This version of the document is a copy of the original document with some minor technical adjustments to meet the requirements of Shell's Web Content Accessibility Guidelines. The substance of the response has not been altered.

Addressing carbon leakage risk to support decarbonisation

Consultation response from Shell U.K. Limited

June 22, 2023

By email to: carbonleakage.consultation@beis.gov.uk

Introduction

Shell U.K. Limited ("Shell UK") welcomes the opportunity to respond to the UK Government's consultation on addressing carbon leakage risk to support decarbonisation.

The world needs urgent action to achieve net-zero emissions and the more ambitious goal of the UN Paris Agreement: to limit the rise in average global temperature to 1.5° Celsius. Shell plc[1]'s target is to become a net-zero emissions energy business by 2050[2]. Shell is transforming its business to meet its target, providing more low-carbon energy, and working with its customers and others as they make changes, sector by sector. This includes supporting government policies that will help the world to achieve net-zero emissions by 2050.

For many years, Shell has advocated that countries put a direct price on carbon emissions. Shell believes that Carbon Pricing Mechanisms (CPM) should be a part of a broader policy framework to achieve net-zero emissions, applying to as many sectors of the economy as possible and increasing over time.

Shell also believes that government and policymakers should promote the use of low-carbon products through policies that create demand and encourage supply of low-carbon energy in industry such as fiscal support, government mandates, public procurement and green certificates, as well as to accelerate policies to encourage the development of carbon capture, utilisation and storage (CCUS) for industry

If you have any queries regarding this submission, please contact:

Cerys Reece
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London SE1 7NA
[redacted]

[1] The companies in which Shell plc directly and indirectly owns investments are separate legal entities. In this statement "Shell", "Shell Group" and "Group" are sometimes used for convenience where references are made to Shell plc and its subsidiaries in general. The words "Shell UK", "we", "us" and "our" are used to refer to Shell U.K. Limited and its subsidiaries in general or to those who work for them."

[2] 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.

Introductory questions

1. What is your name? **Cerys Reece**
2. What is your email address? [redacted]
3. What is your organisation? **Shell U.K. Limited**
4. We usually publish a summary of all response, but sometimes we are asked to publish the individual responses too. Would you be happy for your response to be published in full? Please see more information below, which has also been set out on page 12 of the consultation document.
   Yes, but without identifying information
5. How did you hear about this consultation?
   Email from this department

Question 0.1: Are you responding as / on behalf of (select all that apply):

1) **industry/business**

Question 0.2: If responding on behalf of a business/organisation, where is your business/organisation based/registered? If your organisation is based overseas, please specify which country you are based in.

United Kingdom

Question 0.3: If your country of origin is the UK, which region are you based in?

- **London**

Question 0.4: Are you in receipt of free allowances under the UK ETS?

- **Yes**

Question 0.5: Would you consider your business as part of an industrial cluster (an area where related industries have co-located)? If 'yes', which one?

- **Yes**

Shell UK is a partner in the Acorn project in Scotland, and is also part of the South Wales Industrial Cluster

Chapter 1: Carbon leakage policy measures

Question 1.1: Does government's definition of carbon leakage reflect your understanding of the issue? Please explain your reasoning.

Yes, strongly agree

Question 1:1: Do you believe that the risk of carbon leakage in the UK is likely to:

1. Increase
2. Decrease
3. Remain unchanged.
4. **Carbon leakage is occurring now**

Please explain your reasoning, including when you think any change to the level of risk might occur.

We recognise that the pace of change will be different around the world. We expect countries to implement policies to close the carbon leakage gap, but implementing such policies will take time, and therefore carbon leakage in the U.K. may increase in the interim period.

Question 1.2: What factors contribute to the risk of future carbon leakage that government should be looking at and that government should address? What evidence can you provide to support your view?

- **UK carbon price relative to other jurisdictions**
- **Other UK climate policies relative to other countries**
- **Impacts of climate and carbon leakage policy in other countries**
- **The cost and availability of technologies to transition from energy intensive production (as well as abatement technologies)**
- **The ability of a sector to transition to low emission production processes and the ability of customers to substitute to low carbon alternatives**
- **Lack of demand for low carbon products in the UK**

The World Bank Carbon Pricing Dashboard included in the consultation document at Appendix I demonstrates that the cost of the UK ETS is at a higher price than all other countries within the G20. The World Bank State and Trends of Carbon Pricing 2023 states that ETSs and carbon taxes in operation cover around 23% of global GHG emissions
(source: https://openknowledge.worldbank.org/entities/publication/58f2a409-9bb7-4ee6-899d-be47835c838f, Executive Summary, Page 8).

Question 1.3: How should the government act to mitigate future carbon leakage risk? Please explain your reasoning.

Government should act on domestic measures alongside international and multilateral action.

Chapter 2: Carbon Border Adjustment Mechanism

Question 2:1: Should a CBAM only apply to products in sectors that are subject to the UK ETS? Please explain your reasoning.

Yes, agree

A CBAM design should complement existing domestic carbon pricing measures
WTO rules prohibits discriminatory border measures that inhibit free trade between WTO Members. However, Members are allowed to extend domestic pricing schemes to foreign producers, i.e. extending an internal measure. A CBAM imposed at the border may be considered part of an internal measure where the overall regime is (1) imposed on domestic products, and (2) enforced at the border with respect to imports. A CBAM on exports (usually in the form of tax exemption or free allowances) is supported by WTO provisions, but the adjustment level may not lead to export subsidies. Shell UK supports a CBAM being implemented in addition to existing domestic carbon pricing measures.

We have understood the definition of products to mean that the downstream products of crude oil and natural gas would be in scope for the CBAM rather than the extraction of the raw materials.

Question 2.2: Are there products in your sector/sub-sector where the application of a CBAM would not be effective or feasible? Please explain your reasoning.
Question not answered

Question 2.3: If the scope of a CBAM is initially limited, should it be designed to potentially cover other products in future? Please explain your reasoning.

Yes, agree

Shell UK supports an economy wide carbon price. In theory, managing the full range of competitive pressures across the economy will eventually require CBAMs on all products and sectors within a high climate-ambition jurisdiction. However, in practice, implementing CBAMs on all imported and exported goods, differentiated by production processes and carbon pricing in the country of origin or destination, is administratively burdensome. This is further complicated by the complexity of global value chains that cut across national boundaries and the high level of product differentiation in consumer goods. Moreover, CBAMs will require regular updating as countries' climate targets and regulatory landscape change over time and to reflect changes in climate policies in the implementing country, as well as the exporting country.

A phased approach to implementing CBAMs is a practical first step from an economic and public policy perspective. An example of a phased approach is to implement a CBAM for the most emissions-intensive and trade-exposed sectors, and over time expand the coverage to other traded-exposed sectors of the economy.

Question 2.4: Should the importer of products covered by a CBAM be responsible for meeting all CBAM requirements? If not the importer, who? Please explain your reasoning.

Yes, agree
The importer should be responsible for paying the border charges on imported products.

Question 2.5: Should importers be required to provide accurate, independently verified emissions data for the products they import where available? Please explain your reasoning.

Yes, agree

Shell UK supports a phased approach in determining embedded (scope 1 and 2) emissions, that assumes imports are at a UK average initially, before transitioning to more accurate methodologies. Shell UK supports an exemption for the importer if they provide robust evidence (e.g. via an -accredited certification body) of lower CO2 content, e.g. through CCS, renewable power or low carbon fuels. Carbon credits should be taken into account if they are allowed as a compliance pathway within the carbon pricing mechanism in the exporting country.

Shell UK believes the UK Government should develop guidance on required data as evidence of carbon intensity of the imported products. As a number of jurisdictions develop carbon leakage measures, it would be beneficial to develop and use internationally recognised common methodologies, and align monitoring, reporting and verification requirements. Importers should then be required to provide the necessary data.

Question 2.6: Should there also be an option for importers to use default values, where they do not or cannot provide accurate emissions data are? Please explain your reasoning. (See Chapter 6 for further discussion of default values).

Agree. However, there should be a requirement to provide all available data.

Shell UK supports a phased approach in determining embedded (scope 1 and 2) emissions, that assumes imports are at a UK average initially, before transitioning to more accurate methodologies. Shell UK supports an exemption for the importer if they provide robust evidence (e.g. via an accredited certification body) of lower CO2 content, e.g. through CCS, renewable power or low carbon fuels. Carbon credits should be taken into account if they are allowed as a compliance pathway within the carbon pricing mechanism in the exporting country.

Shell UK believes the UK Government should develop guidance on required data as evidence of carbon intensity of the imported products. As a number of jurisdictions develop carbon leakage measures, it would be beneficial to develop and use internationally recognised common methodologies, and align monitoring, reporting and verification requirements. Importers should then be required to provide the necessary data.

Question 2.7: Are there any factors not presented in this chapter which government should consider for the calculation of default values? Please explain your reasoning.

The estimated total amount of embedded emissions should exclude a proportional amount of allocated free allowances for comparable UK products. Emission reduction measures equivalent to those that are supported under the UK ETS (e.g. CCS) should also be considered; the equivalency could be determined using benchmarks or proxies.

Question 2.8: Are there any additional challenges or opportunities around the monitoring, reporting and verification of emissions that have not been considered? Please explain your reasoning.

Shell UK believes the UK Government should develop guidance on required data as evidence of carbon intensity of the imported products. As a number of jurisdictions develop carbon leakage measures, it would be beneficial to develop and use internationally recognised common methodologies, and align monitoring, reporting and verification requirements. Importers should then be required to provide the necessary data.

Question 2.9: What data could UK importers provide for Scope 1 emissions embodied within imported products on a product basis? Please explain your reasoning.

The level of accuracy of determining embodied emissions of imported products should be weighed against the associated administrative burden. Shell UK supports a phased approach, starting with using benchmarks or averages, and transition to more accurate methodologies. In the first phase, the UK could assume the CO2 content of the imported products based on their scope 1 and 2 emissions to be the UK average.

Emissions from (international) transport of products could be excluded initially to simplify calculations and included at a later stage.

The importer should receive an exemption if they provide robust evidence (e.g. via an accredited certification body) of lower CO2 content, e.g. through CCS, renewable power or low carbon fuels. Carbon credits should be taken into account if they are allowed as compliance pathway within the Carbon Pricing Mechanism in the exporting country.

Question 2.10: What alternative data sources would government need to consider when determining Scope 1 imported emissions on a product basis if these data cannot be provided by an importer? Please explain your reasoning?

Shell UK supports a phased approach, starting initially with using benchmarks or averages, and transition to more accurate methodologies. In the first phase, the UK could assume the CO2 content of the imported products based on their scope 1 and 2 emissions to be the UK average.

Shell UK believes the UK Government should develop guidance on required data as evidence of carbon intensity of the imported products. As a number of jurisdictions develop carbon leakage measures, it would be beneficial to develop and use internationally recognised common methodologies, and align monitoring, reporting and verification requirements. Importers should then be required to provide the necessary data.

Question 2.11: Do you agree or disagree a CBAM should be applied to Scope 2 emissions embodied within imported products? Please explain your reasoning.

Yes, strongly agree

Question 2.12: What data could UK importers provide for Scope 2 emissions embodied within imported products on a product basis? Please explain your reasoning.

Shell UK supports a phased approach, starting initially with using benchmarks or averages, and transition to more accurate methodologies. In the first phase, the UK could assume the CO2 content of the imported products based on their scope 1 and 2 emissions to be the UK average.

Shell UK believes the UK Government should develop guidance on required data as evidence of carbon intensity of the imported products. As a number of jurisdictions develop carbon leakage measures, it would be beneficial to develop and use internationally recognised common methodologies, and align monitoring, reporting and verification requirements. Importers should then be required to provide the necessary data.

Question 2.13: What alternative data sources would government need to consider to determine Scope 2 imported emissions on a product basis if these data cannot be provided by an importer? Please explain your reasoning.

The government would need to consider estimated or reported grid intensities for different jurisdictions using default factors for coal, combined cycle gas, open cycle gas, oil and biomass. As a number of jurisdictions develop carbon leakage measures, it would be beneficial to use internationally recognised common methodologies, and align monitoring, reporting and verification requirements.

Question 2.14: Should the government consider the use of product level electricity 'content' benchmarks and country level averages to calculate Scope 2 emissions from purchased electricity?

Yes, strongly agree

Question 2.15: If yes, how should country level Scope 2 average emissions be calculated? Please explain your reasoning.

Question not answered

Question 2.16: Should a CBAM be applied to the Scope 3 emissions embodied within imported products that are also indirectly covered by the UK ETS? Please explain your reasoning.

Don't know

The UK Government should complete an analysis of where they believe there might be such a risk of carbon leakage. Shell UK supports expanding a CBAM along the value chain – at the appropriate point of CBAM development – if there is robust evidence that non-UK producers are attempting to bypass the CBAM by exporting semifinished products to the UK.

Question 2.17: What data could UK importers provide for Scope 3 emissions embodied within imported products on a product basis? Please explain your reasoning.

Question not answered

Question 2.18: What alternative data sources would government need to consider to determine Scope 3 imported emissions on a product basis if these data cannot be provided by an importer? Please explain your reasoning.

Question not answered

Question 2.19: Do you have further comments on the inclusion and measurement of emissions embodied in imported products as part of a CBAM?

Question not answered

Question 2.20: Should the price applied by a CBAM be comparable to the effective domestic carbon price paid, including accounting for any discounts available through free allowances or compensation? Please explain your reasoning.

Yes, strongly agree

Shell UK supports a border charge calculated by multiplying the embedded emissions by the prevailing UK ETS price. UK indirect cost and cost compensation should be added to or deducted from the charge. This is to ensure adherence with WTO rules, which require equal treatment of similar products and no discrimination between domestic and foreign producers.

Question 2.21: Should the price applied by a CBAM track the prevailing UK ETS price throughout the year, as opposed to being set at a fixed annual rate? Please explain your reasoning and any preference between the different options outlined above.

Yes, strongly agree

Shell UK supports an obligation on importers to purchase allowances that cover the embedded emissions in the imported products, against a price that is reasonably linked to the prevailing UK allowance price. WTO rules require equal treatment of similar products and no discrimination between domestic and foreign producers.

The most optimal benchmark to reflect the prevailing UK ETS price for CBAM purposes should be the weekly average settlement price for December futures (ie based on secondary market). This will ensure that any CBAM price fairly reflects the UK carbon price at a given point in time. Further to this, using the fortnightly UK ETS auction price would mean in periods where there has not been an auction, the pricing data used for the CBAM levy could be out of date and not reflective of the prevailing UK ETS price for the importer.

Question 2.22: Should the price applied by a CBAM to imported products be based on the value of the effective carbon price differential between the UK and the country where that good was produced? Please explain your reasoning.

Yes, strongly agree

The border charge should bridge the gap between the embedded carbon cost of the imported products, and what would have been charged if those products were produced in the UK.

Question 2.23: Would it be practicable for importers to provide information on the effective carbon price already paid on products in the originating country? Please provide details.

No, disagree

The UK should develop selection criteria to determine the comparability of CO2 emissions schemes with the UK ETS. These criteria should be used when determining whether the embedded carbon in the imported products

were subjected to a carbon pricing scheme in the exporting country. Proxies might be required in case a Carbon Pricing Mechanism is difficult to compare with the UK ETS. This is particularly in the case of implicit carbon schemes, such as technology standards or renewable energy support schemes.

Question 2.24: What issues might arise in taking into account a carbon price already paid in another country when calculating the price applied by a CBAM? Please explain your reasoning.

CBAMs will require regular updating as countries' climate targets and regulatory landscape change over time and to reflect changes in climate policies in the implementing country, as well as the exporting country.

Question 2.25: Do you have any views on how a CBAM could be designed to ensure maximum simplicity? For example, by following the mechanism for other border charges such as tariffs and excise duties. Please explain your reasoning.

Don't know

As we believe the importer should be responsible for paying the border charges on imported products either directly or through an appointed declarant, it is likely that the UK customs authorities would administer the CBAM regulation.

Question 2.26: Should government prioritise reflecting the flexibility offered by the UK ETS in a CBAM? For example, by allowing emissions to be paid for at a separate point to the release of products into free circulation. Please explain your reasoning.

Don't know

Question 2.27: Are there further actions government could take to design a CBAM in a way that facilitates the smooth flow of trade? Please explain your reasoning.

Any CBAM should be designed for consistency with any future developments in adjacent policy such as climate, energy, trade and taxation policies. Particularly important is the implementation in relation to the development of the UK ETS and the commitment within the Trade and Cooperation agreement for the UK and EU to "give serious consideration to linking their respective carbon pricing systems in a way that preserves the integrity of these systems and provides for the possibility to increase their effectiveness".

Question 2.28: Are there further interactions with the customs and/ or border systems which government should take into account for the development of a CBAM? Please explain your reasoning.

Question not answered

Question 2.29: Are there further policy interactions that government should consider regarding potential implementation timelines for a CBAM? Please explain your reasoning.

Any CBAM should be designed for consistency with any future developments in adjacent policy such as climate, energy, trade and taxation policies. Particularly important is the implementation in relation to the development of the UK ETS and the commitment within the Trade and Cooperation agreement for the UK and EU to "give serious consideration to linking their respective carbon pricing systems in a way that preserves the integrity of these systems and provides for the possibility to increase their effectiveness".
Shell UK prefers CBAM revenues to be earmarked for climate policy purposes, including climate mitigation.

Chapter 3: Mandatory product standards

Question 3.1: Were mandatory product standards introduced, should the above criteria be used to decide on its initial sectoral scope? Are there other criteria that should be considered? Please explain your reasoning, including any alternative criteria.

Yes, agree

Shell UK believes that governments and policymakers should develop policies supporting the creation of demand for low-carbon products through public procurement processes and low-carbon product standards that are technology neutral and supported by carbon intensity tracking mechanisms.

Question 3.2: Which option, if any, would be most appropriate for the initial sectoral targeting of a mandatory product standard? Are there other/additional sectors which should be considered for early targeting, for example to address the risk of substitution? Please explain your reasoning.

Shell UK supports a UK CBAM on imports of cement and steel first before expanding to chemicals in 2030 at the latest. However, in relation to MPS, the steel and cement sectors have comparatively homogenous products and production processes which would allow regulators and companies to commence a product standard regime, and consider whether to apply the implementation learnings to other sectors with more complex processes and value chain– such as Chemicals.

Question 3.3: • Which option, if any, would be most appropriate for emissions scope of a mandatory product standard? Please explain your reasoning, and details of any alternative options.

Question not answered

Question 3.4: Which value chain option, if any, would be most appropriate to target with a mandatory product standard? Please explain your reasoning, with reference to specific sectors if possible, and details of any alternative options.

Question not answered

Question 3.5: Which option, if any, would be most appropriate for targeting the point of obligation for a mandatory product standard for domestically produced goods? Please explain your reasoning, with reference to specific sectors if possible, and details of any alternative options.

Question not answered

Question 3.6: What considerations should government consider when targeting the point of obligation for imported goods? Please explain your reasoning, with reference to specific sectors if possible.

Question not answered

Question 3.7: Do you agree or disagree that any mandatory product standard should apply to imports? Please explain your reasoning, including any details of the possible impacts for your sector.

Yes, agree

WTO rules require equal treatment of similar products and no discrimination between domestic and foreign producers, therefore mandatory product standards should apply to imports only if they apply to domestic products.

Question 3.8: Question 3.8: Do you agree or disagree with the proposed principles for setting thresholds and increasing the stringency of mandatory product standards over time? Please explain your reasoning.

Question not answered

Question 3.9: Should mandatory product standards be delivered in stages, broadly moving from a less stringent, relatively focussed application in the late 2020s to a more stringent and potentially broader application during the 2030s? Please explain your reasoning.

Question not answered

Chapter 4: Cross cutting policy issues for CBAM and MPS

Question 4.1: What specific challenges for countries at differing stages of development to the UK, in particular least developed and low income countries would the government need to consider in the future design of any carbon leakage measures? Please explain your reasoning.

Shell UK supports the continued economic development of Least Developed Countries (LDCs). LDCs are considered small carbon emitters and the import volume of LDCs into the UK are likely to be small. A CBAM obligation on imports from LDCs may impose a disproportionate cost and administrative burden on LDCs. Without any UK CBAM design specifics, it is difficult to assess whether high(er) emitting countries may divert their products via an LDC into the UK to evade the CBAM. A UK CBAM design should include compliance requirements to ensure that the production origin of imported products can be verified.

Question 4.2: How can the government best support countries at differing stages of development to the UK, in particular least developed and low income countries? Please explain your reasoning.

Question not answered

Question 4.3 What is your view on the importance of finding ways to simplify the process for estimating product level emissions intensities?

Question not answered

Question 4.4 What are the different options for simplifying the process for estimating product level emissions intensities without compromising on the integrity of the estimates?

Question not answered

Question 4.5 Do you have any views or empirical data on the trade-offs between reductions in administrative costs in the generation of product level data, and the accuracy of such data?

Question not answered

Question 4.6: Is circumvention a risk in your sector(s)? Please explain your reasoning, with references to particular sectors where possible.

Question not answered

Question 4.7: How can carbon leakage measures be best designed to limit risk of circumvention? Please explain your reasoning.

Without any UK CBAM design specifics, it is difficult to assess the extent this may happen, which actors are likely to exhibit this behaviour and for which goods. Redirecting goods to avoid the CBAM is unlikely to occur for products that are structurally short in the UK; sustained demand will lead to a price that is sufficient to maintain supply since the impact of carbon costs is still relatively small compared to other cost components.

Shell UK recommends the UK CBAM impact assessment to include a view of potential 'resource shuffling' to assess appropriate policy response.

Question 4.8: Is resource shuffling a risk in your sector(s)? Please explain your reasoning, with references to particular sectors where possible.

Question not answered

Question 4.9: How can carbon leakage mitigation measures be best designed to limit risk of resource shuffling? Please explain your reasoning.

Question not answered

Question 4.10: There may be a risk of carbon leakage from increased imports of processed products produced using intermediate inputs that would have been covered by UK carbon leakage measures if imported directly. Is this a significant concern for you? Please explain your reasoning.

Question not answered

Question 4.11: If you answered yes, in which sectors do you foresee material issues, and why?

Question not answered

Question 4.12: What are your views on the relative merits of the potential options presented above for addressing potential downstream impacts of carbon leakage measures? Are there alternative options for addressing this issue?

Question not answered

Question 4.13: One of the options set out is to take no action where the levels of relevant intermediate inputs are below a set threshold. In your view what would be the appropriate type, and level of such a threshold. Please explain your reasoning.

Question not answered

Question 4.14: How should the government strike the right balance between the need to address material downstream effects and the implications for both administrative complexity and consumer impacts? Please explain your reasoning.

Question not answered

Question 4.15: Which UK sectors are most likely to face carbon leakage risk in export markets? For each of these sectors please set out your reasoning and any evidence to support this view.

Question not answered

Question 4.16: What, if any, is the impact of carbon leakage risk in export markets? For each sector please set out your reasoning and any evidence to support this view.

Question not answered

Question 4.17: For UK sectors affected by carbon leakage risk in export markets described in 4.1 above, what approaches would you propose for the mitigation of carbon leakage risk?

Free allowances on goods meant for export should continue until a CBAM on exports is implemented. In general, a CBAM on exports (usually in the form of tax exemption or free allowances) is supported by WTO provisions, but the adjustment level may not lead to export subsidies.

The UK should implement a CBAM on exports as soon as possible. A UK CBAM on export for producers subject to the UK ETS would be equivalent to the free allowance mechanism with some differences:

- **A proportional amount of auctioned ETS allowances could be attributed to the exported products. This amount would be allocated for free. The free allowances could simply be based on the average carbon intensity of UK producers, in line with current free allocation rules, or on the actual carbon costs paid by the producers. The last option implies in practice a rebate of pre-paid UK ETS costs, since the free allowances would be granted after the product is exported and actual carbon costs can be calculated, not as an advance.**
- **Any other domestic support scheme that also aims to address international competitiveness should be subtracted from the free allowances.**

Question 4.18: Should mandatory product standards apply to all UK manufactured products intended for export? Please explain your reasoning, and provide details of any impacts this would have on your sector.

Question not answered

Question 4.19: Should the use of carbon credits to offset emissions be considered within the assessment of a product? Please explain your reasoning.

Yes

Carbon credits should be taken into account if they are allowed as a compliance pathway within the carbon pricing mechanism (CPM) in the exporting country.

Shell UK supports policies that allow broad inclusion of CCUS-based emission reduction and removals as compliance pathways within emission reduction schemes such as low-carbon fuel standards and emission trading systems.

Most modelled global emission pathways require advanced mitigation efforts such as nature based and engineered removal technologies, (often referred to as carbon credits) to mitigate global warming more than 1.5 degrees. As the UK Government develops its policies on Greenhouse Gas Removals, it should seek to apply treatment consistently between the domestic ETS scheme and international linkages such as Article 6.

Chapter 5: Growing the market for low carbon products

Question 5.1: Which of the following statements corresponds most with your view?

In order to maximise the effectiveness of a labelling scheme, both in terms of consumer usability and implementation costs, a system of embodied emissions should include:

- Embodied emissions data only
- Energy efficiency style lettered and coloured ratings only
- Both embodied emissions data and energy efficiency style lettered and coloured ratings
- I do not agree with any of these options

Question not answered

Question 5.2: Should the government adopt mandatory labelling for products that are required to have their embodied emissions reported? Please explain your reasoning.

Yes, agree

Question 5.3: Which level of IDDI pledge would best support the decarbonisation of UK industry? Please explain your reasoning.

Question not answered

Question 5.4: What would be the likely impact of implementation of each IDDI pledge level to your sector? When answering the question, please consider: if your company/companies in the steel, cement and concrete sectors would be likely to be able to match the rate of decarbonisation required by the different levels of the pledge, and; if the UK signing up to the pledge would incentivise decarbonisation within each sector.

Question not answered

Question 5.5: Should the government adopt the low emissions thresholds suggested by the IEA? Please explain your reasoning, including whether there are there any strong alternatives.

Question not answered

Question 5.6: What can the government do to support firms to join the First Movers Coalition? Please explain your reasoning.

Question not answered

Chapter 6: Emissions reporting framework

Question 6.1: Should the government introduce a new framework to enable the reporting and collection of product level emissions?

Maybe/Undecided

Question 6.2: If yes, what do you see as the advantages to introducing the framework?

Although we are unsure whether a new framework is required, a life cycle assessment methodology that is prescriptive and with default values, would ensure comparability of products. The scope should be limited to Cradle-to-Customers gate, including scope 3 upstream emissions (even if built on default values for the beginning). However, such a scheme would be more difficult to apply.

Question 6.3: If no, what do you see as the disadvantages that mean a framework should not be introduced, and how do you propose the government introduces the policy proposals considered in the consultation?

See answer to 6.2.

Question 6.4: If you answered yes above, do you prefer (1) Attributing installation level data to products with default values or (2) Product life cycle assessments with default values, or another option? Please suggest the advantages or disadvantages of each option.

- Option 1 (prefer Installation level data)
- **Option 2 (prefer life cycle assessment data)**
- Either
- None

Question 6.5: Would you prefer a single emissions reporting framework for all carbon leakage policy measures? Please explain your reasoning

Yes, agree

One single reporting framework would reduce the administrative burden and effort for the companies.

Question 6.6: What are your views on balancing the administrative burden of product emissions reporting against the accuracy of results?

The scheme should aim towards primary data. However, for practicability, default values should be allowed, where primary data is not available easily. There is a trade-off in accuracy, but as the scheme will have a guiding direction with conservative default values, that might disadvantage some products will be replaced by primary data sooner or later.

Shell UK supports the use of methodologies - benchmarks and proxies - where required, that should be update continually/ dynamically. Additionally, Shell UK supports:

a) **Using benchmarks to establish the carbon intensity of the chosen sectors or products, and transition to more accurate methodologies if and when possible;**
b) **Establishing a proxy to quantify the implied cost of carbon in the import-originating countries where carbon prices are not explicit and modify the proxy to reflect changes over time.**

As the ability to collect, store, and analyse data increases, this will reduce costs and improve the design and implementation of CBAMs. In order to maximise the benefits of CBAMs, the introduction and evolution of the policy should be done with sufficient lead time to allow countries the opportunity to respond by implementing more ambitious climate action. However, this approach should be balanced with the more ambitious goal of the Paris agreement.

Question 6.7: Which emissions factors should be used for the calculation of embodied emissions of products if emissions reporting requirements were introduced? What are the advantages or disadvantages of the options? If other, please set out your preference in the text box.
Other

A specific list of factors should be generated. The UK related data sources are valid for the UK. For other countries, those values might under- or overestimate the GHG intensity. A specific database could be a combination of regional factors as for grid electricity or fuels and process factors, as for example for stell processes or steam generation.

As the ability to collect, store, and analyse data increases, this will reduce costs and improve the design and implementation of CBAMs. In order to maximise the benefits of CBAMs, the introduction and evolution of the policy should be done with sufficient lead time to allow countries the opportunity to respond by implementing more ambitious climate action. However, this approach should be balanced with the more ambitious goal of the Paris agreement.

Question 6.8: Do you have a preference for how default values could be calculated? What are the advantages or disadvantages of the options?
- Option 1
- Option 2
- **Option 3**
- None of the above
- No preference

Shell UK supports a phased approach in determining embedded (scope 1 and 2) emissions, that assumes imports are at a UK average initially, before transitioning to more accurate methodologies. Shell UK supports an exemption for the importer if they provide robust evidence (e.g. via an accredited certification body) of lower CO2 content, e.g. through CCS, renewable power or low carbon fuels. Carbon credits should be taken into account if they are allowed as a compliance pathway within the carbon pricing mechanism in the exporting country.

A disadvantage of this would be that if default values were conservative, rather than average, there would be a drive for use of primary data for those with better performance.

Question 6.9: Are there additional possible data sources for calculating default values that have not been mentioned? Please provide details of those data sources.
Yes

As the mentioned databases are UK specific, they might not be applicable for processes and value chains outside UK. Therefore, regional sources should be also taken into account.

Shell UK believes the UK Government should develop guidance on required data as evidence of carbon intensity of the imported products. As a number of jurisdictions develop carbon leakage measures, it would be

beneficial to develop and use internationally recognised common methodologies, and align monitoring, reporting and verification requirements. Importers should then be required to provide the necessary data.

Chapter 7: Designing the Mechanism for Embodied Emissions Reporting

Question 7.1: Should government pursue a Life Cycle Assessment-based approach?
Yes

Question 7.2: What is your preference for the type of Life Cycle Assessment methodology framework that should be adopted?
What are the advantages or disadvantages of each option?
- Option 1
- **Option 2**
- Option 3
- None / Other

Option 1 would be an opportunity to move towards harmonisation of LCA approaches across sectors. However, there is no consensus yet on how to harmonise the LCA methodologies. The belief is, that the sectors will firstly develop sector specific approaches, so Option 2 would be the way to go, as already existing sector frameworks can be levered.

Shell UK believes the UK Government should develop guidance on required data as evidence of carbon intensity of the imported products. As a number of jurisdictions develop carbon leakage measures, it would be beneficial to develop and use internationally recognised common methodologies, and align monitoring, reporting and verification requirements. Importers should then be required to provide the necessary data.

Question 7.3: Should CO2e/mass (including performance metric where relevant) be used as the metric for embodied emissions reporting and form the basis of any subsequent policy? If you disagree, please explain why and suggest an alternative metric.
Question not answered

Question 7.4: Should mass (of product) be the appropriate unit of measurement for your sector? If not, please explain your reasoning and suggest your preferred unit of measurement.
No, disagree

In the oil and gas sector CO2e/energy is the more appropriate metric for energy products. For non-energy products, as lubricants and chemical products, CO2e/mass would be appropriate.

Question 7.5: Should the government introduce a data collection period before the full implementation of carbon leakage policy measures? What are the advantages or disadvantages of the options?
Yes

Questions 7.6: If Yes or Maybe/Undecided, how long should this data collection period be?
The data collection period should be 3-5 years.

Question 7.7: Should only those businesses in scope of current or upcoming policies be required report information about the emissions of products? Please explain your reasoning
Yes, strongly agree

A phased approach to implementing CBAMs is a practical first step from an economic and public policy perspective. Examples of a phased approach are:

a) **Implement a CBAM for the most emissions-intensive and trade-exposed sectors, and over time expand the coverage to other traded-exposed sectors of the economy;**
b) **Focus on sectors that are actually and asymmetrically subject to an explicit carbon pricing mechanism (CPM) and expand to other emission regulatory measures if and when possible;**
c) **Implement a CBAM for imports to level the playing field within the domestic market to start. In this case Shell UK recommends expanding the CBAM to cover exports as soon as possible;**

As the ability to collect, store, and analyse data increases, this will reduce costs and improve the design and implementation of CBAMs. In order to maximise the benefits of CBAMs, the introduction and evolution of the policy should be done with sufficient lead time to allow countries the opportunity to respond by implementing more ambitious climate action. However, this approach should be balanced with the more ambitious goal of the Paris agreement.

Question 7.8: If your sector were required to report product emissions, are there other sectors that would also have to report this information to help minimise information asymmetry between substitutable products in the market? For example, where two products composed of different materials and manufactured using different processes can fulfil the same or similar role. Please explain your reasoning.

Question not answered

Question 7.9: Should the scope of any new embodied emissions reporting be limited to that which is required by carbon leakage policy measures, if introduced?

Yes, strongly agree

To avoid confusion, the reporting should only cover the scope of what is required by the carbon leakage policy measures.

As the ability to collect, store, and analyse data increases, this will reduce costs and improve the design and implementation of CBAMs. In order to maximise the benefits of CBAMs, the introduction and evolution of the policy should be done with sufficient lead time to allow countries the opportunity to respond by implementing more ambitious climate action. However, this approach should be balanced with the more ambitious goal of the Paris agreement.

Chapter 8: Reporting to Government and Delivery of the IT system

Question 8.1: If you are, or represent, a domestic manufacturer, which option for a reporting IT system would be most appropriate? Would another approach be more suitable? Please explain your reasoning.

Question not answered

Question 8.2: If you are, or represent, an importer or manufacturer outside the UK, which option for a reporting IT system would be most appropriate? Would another approach be more suitable? Please explain your reasoning.

Question not answered

Question 8.3: Do you have a preference for how frequently emissions data should be reported?

Question not answered

Question 8.4: What are the advantages or disadvantages of the options? Please explain your reasoning.

Question not answered

Question 8.5: What are your views on how product embodied emissions data should be verified? What are the advantages or disadvantages of the different options? Please explain your reasoning.

Shell UK believes the UK Government should develop guidance on required data as evidence of carbon intensity of the imported products. As a number of jurisdictions develop carbon leakage measures, it would be beneficial to develop and use internationally recognised common methodologies, and align monitoring, reporting and verification requirements. Importers should then be required to provide the necessary data.

Question 8.6: Should embodied emissions data for products be made publicly available through either labelling, a publicly accessible database, both, or neither? Please explain your reasoning.

- • Agree – through labelling
- • Agree – through a publicly accessible database
- • Agree – through both
- • Disagree – neither option

Question not answered

Chapter 9: Public Sector Equality Duty

Question 9.1: Do you have any views about the implications of the policy measures explored in this consultation on people with protected characteristics and how any potential negative impacts could be mitigated? Please provide any relevant evidence.

Question not answered