

**Sustainable Development
in Shell**

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Sustainable development in Shell

Thank you for the opportunity to speak here today about Shell's approach to sustainable development. I'm very honoured to have been invited to this event and I hope I leave you with some understanding of the Royal Dutch Shell Group's Sustainable Development efforts in China.

Before going into the specifics of our SD efforts in China, here's a quick look at some economic data. Most of us know these but it bears repeating to put things into context.

China has the world's largest population. Its GDP is growing by 9% per annum and industrial production by as much as 15%. In fact, according to the World Economic Forum, its GDP is projected to exceed Germany's by 2006 and in 15 years' time, in 2020, China will be the world's second largest economy. The extra energy needed by China between now and then is equivalent to all of Western Europe's energy demand today.

Already, its growth over the past decade has accounted for two-thirds of Asia's overall reduction of poverty, and China's deepening trade relationship with Japan, Korea and the ASEAN nations has positioned the country as the region's – if not the world's – new growth driver.



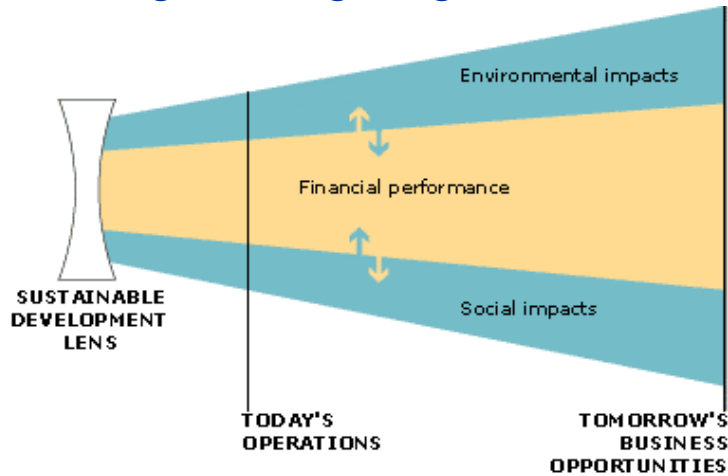
Key business developments in China

- The \$4.3 billion Daya Bay petrochemicals project in Guangdong Province
- Oil Products retail joint venture in Jiangsu province involving about 500 stations
- Growing lubricants and bitumen business throughout China.
- Gas developments onshore
- Oil exploration and production offshore in Xijiang and Bohai Bay
- Coal gasification development.
- Solar electrification projects in western China



Shell is already participating in this exciting era in China's history. With all core businesses present in China – Exploration and Production, Gas and Power, Oil Products, Chemicals and Renewables – Shell's focus is to provide clean energy solutions that are sustainable over the long term, that support the country's growth and help reduce environmental impacts.

Embedding and integrating SD



Before we go into a case study of SD in action, let me first establish what we in the Shell Group define as Sustainable Development - or SD - and why we subscribe to this as a business principle.

We believe that economic growth must be socially and environmentally sustainable. This is a challenge for all society, but businesses have a fundamental role. Shell companies are committed to contributing to sustainable development in their business principles, and are integrating it into the way they do their work. We are committed to transparency and engaging with people's concerns and expectations and involving external parties in decision-making. We believe that being socially responsible is essential for continued business success.

Contributing to sustainable development doesn't mean philanthropy, or public relations. It means doing good business – managing it properly and reaping the opportunities from doing so.

Sustainable development is about raising people's living standards. Business is inseparable from its social and environmental impact. It is about balancing social, environmental and economic factors and balancing short term needs with long term goals.

Business succeeds by responding to expectations – of customers, shareholders, employees, neighbours, society.

Making sustainable development part of the way we work means learning to look at all aspects of our business through a new lens. This lens lets us see the world through the eyes of our stakeholders and helps us to understand the many ways, good and bad, that our business activities affect and are affected by society and the environment. We are beginning to use this insight to improve the performance of today's operations and identify profitable business opportunities for the future.

We have seven high level principles that guide our contribution to sustainable development:

- Protect the environment
- Manage resources
- Generate robust profitability
- Deliver value to customers

- Respect and safeguard people
- Benefit communities
- Engage with stakeholders

We contribute to sustainable development in Shell in a number of ways. Through the development of clean and renewable energies, environmentally-friendly and efficient products, improving efficiency of our processes and giving something back to society. In all our operations and projects we seek to understand the environmental and social consequences of our presence and find ways to reduce negative impacts as far as practically possible and identify and encourage positive factors, in balance with the need to make a reasonable and sustainable return.

In China, Shell is concentrating on natural gas and renewable energy and new ways of using coal as well as providing consultancy services on energy efficiency and technological solutions. In our fuels, lubricants, bitumen and chemicals businesses, we offer the latest technological and environmental solutions to contribute to sustainable development. Currently we have some 19 wholly-owned or joint venture companies employing about 1,900 staff and joint venture staff, almost 90 per cent of whom are citizens of the People's Republic of China.

Now, I would like to share with you our experiences in integrating sustainable development in our Daya Bay petrochemicals project in the Guangdong province in southern China.

Shell Chemicals

Project scope

- US\$4.3 billion petrochemicals plant
- 50:50 JV with CNOOC
- Record private financing package for Asia Pacific of US\$2.7 billion
- Project on schedule
- Start-up on target in late 2005

Daya Bay Petrochemicals project

The Daya Bay petrochemicals complex is the largest Chinese-foreign joint venture in China and the largest single chemicals investment by Shell anywhere in the world. Shell has a 50% stake in this project. The other partner is CNOOC.

The joint venture, the CNOOC and Shell Petrochemicals Project Limited – or CSPC, will build, own and operate a world scale petrochemical complex and market the resulting products, primarily into the domestic market.

It has been designed to the latest technological standards and will be the most advanced petrochemicals complex in which Shell, CNOOC and the Guangdong Province have participated. In total, the complex will produce some 2.3 million tonnes per annum of products.

But the one vital factor in allowing us to successfully integrate SD into this project is partnership – particularly with the Huizhou government – because together we have developed a sustainable project that none of us could have developed on our own. The primary way we manage sustainable development in this project is through an environmental and social impact assessment.

The project construction on the site today is guided by an Environmental and Social Management Plan (ESMP).

This was developed from an Environmental and Social Impact Assessment (ESIA), which evaluated and addressed the environmental, social, economic and health impacts associated with the project. The ESIA was completed before project construction started and the results were fed into the design and into the construction plans and processes.

The ESMP, which is verified and certified by an independent, internationally acceptable body, includes the monitoring of a suite of 40 environmental indicators and some 60 social and health indicators to ensure that the project is successfully mitigating potential adverse effects.

To promote transparency and accountability, both the ESMP and ESIA have been published and are available to the public on the CSPC website. A quarterly report on the ESMP is also published on the website.

To understand issues and concerns about the project and take them into account you have to talk to people who are affected by the project, or who have skills or experiences that may help us find solutions. We talked to a wide range of stakeholders including NGOs, governments, and communities and the results of this engagement were incorporated in the ESIA.

Our consultations have included communities being resettled, fishermen, business people, tourism operators, hawkers, and NGOs. This has involved two major exercises in the Daya Bay area with reports made available publicly.

We consulted external parties on the terms of reference for the ESIA and held a workshop to get feedback on its results.

The Huizhou government has managed extensive consultation with people being resettled to make sure they understood the terms of compensation, agreed compensation levels and had input into the development of new communities for them.

In implementing sustainable development, these are the factors we felt were most important.

Understand the differences. Most of us here today are increasingly familiar with an “involve me” world. A wide range of stakeholders – NGOs, governments, communities – now demand to be part of the planning process and the solution. International companies have to be in tune with these demands.

But different countries are at different places along this evolutionary process and in China, people still consider the government the heart of the country and society. Other parts of life revolve around this central core.

The first success factor is therefore to understand that the two models have fundamentally different characteristics that must be recognised by companies that do business in both worlds.

Partnership. Essential to any successful partnership is a common vision.

Transparency Because increasingly in the world today people don't accept what they are told. They want to find out for themselves.

International standards. You might ask why. We are in China and subject to Chinese law. Indeed that is true. However, we have to meet the needs of all partners. Shell is a 50%

partner and has to implement common standards wherever it operates in the world. In some areas where international and Chinese standards differed, we needed to find solutions acceptable for all partners.



Resettlement: Story of partnership

before relocation
↓



- Govt responsibility
- Mutual goals
- International consultant
- Engagement, surveys
- Action plan
- Monitoring

after relocation →



Nowhere can the concept of partnership be better illustrated than in the resettlement of 8,000 people by the Huizhou government. Various parties in the project had varying views. Shell needed to meet commonly accepted international processes. The government needed to meet Chinese standards. And there are significant differences. These differences include a detailed baseline socio-economic survey, and a detailed integrated public resettlement action plan and post-resettlement monitoring, with public reporting, none of which are required in China.

Devising a resettlement solution required a considerable dialogue between partners and the government to understand and commit to a common approach. We quickly agreed that we had a mutual goal to ensure that people being resettled should be treated fairly, consistently and be given the opportunity to improve their lives. We started from a good position of community support for the move – seen as a positive step to move from rural to urban registration with the extra opportunities this brings educationally, medically and vocationally.

We agreed that we each had to meet our commitments to ensure the success of the project. The joint venture had to demonstrate World Bank standards to meet international lender standards and shareholder expectations, while the government had to ensure Chinese standards. However, this was also an opportunity for the government resettlement team to gain experience of international standards. Our solution was to hire a consulting team of resettlement experts with international experience and credibility – both PRC and overseas resources. They worked with the joint venture and the government. They trained the government resettlement team to carry out a socio-economic survey to World Bank requirements. They documented the process to World Bank requirements.

The other major area of common interest is in livelihood restoration. The joint venture clearly has a responsibility to assist the people who have lost livelihoods, just as the government needs to ensure alternative employment is found for farmers who lose their land.

So we are working together.

The joint venture is looking to maximise employment opportunities both in the construction and operational phases and provide training in cooperation with the government to develop skills for employment.

The JV has so far employed about 800 resettled villagers and, with its contractors, run skills training for even more.

CSPC also supports new companies set up by the resettled villagers to provide services to the project and form sustainable businesses. CSPC provides training in running the businesses as well as giving them contracts for the project. These projects include building bicycle lanes, providing street lighting and building community parks. These companies are now finding their own work outside the project and all profits go directly to the villagers.

 Shell Chemicals

Environmental management



To minimize construction impacts, CSPC relocated coral close to the marine construction area during May and June 2003. The relocated coral is being monitored regularly and nearly 95% is growing healthily.

Another example of benefits, environmental this time. A baseline sea floor survey done as part of the ESIA showed that live coral might be impacted by the construction of a causeway. To reduce impact CSPC worked with the South China Sea Fisheries Institute to move 400 square metres of coral to a new location 109 kilometres away. Nearly 95% of the transplanted coral is still alive after almost two years since this activity took place.

Environmental management



Drainage system and sedimentation basins to catch rain water run-off



Watering trucks work around the clock to damp down dust from site

Sediment is a major issue on the site, which is subject to torrential rain. If you do not take any precautions, the exposed earth at the site would quickly be washed away into the sea causing a plume of turbidity for many square kilometres killing marine life and affecting fishing. CSPC has built a drainage system and sedimentation basins to catch the water – which is used to control another hazard. . . . dust.

A team of watering trucks works around the clock to damp down dust from the site, generated mainly by the continuous procession of construction trucks to and from the site – one every few minutes. Dust and noise monitoring is an important component of the project's extensive monitoring programme – both within and outside the jobsite boundary. Results of the monitoring are published regularly. Community feedback is continually sought and complaints are investigated.

Waste is managed through the principles of reduce, reuse and recycle. More than 90% of the project's liquid and solid wastes will be recycled or re-used to generate energy. Other waste will be treated and safely disposed.

All the environmental and social work means nothing unless we deliver economic benefits. As one of China's fastest growing regions with a GDP growth almost double the average for China, Guangdong has a strong and growing demand for petrochemicals products, which are needed to help the province maintain its leading position.

The area has experienced significant growth over the past five years, and is close to petrochemicals markets. These factors, together with good transportation links and suitable land designated by the government for economic development, made Daya Bay a good location for the CSPC project.

In addition to the manufacturing and service industries that will develop within the park, significant growth will be encouraged in finance, real estate, construction, information technology, retail, and trade, as well as tourism and hospitality in the surrounding areas.

The multiplier effect will spread geographically to Guangdong and other parts of China, as products are moved from local markets to broader regional, national, and international markets. We already see the difference in Aotou near the plant. When we first went there a few years ago getting a taxi was almost impossible. Now there is a busy fleet of taxis providing employment and boosting the economy.

For procurement CSPC uses local suppliers and service providers as much as possible, providing support and training and encouraging its contractors to employ resettled villagers.

To sum up, we are committed to sustainable development principles, but we recognise the importance of diversity and difference and the need to seek a common approach and harness the best ideas wherever they come from. I believe it is our differences as partners that give us the edge as a partnership and push us to find innovative solutions.

And innovative solutions will have to be the key to managing sustainability issues in the future.

China today is the second largest energy-consuming nation in the world, just after the United States, and last year it overtook Japan as the second largest oil consumer as well. China now has the largest foreign direct investment and it is the fourth largest trading nation in the world.

It is the largest producer of coal, steel, grain, fertiliser, and it has the largest market for television sets, mobile phones, steel, and coal. It has a population of 1.3 billion and there are today 140 cities in China of more than 1 million people.

Shell's vision in China is to become the leading multinational, supplying clean energy, oil products and petrochemical products in a sustainable manner. The aspiration of the Chinese government is to quadruple the Chinese economy by 2020, but only double the energy demand.

I'm glad to say that the government is committed to delivering tomorrow's energy in a sustainable way and we are working closely with our Chinese partners to help develop the clean energy and petrochemicals the country needs to grow.

The challenge is in finding these innovative solutions so that we can attain that vision.

Thank you for your kind attention.