Shell welcomes the opportunity to share our views on the EU 2040 climate target. Our recently released Energy Security Scenarios show that if the EU is to achieve net-zero emissions by 2050, **deep decarbonisation needs to be achieved by 2040**. Policies must enable industry to scale, distribute and use low carbon and renewable energies to help meet this level of transformation in the energy system.

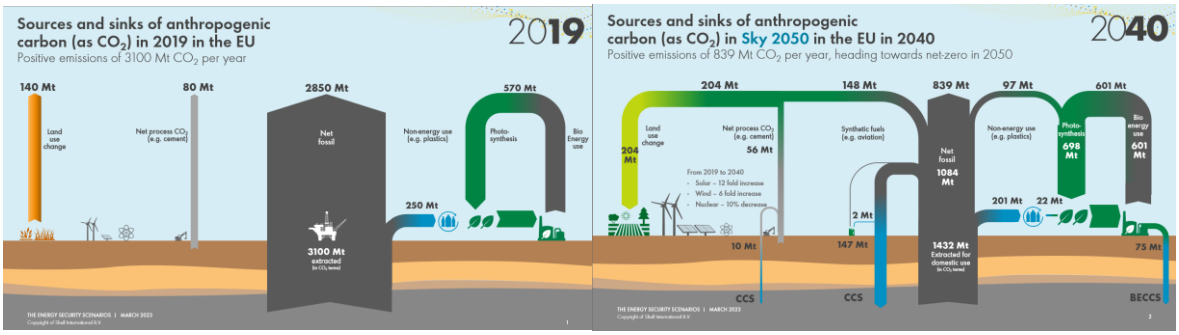
The Energy Security Scenarios consist of two scenarios called Archipelagos and Sky 2050. They explore how the world could possibly evolve under different sets of assumptions. Scenarios are intended as an aid to making better decisions. They stretch minds, broaden horizons and explore assumptions. They are informed by data, constructed using models and contain insights from leading experts in the relevant fields. They are not predictions or expectations of what will happen, or even what will probably happen. Scenarios are possible worlds built from incomplete and uncertain information.

Shell's Archipelagos scenario seeks to follow a possible path from where the world was in 2022, while Sky 2050 takes a normative approach that starts with a desired outcome and works backwards to explore how that outcome could be achieved. In the case of Sky 2050, the future is a world that achieves two key things: net-zero emissions by 2050 and global warming limited to 1.5°C by the end of the century. It does so through mutual interest driven competitiveness, moving away from protectionist sentiment. In Archipelagos, the security mindset that is dominant today becomes entrenched worldwide. Global sentiment shifts away from managing emissions and towards energy security.

In line with the EU Climate Law's objective to achieve net-zero emissions (NZE) by 2050, we have used the Sky 2050 scenario to inform our response to an EU 2040 climate target. In Sky 2050, the EU would reduce its CO_2 emissions by 78% by 2040 against 1990. The EU, in this scenario, by 2040, would have more than 2000 GW of installed renewable capacity; 42% of all energy consumed in the EU would come from electricity (vs. 20% in 2019) of which 80% would be generated from renewable sources of energy; biofuels use in the EU would increase by more than 60% to support the energy transition in harder to decarbonise sectors (aviation, freight road) – whilst the use of traditional biomass (fuelwood, charcoal, dung) would halve vs 2019. Hydrogen would emerge as a material end use fuel in industrial facilities in the EU towards 2040, with 95% of hydrogen coming from non-fossil sources of energy; 66% of all passenger kilometres in the EU would drive on electricity.

These 2040 numbers are only a snapshot of the transformation of the energy system that would be required for the EU to achieve NZE by 2050 (for more details, refer to our Energy Security Scenarios). The investment framework to achieve the levels of innovation and technology roll-out required by 2040 to achieve NZE 2050 will be set in this decade. Key will be the **swift and effective implementation of the Fit for 55** policy measures across all Member States with a strong focus on **de-risking investment** into low-carbon and renewable energy solutions, ensuring a business case for decarbonisation projects at commercial scale and **a just transition**. Fit for 55 has set the EU on a path towards NZE by 2050, and in the 2030s the key focus should be on ensuring demand and supply side measures build on and continue to deliver against the goals of the EU Climate Law at scale.

Graph 1: Sources and sinks of anthropogenic carbon in 2019 and 2040 (Sky 2050 scenario, Shell Energy Security Scenarios)



Below we provide a view on how this could be approached for different sectors.

Industry

For the EU to achieve NZE 2050, our Sky 2050 scenario indicates that less than 50% of the energy consumed in the industrial sector would come from fossil fuels by 2040. Industry CO_2 emissions would fall by 66% against 2019 by 2040, according to our Sky 2050 scenario. The main levers to achieve this would be be the uptake of hydrogen and electrification, energy efficiency measures, investing in circularity, as well as large-scale deployment of carbon capture and storage (CCS). 220 million tonnes of CO_2 would be captured annually in the EU by 2040 in our Sky 2050 scenario.

Bold, sizeable, and efficient policy interventions need to de-risk investment into the decarbonisation of EU industry and set industry on a path now to transform in line with NZE 2050. In addition to carbon pricing and industry targets for renewables and Renewable Fuels of Non-Biological Origin (RFNBOs), which we support as they will help create demand markets, further policy intervention is required to reduce the Green Premium of low-carbon and renewable energy solutions and to ensure they are scaled up in time for 2040 (e.g. for floating offshore wind).

Instruments such as credit and loan guarantees, (carbon) contracts for difference, as well as public procurement programs, will all serve **to lower investment risks by reducing costs and increasing certainty**. Many of these incentives exist in the EU but are arguably dispersed and difficult to access due to complexity of the EU funding landscape. Policymakers have the opportunity to **incentivise and crowd-in more private investment** through improved access to financial incentives including better information availability. These should be embedded in a swift, pragmatic, and harmonious implementation of the FF55 across all Member States. This should include simplified **permitting** for net-zero technologies and infrastructure across all parts of the value chains to help create markets at a price point that consumers accept.

To unlock investments in electrification, it will be important to maintain merchant signals in the EU power market and to promote system integration through tender reform. Member States should implement the provisions in Renewable Energy Directive (RED) III to accelerate planning and permitting. Incentivising flexibility and energy system integration, including demand response, as the penetration of renewables increases will be fundamental to better integrate renewables in the energy grid, for example through a European model for capacity markets.

Competitively decarbonising EU industries also requires a **level playing field with the rest of the world** to avoid carbon leakage and maintain strategic industries in Europe. This is particularly important in the face of comparatively high energy costs and labour costs in Europe, as well as investment incentives offered by the US Inflation Reduction Act and other subsidy packages in third countries. Creating a level playing fieldis will need to be approached through a range of measures, including deepened cooperation with trade partners to agree common standards, definitions and specifications for key technologies (e.g. hydrogen) and an extension of the carbon border adjustment mechanism (CBAM) to other carbon leakage exposed sectors, rooted in appropriate methodologies. Growing global demand for net-zero technologies could become an opportunity to also drive capacity additions in clean tech in Europe but will require a concerted effort to attract and maintain investment in the EU vis-a-vis the rest of the world, given increased competitions for skills, technology and raw materials.
We would caution against underestimating the complexity of today's supply chains network. It is key to ensure energy transition policy measures don't choke well-performing global supply chains, especially when that value chain would take years to build.

Critically, decarbonisation of all economic sectors will require greater **public investment in infrastructure**, such as grids and pipelines for the transport of hydrogen and CO_2. Using public finance resources to invest in infrastructure and efficiency delivers some of the largest economic multipliers. For example, anticipatory infrastructure rollout and capacity upgrade of the power grid, both onshore and offshore, is needed to ensure

consumers can access cheapest power and intermittent renewables can be balanced over greater geographical areas. Better regional cooperation, including regulatory changes to EU interconnector policy, are also needed to enable cross-border hybrid interconnected projects. Given the emphasis on CCS and hydrogen as strategic technology pathways for industry, decommissioning of oil and gas facilities for repurposing into CCS, hydrogen or alternative energy transition technologies should be considered.

Removing barriers to onsite generation (including facilitation to sell power back to the grid) and longer term **Power Purchase Agreements** (PPAs) would help increase corporate demand for renewables. Critical to the uptake of PPAs is to (i) ensure all renewable generation (including subsidized one) receives Guarantees of Origins necessary to track and trade renewable power cross-border; (ii) transmission capacity and access is made available for longer tenures and on a standardized basis, thereby enabling PPAs of longer duration.

As we approach 2040 and the cap of the Emissions Trading System (ETS) under the current Linear Reduction Factor is set to reach zero, we believe **carbon pricing should continue to apply**, including for industry, to drive investments in low-carbon energy solutions. With an eye on remaining hard-to-abate emissions in 2040 and beyond, as well as the aim to build a net negative emissions market in the future, a **gradual and measured phase-in of high-quality carbon removals into the ETS** should be considered as soon as practicable, ideally starting in 2030, to support investment signals and incentives to scale up carbon removal deployment. Building on the EU Carbon Removal Certification Framework, carbon pricing should be leveraged to drive investments into engineered removals such as direct air capture with permanent storage (DACCS) or bioenergy carbon capture and storage (BECCS), as a complement to emissions reductions. Trading of carbon removal units under the auspices of the UN can lead to investment in large scale cross-border investments. Use of Article 6 of the Paris Agreement can enable cost reductions for lowering emissions via carbon trading between nations.

Road transport

To support the journey to carbon neutrality to 2050 in road transport, critical enablers must be put in place to support Zero Emissions Vehicles (ZEVs). Our Sky 2050 scenario anticipates that 66% of all passenger kilometres in the EU would drive on electricity by 2040. We have supported the ban on the sale of new petrol and diesel cars and vans in the EU from 2035 onwards, as a clear signal to the market that the EU is serious about the transition to battery electric vehicles (BEVS). For BEVs an expanded, robust, and forward-looking road transport electrification ecosystem must be developed to achieve expected charging demand in road transport to 2040. This would require **forward looking investment in capacity build out and power output** (particularly in locations where high-power output is required, such as along the TENT-T network or at truck charging locations), as well as **accelerated connection timelines for grid connection requests** (e.g. through standardized timelines based on power output requests per location) and simplified **permitting** procedures (i.e. harmonization within and across Member States).

Investment confidence requires that **the ZEV supply chain is robust,** such as the sustainability of critical materials. To ensure the affordability of ZEVs, policies which support lowering the total cost of ownership of ZEVs, particularly heavy-duty vehicles (HDV), can help enable cost parity between ZEVs and fossil fuelled internal combustion engines (ICEs) through the 2030s. In addition, **enabling smart energy management and vehicle-to-grid technology** to fully exploit the benefits of smart and bi-directional charging technologies and demand-side flexibility will be needed. Customer incentives for the use of smart charging services, provisions **promoting the use of energy management technology** in private charging locations and some public charging locations and adjustments to avoid double taxation of e-mobility loads could further promote the uptake of these technologies, including vehicle-to-grid, in an economical way.

By 2040, 26% of all energy consumed by heavy vehicles (trucks) would come from either electricity or hydrogen under the Sky 2050 scenario. There will still be vehicles running on sustainably produced renewable liquids and gases. Biogas, available now and currently contributing to decarbonisation of heavy-duty transport, will continue

to play an important role through the 2030s. RFNBOs (such as renewable hydrogen) will also play an emergent role in decarbonizing long distance road transport across the EU as total cost of ownership decreases and as HDV CO_2 standards increase. An **integrated EU market with a single mass balance approach over an interconnected cross-border gas grid would enable large scale penetration** of biogas and gaseous RFNBOs and their uptake in heavy-duty transport and maritime, as enabled by a robust Union Database.

As Zero Emissions Vehicles (ZEVs) gain traction, maintaining certain and sustainable supply of feedstock will ensure the ongoing availability of advanced renewable bioliquid and biogas molecules in the transportation sector. This will require feedstock flexibility, including allowing crops from degraded or polluted land, cover crops, novel crops, and municipal solid waste, as well as recycled carbon to be used as feedstocks, provided they meet sustainability criteria. Sustainability standards must cover the full supply chain, be specific to each type of biomass, and be concrete enough to enable effective implementation and enforcement. As a complement to CO_2 standards for vehicles, **life cycle analysis greenhouse gas approaches related to CO_2 vehicle emissions should be developed for each power train and energy source in use**. Sectorial measures which continue to ensure customers, OEMs, fuel suppliers and infrastructure are aligned in ambition and demonstrate synchronised progression will continue to be essential.

Aviation

The implementation of ReFuelEU Aviation provides a clear set of standards and demand certainty when it comes to Sustainable Aviation Fuels (SAF) through the establishing of supply obligations; however, several barriers remain to enable its scale up. Uncertainty around SAF production economics, primarily the price and cost of the fuel, impedes investment in production as returns are unpredictable. We believe a set of incentive policy measures, ranging from tax credits to price stability mechanisms such as Contracts for Difference (CfDs), can work alongside the existing mandates and a range of funding sources to provide capital investment in production, and are essential in the time period through to 2040, stimulating capacity growth through increasing certainty of production economics, as SAF scales up.

Maritime

International shipping volumes will see global volumes increase in the coming decades, as one of the most cost-efficient means of transport. Current estimates indicate global shipping emissions are at the order of 1.1bt CO_2e and could grow in the order of 10% by 2040.[1] EU greenhouse gas emissions (GHG) from shipping account for approximately 15% of global total.

The international nature of shipping, and the relatively small component that the EU represents, underlines the **importance of a global approach** to decarbonisation. The International Maritime Organisation (IMO) has been mandated to develop international regulations for this purpose. Therefore, there will need to be a careful balance in how the EU aligns with the IMO legislative frameworks to cost-effectively drive global decarbonisation. The EU is a major shipping destination and visiting vessels can bunker globally. Currently the EU is a competitive bunkering location. EU actions should support maintaining this competitive advantage through a coherent application of supply and demand side legislation that matches supply of renewable fuels with demand.

The EU is already proposing shipping decarbonisation targets for 2040, with FuelEU Maritime setting a trajectory for fuel decarbonization, which includes a carbon intensity reduction of 38% by 2040. In addition, the EU has proposed a decarbonisation trajectory for the IMO with a total GHG reduction from international shipping of 83% by 2040.[2] The focus now should be on incentives to **support the changes required in the fuel supply systems**. This should consider support through funding of renewable energy production using Contracts for Difference (CfD) and similar financial tools to de-risk the scale of investments needed.

[1] 2018 Ref IMO 2020 Fourth Greenhouse Gas Study 2020 (imo.org) (last accessed 16 June 2023)
[2] Ref paper: IMO ISWG-GHG 15/2/2 IMO Web Accounts (last accessed 16 June 2023)

In the 2020s and early 2030s there will still be a limited supply of renewable fuels of RFNBOs to shipping and biofuels will be the main option to significantly reduce the carbon intensity of fuels. In the near-term, policies will be needed to support the development and scaling of biofuels supply, including exploring the potential to redirect biofuels that have been displaced from other sectors to shipping. This needs to include effective **application of mass balancing/book and claim to support the scaling of fuels sources from within and outside the EU.**

Hydrogen based fuels (RFNBO) will be required to decarbonise shipping by 2050 and it is expected that building and scaling production and supply chains could take in the order of ten years. Therefore, there needs to be support to de-risk the required scale of investment into the production of RFNBO in the near term to ensure they are available in the market at scale in the later 2030s and 2040s.

We see that electrification of vessels is a viable decarbonisation option for certain segments. This is likely to expand as battery and energy management technologies develop. Pure battery vessels are most likely to remain limited to shorter haul in the 2040s. However, with requirements to utilise onshore power and the adoption of hybrid technologies, shipping needs to be included in the transport sectors initiatives that support the adoption of electrification, e.g. for ports to deliver the scale of electric power required from shipping demand and their own operations. As supply and demand for electrification of vessels is located in the EU, we think it makes sense for the EU to regulate uptake across segments and also domestic shipping / inland waterways.

Besides fuels and energy supply, energy efficiency gains and alternative power sources will be critical enablers. Therefore, it will be necessary to provide support to fast track the deployment and showcase their feasibility to the market.

In conclusion, achieving a 2040 target that aligns with the trajectory of net-zero emissions in the EU by 2050 requires a deep transformation of the energy system. Although achieving the goal of the Paris Agreement and the future depicted in Sky 2050, while maintaining a growing global economy, will be extremely challenging, today there is still a technically possible pathway to accomplish it. However, we believe the window for success is quickly closing. In the EU, it will necessitate the pragmatic and swift implementation of demand and supply side policies, accompanied by growing investments in infrastructure and skills.

To ensure success, it is crucial to de-risk investments by establishing regulatory certainty and implementing policies that encourage early adopters. This will help reduce the green premium, enabling Europe to effectively scale up its clean tech capacities and expedite their roll out in the industry, transport and building sectors. This should also include encouraging greater investments into carbon removals technologies. The Sky 2050 scenario shows that industry and transport would require carbon removal capacity for remaining fossil fuel usage, both in 2040 and 2050, to achieve NZE.

Maintaining an international perspective when advancing EU climate policies is critical. Not only to ensure the competitiveness of EU industries but also to meet NZE globally and to maintain societal support. We encourage EU policymakers to deepen their focus on international climate action. This can be achieved by promoting common standards in clean tech and consistently pushing for global alignment on climate action in line with the ambitions of the Paris Agreement. Key sectors, such as maritime and aviation, as well as globally traded products like refining and chemicals, should be specifically addressed.

The aim should be to accelerate the EU's transition towards a sustainable and low-carbon future in line with NZE 2050, contributing to the global efforts to combat climate change, whilst ensuring affordable access to energy for all.

Cautionary Note

WARNING - UNCERTAINTIES AHEAD: Shell's scenarios are not intended to be projections or forecasts of the future. Shell's scenarios, including the scenarios contained in this content, are not Shell's strategy or business plan. They are designed to stretch management to consider even events that may only be remotely possible. Scenarios, therefore, are not intended to be predictions of likely future events or outcomes and investors should not rely on them when making an investment decision with regard to Shell plc securities When developing Shell's strategy, our scenarios are one of many variables that we consider. Ultimately, whether society meets its goal to decarbonise is not within Shell's control, only governments can create the framework necessary for society to meet the Paris Agreement's goals. The Sky 2050 scenario is a normative scenario, which means we assume that society meets the most ambitious goal of the Paris agreement: limiting the increase in global average temperatures to 1.5°C above pre-industrial levels this century and then we work back in presenting how this may occur. Our assumptions, for the Sky 2050 are based on what we believe are technically possible as of today and not necessarily plausible. Our Archipelagos scenario is an explorative scenario, which means we do not assume the final outcome rather we use plausible assumptions based on the data to determine what we believe will occur in the future. Of course, there is a range of possible paths in detail that society could take to achieve this goal. Although achieving the goal of the Paris Agreement and the future depicted in Sky 2050 while maintaining a growing global economy will be extremely challenging, today there is still a technically possible path. However, we believe the window for success is quickly closing.

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Shell's net carbon intensity

Also, in this document we may refer to Shell's "Net Carbon Intensity", which includes Shell's carbon emissions from the production of our energy products, our suppliers' carbon emissions in supplying energy for that production and our customers' carbon emissions associated with their use of the energy products we sell. Shell only controls its own emissions. The use of the term Shell's "Net Carbon Intensity" is for convenience only and not intended to suggest these emissions are those of Shell plc or its subsidiaries.

Shell's net-Zero Emissions Target

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, they reflect our Scope 1, Scope 2 and Net Carbon Intensity (NCI) targets over the next ten years. However, Shell's operating plans cannot reflect our 2050 net-zero emissions target and 2035 NCI target, as these targets are currently outside our planning period. In the future, as society moves towards net-zero emissions, we expect Shell's operating plans to reflect this movement. However, if society is not net zero in 2050, as of today, there would be significant risk that Shell may not meet this target.

Forward Looking Non-GAAP measures

This document may contain certain forward-looking non-GAAP measures such as cash capital expenditure and divestments. We are unable to provide a reconciliation of these forward-looking Non-GAAP measures to the most comparable GAAP financial measures because certain information needed to reconcile those Non-GAAP measures to the most comparable GAAP financial measures is dependent on future events some of which are outside the control of Shell, such as oil and gas prices, interest rates and exchange rates. Moreover, estimating such GAAP measures with the required precision necessary to provide a meaningful reconciliation is extremely difficult and could not be accomplished without unreasonable effort. Non-GAAP measures in respect of future periods which cannot be reconciled to the most comparable GAAP financial measure are calculated in a manner which is consistent with the accounting policies applied in Shell plc's consolidated financial statements.

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