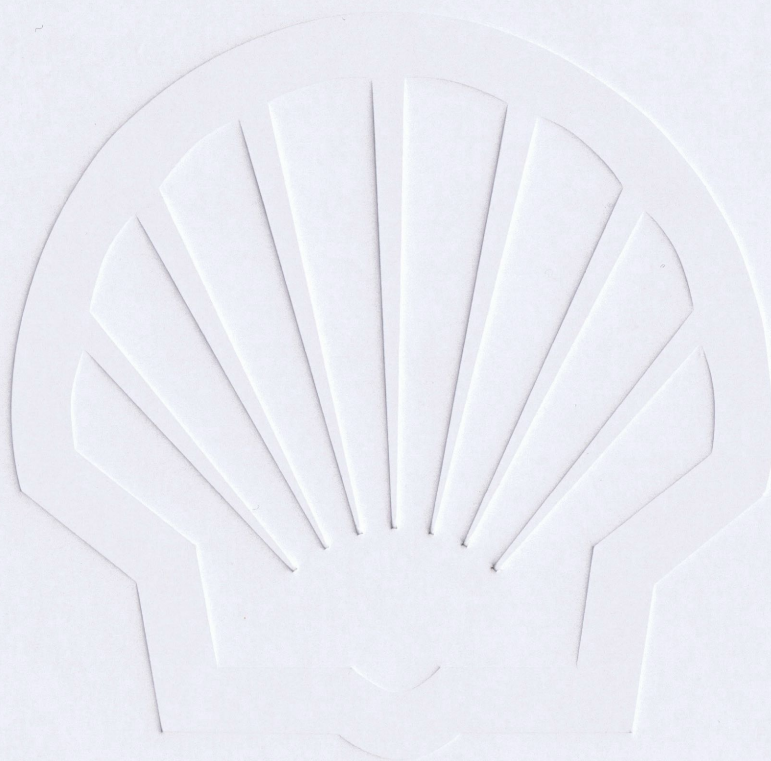
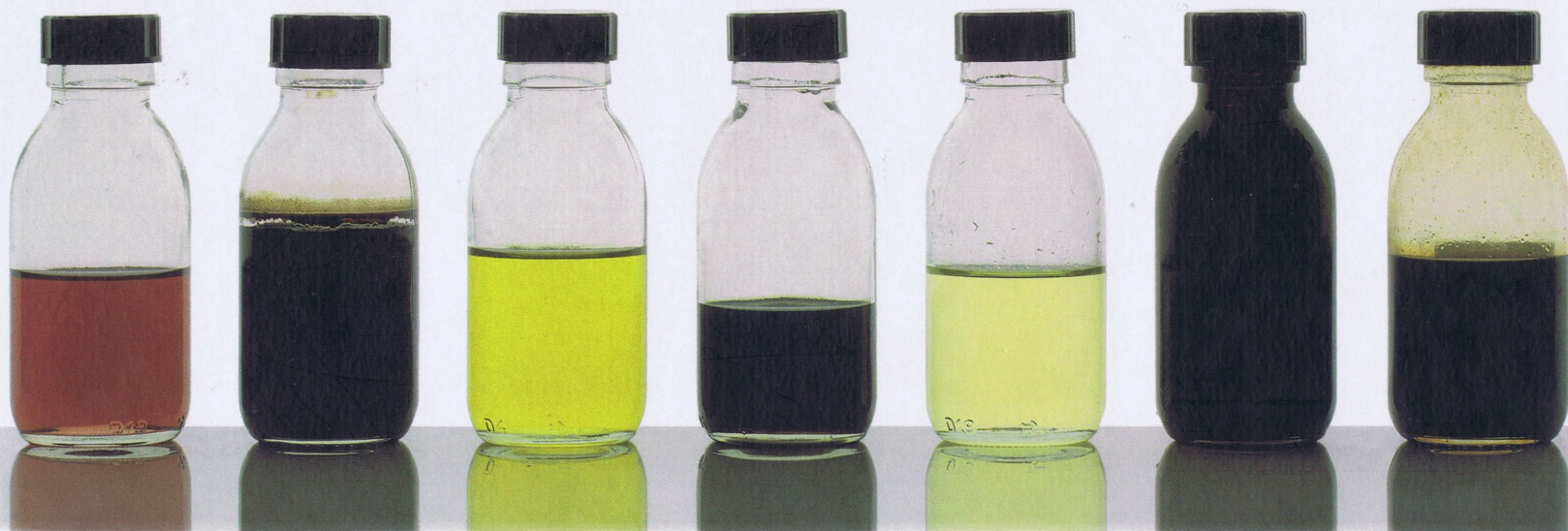


Keeping Competitive in Turbulent Markets, 1973–2007
A History of Royal Dutch Shell, volume 3



Keetie Sluyterman



Access to energy, particularly to oil and gas, will become a serious issue in the course of the 21st century. This book discusses one of the most important players in the international oil industry, Royal Dutch Shell plc. It takes the story from the first oil crisis in 1973 until 2007. It highlights how this European-based enterprise, with its Dutch-British nationality, faced up to the nationalizations in the oil industry in the 1970s, and how it responded to the return of globalization and privatization in the 1990s. It explains how Shell seized opportunities during high oil prices and vigorously adapted itself during periods of low oil prices. Shell's policies focused on adjusting its range of activities, looking for leadership in technology, adapting its internal organization and human resources practices, and responding effectively to the increasing demands from shareholders as well as society. Compared to its traditional rivals ExxonMobil and BP, Shell sometimes performed better and sometimes worse, but it remained one of the key players in the industry. Based on unrestricted access to internal records and numerous interviews, this book gives a unique insight into the company's efforts to assure energy supplies for future generations.

Keetie E. Sluyterman is Professor of Business History at Utrecht University, and senior researcher at the Research Institute for History and Culture at the same university. She has written or jointly authored a large number of business histories, including *Océ*, *De Kuyper*, *Proost en Brandt*, *CSM*, *Rabobank*, and *Hagemeyer*. In 2005 she published the synthesis *Dutch Enterprise in the Twentieth Century: Business Strategies in a Small Open Economy*.

OXFORD
UNIVERSITY PRESS

www.oup.com





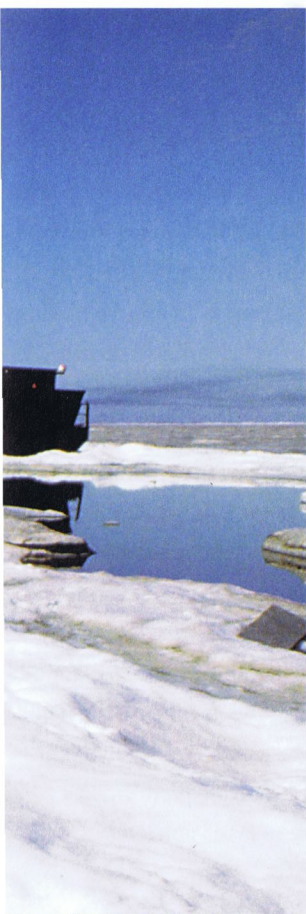
[51]

Despite concerns about the use of pesticides, herbicides and insecticides, Shell was active in this sector until 1993. However, it stepped up toxicological research to assess the impact upon the environment as well

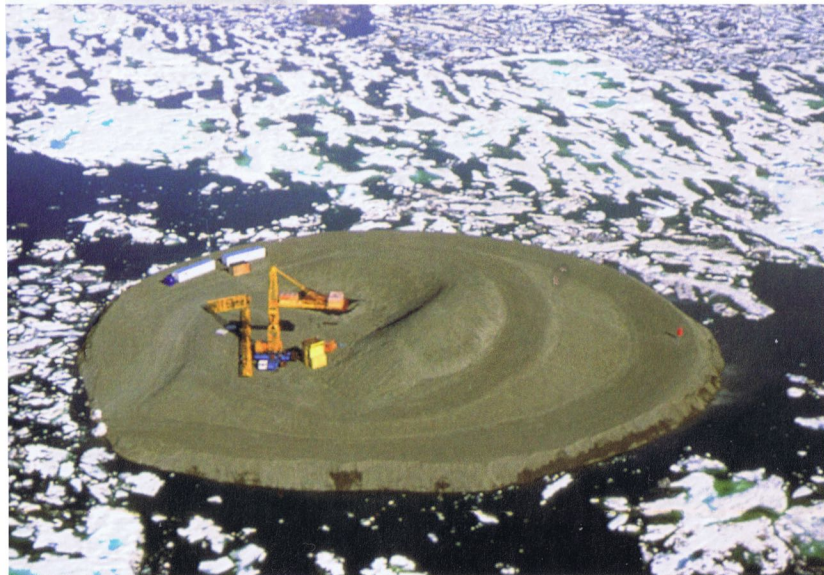
as on the individuals producing and using the chemicals. It also had an extensive research programme to develop new pesticides that were more selective and therefore could be applied in smaller amounts. In addition

Shell provided instructions to help users handle the products properly. However, stricter governmental regulations gradually banished many of these agrochemicals.

Above: Local Shell Chemical distributor of insecticides in El Salvador.



Despite their inhospitable climate and sensitive environment, the seas around Alaska attracted many oil companies to explore for oil. In the 1980s Shell Oil had high hopes of finding oil in the Beaufort and Chukchi Seas, off Alaska, where it acquired extensive exploration rights. It built a gravel island, Seal Island, to accommodate drilling equipment, while reducing the environmental impact of the exploration drilling. Though some oil was discovered, the amounts were not large enough to justify production.



[29]

US: struggling with high-cost oil Shell Oil in the US

possessed many mature oil fields, including the heavy oil of the Belridge Oil Company in California, purchased in 1979. In 1987 no less than 58 per cent of Shell Oil's US crude oil production needed enhanced recovery methods, such as steam injection or carbon dioxide flooding.³⁰ Not only was the heavy oil expensive to produce, it was also expensive to refine, while in times of declining oil prices the heavy oil and residual fuel tended to fall in price even more than lighter fractions. Moreover, heavy oil had a greater negative impact on the environment. The acquisition of the Belridge Oil Company had greatly expanded Shell Oil's domestic energy resource base. Looking back on his ten years in office as CEO of Shell Oil, John Bookout explained in 1987 that the Belridge purchase accounted for about 60 per cent of the company's acquisition spending over that period. After the oil price collapse of 1986 Shell Oil had stayed the course, and, in contrast to its competitors, not embarked on major programme cuts or large-scale enforced redundancies. As a consequence, oil production and oil reserves continued to grow, but income in relation to capital invested declined.³¹ After disappointing financial results in 1990 and 1991, the focus shifted to upgrading capital and costs structure through selective acquisitions, exchanges and divestment. Staff numbers went down from 32,000 in 1990 to 22,000 in 1993. Shell Oil had not had such a low staff count since 1932, the nadir of the Depression years.³² After the possibilities of cutting costs had been exhausted, Shell Oil decided in 1995 to combine mature upstream assets in West Texas and New Mexico with those of Amoco to create further cost savings. A similar arrangement was made with Mobil with regard to the mature oil fields in California.³³

Because all easily accessible oil in the US had long been discovered, new developments had to take place in frontier regions, in the Arctic conditions of Alaska, the unexplored waters of the Atlantic or in the deep-water of the Gulf of Mexico. With exploration in the Beaufort and Chukchi Seas in Alaska, Shell Oil entered a frontier area, which not only had a forbidding climate but also a sensitive environment. For that reason, Shell Oil built a gravel exploration island in the Chukchi Sea to reduce environmental damage. In 1990 two exploratory wells were completed and another started. After a fourth well in 1991, the results were not considered hopeful enough to continue the exploration efforts. Nor had Shell Oil any success in the deep-water Mid-Atlantic, off New Jersey, despite its experience in deep water exploration.³⁴

Shell Oil had a long tradition of offshore exploration and production. The first platform built in 1947 was in 6 metres of water, in 1970 a depth of 114 metres was reached, and in 1988 Shell Oil installed the world's largest offshore steel construction, the

Bullwinkle drilling and production platform, in 412 metres of water. To give this water depth some context: the Eiffel Tower in Paris is 318 metres high. The successful start-up of production of oil and gas in 1989 stimulated Shell Oil in developing even more ambitious plans. The Auger field, also in the Gulf of Mexico, had a record depth of 870 metres, twice that of the Bullwinkle field. For the development of the Auger field, Shell Oil chose the concept of a tension leg platform, first tried out by Conoco in the Hutton field in the North Sea.³⁵ Production from this field started in 1994, and yielded oil faster and in larger quantities than planned. Already in 1994 the field produced 55,000 barrels per day from seven wells, while the planning target had scheduled 46,000 barrels per day from thirty-two wells in 1996. As a consequence Shell Oil planned more tension leg platforms at even greater depth. The Mars field – the largest discovery in the Gulf of Mexico for twenty-five years – was brought into production using a tension leg platform in a record water depth of 890 metres. The Ursa tension leg platform

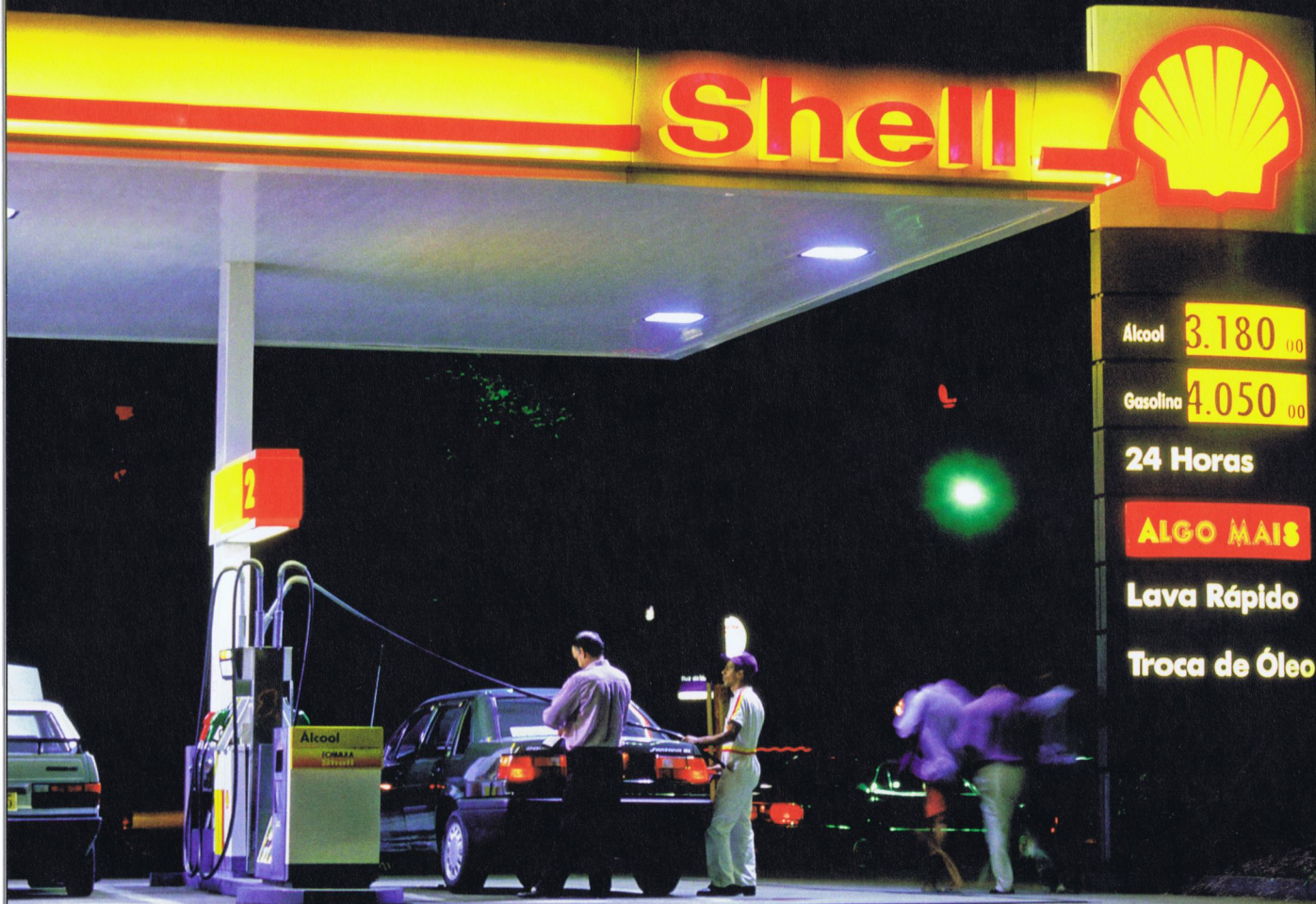
In the Gulf of Mexico Shell Oil was a major player. With its Bullwinkle drilling and production platform it reached a record size in steel jackets, here on its way to the Gulf in 1988, to work in water 400 metres deep.



[30]



[50]



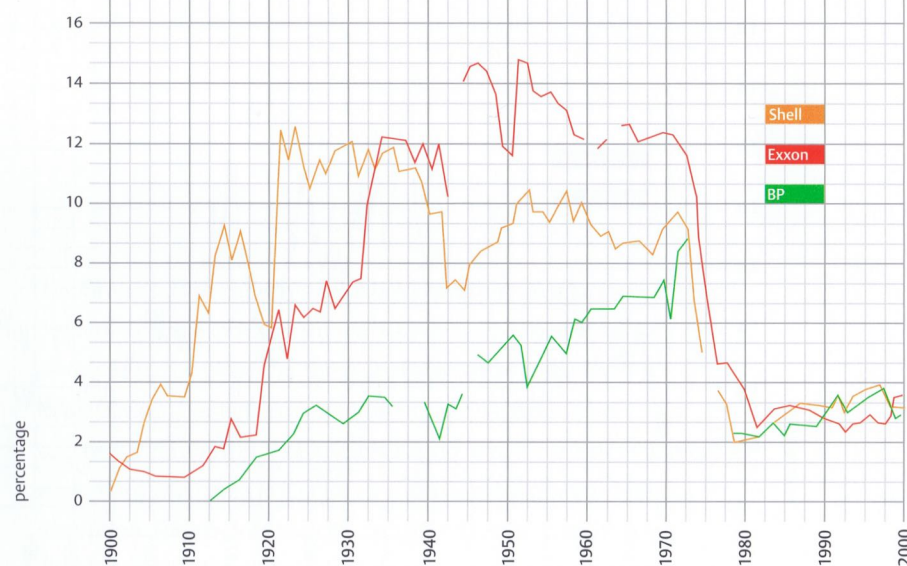


Figure 3
Share of Shell, Exxon, and BP in world
crude oil production, 1900-2000.

most notably the opportunity to participate in the development of Bahrain and Saudi Arabia. During the Depression of the 1930s the Group also operated more cautiously than its competitors, probably because it took the fragile instruments of the Achnacarry agreement more seriously than the other majors, including Jersey. This led to a loss of market share and to Jersey overtaking the Group as the biggest producer of crude oil from the early 1930s.

After 1945, regaining parity with Jersey Standard proved to be difficult. Shell's share in crude oil production remained below the peak of the 1920s (Figure 3) due to the loss of its resources in Indonesia and Romania, and the missed opportunities in the Middle East. In this respect BP, and some of the American independents not included in the figure, were much more successful during the middle decades of the twentieth century. Shell did participate in some of the joint ventures with which the majors divided the Middle Eastern oil between them, but not in the most important one, Aramco in Saudi Arabia. Throughout the 1950s and 1960s the Group conducted intensive exploration operations, typically drilling over a thousand onshore wells a year in the US alone, and with enough success to keep it in the running overall. The Group followed a strategy of balancing supply regions so as not to become

too dependent on any single one. In addition it eagerly adopted the post-war move to offshore drilling, contributing much to the development of the technology required. In 1960 Shell discovered oil off Qatar: a valuable addition to its Middle East interests which was enhanced by a subsequent exclusive agreement to develop offshore Kuwaiti oil. However, while it was true that the willingness to explore and produce in difficult areas represented one of the Group's traditional strengths, it also expressed one of its more recent weaknesses: a comparative lack of easy access to cheap oil. Moreover, Shell was not uniformly successful, finding oil in Oman after the competition had given up, but exploring for years in Alaska and then missing Prudhoe Bay by a few miles.

The first oil crisis of 1973 brought a severe loss of share in crude oil production for Shell, Exxon, and BP (Figure 3). Nonetheless they continued to play leading roles in the oil business, a remarkable achievement given the complete change in circumstances. Though none of them afterward came even close to their former share in world's crude oil production, they did regain some lost ground. Shell now reaped the benefits of its previous E&P strategy, spreading supply regions and developing offshore positions. The Group was particularly successful during the 1970s

CVs research team

From left to right:
Stephen Howarth, Joost
Jonker, Keetie E. Sluyterman,
Joost Dankers, Jan Luiten van
Zanden.



Jan Luiten van Zanden is Professor of Economic History at Utrecht University, and Senior Researcher at the International Institute of Social History in Amsterdam. He has published widely on the economic history of Western Europe and Indonesia, in particular on long-term economic growth and development.

Stephen Howarth is the author or co-author of numerous works of naval and maritime history and of commissioned corporate history. The latter include P&O, Shell Tankers (U.K.) Ltd, "Shell" Transport and Trading plc, Henry Poole & Co., the founders of Savile Row, and the Royal Naval Reserves. He is a Fellow of the Royal Historical Society and in 2003 was appointed an honorary Commander RNR by Her Majesty Queen Elizabeth II.

Joost Jonker specializes in financial and business history, ranging from the 16th century until the present. His publications include a history of Dutch international trading houses and an analysis of the emergence of securities trading at the Amsterdam exchange.

Keetie E. Sluyterman is Professor of Business History at Utrecht University, and senior researcher at the Research Institute for History and Culture at the same university. She has written or jointly authored a large number of business histories, including Océ, De Kuyper, Proost en Brandt, CSM, Rabobank, and Hagemeyer. In 2005 she published the synthesis *Dutch Enterprise in the Twentieth Century: Business Strategies in a Small Open Economy*.

Joost Dankers is associate professor at Utrecht University and coordinator commissioned research at the Research Institute for History and Culture. He is co-author of several studies on major Dutch companies and financial institutions. Together with Bram Bouwens he is currently doing research on cartelization and concentration as part of the major research programme *Business in the Netherlands in the Twentieth Century* (BINT).