

# Seizing Opportunities

Shell Malaysia's chairman Jon Chadwick has a vision: to make Shell 'the most admired company in Malaysia'.

**S**HELL'S long-term commitment in Malaysia is perhaps best described by a meeting held in Kuala Lumpur last year.

Jon Chadwick, the chairman of Shell Malaysia, recalls the meeting with Prime Minister Datuk Seri Abdullah Ahmad Badawi, who was then Deputy Prime Minister. Also present were Chadwick's boss and head of exploration and production (E&P) at the Royal Dutch/Shell Group (RDS), Malcolm Brinded.

'Malcolm told the (Deputy) Prime Minister that Shell had been in Malaysia for over 100 years and would like to be here for another hundred. The (Deputy) Prime Minister said, "Why put a limit on it?" That is the relationship.'

Chadwick, who became chairman of Shell Malaysia two years ago, has been with RDS for 25 years and worked in Oman, Indonesia, the Netherlands, Gabon, Argentina, Peru and the United Kingdom.

He currently sits on the board of 13 companies of the group in Malaysia and is

the managing director of Sarawak Shell Bhd and Sabah Shell Petroleum Company Ltd, the upstream operators of Shell in the country. The jovial Englishman also has experience in the North American gas and power market.

Chadwick is a director at the Malaysian Petroleum Institute and the new President of the Malaysian International Chamber of Commerce & Industry as well as a member of the Malaysian Institute of Economic Research Advisory Panel.

Recent developments at headquarters have put the spotlight on the company. *Malaysian Business* met up with Chadwick at his office in Bangunan Shell in Damansara Heights, Kuala Lumpur, to get his views.

## **What will be the thrust of Shell Malaysia's activities in the country?**

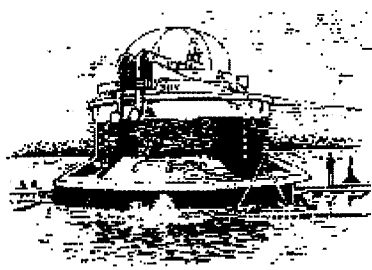
We have major plans for Sarawak where we have eight fields producing. In eight years' time, we will have something like 20-25 fields onstream, including several new

smaller ones. We have been producing gas for 22 years and the fields are getting old and depleted, and we have to replace the gas from fields we have discovered more recently.

We also want to grow our business at a good rate in the coming years because there is good demand for products like natural gas from economies like Japan, Taiwan and Korea. In the downstream business, we have added capacity to the gas-to-liquids (GTL) plant, Shell MDS Sdn Bhd, which produces about 14,000 barrels of products a day. We produce and sell ultra-clean products around the world from this facility.

We have another 30 companies in Malaysia. We have a really aggressive campaign of operational excellence, margin improvement and structural cost reduction. Our mission for the refinery is to make it the most admired refinery in Asia. We want to maintain our very strong position in the retail business as market leader. Our hub businesses will continue

**1959** > Shell Marketing Company of Borneo Limited is formed.



**1962** > Existence of hydrocarbons offshore Bintulu is detected.

**1963** > Shell Port Dickson refinery is opened. First oil discovery offshore Sarawak is

*The Single Buoy Mooring (SBM) system pioneered by Shell in 1960 for transportation of petroleum in Sarawak, was adapted and used throughout the world*

made at Baram. Sabah Shell Petroleum Company is formed. Shell Malaysia Limited is incorporated.

**1967** > Natural gas reserves in Central Luconia province are confirmed.

**1968** > First offshore oil production begins from West Lutong field. Sarawak Shell

to expand. We are quite big and will invest about RM2.5 billion a year over the next five years.

### **Where will the growth come from for Shell Malaysia?**

We will continue to concentrate on the oil and gas business as long as it's profitable and environmentally safe and sound. The GTL plant has recently increased capacity by 20%. The largest E&P project we are doing in the Asia Pacific is the E-11 Hub project in Sarawak.

That is a RM2 billion capital investment to refurbish some old platforms, build new ones and install new pipelines, which will one day handle half of our gas production. We currently produce 3,000 million cubic feet of gas a day, which can be raised to 4,000 million cubic feet – enough to provide energy for seven Singapores. That's an incredible volume of energy.

In the retail business, I expect to see us growing by about 15 stations this year depending on location. We will build where no one else is building. We are very focused on enhancing existing sites and making them better lit, with convenience stores and offering more oil products like V-Power that is now sold only in the Peninsula.

V-Power is the only premium fuel in the country. V-Power came from our partnership with Ferrari, which we sponsor, and we have learnt a lot from that partnership.

### **Can Shell remain the top retailer in the country?**

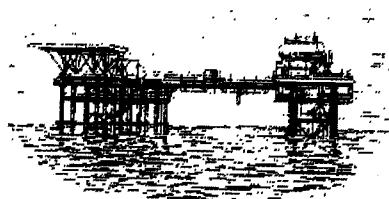
We are determined to compete with

companies like Petronas. We are partners with Petronas in the upstream business and some downstream activities (e.g. depots). May the best man win. Malaysia allows us to compete, which is what has attracted investors here. Customers will go to the outlet that is most convenient and gives the best service and products.

We are determined to stay ahead but it's

tough and requires our best people, and I believe we have the people, but we are not going to sell products at a loss. We are determined to keep loyal customers. The company controls a third of market share in the Peninsula and about 50% in Sabah and Sarawak. Malaysia Airlines is our biggest Malaysian customer outside the country.

### **Oilfields Limited changes its name to Sarawak Shell Bhd.**



*The West Lutong oilfield offshore Miri became Malaysia's first oil-producing offshore field in 1968*

**The group continues to undertake a lot of E&P work. Is Shell able to replace reserves of its upstream assets barrel for barrel here?**

The old fields are being replaced and unfortunately the big easy stuff has been discovered and we need to replace it with new smaller ones. Our replacement of reserves ratio in Malaysia is very good (he declines to disclose the exact number).

We would like to replace our production with new reserves and keep growing. We are an aggressive explorer. We made a gas discovery in the Peninsula last year and an oil discovery early this year at Gumusut in a kilometre of water offshore Sabah, which I believe is a big and important find.

We have to drill some wells to appraise it. We have fields that are an hour and a half by helicopter from our base in Miri. We are going to drill in deeper and deeper waters.

Ten years ago, we didn't have the technology to do this. Last month we brought on Serai and next month we will bring on Jintan. These are quite large fields. The fields that will be brought to production are primarily in deeper waters.

**With the technology you now have, how deep can you go in your E&P work?**

We have recently, in the Gulf of Mexico, brought on production at 7,500 feet – a world-record depth.

Five thousand feet of water is not a tough challenge these days. Globally, we are the biggest deepwater producer but it requires a lot of very expensive and high technology and some very clever people.

**Petronas plans to bring to market 'ultra' deepwater acreage. Would Shell be interested?**

We would have a look at any acreage on offer, especially in East Malaysia. We like Petronas Carigali as a partner. It's been a two-plus-two-equals-five relationship so far.

**What made Shell move into the E&P business in the Peninsula?**

We saw potential demand for gas as the

Peninsula is the industrial and main population heartland of Malaysia. We saw potential to apply the technology we had applied in East Malaysia to the Peninsula. We formed a joint venture, CS Mutiara Petroleum Co Sdn Bhd, with Petronas and made a gas discovery at the Bunga Kamelia-1 last year offshore Terengganu. Although not very big, it's commercially viable. We want to explore more, especially for gas, which will be needed by a growing economy.

**The refinery business is still facing severe overcapacity. How do you manage to register such strong profits?**

When you talk about the refinery



**1969** > Shell Malaysia Trading Sdn Bhd is registered.

**1971** > First oil discovery offshore Sabah at Erb West.

**1972** > The Miri land (onshore) field is abandoned.

**1974** > All Shell companies in Malaysia come under a common chairman and chief

executive in Kuala Lumpur.

**1976** > Production sharing contracts (PSC) are signed, between Petronas and Shell.

**1978** > Bangunan Shell Malaysia is completed in Kuala Lumpur. Malaysia LNG Sdn Bhd is formed. Tiram Kimia Sdn Bhd is formed.

**1979** > Temana field starts

producing and supplying the Bintulu crude oil terminal. North Sabah trunkline (southeast Asia's longest oil pipeline) is laid. South Furious field comes onstream.

**1981** > Erb west and St Joseph fields offshore Sabah come onstream.

**1982** > E11 gas complex comes

business, don't make predictions, especially about the future! Our refinery is a very good case in point. The profit in quarter one is due mainly to the refinery margins as a number of refineries in the region were decommissioned or shut down, and some had unplanned shutdowns for repairs.

In the near term, refinery margins will remain good but thereafter may get tougher. The refinery's average margins last year were about US\$2.60 a barrel and in the first quarter, above US\$5.

I don't expect that to be maintained. That's why we are concentrating on operational efficiency and keeping costs down. My personal view is that in the long term, there will still be an overhang of refining capacity.

**But there are projections that demand for oil products across the region will take up the capacity.**

We are not as bullish as some observers. The Taiwanese, Indian, Korean and Chinese have built new capacity and governments invest in refineries for their own strategic reasons. The refinery business depends on healthy growing economies. We just want to have one large efficient refinery here and I don't think we will build another.

**Shell Refining Company (Federation of Malaya) Bhd's dividend has increased substantially over the past couple of years. Can you sustain that?**

We have to take a look at projections of our profitability and capital expenditure

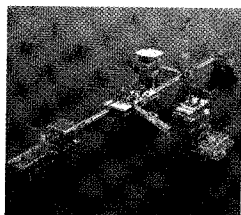
requirements. There are a number of investments we have to do. We want to meet government environmental targets and there are a number of enhancements we want to do at the refinery. We have raised the dividend by 38% in 2003 from 2002 and we want to sustain that.

In quarter one this year, we have performed tremendously and we felt our

shareholders should have a share of that and gave a one-off extraordinary dividend of 10 sen. We felt that it is good governance.

Last year we paid 25 sen as compared to 13 sen in 1999. I certainly don't want to see that level come down. This business is in robust shape and on target to become the most admired refinery in Asia.

onstream, delivering gas to MLNG plant in Bintulu. Lutong refinery is upgraded to 25,000 barrels per day. Bartom field comes onstream.



*Malaysia's first E11 gas complex located 132km offshore Bintulu was built in 1982*

**The Royal Dutch/Shell Group has been in the news for the wrong reasons since early this year. How has that affected the group?**

I was shocked and saddened by what has happened. This was a discomfiting time and some ugly statements made between the most senior executives of the company have been made public. No doubt it has harmed our reputation.

Globally, we have re-categorised part of our reserves from one category to another but I believe the large majority of reserves will come back into the category they just left. The changes we make as a result of it will make us a stronger and better company. This is not an Enron or Worldcom and it has not effected our profitability. It has however affected confidence of some key stakeholders and there's no doubting that.

In Malaysia, we have done a thorough review of the reserves and believe all the volumes are there. The reserves can keep us going and we will continue to be involved in the upstream business here for the length of our licences and there will be hydrocarbon reserves when our current licences run out in 25 to 30 years' time. You don't build new platforms if you think the reserves are going to run out.

Look at our profitability – we are improving and investing at record levels, hardly the behaviour of a company that has lost confidence. We are determined to regain the trust and confidence that has been placed in us here. I have told my staff, the one thing that will keep the critics at bay is performance, for the benefit of our stakeholders.

**The group's sustainable development and environmental policy has come under attack from institutions like Friends of the Earth, which claims the company has for many years been overstating its social and environmental performance and not just its reserves. Your comments?**

I can only speak for our Malaysian operations. Our annual report has won awards two years in trot from Bursa Malaysia and the ACCA for our environmental reporting.

We report very comprehensively things like every spill we have, and the numbers are audited by third parties. We invite and report comments from the outside world – some of which are nice and some not so nice.

We are after transparency here and anyone can get the information about our performance online or on hard copy.

I believe our community initiatives and environmental programmes are the best in the class. Last year we won the Sarawak Chief Minister's award for the best environmental performance of any company. We do it because it's good business. If we are clean and trusted, we will get more business. The head of environment for Shell Asia Pacific is a Sarawakian.

**What would you consider to be your main challenges ahead?**

Ever increasing demand for technology, increasingly fierce competition and recruiting talented people. Ninety-five per cent of our staff is Malaysian and so are most of the board and management team.

We have some 250 local staff overseas at the moment. We have more Malaysians outside the country than expatriates in the country. We need to keep the pipeline of talent brimming.

**Shell has actively promoted local talent, who have gone on to gain exposure abroad within the group. What has been the main reason for that?**

We are a meritocracy. We set a very high bar so entry standards are at a very high level. We have very talented people who have done well and we do this with youngsters as well, and there are some very promising youngsters within the group. We promote very objectively. My predecessor was Malaysian and his predecessor was Malaysian.


**What are your personal target as chairman of the company?**

I would like to see Shell Malaysia as the most admired company in Malaysia. Period. I see it as a personal challenge to ensure the very high investments we are making in Malaysia are undertaken responsibly.

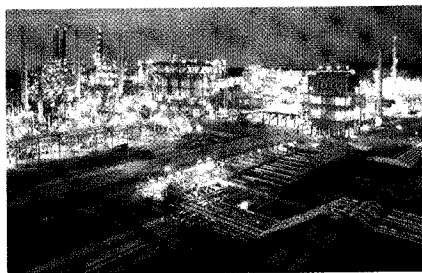
**How would you classify your leadership style?**

Empowering, trusting and emphasising the importance of 'team'.

**What would your advice be to your Malaysian staff?**

Keep doing what you are doing today, seizing opportunities when they present themselves. Shell Malaysia *Boleh!* 

**1983** > First shipment of LNG to Japan from Malaysia. First retail station dispenses automotive LPG.



*The high-tech Shell Middle Distillate Synthesis (Shell MDS) in Bintulu is the first commercial plant of its kind in the world*

**1984** > F23 gas complex comes onstream. Bayan field starts production.

**1985** > Shell Helix motor oils are launched.

**1987** > Formula Shell petrol is launched. Bangunan Shell

Malaysia is occupied. Formula Shell diesel is launched.

**1988** > Shell Marketing Co of Borneo restructures to Shell Timur Sdn Bhd.

**1989** > Groundbreaking at Bintulu for world's first gas-to-liquids (GTL) plant, Shell MDS.

**1991** > Shell celebrates its 100th