Shell boss bets oil price will double

Van Beurden warns that current level is unsustainable as BG takeover looms

Danny Fortson

THE boss of Royal Dutch Shell has predicted the oil price will more than double as he makes a final push to convince investors to back his $51bn (£35bn) takeover of rival BG.

Shareholders of the two companies will vote at the end of the month on a takeover that has sharply divided City opinion.

The price of Brent crude sank to less than $33 a barrel last week, making for a 40% drop since Ben van Beurden, Shell's chief executive, unveiled the cash-and-share offer last April.

Shell needs the crude price to return to the low $60s for the acquisition to make financial sense.

Van Beurden told The Sunday Times this weekend he was "very, very confident" it would bounce back. "The oil prices we are seeing today are not sustainable and are going to settle at higher levels," he said, "and higher, in my mind, over the next few decades than the low $60s that we require to make this deal a good deal."

The company has, nonetheless, quietly begun preparing investors for bumps in the road. Finance director Simon Henry warned a gathering of City analysts last week that he "wouldn't be surprised" by a downgrade of Shell's credit rating.

According to a note published by Barclays, he said that a slight reduction to Shell's AA-rating would have a "relatively minimal effect" on the company.

Shell remains committed to its £8bn-a-year dividend. That and the debt taken on to finance the BG purchase will strain the balance sheet if crude remains low or falls still further.

The oil giant is paying 70% in stock and the rest in cash. Henry admitted last week that crude could dip "to below $20 a barrel" in the coming months.

Others have expressed concern that the deal comes as fundamental changes in technology and climate change policy could significantly reduce demand for fossil fuels.

In September, Mark Carney, governor of the Bank of England, warned that anti-pollution laws could render "the vast majority of [fossil fuel] reserves literally unusable" without prohibitively costly emissions-reduction technology.

David Cumming of Standard Life, which is Shell's 16th-biggest investor, last week vowed to vote against the deal. Positive momentum built, however, after ISS and Glass Lewis, two influential proxy advisers, encouraged investors to back it. Shell requires a simple majority vote in favour. BG needs 75% approval.

Van Beurden said: "We are not overpaying. We got BG at the right moment in the cycle."

Ben van Beurden: $60 gamble

Agenda, page 4
North Sea oil faces wipeout, page 7