly states that Shell 'must do more than monitoring developments in society and complying with the regulations in the countries where the Shell group operates.'⁵ The ruling frowns upon the fact that, currently, '[...] the Shell group's policy [...] shows that the Shell group monitors developments in society and lets states and other parties play a pioneering role.'⁶

Advertising and lobby



- Shell's PR is greenwashing: 70% of Shell's public communication is about 'green' claims related to the energy transition, but only 10% of Shell's investments go to low-carbon investments (in which Shell also includes investments in fossil gas).⁷
- Shell is the 3rd highest spender on lobbying activities in the oil and gas industry.
- Shell lobbies to block, delay and water down climate regulation. Shell also lobbies to promote fossil gas as a fuel for the future.
- Shell spends around 4 - 4.5 million EUR a year on lobbying activities in Brussels.⁸ In the US, Shell spends 7-9 million USD a year on lobbying.⁹
- Shell heavily supports trade organisations that lobby for the interests of the oil and gas industry. For example, Shell funds the American Petroleum Institute (API) with 10-12.5 million USD/year.



Shell's obligations under the Climate Case ruling

In its ruling in the Climate Case against Shell, brought by Milieudefensie et al., the District Court in The Hague ordered Shell to reduce CO₂ emissions by net 45% by 2030 relative to 2019 levels.

The Court imposed on Shell a direct reduction obligation to bring down the emissions of the Shell Group (Scope 1 emissions) and placed Shell under a 'significant best efforts' obligation – meaning that Shell needs to do everything in its power – to reduce the emissions of third parties in its network of suppliers and end-users of its products (Scope 2 and 3 emissions).

The Court recognised Shell as a major global player with a volume of emissions that exceeds those of many countries. Those emissions warm

up the atmosphere and create a future danger for the liveability of our planet. Weighing the risks for the people of the Netherlands and the inhabitants of the Wadden region, the Court ruled that Shell has a proportionate responsibility to bring down emissions to help prevent dangerous climate change.

It is the first time a court has placed such a far-reaching obligation to reduce emissions on a corporation. It represents a new understanding of corporate liability and as such, has implications not just for Shell, but for other large emitters too.

Shell is appealing the ruling, stating that with its goal of being a company with net zero emissions by 2050, it is well on track to meet the 1.5°C scenario. Since the ruling, the company says, it has further tightened its policy to get there. Shell claims that, based on its Powering Progress strategy that was released after the verdict, the judge would have reached a very different conclusion.

But is Shell really on track to achieve the reduction mandated by the Court? Unfortunately, the answer must be that this is not the case.

Shell is no frontrunner

“Shell’s ‘transition strategy’ is a balancing act of allowing slivers of climate action while aggressively protecting its core business”¹⁰

Shell likes to pretend that the company is currently, already more than on track to implement the ruling in the Climate Case. After the ruling, Shell released a new strategy document called Powering Progress, announcing Shell’s ambition to transition to a net zero company in 2050. Shell suggests that if the judge would have been able to consider this document, the Court would have arrived to a different judgement.¹¹ According to Shell, ‘Powering Progress supports the most ambitious goal of the Paris Agreement on climate change to limit the global temperature rise to 1.5°C’.¹²



This report shows that Shell is in fact not aligned with the Paris Climate Goals and knowingly fails to live up to the targets set out in the ruling.

Shell’s CEO Wael Sawan said in a recent interview in the Times: ‘I am of a firm view that the world will need oil and gas for a long time to come. As such, cutting oil and gas production is not healthy.’¹³ And company policy shows that Shell does not intend to reduce but to grow its fossil fuel production.

- Shell plans to continue investing heavily in the continued production of fossil fuels, including in the search for new oil and gas fields.
- The company relies heavily on nature-based solutions and CCS technology and less on actually cutting back oil and gas production and sales.
- In contrast, in 2021 only 1.5% of Shell's investments went into wind and solar.
- Shell is hanging back when it comes to actively reducing emissions. Shell has proposed a 50% emissions reduction by 2030,¹⁴ but this only applies to Shell's Scope 1 and 2 emissions – the emissions associated with its immediate production processes – that account for a mere 5% of the total. Shell's climate policy fails to mention an absolute reduction target for the other 95% – the emissions associated with the use of Shell's products by its customers (Scope 3 emissions).
- Until 2050, *Powering Progress* only sets so-called intensity targets, which means that fossil production and the associated emissions can increase, as long as they are sufficiently diluted by low or no emission products.

- Shell will not be a frontrunner in addressing climate change: it has clearly indicated its intensity targets will depend on the speed with which society takes climate action. If society is slow to transition, then Shell will also reduce its pace.
- Shell is simultaneously gearing up its PR to enhance its reputation, while lobbying to influence climate and energy regulation.

Scope 1, 2 and 3: an explainer

The emissions of companies are divided into 3 scopes. This classification comes from the 1998 Greenhouse Gas Protocol: the global standard for mapping greenhouse gas emissions.

Scope 1 emissions are those directly related to the company's own production process.

Scope 2 comprise a company's indirect emissions: the emissions that occur through the use of purchased energy in the production process.

Scope 3 primarily concerns emissions caused by the use of the company's products after sale. In the case of a company such as Shell, this concerns the emissions associated with the use/combustion of Shell's fossil fuels by customers.

Shell sets no target for 95% of emissions

Despite the Court binding Shell to a ‘significant best efforts’ obligation to bring down emissions associated with the use of its products, Shell continues to refrain from setting an absolute target for these so-called Scope 3 emissions. *Powering Progress* does not mention any reduction ambition for Scope 3, neither in the run-up to 2030 [see table 2]. Also, Shell has

Absolute emissions million tonnes of CO ₂ e					Targets	
Scope	2016	2019	2020	2021	Target 2030	Target 2050
Scope 1	72	70	63	60	50% reduction compared with 2016 levels on a net basis	0
Scope 2	11	10	8	8		0
Scope 3	1,545	1,551	1,305	1,299	No target	0

Table 2:
Shell’s annual report for 2021 does not set a reduction target for scope 3
[*Shell Annual Report 2022, p.97*](#)

not adjusted its expectations about its fossil production in response to the planned halving of Scope 1 and 2 emissions. This suggests that Shell does not intend to produce or sell fewer fossil fuels.

Shell’s latest Energy Transition Report confirms Shell has no intention of setting an absolute Scope 3 emission reduction target: ‘The Board has considered setting a Scope 3 absolute emissions target but has found it would be against the financial interests of our shareholders and would not help to mitigate global warming.’¹⁵ The verdict clearly states Shell needs to reduce the aggregate volume of all emissions, so it cannot just decide to leave 95% out.

Shell’s Annual Report 2022 states that Shell’s Scope 3 emissions have decreased by 24.3% since 2019. These figures only include 4 of the 15 Scope 3 categories, because Shell only reported on 4 of the 15 scope 3 categories recognized under the Greenhouse Gas Protocol.¹⁶ Crucially, the reduction is not a result of an active climate policy, but rather a decline in oil product and gas sales. Hence, the reduction bears no relation to any

climate targets. Furthermore, Shell has made it explicitly clear in its Energy Transitions Report, that it will not be setting an absolute reduction target for its scope 3 emissions any time soon: ‘Shell would, among other things, have to decrease its sales of oil products and gas to reduce its Scope 3 emissions in line with the Follow This resolution. Doing so, without changing demand and the way our customers use energy, would effectively mean handing over customers to competitors. This would materially affect Shell’s financial strength and limits its ability to generate value for shareholders.’¹⁷ And, says Shell, ‘[...] it would also reduce our ability to play an important role in the energy transition by working with customers to reduce their emissions.’¹⁸

Salient fact: after 2035, Shell will include mitigation actions taken separately by its customers in its calculation of net emissions. As Shell says, ‘[...] this is because we expect that customers will need to take action to mitigate their emissions from the use of our products if society is to achieve the goals of the Paris Agreement.’¹⁹

Shell's emissions may rise in the run-up to 2030

Nowhere in *Powering Progress* does Shell formulate a clear objective to actually shrink its emissions until 2030. Shell does talk about interim intensity reductions of 20% by 2030 and 45% by 2035 as 'milestones' on the road to 'net-zero by 2050'. However, these targets do not mean that Shell's total emissions will indeed be reduced by those percentages.

In its annual reports, Shell also fails to give a clear indication of how high the absolute emissions of the Shell Group will be in 2030. In 2021, Shell's then CEO Ben van Beurden even 'clarified' that this is anyone's guess.²⁰ However, Shell provides an annual submission regarding its gross emissions to the Carbon Disclosure Project (CDP). Some digging reveals that Shell's aim to reduce the average carbon intensity by 20% by 2030 will lead to an expected change in Shell's total emissions of precisely 0%.²¹

Shell can juggle figures to obscure what its emissions will do because of the confusion between absolute reduction targets and so-called intensity targets.

Shell CDP Response Climate Change 2021, section C4

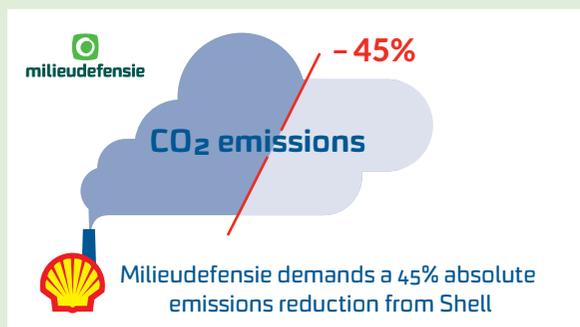
Target reference number <u>Int4 - Net Carbon Footprint (NCF) target 2030</u>	Target year 2030
Year target was set 2021	Targeted reduction form base year (%) 20
Target coverage Company-wide	Intensity figure in target year (metric ton CO₂ per unit of activity) [auto calculated] 63.2
Scope(s) (or Scope 3 category) Scope 1+2 (market based) + 3 (upstream and downstream)	% change anticipated in absolute Scope 1+2 emissions 0
	% change anticipated in absolute Scope 3 emissions 0

Absolute reduction versus intensity target

Shell's reduction figures on the road to 2050 paint a distorted picture: Only if Shell were to shrink its emissions in absolute terms would less CO₂ be sent into the atmosphere. But shrinking emissions implies that less fossil fuels could be produced and sold.

That's a sensitive issue for Shell, so the company has decided to take a different approach: Shell will be reducing its CO₂ emissions per unit of product. This *carbon intensity* is calculated by dividing total emissions by the number of energy units produced. Shell is bringing down its carbon intensity by including more renewable,

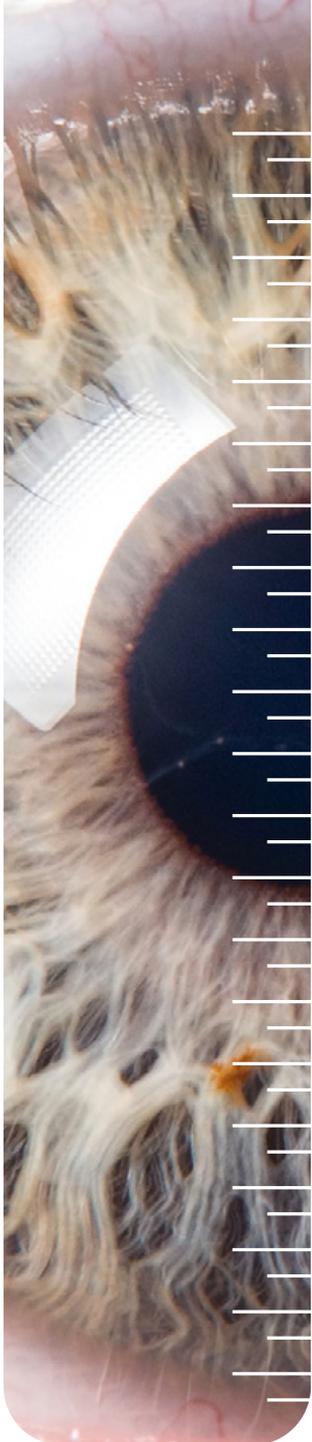
emission-free energy and low-carbon products such as fuels made from biomass in its portfolio of energy products in addition to – and not instead of – the fossil fuels that Shell produces. On paper, this reduces the carbon intensity of the products Shell sells. But in terms of absolute emissions, nothing changes. In fact, in this scenario, actual emissions may increase even as the carbon intensity continues to decrease – as long as one simply keeps adding enough low-emission products to the total energy portfolio to offset them (as illustrated by the image below).



Shell is dragging its heels

Shell has clearly demonstrated its reluctance to put a number on achieving the necessary absolute emission reductions. Shell's management has been rejecting the resolutions of shareholder collective Follow This that calls for absolute emission reductions in line with the Paris Agreement and the shifting of investments from fossil energy to sustainable energy since 2016. According to Shell's management pursuing absolute reductions is commercially unwise²² and not in the interest of Shell and its shareholders.²³ Shell considers the resolutions unnecessary: Shell maintains that with its 'net zero' ambition, its corporate policy is already in line with 'Paris'.

In 2022, almost a year after the ruling in the Climate Case, Shell called it "unrealistic" and "unreasonable" to have one company set targets related to the globally necessary emission reductions.²⁴ Shell has appealed the ruling, holding governments responsible to change the way society consumes energy.



Shell plans large-scale investments in oil and gas

Shell is putting on a sustainable facade by expressing the expectation that its oil production will slowly decline from 2019, by about 1-2% per year.²⁵ However, yields from Shell's existing fields are falling at a much faster rate, by about 5% per year. Therefore, Shell continues to invest in new oil production.

Shell explains in its transition strategy:

"A natural decline in production happens in oil and gas reservoirs at a rate of around 5% a year across the oil and gas industry. It takes constant reinvestment to sustain production and extract resources. Our planned capital investment of 8 billion USD in our Upstream business in the near term is well below the investment level required to offset the natural decline in production of our oil and gas reservoirs, and will not sustain current levels of production."



As a result of this planned level of capital investment, we expect a gradual decline of about 1-2% a year in total oil production through to 2030, including divestments."²⁶

Hence, Shell is putting a lot of money into preventing oil production from falling by more than 1-2%.

More recently, Shell's new CEO, Wael Sawan, indicated that the company may even make a turnaround and abandon its current targets to reduce oil and gas output 'in the interest of energy security'.²⁷ When asked about the firmness of the 1-2% reduction target, Sawan said the target stands 'until advised otherwise'.²⁸

756 potential new projects

As one of the world's largest oil majors, Shell continues to invest in the discovery of new, unexplored oil and gas fields on a large scale.²⁹ The *Powering Progress* strategy allocates 1.5 billion USD per year for such new frontier exploration until 2025.³⁰ Research by Oil Change International (OCI) and Milieudefensie shows that Shell has a stake in 756 oil and gas projects that have not yet been developed. Should Shell develop these assets, OCI estimates this will involve about 4.3 Gt of additional CO₂ emissions (i.e. about 30 times the total annual CO₂ emissions of The Netherlands).³¹

Furthermore, Shell plans to expand the share of gas in its fossil portfolio to about 55% by 2030.³² In 2020, this was 47%.³³

According to research by Global Climate Insights, the intended expansion of Shell's gas activities is expected to increase the Shell Group's total emissions by 3% in 2030 compared to 2019 before CCS and carbon offsets.³⁴

Shell invests in 'dirty' LNG and climate-unfriendly extraction

Significant investments are being made in new gas projects, including in 7 million tonnes of new LNG capacity per year. Shell and other oil and gas companies are promoting LNG as a 'green' fuel. Which is misleading, because on balance, LNG is just about as clean and environmentally friendly as coal.³⁵

Shell also continues to invest in other unconventional and highly polluting and climate-unfriendly ways of extracting oil

and gas, such as the extraction of fossil gas from coal beds, ultra-deepwater extraction of oil and gas and the production of shale oil and gas through fracking.³⁶

A recent probe under the Dutch Open Government Act revealed that Shell's refineries in the Netherlands have a much greater climate impact than those of their competitors, exceeding the EU emission benchmark by 26.3%.³⁷

Meanwhile, scientific research concludes that in a 1.5°C-scenario there is no room for new oil and gas fields or new LNG infrastructure: under the current circumstances 40% of the oil, coal and gas reserves in production or still under development cannot be burned in order to remain within the hazard limit of 1.5°C.³⁸ The IEA-NZE2050 scenario, which is based on assumptions and models favourable to the oil and gas industry, establishes that the current infrastructure will already lead to 30% exceeding the carbon budget that is still available if we want to achieve the Paris targets.³⁹

If we are to have any chance at limiting global warming to 1.5°C, oil and gas production will have to decrease significantly. The Court unequivocally put the compelling need to fight global warming above Shell's commercial interests when it placed Shell under a 45% reduction obligation. The ruling expressly states that this will require 'a change of policy' that may 'curb the potential growth of the Shell group'. The judge was clear: '[...] private companies such as RDS [Royal Dutch Shell] may [...] be required to take drastic measures and make financial sacrifices to limit CO₂ emissions to prevent dangerous climate change.'⁴⁰

However, since the ruling in the Climate Case, Shell has continued to approve new oil and gas production projects.⁴¹ Between 2021 and 2022, Shell has already taken final investment decisions (FIDs) to develop ten new oil and gas extraction assets, committing an additional 900 million barrels of oil equivalent to extraction.⁴²

If Shell had stopped approving such projects after the ruling and immediately ceased construction of infrastructure that was still under development, emissions associated with Shell's own oil and gas production [roughly one third of the Shell group's total emissions; the remaining two thirds comes from third party products sold by Shell] would have automatically decreased by at least 43% or more.⁴⁵

Shell's 2022 Annual Report shows the acquisition of new oil fields and concessions being taken into production in, inter alia, in the Gulf of Mexico and Brazil in 2022. Shell is also investing heavily in Northsea gas production, such as the Jackdaw gas field, which Shell promotes as 'the foundation for investments in the low carbon energy

system of the future'.⁴³ In Australia, Shell is investing in the development of the Crux natural gas field, which will 'help Shell to meet the increasing demand for liquefied natural gas (LNG) as the energy market transitions to a lower carbon future'.⁴⁴ As noted above, LNG is not a sustainable fuel solution.

Shell's marginal green investments

That the *Powering Progress* strategy is not the game changer that Shell likes to pretend it is, is also evident from Shell's investment policy. The cold figures show that Shell does not actively use its investment policy to make a Paris-compliant energy transition possible.

Shell invests only marginally in alternative renewable energy sources. Between 2010 - 2018, only 1.3% of total investments went to its Renewables and Energy Solutions division.⁴⁸ In 2020, Shell allocated 2 billion USD to this, but de facto only invested 0.9 billion USD: less than half of the earmarked amount. In 2021, Shell allocated 2.4 billion USD towards its Renewables and Energy Solutions section, out of a total capital expenditure of 20 billion USD.⁴⁹

Research that looked into Shell's financial flows, published in the renowned scientific journal PLOS ONE,⁴⁶ came to the conclusion that Shell is maintaining "a continuing business model dependence on fossil fuels along with insignificant and opaque spending on clean energy."⁴⁷

The research underlines that although Shell has increased its attention to climate and the energy transition over the past ten years, this has yet to be translated into concrete action.

Shell claims that by 2025, 50% of total expenditure will go towards the energy transition.⁵⁰ This gives a distorted image as, according to Shell, low-emission and emission-free activities⁵¹ also include:

- investments in controversial nature-based projects to “offset” fossil emissions;
- the purchase, production and trading of fossil and renewable electricity;
- investments in CCS technology to advance the fossil business model (regardless of the outcome and feasibility of these CCS projects);
- hydrogen produced with fossil gas;
- biofuels with a high carbon footprint;
- Shell’s *convenience retail business* (i.e., the sandwiches and coffee it sells at its gas stations); and
- the production and sale of *non-energy products*, including chemical products and lubricants.

What stands out is that Shell also includes [investments in] fossil fuels in its Renewables and Energy Solutions. Out of the 2.4 billion USD allocated towards its Renewables and Energy Solutions section in 2021, Shell only

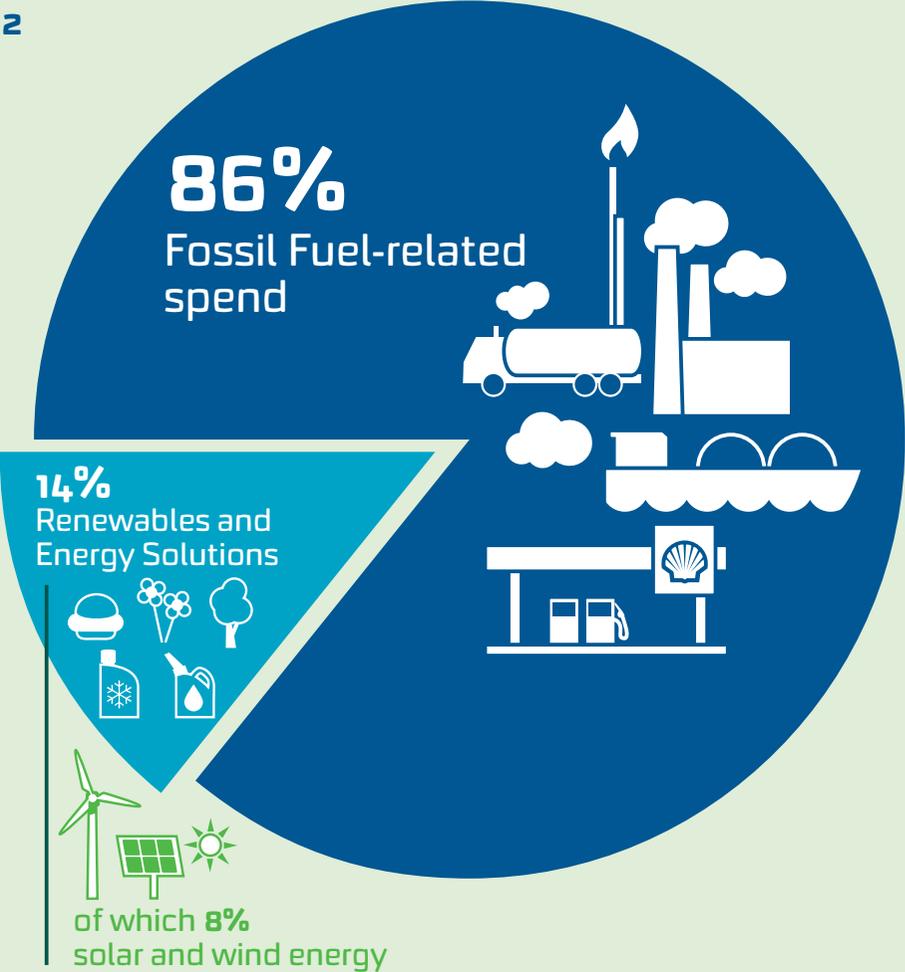
put 288 million USD in 2021 into actual renewable energy such as wind and solar.

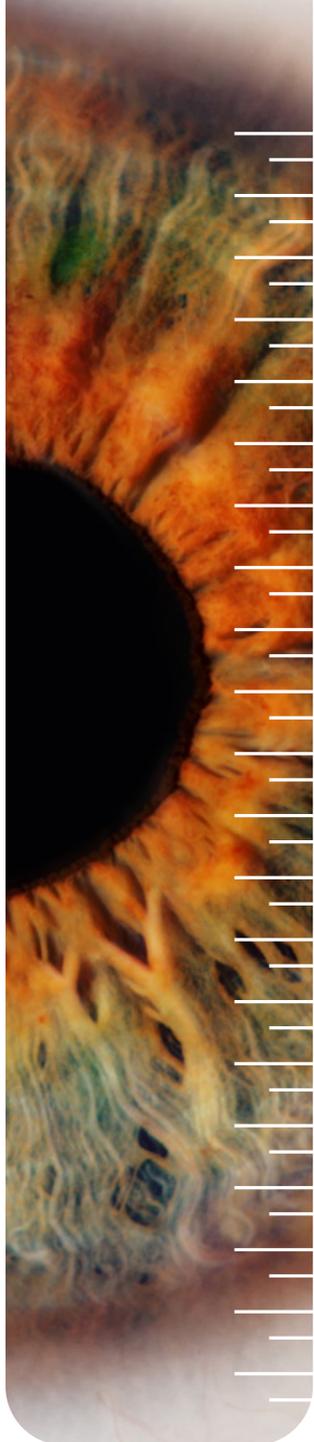
In 2021, the fossil and renewable electricity generated by Shell together had the same CO₂ intensity per MJ /energy as natural gas).⁵² Hydrogen produced with natural gas (methane) is known as ‘grey’ hydrogen. This has a slightly higher carbon footprint than gasoline.⁵³ This hydrogen can turn ‘blue’ when the carbon generated in its production process is captured and stored underground. This does not mean it is carbon neutral: 10-20% of the generated carbon cannot be captured.⁵⁴

In 2022, Shell invested 2.9 billion USD in wind and solar. The bulk of this amount went to the acquisition of the Spring Energy Group in India. Shell writes: ‘The acquisition of Spring Energy group and the associated solar and wind assets triples Shell’s present renewables capacity in operation and helps deliver on Shell’s Powering Progress strategy.’⁵⁵ Although this represents a significant jump in spending, Shell’s capital expenditure on renewables in 2022 amounts to a mere 8% of its total CAPEX. Oil and gas still account for the vast majority of Shell’s investments.

And the picture hardly seems to be improving: Due to the sharp rise in energy prices because of the war in Ukraine, the energy sector is making record profits. Shell announced in early February that it had reached a record profit of 39.9 billion USD for 2022 – double that of the previous year and the highest in its 115 year existence.⁵⁶ However, rather than spending this on accelerating its efforts to address climate change, Shell will distribute this windfall profit to its shareholders⁵⁷ and use it to buy back shares to boost its own share price.⁵⁸ In this way, 26 billion USD were paid out to shareholders in 2022. Meanwhile, there is no increase in Shell’s investments in sustainable alternatives: Only 2-4 billion of the 23-27 billion USD that Shell invests in 2023 will go to its Renewables and Energy Solutions division.⁵⁹ 2 billion USD investments in the Renewables and Energy Solutions division of 27 billion USD total capital investments equals 7.4% of total investment expenditure.⁶⁰

Shell's investments
in 2022



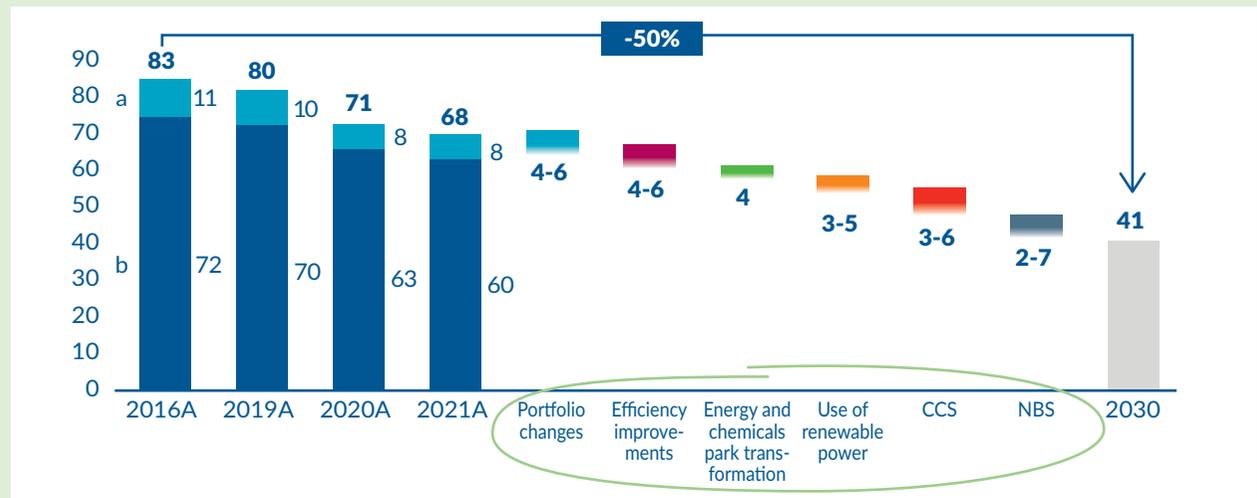


Carbon credits instead of emission reductions

Shell intends to reach the proposed 50% reduction of its Scope 1 and 2 emissions amounting to 2.5% of the total emissions associated with the Shell Group – in large part by (a) carbon capture and storage (CCS) – an

expensive and still experimental technology that may never become available to capture and store CO₂ on a sufficiently large scale; and b) through so-called nature-based solutions (NBS): sequestering CO₂ in natural ecosystems, for example, by planting trees or protecting existing forests. (see graph 1).⁶¹ Carbon offsetting through NBS is one of the main ways in which Shell intends to address the emissions of its customers (Scope 3) – which account for the remaining 95 percent of the emissions associated with the Shell Group.⁶²

Graph 1: How Shell plans to 'decarbonise' Scope 1 and 2



Shell's Energy Transition Progress Report 2021, p.9

Shell uses the possibility of carbon compensation to market fossil products as 'carbon neutral' products, instead of actually reducing its CO₂ emissions. This disregards the fact that compensation only takes place after the emissions have already taken place. Plus, after CO₂ credits have already been issued, the associated stored CO₂ may still be released into the atmosphere at a later date, where it will remain for thousands of years.

Shell aims to offset no less than 120 Megatons of CO₂ emissions per year – or 9% of Shell's total annual emissions⁶³ – by generating carbon credits with nature-based solutions.⁶⁴ Shell is selling its customers a fairytale: an inventory from 2020 showed that only 4% of nature-based carbon offset projects involved actual (re)forestation and less than 5% of offsets actually remove carbon dioxide from the atmosphere.⁶⁵ Shell is aware of the limits of NBS: the company is a participant in the Taskforce on Scaling Voluntary Carbon Markets responsible for making the inventory.⁶⁶

Carbon offsetting cannot substitute reduction

In its 2021 Sustainability Report, Shell has included a disclaimer with which the company clearly admits that “CO₂ compensation is not a substitute for switching to lower emission energy.”⁶⁸ However, this statement is meaningless as long as Shell uses CO₂ offsetting as a substitute for the necessary and far-reaching emission reductions to be achieved by phasing out the use of fossil fuels that are required to stop dangerous climate change.

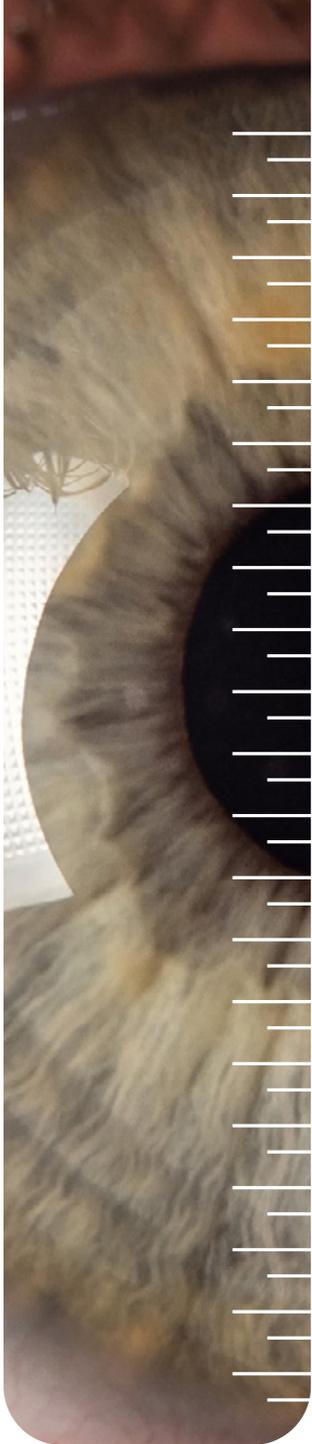
According to the Intergovernmental Panel on Climate Change (IPCC) – the United Nations

“[...] Too many Governments and corporations are hiding behind planting trees and unproven technologies in order to claim that their 2050 climate change plans will achieve net zero emissions.”⁶⁷

Mr Ian Fry, UN Special Rapporteur on Human Rights and the Environment

climate organisation that maps the risks of climate change on a scientific basis,⁶⁹ “it will be essential to radically reduce greenhouse gas emissions, especially those from fossil-fuel burning in the near future” [emphasis added]⁷⁰ and offsetting may only be used for emissions that genuinely cannot be eradicated. Carbon dioxide removal (CDR) cannot be a substitute for the deep emissions reductions that are needed immediately to avoid exceeding the hazard limit of 1.5°C and compensation should not be used as an excuse to simply continue to emit in the same way. This was underscored in the 2015 Paris Agreement and reaffirmed in the 2021 Glasgow Climate Pact.

As far as Milieudefensie is concerned, there is no room for solutions where greenhouse gases are emitted first and (partially) compensated for afterwards. Hence Milieudefensie's request, on appeal, to specify how Shell should deal with CO₂ compensation when interpreting the Court's ruling that obliges Shell to make a proportionate contribution to preventing climate change.



Shell will only move 'in step with society'

According to Shell's calculation method, emissions will only have to reach zero in 2050. On the way there, all options are open. And Shell deliberately wants to preserve that space.

When it comes to climate policy, Shell clearly does not envisage playing a pioneering role in cutting emissions.⁷¹ Shell takes the view that demand must change before supply can change.⁷² In this way, Shell makes its customers responsible for the pace of the energy transition. After all, says Shell, "we cannot move faster than our customers do, or we would have no customers to buy our new products".⁷³ In other words: Shell can and will only shift gears if society moves first. Being 'in step with society' is how Shell has been framing this.

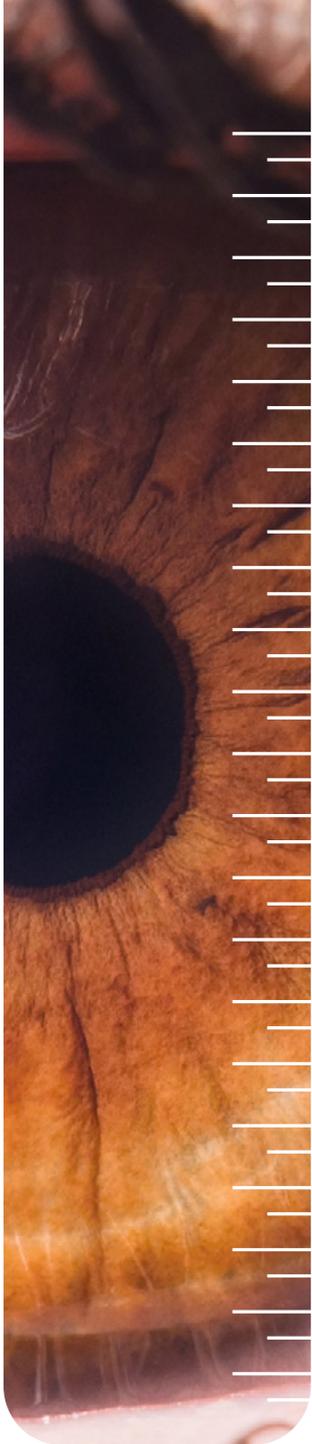
In practice, this means that Shell reserves the right to move more slowly than the climate policy goals and ambitions set out in its own business plans. The Court describes Shell's policy, policy intentions and ambitions as 'untangible, undefined and non-binding plans for the long-term (2050)' and notes that '[...] emission reduction targets for 2030 are lacking completely'.⁷⁴ From the cautionary notes and disclaimers that accompany Shell's policy documents,⁷⁵ the court deduces that Shell 'retains the right to let the Shell group undergo a less rapid energy transition if society were to move slower'.⁷⁶ In other words, Shell can change its plans at any time.

The judge clearly took a dim view of this, underscoring that '[...] there is [...] broad international consensus that each company must independently work towards the goal of net zero emissions by 2050'. The judge went on to say that '[...] due to the compelling interests which are served with the reduction obligation, RDS [Royal Dutch Shell, or Shell plc, as of January 2021⁷⁷] must do its part with respect to the emissions over which it has control and influence.

It is an individual responsibility that falls on RDS, of which much may be expected [...]. Therefore, RDS must do more than monitoring developments in society and complying with the regulations in the countries where the Shell group operates.⁷⁸

In its Annual Report 2022, Shell has abandoned the increasingly controversial 'in-step-with-society' terminology, but not the approach. Shell now says it needs to stay 'in step with the pace and the extent of change or other customers' and other stakeholders' demand for low-carbon products'.⁷⁹ Shell reasons that if it were to move any faster, 'this could adversely affect our reputation and future earnings. If we move much faster than society, we risk investing in technologies, markets or low-carbon products that are unsuccessful. Therefore we cannot transition too quickly or we will be trying to sell products that customers do not want. This could also have a material adverse effect on financial results.'⁸⁰





Stalling climate action: Shell's lobby and PR

Shell knowingly makes the strategic choice to hang back on the Paris climate goals and only accelerate or slow down its climate action 'in step' with the pace at which wider society makes the energy transition.

Shell recognizes that climate change and the associated energy transition constitute a material risk to its business. It seems to manage those risks by, amongst other things, lobbying and PR campaigns.

Pretending to be green

While Shell's policies and capital investments point to the company continuing to boost its fossil business model, Shell spends a lot of money and effort on portraying itself as a green and progressive company. Shell is

waging an ongoing PR offensive aimed at convincing the public, policy-makers and shareholders that Shell is taking the necessary action to contribute to the Paris goal. Shell needs to maintain public trust as loss of its 'social licence-to-operate' can cause serious problems for a company: in response to the growing pressure they feel from society, large investors such as pension funds have already begun to adjust their policies to stop investing in companies that cause climate damage.⁸¹ So naturally, a company like Shell is highly invested in creating a solid 'green' image and is willing to put a lot of money towards this. In an extensive peer-reviewed study into the role of PR companies in climate policy, Shell, with 231 assignments, ranked 2nd out of 25 polluters who have used the services of large PR companies the most.⁸²

Misleading advertising

Advertisements on radio and television, speeches and interviews with Shell executives, sponsorship of cultural and sporting events, online content on Shell's website, content distributed via social media (and other digital media) and advertisements at Shell's global network of petrol stations spread the message, day in and day out, that Shell is a key driver of the energy transition.

Industry associations in which Shell participates also contribute significantly to the continuous promotion of oil and gas companies as socially responsible players in the energy transition.

Shell PR promotes a 'green' image that does not correspond to the corporate policy that is being pursued. 70% of Shell's public communication is about 'green' claims related to the energy transition, but only 8% of Shell's investments went into wind and solar energy.⁸³

Shell's advertising has been classified as misleading on several occasions – including by the Dutch Committee of Advertising Practice (see box 'Shell repeatedly slapped on

Shell repeatedly slapped on the wrist

In 2022 alone, the Dutch Committee of Advertising Practice (RCC) ruled five times that Shell's advertising is misleading the public about the extent of Shell's contribution to the energy transition.⁸⁵ The RCC ruled that Shell is at fault when it presents itself as one of the biggest drivers of the energy transition, while it continues to level up its investments in fossil fuels.⁸⁶

The RCC further slammed Shell for suggesting to customers that they could 'drive CO₂ neutral' with Shell. According to the RCC, Shell cannot demonstrate that CO₂ compensation by protecting forests or planting trees actually and permanently eliminates the climate damage caused by petrol.⁸⁷

Shell has also been internationally criticised for its "Let's Go" campaign promoting natural gas as a clean fossil fuel.⁸⁸

the wrist') – but by then the damage is done: in most cases, the advertising campaign is already over and Shell has reached millions of people every day with the message it wants to convey to the public.

Tellingly, Shell and other large oil and gas companies and their industry associations ramp up their media campaigns when regulatory initiatives on climate change are presented and/or when there is a lot of media attention for climate change.⁸⁴

Shell's fossil lobbying

Shell states on its website that it has 'long been in favour of a healthy government policy to tackle CO₂'.⁸⁹ In public, Shell advocates in favour of climate regulations. In the meantime, behind the scenes, Shell is lobbying both directly and through trade associations to which the company is affiliated to influence climate policy. Shell is bent on avoiding being forced to change at a pace that Shell does not like. Companies such as Shell prefer indirect lobbying, because in this way, they can safely advocate for expansion of oil and gas without being directly exposed to public and political criticism.⁹⁰

In Brussels, where Shell has 18 lobbyists, Shell spends more than 5 million EUR a year on lobbying activities.⁹¹ In the US, Shell spends 7-9 million USD a year on lobbying.⁹² That puts Shell in third place with the highest spending on lobbying activities of the entire oil and gas industry. Shell also invests many millions in trade associations that lobby for the interests of the oil and gas industry.

In Europe, Shell and key trade associations in which it participates have sought to temper Europe's climate ambitions and actively oppose binding European targets for energy efficiency and renewable energy.⁹⁵ At the end of 2015, in the quarter that the Paris Agreement was reached, Shell's US lobbying team had direct involvement in the US emission reduction target and the implementation of President Obama's climate plan.⁹⁶

An important lobbying theme for Shell is the promotion of fossil gas as a fuel for the future⁹⁷ that is necessary for energy security and energy affordability. Shell is currently using the war in Ukraine and the energy crisis to emphasize the importance of new oil and gas projects outside Russia⁹⁸ in the context of a stable domestic energy supply.⁹⁹ Meanwhile, and despite realising unprecedented profits in 2022, Shell has opted to flatline its spending on renewables in 2023.¹⁰⁰

Lobbying by proxy

Shell supports the American Petroleum Institute (API) – the largest US trade association for the oil and gas industry – with 10 – 12.5 million USD every year. Another 1 – 2.5 million USD annually

goes to the US Chamber of Commerce. Shell is a member of the board of both organisations,⁹³ which are notorious for their disastrous influence on U.S. climate policy.⁹⁴

Conclusion

The ability to limit global warming to 1.5 °C depends on the rapid phasing out of fossil fuels and the scaling up of sustainable alternatives. Recognising the fact that Shell's emissions exceed those of many countries, the District Court of The Hague has ordered Shell to make a proportional contribution to the global task of limiting greenhouse gas emissions into the atmosphere.

Shell must reduce its net emissions by 45% by 2030 compared to 2019 levels. According to the Court, this requires immediate action by Shell and may mean that new investments in the extraction of fossil resources are canceled and/or its production of fossil resources must be limited.¹⁰¹

This report makes it clear that Shell is taking a very different view of what is needed to live up to the court's ruling. Analysis of Shell's policy show that Shell's CO₂ emissions are unlikely to decrease and may even increase before 2030. Shell – despite its claims to the contrary – is not on track to comply with the Court's ruling in the Climate Case brought by Milieudefensie.

In *Powering Progress*, its latest policy document, Shell underscores it reserves the right to further increase its emissions in the run-up to 2030 and beyond. The focus is not on reducing its oil and gas sales and (accelerating) the expansion of sustainable alternatives. Instead, Shell will primarily offer more compensation for its fossil fuel emissions as part of its transition policy.

Shell's plans show that, in the coming years, the company will continue to invest on a large scale in its oil and gas activities, including in new oil and gas fields. Shell disregards that such investments do not fit within the still available carbon budget to maintain a 50% chance of preventing dangerous climate change.



Shell relies heavily on the possibility of CO₂ compensation, despite its acknowledgment that this cannot substitute for actual emission reductions. As Shell says: “CO₂ compensation does not imply that there is no environmental impact from the production and use of the product as associated emissions remain in the atmosphere. CO₂ compensation is not a substitute for switching to lower emission energy.”¹⁰²

Shell sets no targets to bring down the overall volume of its emissions but proposes instead to bring down the CO₂ intensity of its products. This is a paper tiger: as long as there is sufficient compensation in the form of clean(er) energy and CO₂ storage, the amount of CO₂ per unit of energy will proportionally decrease – even as absolute emission volumes may continue to increase. According to this calculation method, Shell's self-proclaimed 'net zero' target will only effectively equal zero emissions by 2050.



Most crucially, Shell does not include any concrete objectives in its policy to reduce the size of the Scope 3 emissions that account for 95% of Shell's total emissions.

Also, the astronomical profits that Shell is currently making as a result of the energy crisis are not being used to accelerate the energy transition – a missed opportunity.

Shell glosses over the fact that no effective climate effort is being made through massive spending on PR and lobbying activities, including through the hundreds of industry associations worldwide of which Shell and its industry peers are members.

Shell not only plays on public opinion by presenting itself as a key driver of the sustainable energy transition – in a way that has repeatedly been condemned as misleading by advertising watchdogs in various countries – but also knows how to successfully deploy its lobbying power to influence climate policy.

Powering Progress, Shell's new forward-looking transition policy, does not change that Shell continues to slow down the energy transition by significantly contributing to society's on-going dependence on fossil fuels. Shell's CEO's recent statement that 'cutting oil and gas production is not healthy' further indicates that Shell is moving counter to the energy transition that is necessary to prevent dangerous climate change – with the aim of maintaining its own revenue model based on fossil fuels for as long as possible and avoiding having to speed up its fossil phase-out.

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