



Shell Chemicals

**“Rising to the challenges
of downstream
development”**

Saudi Downstream Conference

8-9 March 2011

Ben van Beurden
Executive Vice President Shell Chemicals

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Ben van Beurden

Ben van Beurden was appointed to the position of Executive Vice President Chemicals on December 1, 2006, based in London. Prior to this from January 2005 he was Vice President Manufacturing Excellence based in Houston, responsible for standards in operational excellence and pacesetting initiatives in refining and chemicals manufacturing. From 2002 until 2004 Ben held the role of Private Assistant to the Chairman of Royal Dutch Shell.

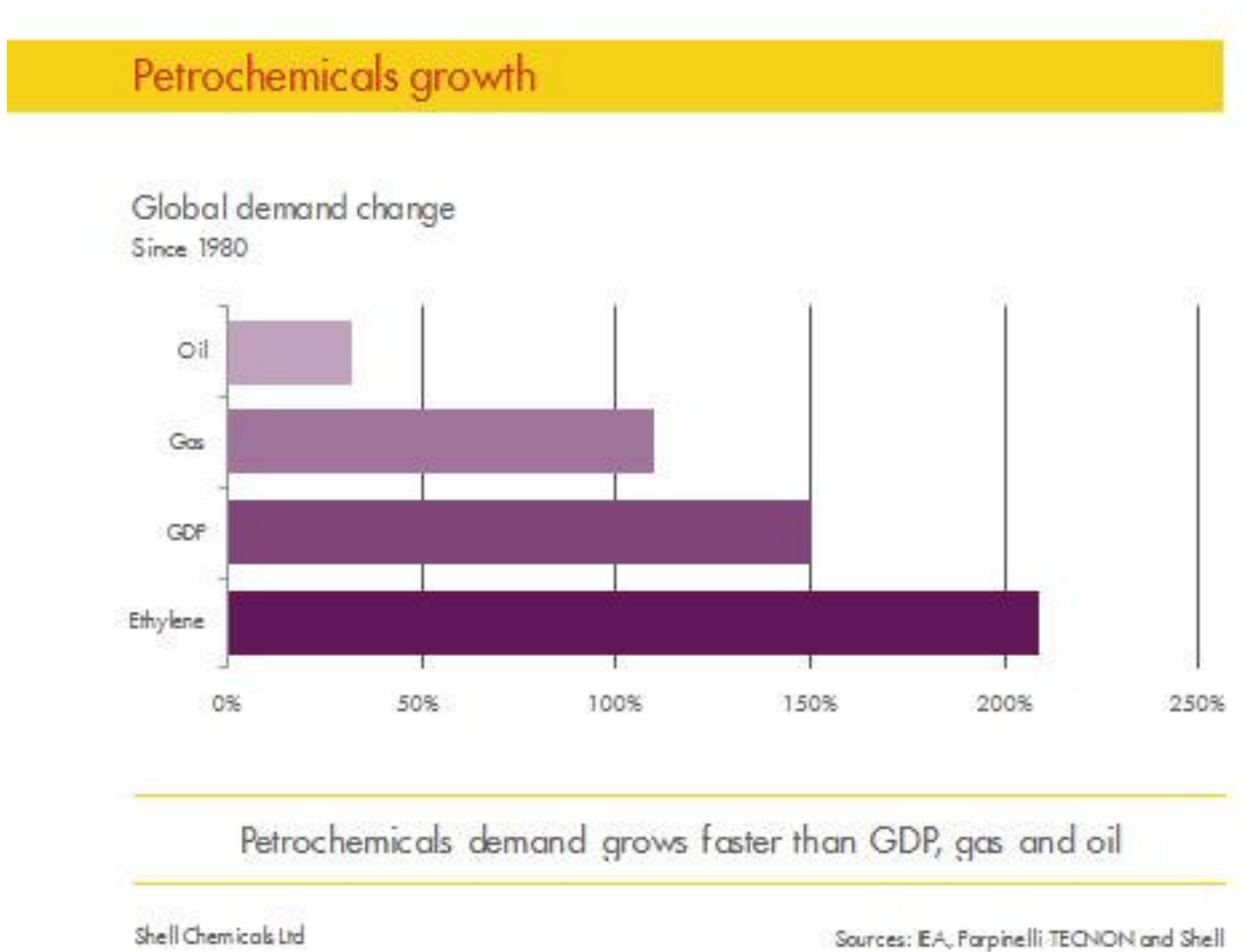
In March 2009, Ben was appointed to the board of the International Council of Chemicals Associations (ICCA). The ICCA represents chemical manufacturers and producers all over the world. In 2010 he became the chair of the Program Council - Communications for the ICCA.

Ben joined Shell in 1983 after graduating with a Masters degree in Chemical Engineering from Delft University in The Netherlands. From 1983 to 2002 Ben was employed by Royal Dutch/Shell Group of companies in a variety of technical and commercial roles both in the upstream and downstream businesses. He has lived and worked for Shell in The Netherlands, Sudan, Malaysia, The United Kingdom and The United States.

Ben is married to Stacey and has four children - a son and three daughters. He enjoys reading, running and travelling with his family.

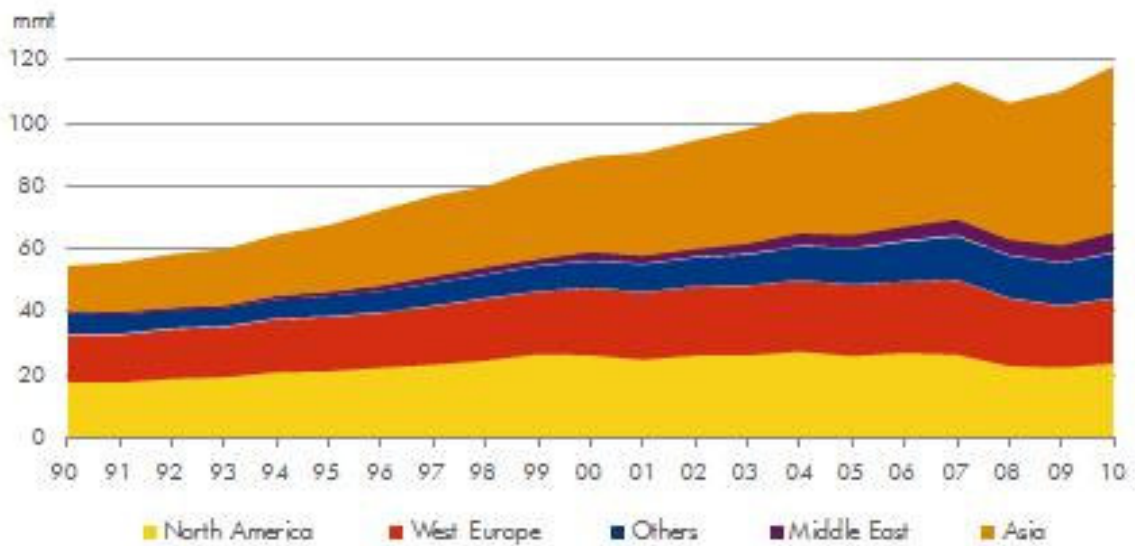
Over the last 10 years the global petrochemicals business environment has been favourable towards producers located in the Kingdom of Saudi Arabia (KSA) due to the strong global demand for products based on low cost gas feedstocks in a world of rising crude prices. To continue growing over the next 10-20 years, including supporting the growth of the identified industrial clusters, the KSA petrochemicals industry will need to respond to the changing global environment through greater efficiency, stronger value chain integration and pursuit of a broader range of value capture opportunities.

The global petrochemicals business environment



- Global chemicals demand has been strong over the past decade as a whole compared with GDP/oil products.

Regional demand of ethylene equivalent



Impact of recent recession felt mainly in North America and West Europe

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Source: CMAI

- While Asia demand slowed along with the rest of world in the recent recession, recovery came quicker than most predictions.

Ethylene operating rates



In 2008-2010 feedstock constraints and reliability issues significantly increased overall effective operating rates

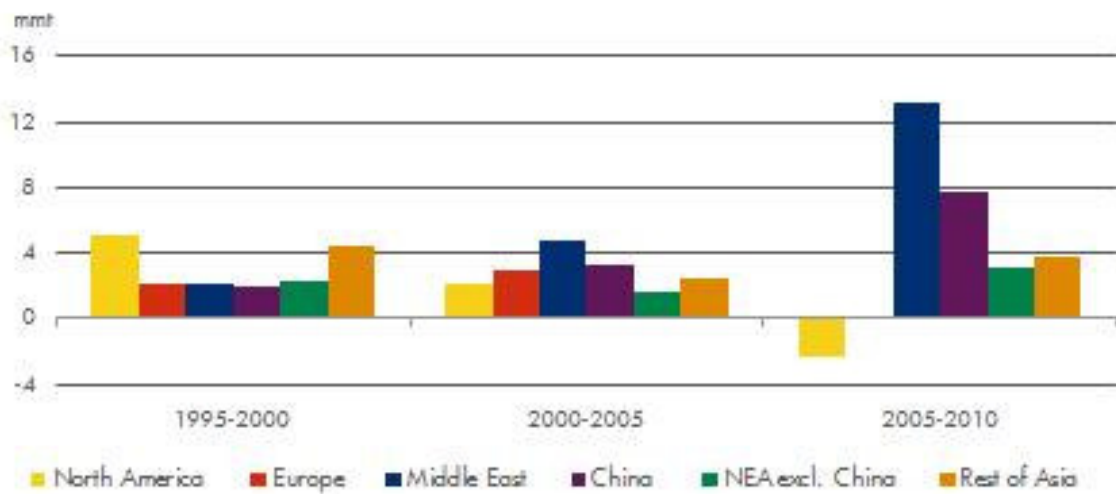
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Source: CMAI

- Global operating rates were buoyant between 2004 and 2007, led by strong demand.
- A significant amount of new capacity came on stream since 2008, although feedstock constraints and reliability issues tempered the impact on effective operating rates.

Global ethylene supply

Capacity increase by region



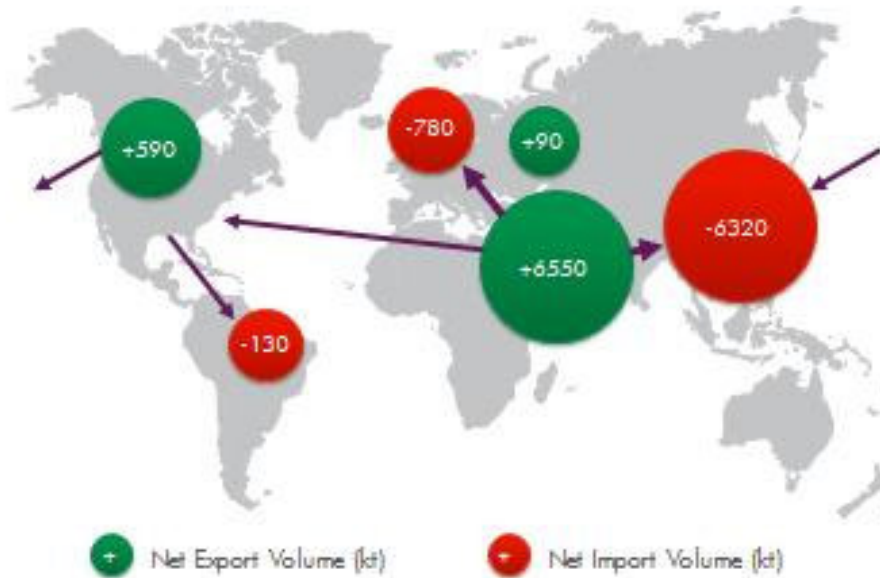
Shift in investments to Middle East and China

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Source: Forpinelli TECNION

- In the past 10 years there has been a significant shift in location advantage, with much of the new capacity being built in the Middle East, due to advantaged costs, and China, due to its end-product manufacturing base for domestic demand and exports.

MEG net trade flows 2010



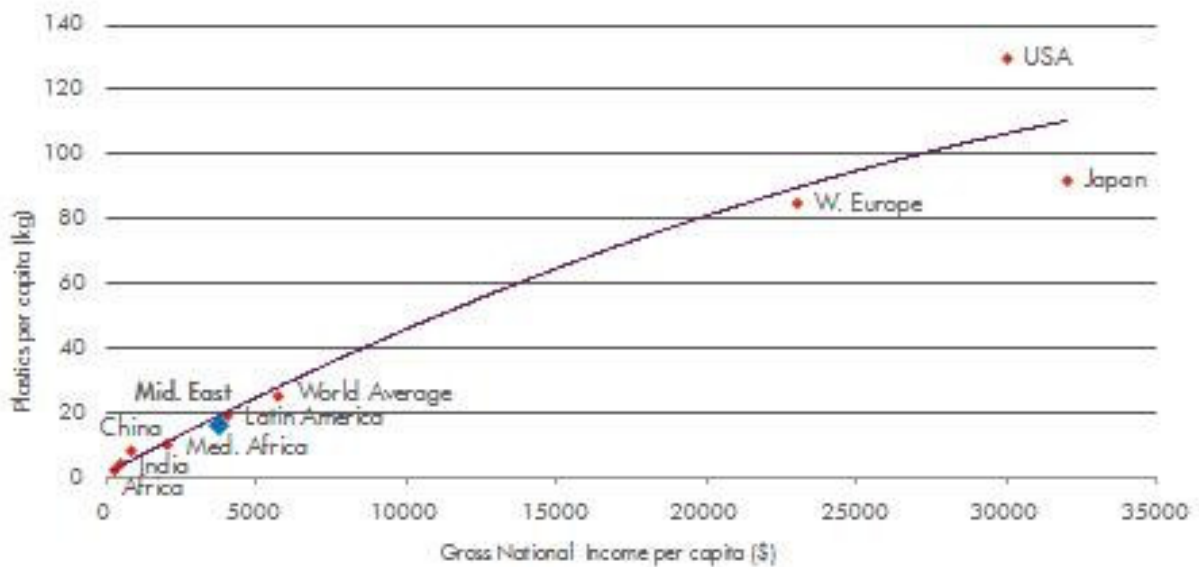
ME replaced NA as major exporter of commodity petrochemicals

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Source: PCI Xylenes and Polyesters Ltd

- Over the past 10 years, players with gas feedstocks (or mixed feed) have enjoyed a competitive advantage compared with 100% naphtha based producers, as crude prices rose relentlessly.
- Feedstock advantage has been the main driver of Middle East petrochemical producers and provided a first quartile competitive position, allowing them to compete in global commodity markets

Potential for long term growth



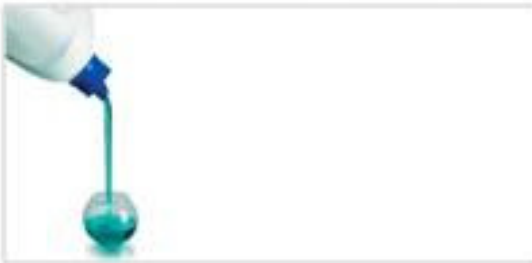
Developing world provides continued growth outlook

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Source: Various publicly available data

- Chemicals demand is expected to remain robust
- Petrochemicals are fundamental to growth due to the broad range of functionality and applications they support.
- The chart shows that, as economies grow, so does their consumption of plastics

Chemicals for a lower carbon world

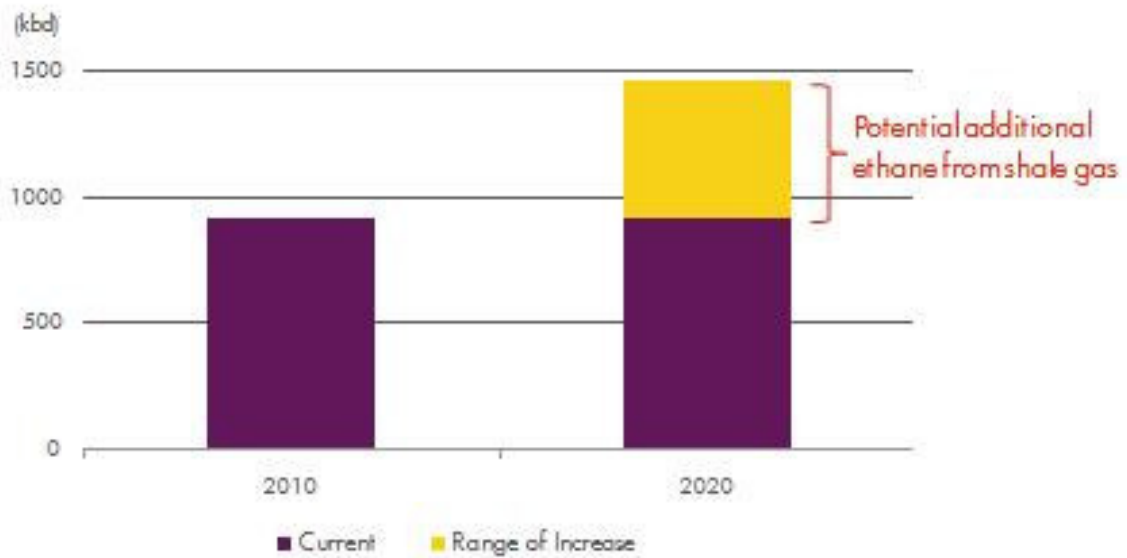


Insulation, lighter vehicles, lower temperature
detergents and enhanced oil recovery

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- Chemicals offer solutions in the transition to lower carbon economies
- Examples include:
- Light weight automotive/ packaging – eg PC/PET
- Insulation eg PU/EPS
- Low temperature detergents – ethoxylates
- Chemical enhanced oil recovery

US ethane supply could increase significantly



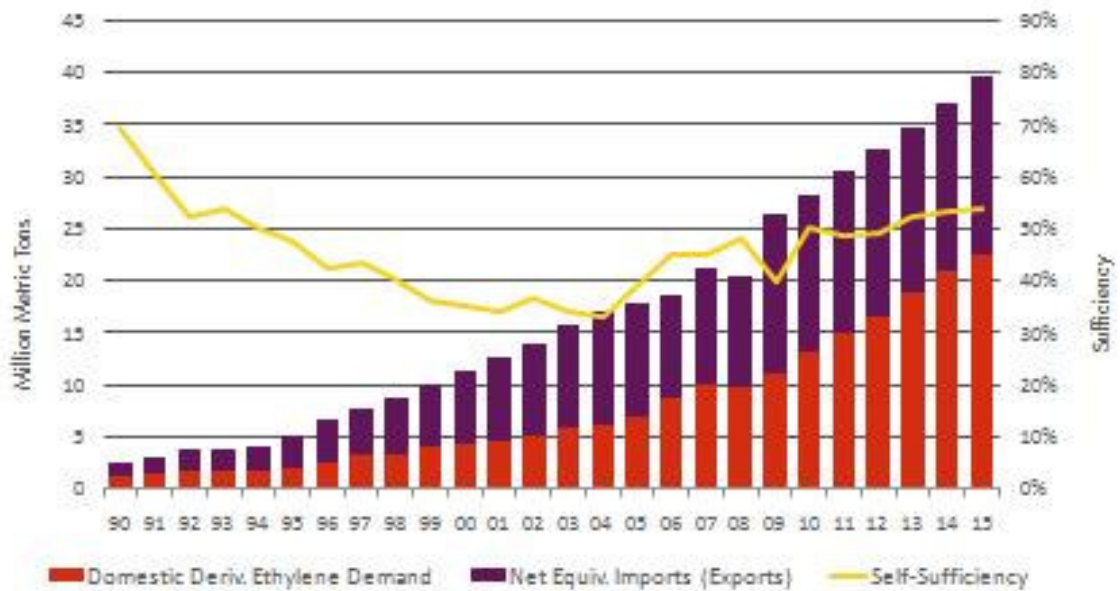
Actual ethane supply will depend on natural gas supply, gas wetness, recovery levels, logistics and demand

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Source: Petrol, CERA, Shell

- In the US, the widening of oil and gas prices has brought potential new opportunities based on ethane from shale gas.
- Other unconventional feedstocks which may become more widely used in the petrochemicals industry are biomass and natural gas.

China ethylene self sufficiency



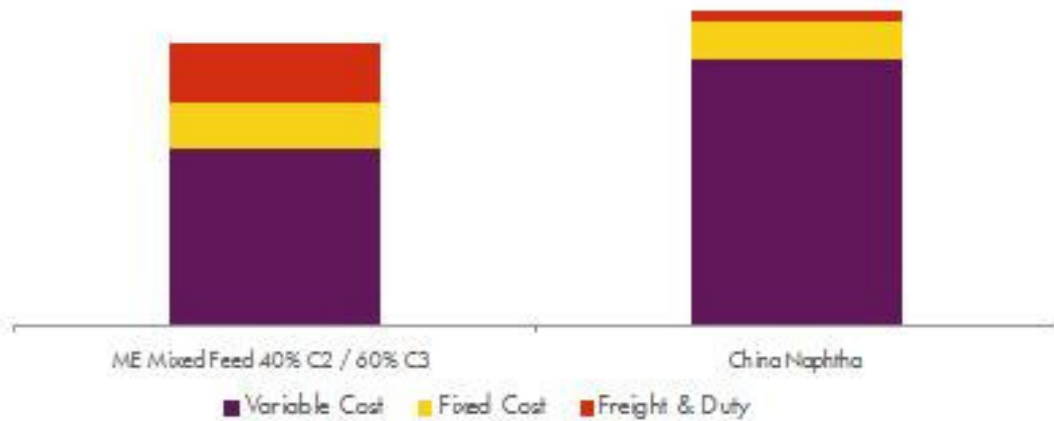
China remains the major importing country of petrochemicals even with extensive investments

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Source: CMAI

- In implementing their 11th five year plan, China has sought to narrow the gap between petrochemicals demand and local production.
- In their 12th five year plan, China is setting challenging energy efficiency targets, focussing on higher value added products and continued emphasis on integration.

Future outlook for MEG integrated cash costs (delivered China)



Less differentiation of regional production costs for future investments

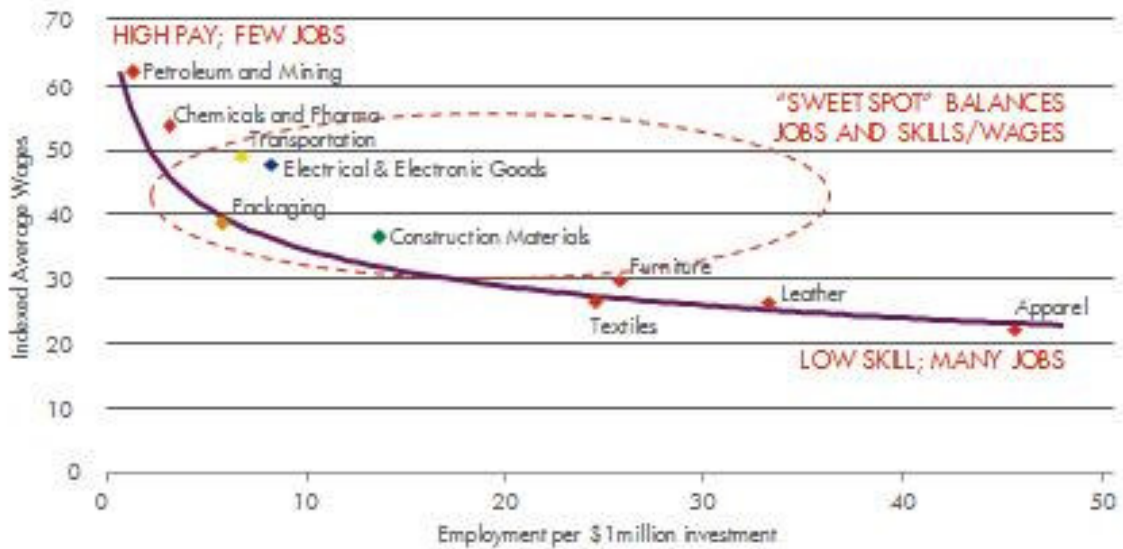
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Source: CMAI and PCI Archetype data

- In summary, continued demand growth means there will be scope to invest in petrochemicals.
- On the supply-side, the game appears to be changing in the longer term
- For the Middle East, future investments may be on a more level playing field compared with other regions than the recent past.

Growth of Industrial Clusters in KSA

KSA selected Industrial Clusters



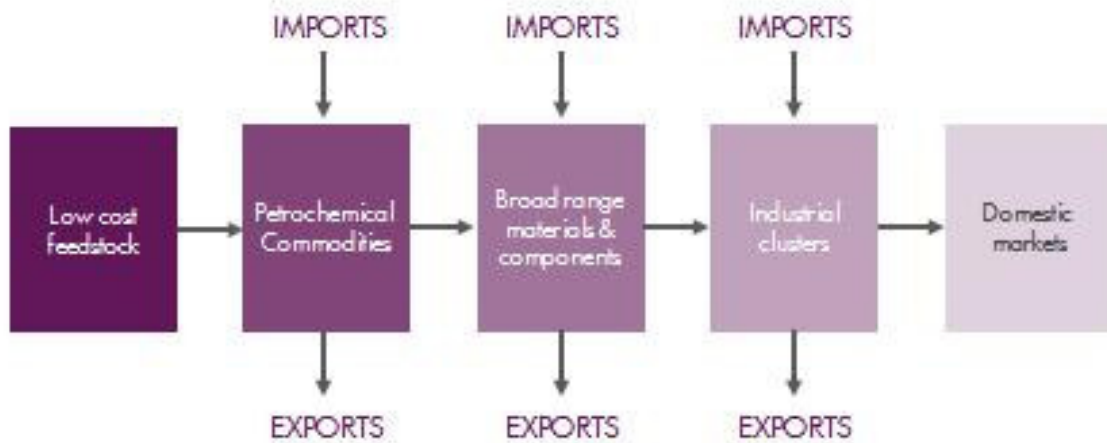
5 Clusters: Automotive, Metals Processing, Construction Materials, Flexible Packaging and Appliances

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Source: 2002 US Census

- Cluster development centres on the "sweet spot", which balances the creation of jobs with the right profile of skills and wages.
- The five key clusters are automotive, metals processing, construction materials, flexible packaging and appliances.

Developing the petrochemical value chain



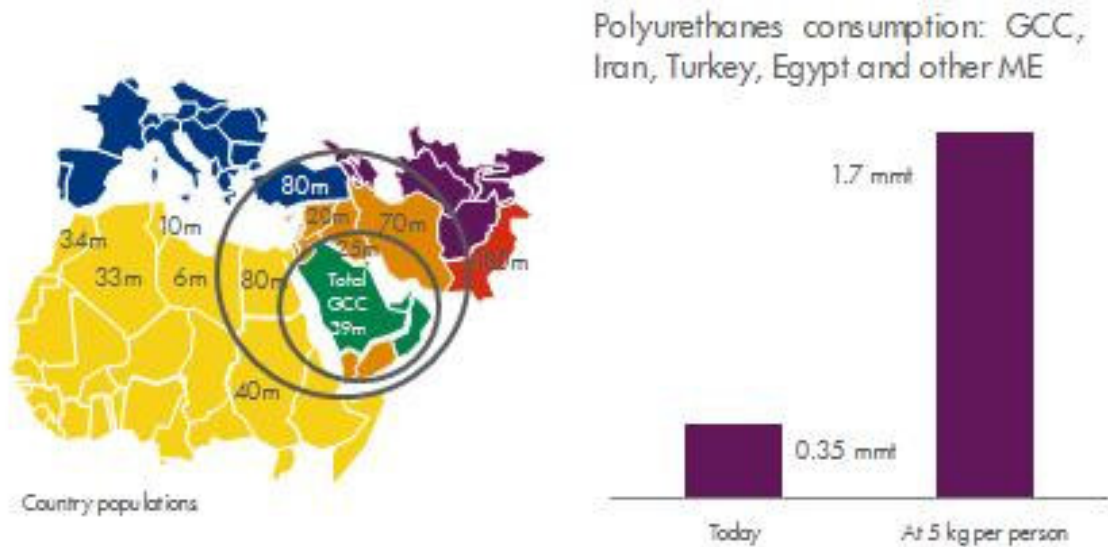
Low-cost feedstock, efficient world scale plants & technology

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- The petrochemicals industry in KSA needs to diversify from exposure to commodity sales to Asia.
- Petrochemicals are an integral part of the clusters – especially automotive, flexible packaging and appliances.
- To supply the clusters locally, the KSA industry needs to broaden and deepen the range of petrochemicals manufactured.
- Even with healthy growing domestic markets, some exports will continue to be essential, as supply and demand never perfectly match.
- All petrochemicals, whether gas or liquid based, will need to be competitive in global markets.
- Critical success factors for Industry Cluster development are:
 - Manufacturing standards and competitiveness.
 - Provision of manufacturing infrastructure.
 - Financing, international trade and investment development.

- Professional and vocational skills development.
- Regulation.
- Science, technology and innovation research.

Access to growing markets



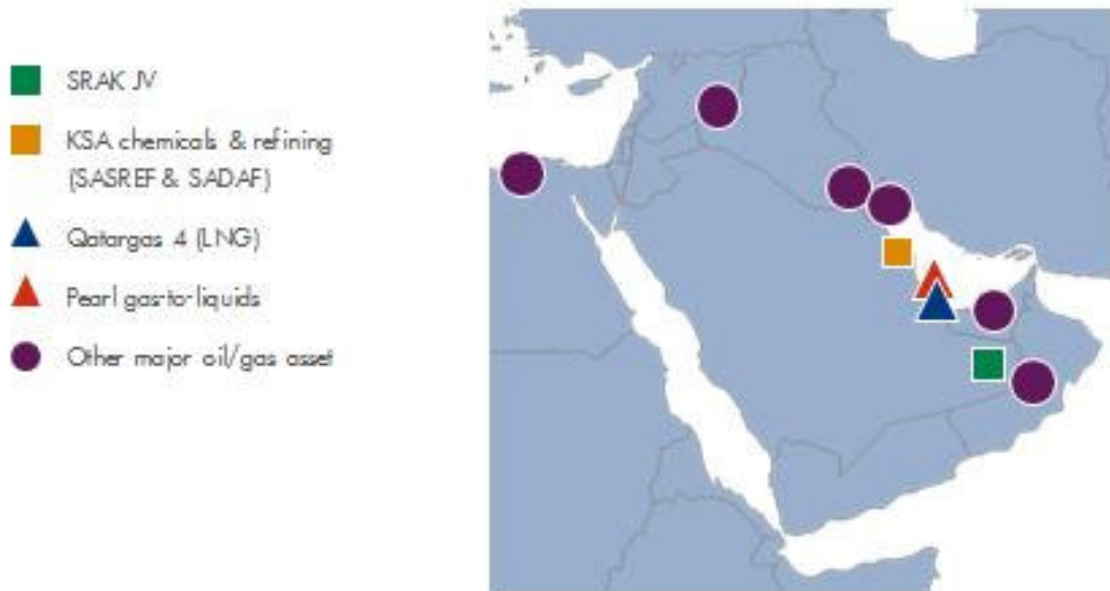
KSA lies at the centre of a number of populous and evolving markets with growing demand for goods

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Sources: various publicly available data

- The chart shows the potential for polyurethanes growth in the region. If consumption grew to the per capita level seen in Western Europe – about 5kg/person/year – this would represent a market of about 1.7 million metric tonnes - five times its current size.

Shell major Middle East activities



A committed partner in the Middle East for many years

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- Shell has breadth and depth of experience around the world with successful developments in many geographies and cultures – eg Malaysia, Qatar, China, and of course in KSA
- Shell has an upstream presence throughout the ME in Egypt, Syria, Iraq, Kuwait, Oman, UAE and Qatar.
- In KSA, Shell has assets in Upstream, Kidan North and South Fields and exploration activities via the SRAK venture. It also participates in the midstream and downstream sectors through its SADAF and SASREF ventures.

Maintaining competitiveness

STRATEGIC CHOICES:



DELIVERY:



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- The fundamental factors for success in petrochemicals are the foundation of Shell strategy for chemicals (see slide for key strategy elements).

Intilaaqah in KSA



Launched March 2010

- 1000 participants in 2010 (Riyadh, Dammam, Jeddah, Hail, Jizan)
- 165 start-up enterprises by participants



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- Shell Intilaaqah Saudi Arabia is an initiative designed to support young Saudi's to develop the business enterprise skills they need to set up their own business.

Conclusion

- In summary, KSA needs to develop strong industrial clusters with connectivity into markets.
- Shell is a major player in the hydrocarbon business and seeks to grow a strong, integrated footprint.
- Shell has been a trusted partner in KSA petrochemicals for over 20 years
- We look forward to a long future working together with you.

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Peter Voser

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