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Shell says age of cheap oil and gas is over

By Sylvia Pfeifer, Energy Editor

The time of low-cost oil and gas is at an end and the world is entering a stage where finding resources will be more “complex” and require more money and investment, according to the head of Europe’s biggest oil company.

Peter Voser, chief executive of **Royal Dutch Shell**, said the longer-term trend was for higher costs. “In the longer-term, you will clearly need higher oil and gas prices, or energy prices.”

Mr Voser was speaking as Shell unveiled second-quarter profits of $8bn, an increase of more than 77 per cent from the same period the year before, buoyed by higher crude prices of more than $110 a barrel.

Excluding one-off items, the current cost of supply income, a measure that strips out the value of inventory, was $6.6bn – the highest earnings for the second quarter since Shell’s record year in 2008 when it earned $8.6bn in the same period. First contributions from its new flagship projects in Canada and Qatar also buoyed earnings.

Production for the quarter was 3.04m barrels of oil equivalent per day, 2 per cent lower than in the second quarter in 2010. However, excluding the impact of divestments, it was 2 per cent higher.

Analysts said evidence of strong, growing cash flow – $10bn for the quarter – should help underpin an increase in dividends or possible share buy-backs in the future. The declared quarterly dividend of $0.42 per share was unchanged from the same period last year. Shares in Shell closed down 0.22 per cent to £22.60 in London.

Mr Voser said Shell was not considering following the example of US company **ConocoPhillips** and breaking itself into two parts, a refining and marketing part and an exploration and production business.

“We are a company driving value between the upstream and the downstream through technology and innovation,” he said.

Shell has been investing heavily in new projects. Net capital spending from 2011 to 2014 is expected to be at least $100bn. The first half of the year saw the start-up of three of its biggest that will be expected to contribute peak production of more than 400,000 barrels of oil equivalent per day.

In Canada's oil sands, the company started up the 100,000 barrels per day expansion of the Scotford Upgrader, which will continue to ramp up through the year.

In Qatar, the company's Qatargas 4 project, which came on stream during the first quarter is now fully ramped up with a capacity of 7.8m tonnes per year of liquefied natural gas. Shell's new gas-to-liquids Pearl project in the country has sold its first shipment.

The company sanctioned nine new projects this year, which are part of its "project flow that underpin Shell's upstream production targets of 3.7m boe/day in 2014," said Mr Voser.

? A 50:50 joint venture of Canary Wharf Group and Qatari Diar has been chosen to re-develop the 5.25 acre site of Shell centre at South Bank. The aggregate payment of £300m is conditional on planning permission and the development will be mixed use. The well-known, 1950s, 27-storey tower in the middle of the centre will be preserved and retained by Shell.