The "Shell" Transport and Trading Company, Ltd.

Greater Operational Activity Results in Increased Sales Volume

Heavy Capital Expenditure Inescapable

Substantially Enlarged World Consumption

Sir Frederick Godber's views on Oil Prices

THE Annual General Meeting of The "Shell" Transport and Trading Company, Limited, will be held on June 1 at The Chartered Insurance Institute, 20, Aldermanbury, London, E.C.

The following is the statement by the Chairman, Sir Frederick Godber, which has been circulated with the report and accounts for the year ended December 31, 1954: —

The Board of Directors

Little more than a year after his resignation from the board owing to ill health, Sir Andrew Agnew, our colleague for so many years, has passed away.

In my statement last year I paid tribute to Sir Andrew's half-century of devoted and untiring service to your company and to the group. I recalled, too, his outstanding work in building up the group's tanker fleet into one of the world's largest and most efficient maritime enterprises. I feel sure you will wish to join in extending sympathy to Lady Agnew and to all the members of his family

Balance-sheet and Revenue Statement

The financial results of the group are reported elsewhere in this statement. The dividends paid to the parent companies for 1954 amounted to £26,841,299, compared with £22,186,010 for 1953. In consequence the net revenue of your company, which consists mainly of dividends from the group, was £10,527,844, against £8,670,523 in 1953.

After deducting the Preference dividends paid and accrued and the interim Ordinary dividend of is. per £1 unit free of income tax, paid on January 18, 1955, there remains available for distribution; including the carry forward from 1953, *an* amount of £9,538,414.

The directors now recommend a final dividend of 2s, per £1 unit free of income tax which, if approved, will be pavable on June 8, 1955, and will absorb £6,541,763.

Reference has already been made in this report to an issue during 1954 of 10,902,939 Ordinary shares through the capitalization of part of the company's share premiums reserve.

When commenting on this issue in my statement last year, I said that one of its objects was to broaden the basis of the ownership of the company. You may, therefore, be interested to learn that during 1954 registered Ordinary stockholders increased by approximately 10,000, and in December numbered over 142,000. You will appreciate, of course, that the number of individuals who own the equity of the company must exceed this figure by a substantial margin, there being no record of those who prefer to be registered in the name of nominees, or of holders of Ordinary stock in bearer warrant form.

By means of such issues from time to time the shareholder has obtained in concrete form acknowledgment of the growth of the assets which his shares represent, and of the business in which they are used.

The Royal Dutch/Shell Group

The assets of The " Shell " Transport and Trading Company, Limited, arc substantially in the form of investments in a large number of companics known collectively as the Royal Dutch/Shell Group. Your company has a 40 per cent interest in these companies and the Royal Dutch Petroleum Company a 60 per cent interest.

The greater part of these investments is held through three principal wholly owned operating companies—The Anglo-Saxon Petroleum Company, Limited, N.V. De Bataafsche Petroleum Maatschappij, and The Shell Petroleum Company Limited. The managing directors of each of these three companies are identical and at present are: The Hon. Sir Francis Hopwood, Jonkheer J II Loudon, II Bloemgarten, J W Piatt, F A C Guepin, F J Stephens, L Schepers.

At last year's annual general meeting I mentioned that it was proposed to make available a figure of group income for 1954 on a half-yearly basis. The publication of these results, which was made in September, was widely appreciated and favourably commented upon, as affording an opportunity of following more closely the current trading results of the group. I am glad to say that this year we propose to publish similar results on a quarterly basis, and that figures for the first quarter will be available within a few weeks.

I will now proceed to the report on the group financial results for 1954.

THE ROYAL DUTCH/SHELL GROUP REPORT ON THE YEAR 1934

Financial Position

Net income of the group for 1954, after taxation and* elimination of minority interests, was £134,474,218, compared with £130,415,373 in 1953,

Higher activity in all phases of the group's operations resulted in an increase in the volume of sales in 1954 of nearly 10 per cent in world outside North America, and of 4 per cent in North America. This improvement was reflected in an increase *in* group net income before taxation of £23 million. The greater part of this increase, however, has been offset by higher taxation provisions, to which reference is made later. As a consequence of these larger tax provisions, the net income of the group after taxation increased by only £4 million over the previous year. This is a very significant fact.

Out of the 1954 income, dividends of £26,841,299 have been paid to the parent companies—Royal Dutch Petroleum Company and The " Shell " Transport and Trading Company, Limited.

Sales proceeds and other income, amounting in 1954 to £1,851,039,-043, were higher by £150,324,593 than in the previous year. The greater proportion of the more valuable light products achieved in 1953 sales was maintained in 1954, in spite of the fact that the higher demand pressed more heavily on fuel oils. Geographically the improvement was particularly pronounced in Europe, where it is attributable to the record level of economic activity reached in western European countries during 1954. The increasingly high standard of quality of group companies' products also contributed to the improvement, since it resulted in public preference for them becoming more marked.

In the USA sales and income of Shell Oil Company were higher, in spite of the US oil industry's general experience during 1954 of more difficult conditions, which were reflected in a reduction of allowable production of crude oil, and in one of the smallest annual increases in consumption since the war.

Costs and expenses of the group rose in total at about the same rate as sales. Operating expenses amounted to £1,044 million in 1954, against £977 million in 1953. In addition to those costs directly attributable to the production, manufacturing, transporting and marketing of oil and chemicals, there arc other heavy expense connected with exploration and with research, both of which increased. In 1954 group companies spent more than £50 million on exploration in an intensification of the search for new oil; this, like the expenditure on research, is a cost incurred to safeguard our future position.

Depreciation, depletion and amortisation charges were, at £155 million, higher than in 1953 by £7 million. 'The upward trend in this item during recent years has thus continued, and is likely to do so in the future in view of the high level of present day capital expenditures.

Larger sales have also meant higher .sales taxes, excise duties and similar levies, which rose by £58 million in 1954 to a total of £406 million. The steep increase in this item is in great part attributable to the increase in sales in Europe, where these levies are particularly onerous.

Taxation on income of group companies throughout the world in 1954 was £102 million, and was thus £19 million higher than in 1953- This increase is principally due to the fact that taxable income was substantially higher in 1954 than in 1953- The provision also includes certain charges in respect of extra or new taxation levied during 1954 and relating partly to prior years, as is to be expected in operations so widespread and diversified as those of the group. In some years such charges arise, while in other years amounts may be brought back into the accounts, In 1955 these factors operated on balance in our favour, but in 1954 this was not the case.

It must be remembered that to-come taxes are levied on group companies by fiscal authorities all over the world, in fact by more than 50 different governments. In the same way the income of £134 million is spread over an equally large number of countries, and while a few of these contribute a very significant proportion, no preponderant part is attributable to activities in any one country.

Assets and Liabilities

Turning now to the statement of assets and liabilities, you will see that some changes in presentation are made, in order that a more detailed and clearer picture of the financial position may be given. Long-term receivables have been separated from current receivables, and a new item, short-term borrowings, appears under current liabilities. This is made up of bank overdrafts, short-term accommodation bills with banks, and long-term borrowings due within one year; the two last items were formerly included in accounts payable. In addition, separate figures have been shown for cash and for short-term marketable securities.

There have again been substantial increases in property, plant, and equipment, the gross investment in which stood at £1,664 million at the end of 1054. The rise in the figure for investments from £85 million to £104 million is due to a number of causes, the chief of which is the group's initial investment in Iran; there were also other substantial investments in joint production, refining, and marketing enterprises.

Stocks of materials have continued to fall—from £102 million to £92 million—despite the higher level of activities and some rising prices. This is due to the development in group companies of the most modern methods of material indenting and stock control, by means of which they have taken full advantage of the easier world markets for materials. The increase in trade has resulted in the value of oil slocks and of accounts receivable rising to £216 million and £100 million respectively.

It is gratifying to note the increase in cash and securities, which at the end of 1954 together amounted to £346 million. Against this improvement, however, must be set very substantial forward capital commitments; moreover taxation liabilities have risen to £129 million, and these must be met irrespective of the course of our future generation of funds. It is essential for our cash position to be strong, in order that we may be in a position to meet requirements for funds in nearly every country in the world, in most of which facilities for raising funds are limited or negligible.

Capital Expenditures

Our capital expenditures during 1954 were quite as high as was predicted a year ago. The figures for the past four years in millions of pounds were as shown in the table below.

About two-thirds of these outlays have been met from depreciation and other provisions, and the remainder from the retained earnings of the group.

In the light of information available at present it appears probable that the future levels of capital expenditures will, if anything, be even higher than in the recent past. Since such vast sums are concerned, it is desirable to give an explanation of the factors governing them.

In the survey of activities it is suggested that the rise of world energy demand over the next 25 years may be of the order of 3 per cent annually, in which case demand would double within this period; and that the oil industry will have to contribute an increasing proportion of these great additional requirements. Moreover the capital expenditure necessary for finding, producing, shipping, manufacturing and marketing each extra barrel of oil has risen considerably in recent years. This trend is attributable to higher capital costs in all phases of the industry—to the ever-increasing cost of finding new oil to replace reserves;

Capital Expenditure, 1951-54

	1954 £	1953 £	1952 £	1951 £	Total £	1951-54 %
Exploration and production ..	110	101	96	88	395	50
Oil refineries and chemical plants	57	72	51	45	225	28
Marketing facilities	28	30	30	24	112	14
Ocean-going fleets	27	13	6	3	49	6
Miscellaneous	4	4	5	4	17	2
Total	226	220	188	164	798	100

to rising costs of capital goods, such as ships; to the public demand for higher quality products, which entails increasing use of expensive plant such as catalytic cracking and reforming units; and to the demand for a higher standard of technical services, which frequently involves the provision of extra equipment.

In this sense, therefore, much of our capital expenditure may be defensive, and consequently does not offer prospects of any great increase of income- The normal test of profit-earning cannot be applied to such investment, which must be treated rather as a cost of maintaining our business than as new investment on which added return can be ex pected.

ECE Report on Oil Prices

The explanation which I have just given you should afford a good understanding of the financial administration of the group's operations, and for that matter of the business of any of the larger companies in the international oil industry. I have given explanations on similar lines in previous years and I hope, therefore, that you have been adequately informed, and so have obtained an understanding of the financial aspects of the industry.

I stress this because recently there has been considerable publicity con cerning oil prices arising out of a document published last March by the United Nations Economic Commission for Europe. This document set forth the results of a study made, on its own initiative, by the Secretariat of that Commission for its Coal Committee, and while there seems to have been a serious effort to elucidate for the committee the basis and machinery of prices at present charged for oil in western Europe, the fact that on the author's' own admission the document had to be based on incomplete knowledge of relevant facts, and that its conclusions, as well as many of its statements, are accordingly erroneous and academic, makes it very questionable whether it ought to have been presented to the com mittec as a contribution of value.

Furthermore, on the accepted precept that a little learning is a dangerous thing, it is even more questionable whether it should, or even would, have been published in the ordinary course of events. However, the decision to publish it was undoubtedly influenced by the fact that before even the coal committee, for whom it was prepared, had had an opportunity of considering the document, leakages of its contents appear to have taken place, and the Press here as well as elsewhere gave much publicity to distorted versions, which alleged that the document accused the oil industry of charging extortionate prices through the machinery of an international oil cartel. Such accusations are not included in the report itself, nor is there any foundation for them.

Nevertheless, these distorted "leakages," and the sensational criticism indulged in on the strength of them, engendered a good deal of interest in the subject generally, whereas probably the report itself, if it had not been so heralded, would not have done anything of the kind, either on its merits as a study or as sensational material. In fact since its publication views on its limitations have been widely-endorsed in the Press, as well as by spokesmen of HM Government and the US State Department. Nevertheless, in the light of the events which I have described it is appro priate that I should supplement my comments on the finances of the group in relation to certain state ments and inferences in the ECE document and the critical expressions which it evoked.

The point, supposedly extracted out of the document, which has been responsible for most publicity is that prices of oil products, such as petrol, in western Europe may be too high. The reasons given for this suggestion are that such prices are linked to prices in the USA, and that the cost of producing crude oil in the Middle East, which is the main source of supply for western Europe, is lower than that in the United States. Actually the document does not contain any such statement in this precise form. Tin's is the interpretation applied by those responsible for the publicity to certain phraseology in it; but since the wording of the document might without too much stretch of imagination carry the implication in question, and since it has been quoted *in* many quarters as a positive criticism of the industry, it is best that I should deal with *it* as such.

Prices and Profits

I am sure that all of you must know that, like most other commodities, crude oil and also oil products are sold on the basis of market prices. Market prices in their movement's are not necessarily respecters of costs, let alone costs in one particular area or particular phase of the business. What, therefore, is the criterion by which to judge whether or not, a market price at a given moment is too high?

The total profits of the major oil companies, including our own, represent large sums in terms of money. But the quantity of oil which is sold is also very large, as is the capital required to put it into consumption. I will use our own companies' results in dealing with this question. Our business is primarily financed by our shareholders, who provided the money with the sole object of receiving some reasonable return on it in relation to the circumstances. The profit of the group for the last year was £134 million, and this means a return on capital employed of less than 14 per cent. We sold 26 thousand million gallons of oil and therefore on all operations, that is on producing, shipping, refining, and marketing combined, our profit margin worldwide was about 1 ¼d per imperial gallon. By what standards can either of these results be judged excessive?

Even so, only a small proportion of these profits go to the shareholders in dividends. I explained to you last year in cold terms that, if we arc to maintain our business all over the world in strength and in progress, heavy capital expenditure is inescapable;; and also that, since the capital requirements of the international oil business have now outgrown the money markets of the world, they can be financed only by retaining in the business an appreciable proportion of earnings. Even in the USA, where capital is much more plentiful, it has been estimated that 90 per cent of gross investment in the oil industry since the war has been financed by funds generated within the industry.

I have already commented on the great increase in energy requirements forecast for the future, and the part which the oil industry is expected to play in filling these. We should be failing in our duty to the public as well as to our shareholders if we did not continue to make whatever provision is possible to enable us to play our part in this expansion. To the extent, therefore, that these future requirements must be financed out of earnings, it is a complete fallacy to regard such earnings as profits in the conventional sense. Moreover, should prices fall to a point where it became impossible for the industry to make adequate provision for financing expansion, there would be a shortage of oil products, with the consequence that economics would eventually prevail. This would inevitably, after a period of dislocation, bring us back to where we are today, which shows clearly enough what is the influence which must govern prices in the industry.

I would, however, like to put one more test to this question. Are oil prices too high for the economic health of the consumer?

It is impossible to assert seriously that they are since oil products are probably the main victims of taxation all over the world.

You will see from the financial statements that the payments of sales and excise taxes by group companies were three times group net earnings. World-wide they represent over one-fifth of sales proceeds, but in Europe they reach one-third. If petrol in Europe is taken by itself—and its price has been especially criticised—well over half of our realizations represent sales or similar taxes. Such heavy imposts inevitably raise the cost of living since, taking the United Kingdom as an example, four-fifths of petrol used is for industrial and commercial purposes or for public authorities. Therefore, while it might with reason be asserted that the consumer is paying too much, it is not the basic price which is responsible for this, and Governments mast hold the view that the basic price of oil is economically so favourable to the consumer that he can afford to pay much more in the form of taxation.

None of the information which I have now reviewed and amplified is new to you. I have given it in more concise terms in previous years, particulariy last year, and it is a curious fact that the authors of the ECE document, seeking knowledge as they obviously were, seem to have neglected industry reports. The same must apply to many of the other critics, who could not have seriously raised some of the questions which they did, if they had had the knowledge which has been conveyed to the shareholders of this company in recent years, and which would have been available by reading the reports, had they made any effort to procure them.

World Oil Conditions

Total world oil consumption in 1954 showed a substantial increase over the 1953 level, for which the latter months of the year were mainly responsible. Though the growth in the USA was one of the smallest of the post-war years, in the rest of the world, excluding the Russian sphere, it approached the remarkable figure of 10 per cent.

Contributing to this increase was the rising demand for fuel oil, which continued into the early months of this year, and which during the winter months reached such a level that it stretched available fuel oil supplies world-wide to the limit. In consequence the price of that product rose in February of this year. The world's future energy requirements are likely to make further heavy demands on the oil industry, in particular for fuel oil, until such time as atomic energy becomes a significant factor.

A consequence of the unexpectedly buoyant demand for all products over the winter months was the rapid rise of short-term tanker freight rates, which by February last had more than doubled between the trough of midsummer and the peak of winter. At the height of this activity tankers on short-term charter amounted to as much as one-fifth of the total tonnage employed in moving oil, and consequently this rise in short-term rates was a major factor during the winter months in freighting costs. In contrast, the basis used for establishing the freight rates charged by group companies resulted in variations of less than 10 per cent during the corresponding period.

The world tanker position remains in surplus. Though the winter demand brought tankers out of lay-up, at the period of highest demand, there were still over one million tons idle. Moreover, a record total of 4 ½ million tons of new buildings became available in 1954 and the building programme still continues at the very high level of 8 million tons, about half of which will come into service this year. The creation of this modern tanker fleet with its lower operating costs must be detrimental to the trading prospects of older tankers in a continuing highly competitive market, and their increased scrapping or conversion to other uses will become still more necessary.

The future requires that supplies of crude oil, the raw material from which the industry's manifold oil products are derived, be at all times available in sufficient quantity to fulfil potential demands. This can only be achieved by continuous exploration for new oil discoveries. It will be appreciated that over the past years those prospects which were most readily accessible have already been tested, with the consequence that reserves for the future must be sought, for the most part; in remote and less accessible regions; at the greater depths which modern methods enable trie drill to reach, or in off-shore waters. The search goes on, but year by year becomes for these reasons more hazardous more difficult and more costly,

I have made reference earlier to the large capital sums which the industry is, called upon to spend; a considerable proportion arises from the increasing demands for refineries in the areas of consumption. I do not propose to go in detail into the arguments for or against this trend, since they vary widely in the differing circumstances of one country as compared with another. It is, however, as well to sound a note of warning that there is a minimum limit of capacity below which a refinery, if it is to produce the high quality of products increasingly in demand, cannot economically be justified Self-sufficiency, however, appealing it may be from the point of view of national prestige, can in certain circumstances only be at the expense of flexibility, and hampers the replacement and modernization of equipment which is so necessary. Up-to-date quality at the lowest cost can be provided only if the refiner is in a position to keep pace with the rapid developments in refinery techniques.

RECENT GROUP ACTIVITIES

Bombay Refinery

As has become customary, a separate and illustrated survey of activities is being circulated with this report. The achievements of group companies in 1954 follow the pattern of increasing and intensive activity in all phases of the business, which has been the keynote of past reports.

The wide range of these activities includes the considerable developments in marine exploration areas, of which drilling in the off-shore Texas and Louisiana concessions, in Qatar (Persian Gulf) and the Gulf of Paria (Trinidad) are examples. In the Gulf of Paria, where we operate with partners, oil has been found since the end of the year, though the extent and nature of the find have yet to be determined.

Last year I mentioned that oil had been found in Nigeria. Although since then oil indications have been found in a second well also located in the coastal area, much further work will be required before the value of this discovery can be assessed.

In the refining sphere, Geelong (Australia) started operating in mid-1954 and Bombay early this year, whilst the capacity and scope of our manufacturing facilities are being expanded in many places to meet growing product requirements.

Supplementing the transportation chapter in the survey, a further 19 general purpose tankers of 18,000 tons are expected to be delivered by the builders during 1955, as well as seven of the 31,000-ton ships on order. These deliveries will further improve the efficiency of the fleet.

In February of this year an offer was made by Shell Chemicals Ltd of £5 million for the acquisition of the entire issued share capital of Petrochemicals Ltd, and in full settlement of the claims upon that company. The terms of the offer were accepted, and Petrochemicals Ltd has consequently become a group company. The acquisition of this interest gives the group an immediate entry into a chemical field in the United Kingdom which is complementary to its present interests; it will also provide rights in certain new and important fields of chemical research.

Indian Labour Conference

ONE of the blessings conferred by the Second World War was the adoption by the Indian Government of the annual tripartite conference on the model of the International Labour Conference. The exigencies of war necessitated active and willing co-operation of Capital and Labour and this was sought through consultation with these two partners of industry during the annual conferences. The war ended in 1945; but this healthy practice of State consultation with industry and labour has come to stay. Within its limited sphere, the conference has proved useful in varying measure for all the three parties. Industrial democracy under the paternal care of the State is at work here. It is the Parliament where the representatives of three parties discuss past events, present maladies and future legislation. Within a democratic set up, it is convenient for a popular Government to get the views of employers and workers on non-controversial topics. Controversial subjects are kept away from the conference. Here is a forum which provides a common ground to employers and workers to accuse each other in an academic fashion. Once a year, the three parties come together and discuss across the table problems of general as well as topical interest.

Until recently, the sessions of the conference were being held in Delhi. Lately, however, there has been a welcome change. The 12th session was at Nainital (1952), the 13th was at Mysore (1954) and the 14th session was held in Bombay.

The Bombay session was as usual a success, because the. subjects chosen for discussion provided little scope for any divergence of opinion. The subjects taken up, however, were important enough to interest all the three parties. Action taken on the decisions of the previous session (Mysore, January 1954) was reviewed. General matters in the field of industrial relations were very broadly discussed. Various amendments to the Minimum Wages Act, which slill awaits full implementation, were suggested. The desirability of extending the provisions of the Employees' Provident Funds Act, 1952, to 16 new industries (employing 10,000 workers or more) and to plantations and mines was stressed. An employers' association suggested the introduction of an unemployment insurance scheme in place of the present prohibitive provision for pay-off and retrenchment compensation. The main findings of the Agricultural Labour Enquiry (1950-51) were summarised for the conference to make any recommendations in the field. The factual find ings of a Labour Bureau monograph on " Child Labour in India " were placed before the conference to make suggestions for checking the evil of child labour, which seem to persist in spite of the protective legislation. Details of the proposal for setting up of a wage commission were called for by an all-India workers' organisation. It was proposed to change the name " Working Class Cost of Living Index Numbers" of the Labour Bureau series to " Consumer Price Index Number for Working Class", as the latter was more appropriate.

Both in it; structure and contents, the Indian Labour Conference is a miniature model of the International Labour Conference. Naturally, India's relations with the ILO pro vide important topics for discussion. The Bombay session reviewed the work of the ILO conferences and committees held in 1954 and discussed the various proposals for con ventions . and recommendations on the agenda of the 58th session of the International Labour Conference being held at Geneva during June 1955. The earlier session of the Indian Labour Conference had Set up a tripartite three-man committee to draw up a programme of implementation of the principles, if not the individual provisions, of ILO conventions. This committee had its second session during the Bombay conference. India has ratified up till now only 22 out of a hundred and odd ILO conventions. The committee on conventions, it is expected, will enable the Government of India to ratify more conventions and thereby confirm India's rightful place as one of most advanced countries of industrial importance, by ILO standards.

What may be considered to be the most important item on the agenda, *viz,* the Second Five-Year Plan, did not receive adequate attention. In the First Five-Year Plan, Labour had been relegated to the background and was almost neglected. Full details of the Second Five-Year Plan have not yet been made available. However, from the meagre details doled out to the public, the Plan has evoked much interest. The Labour Ministry have already suggested for inclusion: extension of existing social security schemes, workers' education, a fresh agricultural labour enquiry, industrial museums, training for welfare, housing, establishment of a Central Labour Institute and expansion of employment service organisation. The conference was requested to suggest more schemes for further improvement of labour. The progress made in the implementation of the First Plan was also reviewed. Naturally an important and comprehensive item like the Second Five-Year Plan could not be adequately discussed alongwith 16 other items. A special session, preferably the next session of the conference, may be wholly devoted to discuss the role of industry and labour in the implementation of the Second Five-Year Plan. By-then, the Planning Commission would have finalised the Second Plan and the Planning Minister who is also a specialist in labour problems should help the deliberations by laying down certain guiding principles for industry and labour.