



Henk Alkema worked for Shell for many years. In 1971 he wrote the Oil Price Scenarios for Shell which made scenario based strategy famous. He states that you always need someone who is not afraid of taboos, someone who dares to ask the question (and is not afraid of the answer!).

This is the summary of his speech at the Scenario Based Strategy book launch at Nyenrode Business Universiteit, 19 June 2014

Shell: someone dared to ask the question

1971

Shell created Group Planning in 1960. In 1971 Henk Alkema joined them working for Ted Newland and Jimmy Davidson being head of the division. There was a lot going on. Shell was designing a new planning system. They were exploring new business areas and new technologies. 1971 was also the year that the draft of Limits to growth by the Club of Rome was widely discussed. It showed how exponential economic growth could not continue because of the limited availability of natural resources. However, little changes in that growth would depict a very different world. Henk Alkema concluded that extrapolating trends is a dangerous thing; knowledge he used later that year. And 1971 was the year that the Tehran agreement was signed which meant a small increase of the oil price in the next five years.

Dare to ask the question

After working a few months at Group Planning they were asked by Sir David Barran, member of the committee of managing directors: what will the oil price do when the Tehran agreement has ended? In 1971 this was a very sensitive issue. Henk Alkema confessed that he would not have dared to ask the question, but Shell's top management did! Asking the question was partly giving the answer; there was doubt that the Tehran agreement was the future. Therefore they started working on the premise that they could think freely and that their findings would be listened to.

Helpful observations

It took them a month of brainstorming and fact finding. They created schemes of events and players that could play a role. And they studied them in three groups: the consumers, the producers and technology. The consumers consisted of private consumers and the governments of consuming countries. Studying the producers' interests was new, as was studying new, available technology. Technology gave a lot of opportunities for thinking about different possible futures, e.g. alternative fuels. They knew which technologies could be introduced in the coming almost thirty years.



While studying these three groups they made a few helpful observations. For one, the Western world had built their economies on cheap energy. Governments of consuming countries saw it as a source of income and taxed it, at least in Europe. Then of course, governments of producing countries saw what the Western world did with their oil and gas and how it created economic growth and wealth. To Henk Alkema and his colleagues it was clear that these governments would want a piece of that pie as well. Studying the technological developments showed them that new production areas and off shore would be within reach if the oil price would go up. But their main observation came from their study on producing countries, and it is still relevant today. The population of the producing countries would grow at a high rate. This increase in population would increase the need for schooling, security, consumption. These things require money, so the governments of the producing countries simply needed a bigger part of the pie to be able to serve the demands of the people. At Group Planning they called it ~~g~~overnment takeq And they considered a higher government take very plausible.

Scenarios for government take

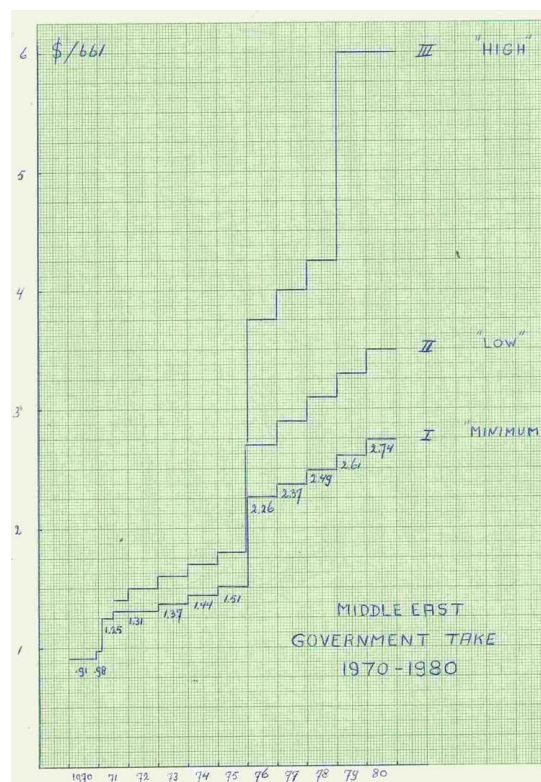
Henk Alkema finally produced the lines for the graph with the scenarios for government take. The line with the numbers for the period 1971-1975 showed the government take according to the Tehran agreement. For the period after 1975 three lines were drawn. The first one, I %MINIMUM+, showed a small increase in 1976 after which another Tehran agreement would be signed. The effects would be manageable and it would slow down consumption somewhat but not much. The second line, II %LOW+, showed that the government take would rise to a higher level. This was based on the fact that the producing countries simply needed a higher government take already. This scenario still assumed another Tehran agreement, but with higher annual increases. Since Shell would have other opportunities, such as the development of other resources and viability of other technologies at that price level, this scenario was not seen as a threat. However they felt the need for a higher government take would create tensions and that it would take a crisis to make the government take increase. They thought that it was very well possible that the Tehran agreement would not last. Since that was impossible to suggest, the vertical line was drawn as a warning of underlying tensions and its effects. And although we had a list of possible events for a crisis, the actual event, the Yom Kippur war of 1973, was not on it! The third line, III %HIGH+, showed a high government take, based on what producing countries could want, but maximized to a level that would not kill economic growth (fuelled by ~~cheap~~energy).



Accept the answer

Although their research was met by some with doubt and by others with dislike, the result of the study was accepted by Shell's top management in the end. The results were then used as the basis for the four scenarios that Henk Alkema and Ted Newland wrote and published in November 1971. The scenarios were about oil prices and volumes, but also about economic growth, oil resources and government take. When the crisis started in 1973, Shell had already had two years to prepare for such an event. And they were prepared!

Henk Alkema confessed that he thinks how lucky Shell was to have a top management who dared to ask the question. He feels disappointed thinking about today's two major problems, rising CO2 emissions and the financial crisis. First we want to reduce CO2 emissions, but we failed. And second we assumed we had a good banking industry, but we didn't. And he thinks that both could have been prevented if any leader would have dared to ask the question.



DE RUIJTER

www.deruijter.com

Original graph scenarios for government take, 1971