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Cost cutting to top agenda of incoming Shell chief

By Ed Crooks

Peter Voser, who takes over as chief executive at Royal Dutch Shell on July 1, is not wasting any time in reshaping the company the way he wants it.

After having spent five years as chief financial officer , it would be surprising if he did not have some reasonably well-formed ideas about what he wants to do.

The departure of Linda Cook as head of gas and power presages a more fundamental shake-up at Shell.

Those changes can be expected to include a systematic attack on the company's costs.

Rumours have been going round the company for months that Shell's three divisions - exploration and production; gas and power; and downstream, including refining, marketing and chemicals - could be folded into two.

Ms Cook's departure has ignited speculation that such a move could be imminent.

Royaldutchshellplc.com, a website used to air stories and complaints about Shell, reported yesterday that E&P and gas and power would be combined into a single division.

Ms Cook has spoken in the past about the importance of having the separate division to focus on activities such as liquefied natural gas, which provides a large and growing proportion of Shell's business. She may have been unwilling to see it merged into a larger unit.

Last year's decision to downgrade the job of the head of downstream and remove the board-level position that came with it also hinted at such a shake-up.

An integration of E&P with gas and power would mirror the reorganisation introduced at rival BP by Tony Hayward, the chief executive who took over two years ago, which also merged three business segments into two.

BP has made a more high-profile attempt to attack costs than Shell, saying it planned more than 5,000 job cuts.

Jeroen van der Veer, Shell's chief executive, who steps down at the end of June, told the Financial Times last month he expected the company's head count - 102,000 at the end of last year - to fall over the course of the year.

However, he refused to set a total figure for planned job losses, saying such targets could create a focus for staff discontent. Under Mr Voser, that softly-softly approach is likely to harden.

Although the rise in the price of oil from less than $33 per barrel to about $60 today has relieved some of the darkest fears about the outlook for the oil industry, companies are still suffering from very high costs built up during the good times.

Even at $60 per barrel, a cost structure based on $100 oil causes problems, and the volatility of commodity prices suggests there is a real risk that crude will fall back again.

Shell has particular issues because of its enthusiasm for high-cost "unconventional" production.

Among its large projects coming on stream around the turn of the decade, which will drive production growth over the next few years, are developments in Canada's oil sands, LNG, and converting gas to liquid fuels.

All of those are high-cost operations requiring huge investment, which is expected to reach up to $32bn this year.

Sustaining that investment while cash flows are squeezed means Shell's debts are rising fast.

Gearing, defined by the company as net debt as a proportion of capital employed, is set to rise from 7 per cent at the end of 2008 to the "low 20s" by the end of this year.

That kind of increase is bearable for a huge, financially sound company such as Shell, but Mr Voser will not want debt to keep rising at that rate for much longer.

A renewed squeeze on costs carries risks: Shell, like other oil companies, may fail to develop the capacity it needs for future growth.

But the severity of the global downturn means it is probably inescapable.

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