

SUSTAINABLE DEVELOPMENT: THE BASIS FOR PROFITABLE BUSINESS

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Check against delivery

Good morning ladies and gentlemen.

It's a pleasure to speak to you today about sustainable development and how it is being integrated into our thinking at Shell.

While the concept of meeting the needs of today without compromising the ability of future generations to meet their own needs is simple to state, the change in company culture and behavior takes time. So, we see it as a journey, a journey that is underway in Shell Canada and in Shell companies around the world. I will start with the global picture of sustainable development in the Royal Dutch/Shell Group of Companies and then move on to what Shell Canada has learned about sustainable development over the past decade.

At the Global Level

The Royal Dutch/Shell Group of Companies operates in more than 135 countries around the world. These areas of operation range from highly developed nations, where energy demands and environmental concerns run high, to developing countries facing poverty and internal conflict. Clearly, these extremes pose business challenges. In addition, the sources and use of energy is bound to change over the next 50 years. Shell's latest long-term scenarios take into account the key factors shaping this change, factors such as resource constraints, technology development and shifting social and personal priorities. Historically, convenience and technology drive the growth of new energy sources. The expectations of customers, and society as a whole, play a key role in energy choices and will also bear upon the issues of environmental impact and ease of use. Our scenarios contrast the evolution from coal through oil to gas, and perhaps to renewables, with the potential for a hydrogen economy. The latter is supported by revolutionary developments in fuel cells, advanced hydrocarbon technologies and carbon dioxide sequestration. In both cases, CO₂ emissions start falling before 2050.

How we do business is as important as what we do. Shell's Business Principles set the same standard for all our operations in every region. Based on the core values of honesty, integrity and respect for people, these principles apply to all our business affairs and describe the behaviour expected of every Shell employee. Embedded in the Business Principles is a commitment to "contribute to sustainable development."

So how are we doing? I will draw on some of Shell Canada's experiences to illustrate our progress.

Shell Canada Background

First incorporated in 1911, Shell Canada is one of the largest and most profitable integrated petroleum companies in the country.

Our Resources business explores for and produces natural gas, natural gas liquids, bitumen and sulphur. Most of the natural gas we produce contains fairly high levels of hydrogen sulphide. Our wells and processing facilities are situated in the Foothills of the Canadian Rockies, an area of outstanding beauty. It is home to a growing number of people, including farmers, ranchers, Aboriginal peoples, and recreational facilities. We also operate an in-situ oil sands project in Northern Alberta and own a 31.3 per cent share of the Sable Offshore Energy project, which produces natural gas offshore Nova Scotia.

As well, Shell Canada is in the initial stages of developing a renewables strategy. To date, Shell has agreed to purchase the electricity and any associated greenhouse gas emission credits generated by three new wind turbines installed in Southern Alberta. We have also initiated business analysis of opportunities in wind, biomass and run of river, which is hydroelectric power generation without the dam.

Our Oil Products business manufactures, distributes and markets refined petroleum products. Our three refineries convert crude oil into gasoline, diesel fuel, aviation fuels, solvents, lubricants, asphalt and heavy fuel oils. Shell Canada's retail network comprises 1,740 Shell-branded sites.

Our third business area is in oil sands, with the Athabasca Oil Sands Project now under construction in northeastern Alberta. Later, I will use this project as a prime example of sustainable development in action.

Shell Canada's corporate goals are leadership in profitability, which means attaining a 15 per cent return on average capital employed, and profitable growth, with an overarching commitment to sustainable development. We believe that success is based on continuously improving our performance in seven key areas of the business: profitability, customer focus, asset reliability, growth, costs, our employees, and health, safety and sustainable development. We call this operational excellence and it helps us to manage sometimes conflicting priorities. Every one of these areas contributes directly to our corporate goals and to the three dimensions of sustainable development.

Our company adopted a formal SD policy in 1990 and, since then, we have been working to integrate sustainable development into our day-to-day business. During this period, the company has revised its business strategy and made changes in its portfolio of activities. At the same time, operational excellence has allowed us to maximize opportunities presented by market conditions, boosting our earnings to \$858 million in 2000, up from \$79 million in 1992. Over that same period, our cash flow from operations has more than tripled, and our return on capital employed last year was 20.3 per cent – a big improvement over the equivalent 2.9 per cent of 1992.

As for profitable growth, Shell Canada is already benefiting from the production of natural gas from the Sable project, which came on stream in December 1999. And we expect our Athabasca Oil Sands project to reach its full capacity through 2003. Shell Canada's 60 per cent share in this joint venture makes this investment the largest in the company's history. Shell Canada is also part of a consortium of companies considering natural gas development in the Mackenzie Delta, in Canada's Northwest Territories.

As with any commodity, the petroleum industry is subject to volatile market forces. But today we are facing a broad range of uncertainties. We are looking at lower natural gas prices and falling crude prices. These fluctuations normally arise from the inevitable changes in the balance between supply and demand. Now we face the additional uncertainty of recent world events, undreamed of only a few months ago.

Our response to great uncertainty is to focus even harder on the basics. We believe that sustainable development has now become one of the basics of good business. Thinking sustainably forces us to develop strategies that maintain the robustness of our business in a changing world.

Business Case

Implicit in our thinking about sustainable development are the needs of our customers and our stakeholders. Canadians, like our friends here in the US, need affordable energy now and in the future. Hydrocarbon-based products will remain critical for transportation, heating and power, and lubrication for some time to come. Consumers also need hydrocarbon feedstocks for chemical products and fertilizers. But, increasingly, customers want to feel confident that the manufacture and consumption of these products is not being achieved at the expense of their health and the environment either now or in the future. Although few customers are prepared to pay more, we believe the ability to show that our products incorporate all the elements of sustainability might give them a further reason to choose us rather than our competition. It helps us to differentiate ourselves.

Society's expectations of big business are changing. These expectations include safe places to live and work, a healthy environment, environmental protection, conservation of our biodiversity, clean air, clean water, maintenance of recreational areas, a reasonable return on investments and job opportunities, to name a few. To meet such diverse expectations, we talk to people and we listen. With public confidence in large corporations at a low ebb, it's not enough to tell people what we are doing, we must show them. In such a climate, sustainable development helps us to secure a license to operate. And although this kind of stakeholder engagement is not always easy, it stimulates innovation, which leads to positive change and increased competitiveness.

The principles of sustainable development also help us to reduce risk by identifying potential hazards and taking preventive measures. Recently, for example, Shell Canada became the first major oil and gas company in Canada to achieve ISO 14001 registration for all its key operating facilities. An independent audit has verified that all of these facilities have in place an effective environmental management system to support a sound environmental policy. This not only protects the business – its operations and employees – but also builds confidence in our various stakeholders that we are a company to be trusted. It gives yet another reason for Shell Canada to be their company of choice.

Operational excellence includes important objectives and targets that help improve our operational performance and profitability. Through energy efficiency, water efficiency, waste minimization, pollution prevention and product stewardship, we are reducing our footprint and finding innovative and profitable ways to improve our existing business activities. Sustainable development has become a part of how we do business. For example, we integrate the cost of carbon into our investment decisions for projects with potential greenhouse gas emissions of more than 100,000 gross tonnes. The process evolves as we continue to set our standards of business excellence by incorporating SD performance measurement into our personal and business performance goals.

Finally, a reputation founded on sustainable development and embodied in ethical business principles supports efforts to attract and retain talented, professional staff. Our core values must be evident within the company. The employment relationship must incorporate these values with respect to workplace conditions, equal opportunities, diversity and remuneration.

Examples

Now let me give you some specific examples of how sustainable development is working in Shell Canada and adding to the bottom line.

During the 1980's, the company learned some important lessons about adopting a lifecycle approach to planning and building new facilities, such as our Brockville Lubricants blending and packaging plant. The Brockville plant, which opened in 1992, was planned with its eventual decommissioning in mind. Early planning considered potential future land uses. A rigorous system of documentation and practising a “clean up as you go” philosophy will shorten the decommissioning time, reduce costs and help to ensure the safety of future site occupants.

Our newest activity, the Athabasca Oil Sands project, will bring substantial, long-term economic benefits not only to our shareholders in terms of growth and profitability, but also to the local community, to Alberta and to Canada. Our oil sands leases in the Athabasca region of Northern Alberta contain an estimated six billion barrels of economically mineable bitumen. In a joint venture with two other companies, we are building the Muskeg River Mine near Fort McKay, and a new upgrader adjacent to Shell's Scotford refinery near Edmonton. The planned level of production from this first development is sustainable for more than 30 years based on the 1.6 billion barrels of proved reserves. Future expansion and optimization of this lease could bring total production from the current design of 155,000 barrels per day of bitumen up to 225,000 barrels per day. We estimate that the full potential of our leases in this area is in the range of 525,000 barrels per day.

Oil sands developments are of particular concern to regulators and the public alike because of the level of emissions, including carbon dioxide, associated with bitumen extraction and upgrading. When embarking on this venture, Shell committed to incorporating the most up-to-date, economically viable technology into our operations, environmental controls and greenhouse gas management plans. As a result, the mine site will be reclaimed 'as we go,' and wastewater will be reused rather than discharged off site. Improvements in the basic design have reduced projected emissions levels by 1.3 million tonnes per year of CO₂, or more than 25 per cent of emissions anticipated from the original 1997 design.

However, given the scale of this project and its impact on Shell Canada's overall greenhouse gas emissions, we recognized the need to review our climate change program with fresh eyes. We consulted widely and sought the help of outside groups. One key outcome was the formation of the Shell Canada Climate Change Advisory Panel. Established in 2000, this group is helping us to gain a different perspective on our business and to advise us on our greenhouse gas management planning. The panel comprises local, national and international environmental and community leaders, who work with us to balance local and global considerations. They will also hold us accountable to our commitments. Two of the members are based here in Washington, the World Resources Institute and Environmental Defense. I would like to acknowledge Liz Cook of WRI for her support of this important effort for us. Liz, thank you very much, it is a real pleasure to work with you.

The panel has helped us to set a target of a minimum additional 50 per cent reduction in the Oil Sands Project post-start-up emissions levels by 2010. A reduction of this size means that the new operation will produce emissions levels six per cent less than those from an equivalent quantity of crude oil, which otherwise would have to be imported into North America to meet demand. We undertook a first ever study into the greenhouse gas emissions that would be generated in the construction of the mine site and the upgrader. The panel has also encouraged us to look at capturing additional energy efficiencies and to develop criteria for selecting offsets.

We already have experience in managing greenhouse gas emissions in our conventional businesses. In 1995, as part of Canada's Voluntary Challenge and Registry program, we set out to stabilize at 1990 levels the greenhouse gas emissions for our existing businesses by the year 2000. We achieved that target and are now working towards a further six per cent reduction by 2008. And let's be candid; our greenhouse gas emissions are going to increase as our business grows. To address this, we have finalized our Climate Change Strategy and greenhouse gases growth principles for business. With guidance from our Climate Change Advisory Panel, we are requiring ourselves to better the best alternative.

We believe that commercial businesses are best placed to develop innovative, cost-effective and efficient solutions to greenhouse gas challenges. But governments must provide national and global frameworks in which this can happen. Shell supports initiatives that develop market-based solutions, and believes that governments have a critical role to play in fostering flexible and creative mechanisms.

Companies, too, must learn. Shell Canada has been participating as a pilot company for WRI and the World Business Council for Sustainable Development's recent effort in developing a Greenhouse Gas Management Protocol. The Greenhouse Gas Protocol Initiative's mission to develop and promote internationally accepted greenhouse gas accounting and reporting standards is yet another example of business and NGO's working together cooperatively to find solutions to these global challenges. Many thanks to Janet Raganathan and Pankaj Bhatia for your hard work and support. This kind of experience is crucial if we are to achieve a balanced portfolio of approaches to emissions reductions.

Social accountability is particularly important to our Oil Sands project and has been part of our planning from the beginning. Most of the 400 people who live near the Muskeg River Mine site are members of the Fort McKay First Nation or Metis. Shell has made sure the community has full access to development plans so that it can assess the project's environmental and socio-economic impacts. We contributed funding to a community Industry Relations Council, whose Community Liaison Workers act as focal points for local concerns and questions.

What emerged was the need to build community capacity through a long-term relationship with the project rather than focusing only on short-term solutions. The result has been a series of formal agreements covering education, employment, economic development, retention of culture, and community infrastructure. For example, we try to reinforce the connection between education and long-term employment, and we support regular school attendance. Another agreement looks at land end-use, conservation and reclamation that includes traditional environmental knowledge in the planning processes.

Shell has also been active in creating employment for First Nations peoples. This is not just about hiring staff. It's about building capacity within the community to run its own businesses. Our mine operating company, Albian Sands Energy, is now contracting on a competitive basis with the Albian/McKay Business Alliance, to whom we have already awarded some \$25 million in contracts. The Alliance forecasts a further \$70 million over the next five years. Six full-time businesses have been established, resulting in the creation of 120 positions.

Shell and the Athabasca Oil Sands Project were also catalysts in the formation of a multi-stakeholder committee to address cumulative environmental effects of oil sands operations and other industry in the regional municipality. One group within the committee is looking into biodiversity, wildlife, soil, vegetation and watershed integrity issues. Close liaison with the community is essential to long-term sustainability, including ecological restoration. Circumstances and people will change over the years, but our learning must go on.

My final example comes from marketing oil products. Our Industrial Services group provides a 'fluid management service' to the customer. This service covers traditional lubricants, metalworking fluids, production fluids and water treatment chemicals. The administrative services we provide range from procurement, inventory management, supplier management and simplified billing processes to product application advice and minimization of waste. An on-site Shell program manager works with the customer to reduce the consumption and overall costs of the fluids used. He or she also helps to identify opportunities for product reuse and recycling, as well as process changes that will minimize the generation of waste byproducts. Beyond that, we are looking to expand our services into areas such as maintenance, and energy management and optimization. This move from being just a supplier to being a services provider makes business sense and provides linkages to resource conservation and waste management.

Summary

In conclusion, Shell Canada believes that its commitment to sustainable development is not only part of sound business practice, but also helps us to withstand changing circumstances. We believe that incorporating economic, environmental and social considerations into every business decision sets us apart from competitors and helps us to grow profitably. By addressing the needs and concerns of society, including climate change, we become a more trusted partner and the company of choice for all those with whom we can do business. We can attract additional resources: investors, customers, and dedicated employees. These resources, in turn, create broader economic benefits.

We don't have all the answers. Sustainable development is not simply a set of rules or guidelines; it is a continuous process of hard work. We must listen to others and be responsive in ways that make sense. In Canada and around the world, Shell is learning that with the need for accountability comes the need to be more open about the business. This transparency depends upon broad engagement with stakeholders, setting measurable goals and reporting performance against those goals.

To sum up, the Royal Dutch/Shell Group of Companies, including Shell Canada, is committed to a business strategy that generates profits while contributing to the well being of the planet and its people. There is no alternative.

Thank you. Now I'll be pleased to take any questions.