



Meeting challenges in a complex energy market

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Based on a speech to the Energy Institute autumn lunch,
London, 20 October 2004



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As a managing director he is responsible for human resources; the international directorate; legal; HSE; strategic planning; sustainable development and external affairs. He also has regional responsibilities for the United States, Canada, and Mexico.

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.

Short term factors in the energy industry are high on the agenda at the moment but that makes it even more important that the industry and policy makers keep their focus on the long term. We are facing a more uncertain climate, not least in the UK as the role of the North Sea changes. However, Shell believes that there continue to be attractive opportunities in the North Sea, helped by technological development and increasing cross-border co-operation from governments. The UK will, nonetheless, need to import more of its energy in the future and a number of major projects are already under construction to secure those imports. It will be important for policy makers to ensure that the regulatory framework across Europe is supportive of these major long-term investments that will bring the diversity of supply that is the key to security of supply. We will be operating in a more complex and challenging world but the skills and the expertise of the energy industry will ensure that it successfully meets the challenges ahead

Energy has rarely been higher up the agenda than it is at the moment. The price of oil seems to hit the headlines every day and politicians, journalists and the man at the petrol pump are all expressing opinions and making predictions about what the price will be next week, next month and beyond.

However, I shall not be following them down that path. I shall instead take note of a comment in an editorial in the Financial Times that warned, ‘forecasting short-term oil price movements is a good way to make yourself look stupid.’

I want instead to start by making three broader points about the current and future energy context.

The first is that oil supply is not at capacity – but demand may well be close to it.

The second is that ensuring that we have the capacity to meet future demand means investing now for the long term. And governments will need to facilitate that investment.

And third, we are operating in an increasingly complex energy market and that presents challenges for us all.

Let me look at current demand in more detail. We are in an unprecedented situation. This year we have seen the biggest annual increase in global oil demand since 1978 – and the total increase is likely to be 2.8 per cent over the year – more than double the average of recent years. And it is that which is putting pressure on oil prices at the moment.

While that situation is understandably

attracting a lot of attention we, in the energy industry, must be careful not to be distracted too much by these immediate pressures but keep our focus on the long term.

The energy industry has always had to take the long view. Long-term investment and long-term deals are at the heart of what we do. And Governments and policy makers, who tend to be driven by the short term, will increasingly need to recognise that if they don’t create the environment for long-term energy investment then future prices will be high.

And the scale of the task ahead is significant. The IEA estimates that we will need to invest \$6 trillion in the oil and gas sectors over the period to 2030 if we are to be able to meet future demand. This is achievable but will require a supportive tax and regulatory framework and real focus and vision from all those with a stake in the sector.

And that brings me back to my third point – the complex global energy market. Demand is growing, and growing in new areas of the world; there are new suppliers; and even new products such as gas to liquids. That means that the energy sector is going through a period of massive change, and that judgements and decisions have to be made in a more uncertain climate. That makes for a more exciting but potentially riskier business environment, and we need to make sure we manage those risks and adapt successfully to that new environment.

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This is particularly true of the UK where the role of the North Sea in supplying the nation's energy needs is changing and that clearly presents challenges to those who work in the energy sector, to policy makers and to consumers.

However, I want to stress that Shell does not share the view that the North Sea is rapidly approaching the end of its life. Rather we believe that it is in a healthy middle age. We will have to adapt and do things differently but there are still many years of productive life ahead.

And Europe and the UK remain very important to Shell's business. A third of the Group's upstream earnings, production and capital investment comes from Europe. In 2004 our capital investment in the North Sea as a whole will reach about a billion pounds. We continue to explore in the Atlantic margin, have secured new licences in Norway and are applying technology to develop and extend the life of marginal fields across the UKCS.

Across Europe, we have at least as much still to produce as has been produced in the past thirty years, and in Norway we have probably produced less than a third of the available reserves. And much of that development will involve the use of UK skills, expertise and infrastructure.

We think there is plenty of value left in the North Sea. It still offers attractive returns. And we are still making the investment to secure those returns.

And, we are not alone. Recent UKOOA figures show that the industry plans to invest £18 billion in the period to 2010. There have been a record number of new entrants in the latest licensing round, and exploration and appraisal expenditure is likely to rise by 12.5 per cent compared with last year. All of these are very positive signs that underline that there is more to come from the North Sea.

We perhaps should not be surprised. The history of the North Sea has been one of constantly exceeding expectations. We sometimes forget that, at the very beginning many thought that the North Sea was too difficult, that the conditions were too harsh and that it

would always be too expensive to produce oil and gas from such a hostile environment.

And to an extent that pessimism has persisted with regular predictions of the imminent end of production. In 1983, a report published by UKOOA predicted that oil and gas production would peak in 1986 at 2.5 million barrels a day and then would decline steadily to 200,000 barrels a day in 2000. A prediction that has been rather wide of the mark with production last year at four million barrels of oil and gas equivalent a day.

The reason why those predictions have been wrong in the past is, in large part, thanks to the skills that can be found across our industry. In particular, the constant willingness of our industry to push the boundaries of technology has transformed the production outlook for the North Sea. Without the technological developments of the past fifteen years, those predictions about the decline in North Sea production would have come true.

Instead by applying new technology, fields that were seen as uneconomic, even ten years ago are now being profitably developed. One good example of this is the Goldeneye gas project which started production this week. The field was discovered in 1996 but despite having fourteen billion cubic metres of gas reserves was seen as economically marginal and technically difficult to develop. However, innovative solutions, including the longest tieback in the UKCS directly to the processing facility at St Fergus, have made the project a viable one.

And that innovative approach has also helped to minimise the environmental impact both on and offshore - making Goldeneye a good example of the way sustainable development can be integrated into a project - from planning to construction to operation.

Of course, it is not just in the North Sea where we, as an industry, are pushing back the frontiers of what is possible. Let me just give you two examples of Shell projects - Sakhalin off the far east of Russia which will produce oil and gas from waters that are frozen for half of the year and the Coulomb development

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that operates in record water depths in the Gulf of Mexico. And there are countless other examples across our industry where innovation, skill and determination have achieved what was once thought impossible. And that is why I made the point at the beginning of my speech that supply is not at capacity – the future potential of this industry remains enormous.

And I want to mention the role the Energy Institute has played in fostering that potential and in driving best practice. Perhaps you will allow me to mention one particular initiative, developed by Shell, which the Energy Institute are now helping to share more widely. This initiative shares best practice on safety through what we call our *Hearts and Minds* toolkit. This is a set of materials, developed with input from leading European universities and established psychological research, that provides techniques for changing attitudes to safety in organisations and building a safety culture.

This is vitally important - prolonging the life of our North Sea assets requires us to work smarter and faster - but we must not lose our focus on the essential task of making that work safer. We hope that this partnership will make a contribution to achieving that end.

My comments show that there is plenty of evidence to allow us to be optimistic about the future of the North Sea but we must also be realistic. It is a mature basin and the UK will need to get accustomed to importing more of its energy. This is not an unusual situation – most developed countries have long imported most of their energy and have established reliable suppliers. For example, western Europe has been supplied with Russian gas for thirty years, without interruption, even at times of significant political uncertainty. And we see further potential for Russia, along with others, to continue and develop that role.

Diversity of supply is the key to security of supply. What is needed to achieve that diversity is the long-term approach and supportive investment climate I mentioned at the beginning of my comments.

I think we can see some evidence of

that here in the UK where action is being taken in a timely way to meet the changing situation, where industry and government are working well together to create the climate which will support future investment.

Let me just mention two particular projects. The first is Ormen Lange that will be operated by Shell from 2007, when production is due to start. This is a truly giant gas field which could produce 20 billion cubic metres a year and which has the potential to supply 20 per cent of UK gas needs for 40 years through the 1200km Langeled pipeline to Easington. One of the reasons why the investment in the pipeline has been secured is the progress the UK and Norwegian Governments have made towards in removing the barriers to co-operation across the North Sea.

And I want to pay tribute to both governments, and indeed all the industry parties, who realised the amount of the value that could be released by working together - and have taken the real practical action to deliver that value. It is clear that, in the future, much more energy, especially gas, is going to be supplied across borders, and not just one border. And it will be vital for Governments to recognise the need to remove barriers to that movement, to understand the additional complexity, and indeed risk that brings to energy suppliers, but also the real value they can add through co-operation.

Business has led the way in this respect. Shell's creation of a pan European exploration and production organisation last year marked our clear recognition that our separate national businesses were not the best structure to maximise the future value from the North Sea. By breaking down our own national boundaries we have placed ourselves in a better position to adapt to changes in the North Sea and work effectively across borders. And I hope policy makers will adapt in the same way to provide the regulatory and competition law regimes that will facilitate this cross border approach.

Another important project that will help provide future energy supplies to the UK is the Gasunie BBL pipeline which will run from Balgzand in the Netherlands to Bacton and will have the capacity to

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supply up to 17 billion cubic metres of gas to the UK. Clearly, this project requires significant capital investment and that carries risks for investors. And it has been particularly encouraging that Ofgem have indicated that they are willing to exempt the BBL pipeline from third party access requirements. This is a welcome sign of an increased understanding from regulators and governments of the particular demands of the new business environment and that a flexible approach is necessary to support this kind of large scale investment.

The UK has led the way on developing a highly successful liberalised gas market and I think is now leading the way on setting a framework that will create the investment climate that meets the needs of an energy importing country.

We hope that a similar approach will be taken across the EU. We welcome the gas directive and the benefits that can come from competition and liberalisation of the whole market.

However, that more competitive environment will mean a more complex, more fragmented market where there will tend to be a greater focus on the

short term.

That makes it even more important that the overall regulatory framework is supportive of long-term investments. I think these arguments are now being accepted by regulators, both in the EU and in the US, as they focus on the particular investment that will be needed in infrastructure to secure energy imports.

As I outlined at the beginning of my comments, we are operating in a more complex world. And that is not going to change. In particular, energy supplies are will be travelling further, projects will be more technically complex and commercial arrangements more challenging. That does place a requirement on us all to keep that focus on the long-term, to make the investment that will develop future capacity, and ensure the diversity of supplies that will bring security of supply.

So this is a time of change and challenge for all, especially here in the UK, but there is a real strength and depth of expertise in UK energy industry that will ensure that it adapts successfully to that change.

And while the future will remain uncertain, there is one thing about which we can be confident - energy will remain at the heart of the policy debate.

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