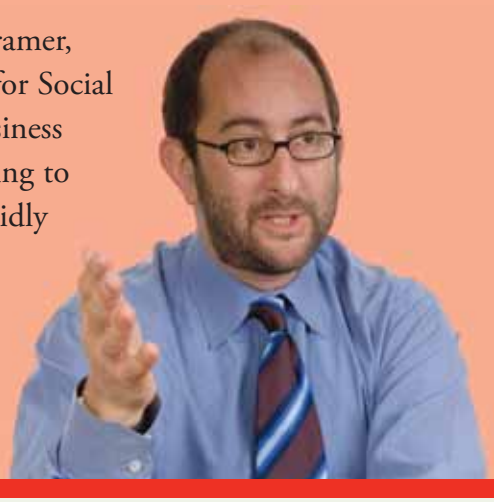
Sustainability and our business strategy

Jeroen van der Veer and Aron Cramer, President and CEO of Business for Social Responsibility, discuss Shell's business strategy and its role in contributing to sustainable development in a rapidly changing world.



How do you see Shell's future – as an oil company, an energy company or a sustainable energy company?
We are a hydrocarbons company, including petro-chemicals and clean coal technology. We are also trying to get at least one alternative energy technology off the ground. That is what I expect us to remain, at least for the coming decades. With so much more energy needed for development – especially in China and India – I am convinced that there is a financially sustainable future for a responsible hydrocarbon company. And responsible includes being a leading company in CO_2 mitigation. Our strategy fits who we are – more upstream investment in oil and gas production and increasing the profitability of our downstream refining and marketing activities.

That sounds like you still think there is time to avert a climate crisis?
It is clear that big global reductions in greenhouse gas emissions will be required by society. How big? Scientists and governments are best placed to decide. The scientists determine the climate consequences of different CO_2 levels. Governments must then determine what level is acceptable and propose policies to reach it.

As corporate leaders, we encourage action and use what we know about energy to advise governments. We invest in technologies and projects to provide both the extra energy and the integrated CO_2 solutions societies need. With our experience and expertise, I see a real business opportunity for Shell to find innovative solutions to CO_2 emissions from fossil fuels. Storing it underground, or using it to recover more oil from existing fields are two examples. I am optimistic about this.

But if big carbon cuts are coming, then why shift investment into the most CO_2 intensive kinds of oil – oil sands and shale? How can this be financially or environmentally sustainable?
Governments specify their energy mix through royalties, taxation levels and permitting requirements. They decide, for example, whether oil sands will be developed to address concerns about energy security. They also decide how much CO_2 mitigation is needed. Our responsibility is to point out how much CO_2 is emitted, develop technology solutions and indicate which policies or financial incentives are needed to encourage their adoption. Once the government decides, our responsibility is to be one of the lowest CO_2 operators for this source of energy, as Shell Canada is with the Athabasca Oil Sands Project.

Resource nationalism came roaring back last year. It affected you in Sakhalin and other places. Can you still achieve your strategy in this environment?
When energy prices are high, some producing governments tend to adjust their royalties and taxes. Big consuming countries try to secure supplies abroad and bid up prices. Costs go up. It makes life more difficult. But then you need to be smarter, and a good listener. You need to stay ahead with better technology and project management and by supporting the priorities of government partners.

We already work with national oil companies in what I call a 'buddy system', where we benefit from each other's strengths. We do this, for example, with Saudi Aramco, and with partners in Oman and in China.

Life clearly became more difficult on the Sakhalin project last year. Can the joint venture still meet its social and environmental promises with all the recent changes there?
I believe it can. After some difficult negotiating, we found a way to make Sakhalin work for all parties. Our Russian partner, Gazprom, understands that the project isn't only about pipelines and steel, that it also requires advanced technology, exceptional project management and a world-class approach to environmental and social issues. The fact that under the protocol, Shell continues to provide technical advice, and that the amended development budget is essentially agreed, are all signs of this. Clearly, the project will also benefit significantly from the long-term presence of a strong Russian partner.

> "Overall, I think people really underestimate what we're doing on Sakhalin. Delivering a project this size is like building a city from scratch. A few years down the road, it will be seen as a spectacular integrated project, which respected the environment and helped rejuvenate the Island."

People worry about the 'curse of oil' – that revenues from energy production don't benefit the local population. A problem for Shell?
As Nigeria shows, if people in energy producing areas think their children won't have it better than they do, you have big problems. As a responsible company, we can create jobs, help establish local businesses and set a good

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example. But effective public institutions and services make the real difference. Only governments can and should provide these. So we find indirect ways to help. For example, we strongly support The Extractive Industries Transparency Initiative (EITI), where we make public how much money we pay to governments. I believe this will have a real impact.

Nigeria remained a very difficult place to operate last year. Time to leave?

If Shell leaves, it will not do the people of the Delta any good. It will not help the environment or the battle against corruption. The operation would just motor on, possibly with less transparent companies working to lower standards.

And don't forget we have three operations in Nigeria: besides the joint venture we operate in the Delta, there is the offshore production and Nigeria LNG, which are both successfully expanding.

So no, we aren't thinking about leaving. We are focused on keeping our people safe. When our staff – local people and expatriates – are in danger, we temporarily stop operating. That is what we have done in the Delta.

There are lots of examples of leading environmental and social performance in Shell, and some poor ones. How are you going to get the consistency you need?

Usually, when we make mistakes, they have happened very early in a project. So we need to focus on the way we do initial designs and early engagement with stakeholders.

Dialogue. Design. Deliver. That is the way we need to work. We do this already on many projects. These are the ones you don't hear about. But we don't yet do it everywhere. Exploration & Production and Gas & Power, for example, are doing good work to improve their project processes so environmental and social issues are consistently identified and addressed earlier.

But with more than 100,000 people all over the world, how can you make sure they all understand and live by your principles?

Having the right words on paper is only 5–10% of the battle. The rest is behaviour. So we must follow up with training, coaching and constant reinforcement – saying the same simple things again and again.

It also means having clear consequences for people who do not comply and having compensation tied to people's performance. We have sustainable development in our scorecard. The scorecard is one of the factors determining staff bonuses.

> If something goes wrong, it is important to be transparent about it. These failures are a learning opportunity. So we need to make it safe for people to speak out when things are going wrong.

Our whistle-blowing programmes are important for this. Finally, leaders in Shell need to set a personal example, starting with me. If the guy at the top doesn't spend time with stakeholders or ask about environmental performance when he visits our operations then he has no credibility preaching about sustainable development.

In terms of environmental and social performance, what got you really steaming mad in 2006?

Fatalities. Every lost life is one too many. We just can't have that happen.

The antitrust violations are another. They were totally against our values. Even though the employees are long gone, I still get so angry.

And priorities or hopes for Shell in 2007?

Reducing fatalities. Absolutely. We need to learn from the industry and improve on process and personal safety. And making real progress on integrated CO_2 solutions.

I hope we can show people that Shell is really serious and proactive on CO_2. This is not just about being decent, but about being preferred. It is what society needs. It is what our people want as well. With our technical know-how, we can do it.

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