Shell comments on:

Gold Standard's *Operationalising and Scaling Post-2020 Voluntary Carbon Market* - August 2020

Introduction

Shell is pleased to submit this letter in response to the public consultation on *Operationalising and scaling post-2020 carbon markets*.

In tackling climate change, the focus is increasingly on limiting the global temperature rise to 1.5° Celsius. Shell supports this ambition. For society to achieve a 1.5° Celsius future, the world needs to stop adding to the stock of greenhouse gases in the atmosphere – a state known as net-zero emissions – by around 2060. Advanced parts of the world are likely to need to reach that point by 2050. That is why Shell has set itself an ambition to become, by 2050 or sooner, a net-zero emissions energy business, in step with society.

We will work towards this in three ways. Firstly, by seeking to be net zero on all the GHG emissions from the manufacture of all our products by 2050 at the latest. This ambition includes the emissions created by our operations and also those associated with the energy we consume. But the bulk of the emissions are our customers' emissions when they use our products.

That is why Shell's second step towards being a net-zero emissions energy business is to reduce the Net Carbon Footprint of the energy products we sell. To achieve this Shell will need to sell more products with a lower carbon intensity, such as renewable power, biofuels and hydrogen. Our long-term ambition is to reduce the Net Carbon Footprint of the energy products we sell 30% by 2035 and 65% by 2050.

Yet society will continue to need some energy products that create emissions for the foreseeable future. But that does not mean Shell cannot be a net-zero emissions energy business, because our customers can themselves take action to mitigate emissions caused by their energy use. One of the actions we took to support our customers was to establish a business to develop high-quality nature-based solutions (NBS). This expands the range of solutions we can use to compensate for the emissions generated by our customers to meet the goals of the Paris Agreement. Shell has an ambition to invest up to $200 million between 2020 and 2021 in natural ecosystems.[1]

General comments

We fully support Gold Standard's endeavor to establish a role for markets as part of the solution to combat climate change in a post-Paris world. Like you, we strive for the highest environmental and social integrity in carbon markets and in the credits we buy. We recognize the importance of standards setting organizations like the Gold Standard when it comes to building trust in carbon markets and promoting emission reduction and removal claims.

[1] https://www.shell.com/energy-and-innovation/new-energies/nature-based-solutions.html

Shell's approach to decarbonization follows the avoid-reduce-mitigate hierarchy. We aim to avoid and reduce as many emissions as possible while recognizing that some emissions cannot yet be avoided completely, and that there needs to be a transition period for societal adoption of low-emission technologies. Shell currently retires carbon credits to balance the emissions of interested customers including some of our own, primarily through purchases in the voluntary carbon market. Some of these credits are based upon protocols established by Gold Standard. We claim these carbon credits against our Net Carbon Footprint.

We are pleased to respond to your consultation and have outlined our summary responses in the table below.

Gold Standard Policy	Shell response
Guiding principles and approach to carbon markets	We support the Guiding Principles, in particular Gold Standard's approach to achieving the highest environmental and sustainable development integrity in carbon markets. We also appreciate the Gold Standard's role as an issuer of these credits, and source Gold Standard's credits for our own portfolio.
Supporting the development of robust, credible claims	We understand that the Gold Standard envisions a future in which companies could only claim carbon credits against their climate targets if countries have made Corresponding Adjustments for these claims. However, we consider a few issues to be impractical and potentially counter-productive to accommodate practical realities on the ground. In addition, several provisions could result in reducing the incentive for action in areas that most require it. Our main concerns are noted below in the section on Specific Views.
The role(s) Gold Standard will play in future markets	We support a continued strong role of the Gold Standard as an issuer of credits for general voluntary market application and a role in future markets to help shape post-Paris carbon markets.
The potential changes to Gold Standard's standards and how these will be introduced	We believe that Gold Standard's position on Corresponding Adjustments needs to be clarified. We would appreciate if the Gold Standard could provide more detail on how this would work in practice and give some details to illustrate what will be done, how, and in what timeframe. Specifically, further detail on the "ongoing financial need" requirements and the implications of the review of requirements for removal units would be useful. We support Gold Standard's intention to develop and expand IFM and Blue Carbon methodologies.
The types of activities Gold Standard will support	As mentioned above, Gold Standard's commitment to high integrity credits should be commended. As such, we support the restricting of Renewable Energies and other project types in the portfolio. Much needs to be done to slow and halt deforestation. Shell does support Avoided Deforestation/REDD activities. Shell recognizes that current standards do not always guarantee the generation of robust credits and is therefore making efforts to improve its due diligence process and encourage the improvement of standards. We note Gold Standard's inclination to not issue a methodology for avoided deforestation and would encourage Gold Standard

	to develop alternative approaches to address the significant problems posed by deforestation, especially in areas with significant ecological value.

Specific views

Double-counting by companies and countries

- Gold Standard's comments on Corresponding Adjustments in the context of voluntary activity and offsetting claims lead us to believe Gold Standard places the emissions reporting of countries on an equivalent basis with the emission reporting of companies. We see this differently. We maintain that Country A may report the same carbon removal in its reporting and accounting (e.g. for the UNFCCC) as Company A transacts in the *voluntary* carbon market. This would be true no matter where Company A is headquartered or where Company A's carbon neutral activities take place. Requiring a Corresponding Adjustment for a unit being purchased for a voluntary emission removal or offsetting claim by a business or individual could result in this mitigation unit not being recorded against any nation's emissions inventory. We do need processes to ensure that Country A and Country B cannot double count (through Corresponding Adjustments) and that Company A and Company B cannot double claim (through robust credit registries), but we do not need an approach that forces a national accounting adjustment each time a voluntary market transaction occurs.
- Further, Gold Standard's proposal for offsetting implies there is a fundamental difference between situations where a voluntary credit buyer makes a carbon neutral claim in the same country where the credit was generated and situations where a buyer from a second country makes a carbon neutral claim. In the former case, Gold Standard is suggesting a Corresponding Adjustment is not needed but in the latter case, a Corresponding Adjustment would be required. To illustrate this point with an example:
    - A multi-national company with representation in Brazil buys afforestation credits from a project in Brazil and uses the credits to support a carbon-neutral claim of a customer in Brazil. Does Brazil need to make a Corresponding Adjustment to avoid double claiming or double counting?
    - The same multi-national company's European headquarters buys afforestation credits from a project in Brazil and uses the credits to support a carbon-neutral claim on behalf of a customer in Europe. Why should Brazil need to make a Corresponding Adjustment in order for the customer to make a claim of carbon neutrality?

  Corresponding Adjustments are designed to clarify the accounting of credit transfers by countries in their national inventories and when demonstrating the achievement of their NDC. In the second scenario above, it is not clear the European country would be able to know which voluntary credit retirements are attributable to activity occurring within their borders, but even if this were known, if the European country does not use the credit retirement towards its NDC accounting or to reduce its national emissions inventory, there would be no need for Brazil to make a Corresponding Adjustment. In short, the location of the emission removal relative to the location of the emission generating activity that is being offset is not pertinent to the credibility of claims of carbon neutrality in voluntary markets.
- We do not believe that requiring Corresponding Adjustments protects against double claiming. A Corresponding Adjustment ensures that one country, and only one country only can claim the emission removal in its NDC accounting and national GHG inventory. It does not ensure that the ownership of the credit is limited to a single organization (i.e. not claimed twice). Standards with robust registries – like the Gold Standard – should prevent double claiming from occurring.
- We would like to emphasize that in carbon markets today, the owner of a carbon credit has the sole right to make an emissions reduction or emissions removal claim. As such, these property rights represent more

than the right to say that one has financed an emission removal. We believe that with Gold Standard's new thinking, these property rights are put in jeopardy with potentially significant impacts on the flow of private investment into protection and enhancement of natural sinks.

Nationally Determined Contributions and compliance with Paris Agreement

- Gold Standard describes the voluntary carbon market "as a mechanism to channel private finance to help countries meet their commitments under the Paris Agreement." While the effect of private finance is to help countries to meet their commitments under the Paris Agreement, it is misleading to suggest this is the motivation of private finance. Shell participates in the voluntary carbon market to secure carbon credits to support its customers' demand for carbon neutral products. In seeking to limit the claim of the financiers and credit owners to having merely 'financed emissions reductions' with 'non-compensatory benefits' Gold Standard puts at risk the flows of private finance to the host countries. We anticipate the effect of Gold Standard's proposal to be the curtailment of the voluntary carbon market and the property rights embodied in carbon credits and its replacement with a system akin to Payments for Ecosystem Services. We believe this will decrease the amount climate finance for natural sinks flowing from private sources – in particular to Least Developed Countries - and that charitable donations and tax-payer derived funding will not make up the difference.
- Finally, it appears Gold Standard seeks to limit use of carbon credits by companies to situations where the company has already achieved a Paris-aligned target and wishes to do more. We do not support this approach. Aside from the difficulty in determining what it means to have a Paris-aligned target in the years leading up to a net zero emissions outcome, there are many emissions which are hard-to-abate for reasons that relate to infrastructure, technology and economics. Delaying the use of carbon credits in the voluntary market until these barriers have been resolved would serve no useful social or environmental purpose.

REDD+

- Gold Standard maintains its current position concerning avoided deforestation activities and REDD, because to date market-based approaches to this issue have suffered significant credibility concerns. We believe the world should be moving from slowing deforestation (i.e. Avoided Deforestation or REDD) in the near-term to halting it in the medium term, and eventually reversing it (i.e. a world experiencing net forest gain). Our approach, therefore, is to support the protection of natural forests now, while also building a portfolio that increasingly includes reforestation and other nature-based activity types.
- We recognize there are challenges in avoided deforestation projects that need to be tackled, such as robust baselines and avoidance of leakage. However, we believe market-based approaches have a role to play and are working to increase the quality of such projects in which Shell invests.
- Gold Standard suggests that national scale REDD+ approaches, as opposed to projects, may offer higher credibility. In countries where nesting is being pursued, we believe projects aligned with government standards can promote higher integrity and support national government efforts. We are mindful that some countries' legal systems provide carbon rights to landowners and/or communities and that supporting projects may be a sovereign policy decision by countries, as a means to improve forest protection and management, as well as to support existing land and natural resource rights.
- While the role of forest restoration in supporting climate, biodiversity, and community goals is extremely critical, we believe that protecting existing forests (particularly those with "irrecoverable carbon", i.e. carbon-dense ecosystems that cannot be restored by 2050, such as peatland and old-growth forests) are also critically important.

Closing

We commend the Gold Standard for suggesting solutions for a post-Paris world that support the development of high integrity emissions reductions and removals on the supply side. However, we are not fully aligned with Gold Standard's proposed differentiation of claims and uses on the demand side. We fear that the approach as outlined will decrease private climate finance – in particular to developing and least developed countries – and result in *less* mitigation.

As Shell supports high-quality NBS credits and aims to contribute to the integrity of the sector as a whole, we appreciate the invitation to comment and would welcome the opportunity for further discussions with Gold Standard.