Moving with the times

Oil and Money
London, UK

Ben van Beurden

CEO, Royal Dutch Shell plc

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Ben van Beurden became Chief Executive Officer (CEO) with effect from January 1, 2014.

He joined Shell in 1983, after graduating with a Master's Degree in Chemical Engineering from Delft University of Technology in the Netherlands.

Ben's career in Shell spans both Upstream and Downstream activities. He has held a number of operational and commercial roles, including some 10 years in the LNG business, and a variety of positions in Downstream. He has been based in The Hague, Sudan, Malaysia, London and Houston.

In January 2005, he became Vice President, Manufacturing Excellence, based in Houston, USA. In this role he was responsible for standards in operational excellence and high-performance initiatives in refining and chemicals manufacturing.

In December 2006, he was appointed Executive Vice President, Chemicals, based in London, UK.

During his tenure in the role, Ben was appointed to the boards of a number of leading industry associations including the International Council of Chemicals Associations and the European Chemical Industry Council.

He is a visiting Professor of the International Studies Institute, the Party School of the Central Committee of the Chinese Communist Party, and a member of the Advisory Board of the School of Economics and Management Tsinghua University in Beijing (both since 2015).

From January to September 2013, he was Downstream Director and had regional responsibility for Europe and Turkey. He has been a member of the Executive Committee since January 2013.

Ben, a Dutch citizen, is married and has three daughters and a son.

Shell is investing significant money in areas like renewable power generation and new fuels and moves into these areas by an oil and gas company attract interest. Alongside these investments Shell is fully focused on providing the energy its customers needs today, tomorrow and for the years to come. Ben van Beurden says that this means that even as Shell changes, its core business will remain in oil and gas – and particularly in natural gas – for many decades.

It is great to be back with you – especially as this year marks the 50-year anniversary of Shell in the North Sea.

Of course, people wonder about the future of the North Sea. They wonder about the future of the whole oil and gas industry. In the context of climate change, they wonder about the future of the world. These are all big issues for our industry and I talk about them regularly.

Headlines

As a result you might have seen some headlines about Shell's investment in hydrogen or its moves into electric car charging. Or perhaps about Shell's acquisition of First Utility, our first major step into the power sector. And, a few months ago, I suggested that the UK should consider ending sales of conventional cars before 2040. That got a little attention at the time.

But even headlines that are true can be misleading. They might even make people think we have gone soft on the future of oil and gas. If they did think that, they would be wrong.

So, I thought I would take this chance today to update you on where Shell is. This being gas day, I thought I would major on gas, how it fits in with Shell, how it fits in the global energy landscape and how the industry can help make sure that natural gas fits in with what our customers need and want.

First of all. Briefly back to those headlines.

Shell's spending on New Energies is, indeed, huge. But it is $1-2 billion out of total annual capital spending of around $25 billion.

I believe it is right to be spending up to $2 billion on areas like renewables, new fuels and supplying electricity because that is what our customers will want over the long term and Shell intends to stay with our customers over the long term.

But, we also intend to stay with them right now, next year and for all the years to come until this long-term future becomes reality.

We will change over time. Shell's portfolio will evolve. And things like renewables will become a bigger part of what we do. But that pace of change will be linked to the pace of change in society.

We do plan to be at the forefront of change in our industry but we cannot and will not seek to dislocate ourselves from the people who buy our products.

Core business

That means Shell's core business is, and will be for the foreseeable future, very much in oil and gas, and particularly in natural gas. Oil is going to be needed by this world for a long time to come, and gas even more so. And yes, we have made a few big moves into gas.

The biggest was BG Group. Shell acquired BG for many reasons, including its excellent deep water portfolio. But its gas assets were truly a jewel in the crown. Overnight, Shell cemented its leading position on LNG.

There have been plenty of other moves too.

You all know that Sakhalin 2 is one of the world's largest integrated, export-oriented, oil and gas projects. You all know that Pearl GTL is the world's largest source of gas-to-liquids products.

And then there is Prelude, our new floating liquefied natural gas facility off the coast of

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Australia; there is our LNG presence in Nigeria with six production lines in operation; and there is our Pennsylvania Chemicals project, which will be using shale gas once construction is complete. Exploration, production, liquefaction. Transport, regasification and chemicals. Wherever you find natural gas in the energy system you also find Shell.

And I have not even mentioned LNG Canada yet. Do not worry, I will.

Investing

Over the last 10 years, Shell has invested heavily in gas and we will continue to grow that side of the business. We have already grown it so that gas accounts for one-third of our capital invested, and these days Shell produces about as much gas as we produce oil. So although the pace of growth may be a little less dramatic than in recent years… it will still be growth.

But with a third of the company's capital invested in gas it cannot just be about growth. The Integrated Gas business has to generate serious cash. That is why it is classified as what we call a cash engine in the Shell portfolio, alongside Oil Products, and Conventional Oil and Gas. All three businesses must, and do, make a major contribution to the foundations of the rest of the company and to shareholder distributions.

By contrast we look to Deep Water and Chemicals as our main areas for growth. Shales is at the next level, considered an emerging opportunity, alongside New Energies.

So, we have invested heavily in gas. To the point that we lead the international oil companies. And we intend to keep it that way.

Why? Because gas is the fastest growing hydrocarbon market. Between 2018 and 2035, Shell expects natural gas demand to grow at an average of 2% per year. That is twice the rate of total worldwide energy demand. The future of liquefied natural gas looks even better. We expect demand for LNG to increase at an average of 4% per year until 2030.

The growing demand for natural gas means new projects must come on stream.

And if I can talk, for a moment, about Europe.

Yes, there is definitely a future for the North Sea, and Shell is investing in that future. This year alone we have taken a final investment decision on the Penguins field. This will mean building our first manned installation in the northern North Sea in almost 30 years. And we also decided to invest in the Fram field in the central North Sea.

Security

But no oil or gas well has an indefinite future and so it is with the North Sea. Production will decline and, eventually, it will run dry. And as it does, international suppliers – suppliers like Shell – are going to be ever more important for European energy security.

Europe will have to import more. From the US, north Africa, the Middle East. And, yes, if Europe wants to have an affordable and secure energy supply, from Russia too.

To that point, for all the genuine, deeply felt, political concerns around Nord Stream 2, the reality is that Europe needs it.

And when it comes to global LNG demand the situation is even more acute.

In particular, Shell has been warning for two years running now about the low level of international investment in LNG. In this year's LNG Outlook we raised the possibility of a supply crunch by the mid-2020s.

And now; now it is time for me to talk about LNG Canada. Because if anything shows you that Shell means business when it comes to gas, it is this project.

We have taken a final investment decision with our joint venture partners and construction on the plant is starting immediately. We expect our first LNG by the mid-2020s.

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For us, it is the right project in the right place at the right time.

The site has access to abundant and low-cost gas. And a lot of the infrastructure is already there: an ice-free port, roads, railway and power.

LNG from the project will be able to reach Tokyo in half the time of a cargo from the Gulf of Mexico. And it is due to come on stream at exactly the time when we expect demand for LNG to be outstripping supply.

And LNG Canada is right in two other ways. Both of them crucial to the future of the whole gas industry.

Costs

The first of them is that LNG Canada is right on costs. Everything has been done to bring costs down to the minimum without compromising safety. From using and tried and tested modular construction methods to the decision to avoid over-complicating things on a technical level, instead using industry standard kit.

The fiscal framework provided by the Canadian government also helped ensure the project could go ahead.

Let me be quite clear, LNG Canada would not have made it, if it had not had such a compelling case on costs.

So it should be. Even at a time of $70, $80 or even $90, oil.

Or you could say, especially at a time of higher prices. Because history tells us that when costs get out of control, customers turn elsewhere.

So LNG Canada is compelling on costs. And it is compelling also on greenhouse gas emissions. LNG-Canada will have one of the lowest greenhouse gas emission-profiles for a project of its kind, in large part because of our decision to use of hydro power.

It is critically important that the industry works to improve the environmental case for gas.

We all know about the superiority of gas as a cleaner source of power over coal: it emits between 45% and 55% lower greenhouse gas emissions than coal when used to generate electricity, and less than one-tenth of the air pollutants. We all know that the flexibility of gas-powered turbines makes natural gas the ideal partner for intermittent renewables.

It is advantages like this, alongside the carbon price floor, that have all but squeezed coal out of the power generation picture here in the UK. And the next stage for the UK, by the way, would be greater use of gas in industrial processes and the decarbonisation of gas power generation with carbon capture and storage.

But these environmental benefits of natural gas over coal are not enough.

Cleaner energy

Society rightly demands ever cleaner energy. Where natural gas is concerned, this means we must reduce leaks of methane throughout the production system. That is why, last November, Shell helped put together some guiding principles focused of reducing methane emissions, and why I am so glad that 15 companies have joined Shell in signing up to them.

And it is also why Shell has launched a major push to improve the data we gather on our own operational methane leaks – and that includes oil as well as gas projects. With better data we can make sure we hit the target we announced last month: to ensure Shell keeps its methane emissions intensity, for both oil and gas, below 0.2% by 2025.

It is for this reason – and for all the other reasons I have outlined – that I said that you should look to LNG Canada to see that Shell means business in gas. We do.

Smart moves

It is the latest of the company's big moves into gas. I think they are smart moves – moves making Shell financially stronger. With a consistent focus on keeping costs down, they will remain smart moves.

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"Society rightly demands ever cleaner energy"

And I believe moves into gas can be smart for the industry as a whole; and even more so if it can continue to come together to boost the environmental case for gas by tackling methane leaks.

If it can, I feel confident that investment in gas will pay out handsomely for a very long time to come.

I do not expect this stance to make big news.

No newspaper will run a story with this headline: "Oil and gas CEO has confidence in future of gas".
That is not news.

But, nevertheless, it is true.

Thank you.

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