



# Seeking clarity in testing times

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**Jeroen van der Veer** is Chief Executive of the Royal Dutch/Shell Group and President of Royal Dutch Petroleum Company. He has been a Managing Director of Royal Dutch Petroleum since 1997.

He joined the Group in 1971 and worked in manufacturing and marketing in the Netherlands, Curaçao and the United Kingdom. In 1984, he returned to Shell Nederland as manager of Corporate Planning, and then of Pernis Refinery. After an assignment in Shell International, looking after Africa and Canada, he became a managing director of Shell Nederland in 1992. Four years later he became president and chief executive of the Shell Chemical Company in the United States.

He is a non-executive director of Unilever, serving as a member of the Nomination and Remuneration Committees.

He was born in Utrecht in the Netherlands. He has two degrees – one in mechanical engineering from Delft University and another in economics from Rotterdam University.

He is married and has three daughters.

**World energy demand could grow by 60% by 2030, primarily in major emerging economies. Most countries will become increasingly dependent on energy imports. Meeting these expanding needs will be a severe test for the energy system and will depend on mobilising large-scale investment in increasingly complex and technologically demanding energy projects. Timely investment to renew and expand capacity is essential to maintain secure supplies and moderate prices. Energy needs must be met without imperilling our environment or quality of life. International energy companies – with their financial, technological and human resources – have an important role in meeting the energy challenge. This depends on governments allowing access to resources on profitable terms. Companies will only gain the necessary support from governments, customers, society, employees and shareholders if they are clear about their goals and approach.**

The global economy is growing faster than for two decades. Yet, these are testing times for European businesses.

Geopolitical tensions make our world a dangerously uncertain place. Fears for supply security have helped push oil prices much higher than in recent years – although in real terms to only half the 1980 peak. The fall in the dollar has mitigated the effect in the euro zone – while raising concerns for economic stability and European competitiveness.

Meanwhile the global economy is being transformed by the rapid development of major emerging economies – such as China and India – increasing competition as well as offering new opportunities.

And companies face growing scrutiny and regulatory requirements from many quarters – including Sarbanes-Oxley and the new international accounting standards.

I will focus on the changes in energy markets that will have an impact on all businesses. Then say something about how we are responding in Shell to our business challenges.

I will make three main points:

- meeting developing energy needs will be a severe test for the system,
- doing so depends on mobilising large-scale investment in increasingly complex and technologically demanding energy projects,
- companies can only succeed in this testing environment if they are clear about their goals and approach.

I look forward to answering your questions and discussing your own thoughts.

### **Meeting the energy challenge**

What is the energy challenge?

The first part, of course, is to meet expanding needs. The International Energy Agency (IEA) expects world energy demand to grow by 60% by 2030.

Two-thirds of this will be in developing countries, particularly in those major emerging economies.

China's consumption of modern energy could more than double by 2030. This will have a major impact on world markets.

China's rapidly increasing oil consumption helped raise oil prices this year. Yet China only relies on imports for about a third of its oil. By 2030 this could be three quarters – with China importing as much oil as the US today.

Gas is the fastest growing fossil fuel, mainly for power generation. This is good. Using more gas in efficient combined cycle turbines is important for reducing growth in greenhouse emissions.

But perhaps three times as much gas as now will have to be delivered across borders, through dedicated delivery chains. Half will be transported as liquefied natural gas (LNG).

By 2030 gas will probably account for a third of our energy in the European Union. In 1971 – the year I joined Shell – it was only 8 percent. In Holland we were the largest consumers and made

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a substantial contribution to the needs of our neighbours.

Europe will import some 65% of its gas in 2030 – and nearly 90% of its oil.

European oil production is already falling and could be a third of today's level by 2030. Gas production could peak before 2020. Maintaining even those levels will require sustained investment and technological advance.

According to the IEA, over \$220 billion in real terms will need to be invested every year to meet the world's demand for fossil fuels.

Most will go on maintaining present production capacity, not to supply new needs.

And this is only 40% of the total investment in energy – most of which goes on power generation and transmission.

It is not just the amount of money that matters, although we shouldn't underestimate the challenge of attracting capital for riskier investments in developing countries.

Companies must also be able to undertake increasingly complex and technologically demanding projects – finding and developing resources in harsher conditions, in more difficult geology, and further from market.

What about oil prices?

Oil prices were driven up this year by rapid demand growth when stocks were low – exacerbated by geopolitical uncertainty. Stocks are being rebuilt and prices have fallen back. They could fall further. When and how far is not clear.

What is clear is that the system is no longer shock proof. There is insufficient spare capacity to compensate for interruptions in supply.

Timely investment to renew and expand capacity is essential to maintain secure supplies and moderate prices.

I will come back to what this requires.

But first let me say something about the second part of the energy challenge – meeting energy needs without imperilling our environment and quality of life.

Despite the siren voices there are no easy solutions. Equally – and contrary to

what some suggest – there is much we can do, and need to do, now. Let me touch on three particular challenges.

The first is for those of us who take responsibility for energy projects – to ensure they benefit local communities and safeguard their environment. This adds to the complexity of major projects but is an essential management capability.

The second is for fuel suppliers and automotive manufacturers – to protect our air from traffic fumes. To put that in context, there could be 100 million more cars on Chinese roads by 2030.

Much is being done – a ferment of advances in engine and fuel technologies.

We are working in many different areas – including pursuing the potential of hydrogen – but let me focus on the role of high quality fuel from gas.

We have been working on Gas to Liquids (GTL) for three decades

- improving the technology,
- gaining experience with a pioneering plant in Malaysia,
- and working with automotive companies to develop markets.

Now we plan to spend around \$6 billion on a major GTL plant in Qatar.

By 2015 GTL fuel could meet more than 3% of world diesel needs – making an important contribution to cutting polluting emissions.

The same technology could be used to produce cleaner fuels from coal and biomass. We are already pursuing the potential for Coal to Liquids – in conjunction with Coal Gasification – in China.

The third challenge is for us all – to respond to the global threat from climate change.

Transforming the way we supply and use energy will take decades. But we can all use energy more efficiently – and, in our experience, make a return from doing so.

The EU emission-trading scheme, which starts next month, is an important stimulus for flexible and economic action.

The IEA has produced an alternative scenario to show the impact of further

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action to enhance efficiency and speed technological advance. This shows global energy demand growing more slowly – by 40% by 2030. Fossil fuels would still supply 80% of energy but with more nuclear and renewables. It would require just as much investment.

I believe that international companies – like Shell – have a major role in meeting the energy challenge. Only they have the financial, technological and human resources to undertake the necessary projects in the required timescale.

But we can only do this

- if governments allow us access to resources on profitable terms,
- if we maintain the trust of our customers and neighbours, and the wholehearted commitment of our staff, and
- if our shareholders have faith in our strategy and our ability to deliver competitive results.

None of this will happen if we are not clear about

- our goals and approach,
- what we offer to our customers and partners, and
- our values and standards.

Let me say something about how we seek that clarity in Shell.

### **Making strategic choices**

The essence of our strategy is simple – more upstream and profitable downstream.

That means more investment in projects to develop new resources, extend production in our heartlands, and bring gas to customers.

Europe is one of those heartlands. We are investing to extend production here – for example in the Groningen field in Holland – as well as exploring for new resources. Four of our 19 ‘big cat’ exploration wells – looking for major prospects – next year will be in European waters.

And we are building on our integrated strength in gas – as a major European producer, supplier of gas from Nigeria and the Middle East, and pan-European marketer.

Outside Europe, one area of focus is unconventional oil, particularly from oil sands in Canada. We see great potential for expanding production from our substantial oil sands resources in Athabasca – as a secure source of high-quality fuels for North American motorists.

And we are determined to retain our leadership in the expanding LNG business – investing in new supply projects, such as the major Sakhalin project on Russia’s Pacific coast, and linking them to markets by developing import terminals and securing sales. Our LNG sales will double between now and the end of the decade.

As well investing to reshape our portfolio, we are making significant divestments – selling \$10 to \$12 billion worth of underperforming and non-strategic assets by 2006.

And – when the right assets are available at the right price – we may also make focused acquisitions.

We are integrating our downstream oil products and chemicals business into a single global organisation, which is shifting its focus towards growth markets. By the end of the decade nearly 40% of our downstream capital employed will be in Asia and the Middle East.

Our strategy of offering differentiated premium fuels – challenging the easy assumption that fuels are commodities – is proving very successful.

A company can only succeed if it has the right business culture. I believe that must be one that emphasises – and rewards – leadership, accountability and teamwork. And we need a simple, standardised and disciplined approach to everything we do.

I intend to make Shell a different company – less complicated, more competitive and more focused on results.

### **Clarifying structure and governance**

That requires a simpler corporate structure.

Changing a complex relationship built up over a century – and with a long history of business success – takes thought. But we were determined on

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decisive action rather than just tinkering at the edges.

So – subject to shareholder approval – we propose to create a single parent company – Royal Dutch Shell plc – with one shareholding, one board, a non-executive chairman and a chief executive. It will be registered in Britain and headquartered in the Netherlands – and retain a global perspective.

This will clarify our governance and simplify our corporate processes. Most importantly, lines of accountability will be crystal clear.

As Group Chief Executive, I have

already been made accountable for implementing our strategy and delivering results.

In these testing times I am conscious of the challenge this presents – but also of the many opportunities for energy companies in responding. It is vital for society that we meet the energy challenge. I am determined that people will ‘be sure of Shell’. Our contribution must both be responsible and deliver competitive shareholder value.

So we face many challenges – which in turn offer many opportunities. I say let’s go for it.

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