Introductory Remarks by Alan McLean, Executive Vice President Taxation and Controller, Royal Dutch Shell plc
At the hearing by the FISC Committee of the European Parliament,
9 September 2021

Mr Chairman, Paul Tang, vice-chairs, and honourable members of the European Parliament, thank you for inviting me to join you today. I feel honoured to have been invited to this important hearing of your subcommittee on tax matters.

When preparing for this hearing, I have seen how committed and passionate you are about taxation and about transparency in particular. As a tax professional I, of course, welcome that level of interest and energy. Your work in this Committee is also important for the further development of tax policy in Europe. For all these reasons, I am grateful to have been invited to share some of our insights and experiences as a large international energy company in the field of tax transparency.

These thoughts start with three observations:
First, in normal times, taxes are a vital source of revenue for countries around the world. They help to fund essential services like education, health care and roads. In times of crisis, such as the COVID-19 pandemic, revenues from taxes become even more important, because they are central to government policies to support people’s lives and livelihoods.

Second, the expectations people have from businesses have never been higher than they are today. People expect to see business behaving as a responsible member of society, making a positive contribution. And we expect this too.

That’s why earlier this year, we set out our new strategy ‘Powering Progress’ designed to deliver for our shareholders, our customers and for wider society too. It’s a strategy that’s based on an ambitious but achievable set of goals that lay out how we believe Shell can and must play a role as the world accelerates towards a future of cleaner energy.

Behaving responsibly includes, among many other things, respecting human rights, operating safely... and paying the right amount of tax in the right place.
Companies can only show people whether they are meeting these expectations if they are transparent about what they do.

Third, this greater transparency by companies helps governments develop fair, stable, effective tax systems that ensure robust public revenues, invite private investment and help businesses to grow so they can create sustainable jobs.

So, it is important that companies pay their fair share of taxes, and it is important they are transparent about how much they pay. That is why Shell made the decision in 2019 to be more open about tax - beyond what is formally required from us - and to publish our first Tax Contribution Report.

Even though this report was among the first of its kind, Shell’s efforts to share information were not new. In fact, the move was part of a growing trend by Shell and other companies to become more transparent about how they operate, including the payment of taxes.

In 2003, for example, Shell became one of the founding members of the Extractive Industries Transparency Initiative (EITI). The EITI requires members to disclose information about every step of their industry... from the moment when raw materials are extracted, to how revenues make their way through the government, and ultimately how they benefit the public.

In 2012, we took another step forward when we voluntarily published our tax payments in 14 key countries for the first time, through our ‘payments to governments’ report, which was two years earlier than legally required. We have published this report every year since, most recently in 2020 when we detailed payments to 24 governments in countries where we have upstream operations.

And six years later, in 2018, we joined forces with the not-for-profit organisation the B Team. Here, together with other companies, investors, and NGOs, we developed a practical set of Responsible Tax Principles.

So, we were starting from a strong position when we decided to publish our first Tax Contribution Report, covering 99 countries across all our businesses, not just upstream. The report underscored the important contribution that

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Shell makes to society worldwide by paying its taxes. For the year 2019, we reported having paid an effective (income) tax rate of 35.5% - which, I don’t have to remind you in this committee, compares with an average OECD tax rate of 23.5% in 2019.

But I don’t mind telling you that it still took a great deal of work and many internal discussions before we could publish the report.

Because even though Shell already adhered to many of the B Team principles, there is always room for improvement. Also, many employees in the company had concerns - about how, for example, people might interpret – or misinterpret – this new tax information. The more information we released, the more we would put ourselves under a magnifying glass, resulting in understandable, but tough questions from the public, the media and investors.

Ultimately, however, we knew there was much to be positive about, and however difficult the questions, we were ready to answer them.

Our first Tax Contribution Report was published in December 2019, making Shell one of the first multinational companies to disclose its corporate income tax payments on a country-by-country basis. You can find the report, together with a helpful world map, on our website. The second edition of the report, published in November 2020, shows we paid well over 1.8bln USD in taxes in Europe in 2019, for instance.

As expected, our first report received a lot of attention. In fact, on its first day, it was one of the most widely viewed reports we had ever published.

And it triggered tough but fair questions. Why, for example, a company like Shell receives tax refunds in the UK, which is largely due to losses incurred on decommissioning our platforms in the North Sea. And why Shell is present in low-tax jurisdictions… and whether we use these locations to avoid taxation on activities that take place elsewhere. I was able to answer/tackle these and other critical questions myself when invited to explain Shell’s tax position in the Netherlands to members of the Dutch parliament during a hearing in 2019.
However, many NGOs and policymakers welcomed our voluntary commitment to tax transparency. We saw the report feeding into discussions across the world. And over time, other companies joined the movement to be more transparent about their taxes.

We will continue to encourage other companies to disclose more information about their approach to tax and how much they pay.

One of the best ways for Shell to do this, is by continuing to lead by example. So, with our third Tax Contribution Report covering 2020 due later this year, we will continue to search for ways to improve the level of transparency and information. We are asking ourselves whether our presence in low-tax jurisdictions is still necessary for our business. This is why we ended our financing activities from Switzerland to some Shell operating companies and ceased our lending activities in Bermuda.

For the third report, we also plan to review our reporting of tax incentives. This includes exemptions and reliefs that governments around the world use to encourage investment and job creation. More transparency about these incentives could - we hope - lead to greater understanding of what they are intended to achieve and the responsibilities of businesses who use them.

So, we intend to continue to improve transparency in Shell, and we hope others will do the same. We see the EU Public CBCR Directive as important to enhance transparency and to build trust. At the same time, we believe it is important for transparency requirements to be aligned and consistent to ensure quality and comparability of data when informing the public debate, as well as ease of compliance for companies.

There is one more thing I want to say which could be of interest to companies doubting the wisdom of becoming more transparent...

Opening yourself up to scrutiny, as Shell has with its Tax Contribution Report, can feel like taking an unnecessary risk. I know it felt that way to us initially. When we first started considering the report, we thought through all the possible risks, downsides and unintended consequences. I can tell you now that in reality these concerns did not play out. In fact, being more transparent
has strengthened trust in Shell, and it continues to strengthen our relationships with our customers, investors, policymakers and others.

So, I would encourage more companies to open their books and show their financial contributions to society. Because meeting society’s expectations will earn them trust... and because more transparency can support the development of fair, stable and effective tax systems which are always important... but today perhaps more than ever.

Thank you.