

PESTLE AND SWOT ANALYSIS OF ROYAL DUTCH SHELL

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MODULE: GLOBAL BUSINESS CHALLENGES (BMMB7006D)

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**A REPORT SUBMITTED TO THE UNIVERSITY OF WALES TRINITY SAINT DAVID,
CARMARTHEN CAMPUS, CARMARTHEN SA31 3EP**

7TH DECEMBER, 2021

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Executive Summary

Overview of Royal Dutch Shell

Royal Dutch Shell is a global energy enterprise based in The Hague, Netherlands. The organisation is involved in the manufacturing, producing, exploring, processing and trading of natural gas, crude oil and a variety of different petrochemicals.

Shell performs business operations in over 70 countries with over 82,000 employees as at the year 2021. The organisation operates 21 oil-refineries with a total production of almost 4 million barrels of crude oil per day. They are four major areas of business that the company operates in: Integrated Gas, Upstream, Downstream and New Energies.

The Integrated Gas division deals with the production and marketing of liquefied natural gas (LNG). The Upstream division entails the exploring, extracting, advertising and transporting of crude oil and gas. The Downstream division involves the production of lube oils, lubricants and petrochemicals. The New Energies division entails the research and exploration of opportunities in energy originating from solar, geothermal, hydroelectric and various renewable energy sources (Royal Dutch Shell, 2021).

The aim of this work is to assess the environmental conditions in which Royal Dutch Shell operates using both the macro-economic and micro-economic theories to demonstrate the actual and potential implications of these various factors on the organisation with the aid of analysis tools such as PESTLE and SWOT.

CHAPTER ONE

INTRODUCTION

1.1 PESTLE Analysis

PESTEL Analysis is an analytical tool used by organizations, businesses and enterprises as a method of tracking the environment or forces that a business operates in.

PESTLE is an acronym that stands for:

- Political
- Economic
- Sociological
- Technological
- Legal
- Environmental

1.2 SWOT Analysis

SWOT Analysis is a framework that is used by organisations, businesses and enterprises to assess their competitive position in the economy and plan strategically for the future.

SWOT is an acronym that stands for:

- Strengths
- Weaknesses
- Opportunities
- Threats

1.3 Problem Statement

This report explores the macro-economic factors that impact Royal Dutch Shell using the PESTLE analysis and the corresponding decisions the company can take on a micro-economic level using SWOT as a tool to obtain a comprehensive conclusion that reflects the current position of the organisation within the international market.

1.4 Aim and Objectives of the study

The aim of this work is to evaluate the environmental conditions in which Royal Dutch Shell operates using both the macro-economic and micro-economic theories to demonstrate the actual and potential implications of these various factors on the organisation. The objectives of this study are:

- To assess, analyse and interpret the environment that Royal Dutch Shell operates in using industry specific figures
- To use PESTLE and SWOT analysis tools for taking a critical look on a range of national and international performance indicators concerning Royal Dutch Shell.

CHAPTER TWO

PESTLE ANALYSIS OF ROYAL DUTCH SHELL AND THE MACRO-ECONOMIC BUSINESS ENVIRONMENT

The PESTLE analysis for Royal Dutch Shell is presented below:

Political	Economic
1. Antagonism in Nigeria towards non-native oil companies 2. Political lobbying by oil companies to stop the enactment of climate change policies 3. Political unrest in the Middle East as well as the Persian Gulf	1. Contradictory economic environments across the world 2. Decline in global demand for oil
Social	Technological
1. Pessimistic social impression about the oil and gas industry	1. Applications of Artificial Intelligence in battery technology 2. Use of new technology such as blockchain at different points of the oil and gas supply chain
Legal	Environmental
1. Competition and Antitrust regulations and laws 2. Trade compliance regulations and laws 3. Global data protection laws	1. Increased fixation on sustainability globally 2. Rising concerns about climate change 3. Geological problems caused by oil exploration operations

2.1 Political Factors Impacting Royal Dutch Shell

2.1.1 Antagonism in Nigeria towards non-native oil companies

There is so much indignation in the Niger Delta, towards foreign oil and gas organisations as a result of the effects of the oil exploration activities on the local communities and the environment. The fact that the returns acquired by giving permits to foreign oil companies is currently not used in developing of the country also adds to the irritation. This has resulted to many soldiers targeting the installations of foreign oil companies with a brutal demand for more influence over the oil resources. One of such groups is known as Movement for the Emancipation of the Niger Delta (MEND). They began their oil production disruption activities in 2006 in the Niger Delta. Royal Dutch Shell at a point in time was the largest oil exploration operator in Nigeria but had to close operations as a result of the dastardly attacks by MEND (BBC News, 2021).

Furthermore, the Federal Republic of Nigeria in 2011 accused Royal Dutch Shell of giving bribes for obtaining exploration rights. In a current ruling, the UK Supreme Court declared that polluted communities adversely affected by Royal Dutch Shell's activities could sue Shell in all British courts (BBC, 2021). The United Nations estimates that effects of pollution caused by Royal Dutch Shell in the Niger Delta will take more than 30 years to clean up. Pollution has endangered the people of Ogale and affected the fishes in the neighbouring rivers with the toxic discharges in waterbodies caused by Royal Dutch Shell. This is a huge dilemma for the people of Ogale as their source of livelihood comes mainly from fishing. There have been over 40 recorded oil spillages from Royal Dutch Shell's pipelines in the Niger Delta since 1989.

2.1.2 Political lobbying by oil companies to stop the enactment of climate change policies

Some of the largest oil companies Royal Dutch, BP, Shell, Chevron, ExxonMobil and Total are said to spend more than \$200 million yearly in lobbying to stop the enactment of certain policies tackling climate change. The companies are allegedly open about encouraging climate change policies by spending \$197 million annually on advertisement and secretly attempting to stop them. Royal Dutch Shell denies this and makes its stand known that it is sincerely in support of climate change regulations and policies (George, 2018).

2.1.3 Political unrest in the Middle East as well as the Persian Gulf

Iran and Saudi Arabia are fighting over the rule of the Persian Gulf and the Middle East. The sanctions placed by the US on Iran and the truculent activities in the Persian Gulf as of mid-2019 have led to the rise in tension in these parts of the world. Shell operates the Pearl GTL plant in Qatar and has 30% interest in Oman LNG. This means that any war or hostile activities in those regions may negatively impact Shell's operations in the region. In 2020, an attack on a Saudi oil tanker (owned by Saudi Aramco) by explosives reaffirmed the anxiety about oil companies that Gulf insecurity may be on the rise again. The attack raised the prices of Brent futures to \$50 per barrel. This blast came a month after the cruise missile strike that damaged a Saudi Aramco oil storage facility. OPEC has also shown hostility towards Libya for increasing oil exports to non-OPEC countries (George, 2018).

2.2 Economic Factors Impacting Royal Dutch Shell

2.2.1 Contradictory Economic Environments across the World

Royal Dutch Shell's subsidiaries and divisions are affected by varying economic conditions globally. If the organisation's access to debt markets is impacted, it could have a negative effect on the liquidity of the business as debt instruments help raise capital. Brexit has led to the decreased growth of the organisation in the United Kingdom and the surrounding areas. Also, the US-China trade war impacted the Chinese economy in 2019. Argentina and Turkey slumped into recession and investors have in turn, become conservative in their approach to minimize risk. The company has also been impacted by variations in currency exchange rates. The Upstream, Downstream and Integrated Gas businesses of the company have commodity trading as an important component that may at times not give the desired outcome as a result of the varying economic conditions around the world. Shell is also affected by credit risk of customers and partners in various regions.

2.2.2 Decline in global demand for oil

COVID-19 and other recent events stemming from the pandemic and the consequent government measures have resulted in the reduction in global demand for oil and energy. Oil companies like Royal Dutch Shell experienced production delays due to transportation restrictions, supply chain disruptions, etc. The economic downturn associated with the pandemic is expected to have a long-lasting negative impact on the oil industry. Economists predict that US oil demands are expected to fall. On the supply side, climate issues and the regulations arising from it are expected to slow oil production. Also, lack of cheap capital may also result in a high cost of production (George, 2018).

2.3 Social Factors Impacting Royal Dutch Shell

2.3.1 Pessimistic social impression about the oil and gas industry

Although, the oil and gas industry is one of the primary forces of the global economy, there is an increasing concern about the pollution in the environment which in turn has led to an increase in the negative social perception about the entire industry. According to a survey of 33000 people from almost 30 nations, the energy industry is the least trusted industry (George, 2018). This is a huge shift in consumer preferences in a short period of time because in 2018 only 25% consumers chose renewable fuel compared to 40% in 2019. Moreover, 45% of the survey respondents agreed that they were ready to pay a higher price for clean fuel.

2.4 Technological Factors Impacting Royal Dutch Shell

2.4.1 Artificial intelligence applications in battery technology

The global sales of vehicles powered by electricity have been predicted to surpass 30 million by 2030. This development would require massive improvement in battery technology. The battery business is forecasted to be worth a total of £250 billion by the year 2025. Artificial intelligence can aid in the manufacturing of such batteries. Shell's Smart Manufacturing system is an application of Artificial Intelligence to predict the demand and supply shortages of oil (SWOT & PESTLE, 2021).

2.4.2 Use of new technology such as blockchain at different points of the oil and gas supply chain

Blockchain technology enables various industries to use a secure way of recording transactions by reducing the number of middlemen. In 2017, a blockchain division was set up by Shell for building blockchain applications throughout the organisation. A blockchain platform for lubricants tracking is being developed to halt the sale of counterfeit lubricants manufactured by Shell. A company called Applied Blockchain has developed an internal trading platform for Shell on blockchain technology. The trading team traded the premier derivative trade of oil products utilising blockchain technology on November 1, 2018. Shell is part of the Energy Web Foundation that advocates adopting blockchain technology in the energy sector. Shell is currently developing nine blockchain projects and is one of the founders of Vakt, which is a blockchain platform that involves the processing of Brent crude trades (SWOT & PESTLE, 2021).

2.5 Legal Factors Impacting Royal Dutch Shell

2.5.1 Competition and Antitrust regulations and laws

Shell must follow antitrust and competition laws in all aspects of its operations. The company in the past has faced fines for antitrust violations. In 2018, the organisation was fined by some former distributors from China that alleged to antitrust violation. The company was faced with a penalty by the European Commission Directorate General for Competition. Any consequent EU antitrust violations associated with the organisation may result in heavier penalties which in turn may have negative effects on operations. This could taint the organisation's reputation.

2.5.2 Trade compliance regulations and laws

Trade compliance laws are various national and international laws that regulate trade of items across national boundaries. For example, restrictions imposed by USA and EU on some transactions with Syria and Iran, as well as US sanctions for oil and gas industry on Russia and Venezuela. Other nations apart from US and EU have also began to adopt sanctions programs. This increase in sanctions globally has an influence on the business activities in nations where Shell operates. Violations of these trade compliance laws may result in prosecution, penalties and damage of Shell's reputation.

2.5.3 Global data protection laws

In 2018, amidst growing privacy concerns, EU passed a law called the General Data Protection Regulation (GDPR). Inability to comply with these laws could result in fines and damage of reputation. If regulators ban Shell from acquiring personal data, it could block the company's operations. Affected entities may also decide they want to sue the organisation. In 2010, Shell suffered a huge data breach which resulted in the personal details of contractors being leaked to activists opposing the company. In March 2021, Shell became a victim of cyber-crime that also resulted in a data breach. These incidents of data breaches are damaging the company's reputation and may drive away investors in the long run if measures are not put in place to curb them.

2.6 Environmental Factors

2.6.1 Increased fixation on sustainability globally

The increasing awareness on sustainability has made it imperative for companies to focus on sustainability initiatives. Such initiatives help in improving social perception of companies. Shell's approach to sustainability is to provide clean energy solutions by balancing short term and long-term interests. The company implements sustainability in majority of its projects. Shell focuses the most on three of the UN's sustainable development goals: goal 7 (access to affordable and sustainable energy), goal 8 (economic growth and decent work) and goal 13 (action on climate). In 2020, Shell managed to reduce net carbon footprint from 78 g CO₂e/MJ to 75. Scope 1 GHG emissions went down to 63 million tons of CO₂ from 73 in 2019. Upstream flaring saw a large reduction from 5.9 million tons of CO₂ to 3.8 million tons in 2020 (Royal Dutch Shell, 2020).

2.6.2 Issues related to rising concern about climate change

Increasing climate change issues may result in the enactment of fresh laws that may influence Shell's projects. The Paris Agreement has resulted in a zoning-in on climate change. New laws could result in an

increase in the costs of compliance. The laws are aimed at reducing the demand of fossil fuels using taxes, incentives or measure of restrictions on sales of vehicles. This may result in a decrease in total annual revenues for Shell. The World Bank has made a decision to stop financing oil and gas projects from 2019. The negative resultant effects of climate change such as increase in sea levels and temperatures may affect Royal Dutch Shell's operations adversely (Royal Dutch Shell, 2021).

2.5.3 Geological issues caused by operations

Oil and gas operations can result in geological interruptions in a region. Shell and ExxonMobil have devoted a lot of time and resources into a gas production project in Groningen in The Netherlands. The activities in the province have caused earthquakes in the region since 1995 which have resulted in the damaging of houses and property. This has resulted in lawsuits filed by the local communities. Shell and the other organisations involved in the venture have been compelled to shut down the project with a target end date of the year 2030.

CHAPTER THREE

SWOT ANALYSIS OF ROYAL DUTCH SHELL AND CORRESPONDING MICROECONOMIC EFFECTS

The SWOT analysis for Royal Dutch Shell can be found below:

Strengths	Weaknesses
1. One of the world's largest energy organisations 2. Strong financial performances 3. A business model that is established on the amalgamation of businesses which serves as a competitive advantage 4. Big focus on technology and innovation	1. Scuffle to resolve safety and trust issues 2. Proceeds of the company not yet sustainable 3. Mass layoffs of employees to counter losses
Opportunities	Threats
1. Increased demand for LNG worldwide 2. Positive outlook for the African energy industry 3. Increasing market for biofuels worldwide	1. Variations in prices of petrochemicals 2. High competitiveness in the oil and gas industry 3. Interference in operations by cyber-attacks 4. Increasing anxiety around climate change

2.1 Strengths of Royal Dutch Shell

2.1.1 One of the world's largest organisations

Royal Dutch Shell conducts operations in various fields such as exploration, development, production, refining and marketing of oil and natural gas. Royal Dutch Shell is also involved in the manufacturing and marketing of petrochemicals. Royal Dutch Shell is presently the largest global independent company in the energy sector based on market capitalization, cash flow from operating activities, and production levels. Shareholder value is created through exploration, LNG production, energy transportation and refining and chemical production. Some of their recent major projects include deep-water oil and gas development at Appomattox (2019), LNG Canada project (2018), redevelopment of Penguins oil fields in the UK (2018), construction of Pennsylvania Petrochemical Complex (2017), etc (Murray, 2021).

2.1.2 Strong financial performances

Shell saw a good overall financial performance in 2018. The company's performance improvement efforts along with high oil prices resulted in an increase in cash flow from operations to \$53 billion in 2018 from \$35.7 billion in 2017. The organisation reduced its debt, paid dividends of \$15.7 billion completely in cash and started the share buyback program aimed at buying back at least \$25 billions of shares by the end of 2020. Income rose from \$13.4 billion in 2017 to \$23.9 billion in 2018. While cash flow reduced and went down to \$34 billion compared to \$42 billion in 2019, Shell still showed industry-leading cash flows compared to its peers. The Retail and Lubricants sections showed adjusted earnings growth of 5% and 18% respectively and Opex yield increased from 54% to 63% in 2020.

2.1.3 A business model that is established on the amalgamation of businesses which serves as a competitive advantage

Royal Dutch Shell creates shareholder value through many means. The company is involved in LNG production, exploration of crude oil and gas, conversion of gas to liquids, transporting and trading of gas, oil and other energy products like carbon emission rights and electricity. The organisation is also involved in other energy sources like biofuels, hydrogen and solar power. These various businesses combined provide a competitive advantage that enables the organisation to optimize across its entire portfolio. Shell's recent venture in Brazil shows how they are quickly establishing their hold in high-potential areas. Brazil houses one of the world's biggest sources of renewable power, containing ample solar, wind and hydroelectric resources. Natural gas is Brazil's second largest growing energy source after solar. With the energy demand in Brazil set to double over the next 20 years, Shell's venture into Brazil can lead to long-term benefits for the company (Royal Dutch Shell, 2020).

2.1.4 Big focus on technology and innovation

Royal Dutch Shell stays constantly searching for new technologies that could be integrated into the business. In 2018, the organisation spent \$986 million on Research and Development, compared to \$922 million in 2017 and \$1014 million in 2016. India, USA and the Netherlands are the zones of major technology hubs amongst all others such as Qatar, Germany, Oman, China and Brazil. The organisation has a strong portfolio of 10325 patents and pending applications for patents. Shell has a dedicated catalyst team whose sole focus is to develop new technological advancements to improve Shell's portfolio. The catalyst division of the Research and Development team is working on methane abatement, ethylene oxide, and gas-to-liquid processes and they conduct 1,000-hour tests to prove that these developments will work on industrial engines. Royal Dutch Shell spent \$907 million on Research and Development in 2020 (Royal Dutch Shell, 2020).

2.2 Weaknesses of Royal Dutch Shell

2.2.1 Scuffle to resolve safety and trust issues

In 2004, Shell lost the trust of investors after some senior executives misrepresented the company's oil reserves size. In 2011, Shell and Eni were accused by the Nigerian government of paying bribes for obtaining exploration rights called Oil Prospecting License 245 in the Gulf of Guinea. An investigation followed the accusations and in 2019, a Dutch appeals court ordered Shell Nigeria to pay compensation to the Nigerian farmers. The company is making efforts to rebuild trust by sensitizing employees of the importance of integrity. Shell is also trying to eliminate safety issues. Though the number of safety incidents in 2018 was less than in 2017, two people died on the job in 2018 (Royal Dutch Shell, 2020). While Shell has been publicizing its clean-energy transition, reports suggest that only a small part of their business is focused on these climate positive initiatives. In 2018, Shell invested \$25 billion in oil exploration and only \$300 million was allocated for clean fuel for the next three years.

2.2.2 Proceeds of the company not yet sustainable

In 2018, the company had made enough cash to pay dividends and reduce debt, but the earnings are not yet sustainable. Volatility in Shell's working capital is a cause of concern for investors. The return on average capital employed was 7.6%, which was below the cost of capital estimates. Though Shell might

be able to set right its financials by 2020, there is a question mark on the company's ability to boost returns while investing on renewable sources of energy. The COVID-19 pandemic was a huge blow not only to oil companies but also to investors who had stocks in those companies. Shell decided to cut its dividend from \$3.7 in Q4 2019 to \$1.3 in Q4 2020 (Royal Dutch Shell, 2020). Investors may choose Shell's competitors like ExxonMobil and Chevron, both of which are providing higher yields than Shell.

2.2.3 Mass layoffs of employees to counter losses

Shell suffered losses amounting to over \$21.7 billion due to the adverse effects of the COVID-19 pandemic. Factories were shut down following government directives and workers in oil exploration sites were reduced to prevent the spread of the virus. The losses are a stark contrast against the \$15.8 billion profits posted in 2019. To cut their losses and reduce operational costs, Shell decided to layoff over 9,000 employees in 2020 and 2021 (German, 2021).

2.3 Opportunities of Royal Dutch Shell

2.3.1 Increased demand for LNG worldwide

In 2018, there was rapid growth in Liquefied Natural Gas (LNG) use due to demand for cleaner fuel in Asia. The demand worldwide increased by 27 million tons to 319 million tons. It is expected to rise to 384 million tons in 2020. Europe and Asia are expected to absorb the expected additional LNG supply of 35 million tons in 2019. China's import of LNG rose by 16 million tons in 2018, an increase of 40% over 2017, due to urban air quality improvement efforts. By the end of 2018, Australia's LNG exports were on par with those of Qatar. Both the countries are well positioned to supply LNG to developing countries across Asia. Shell is the largest marketer of LNG. It has competitive positions in Japan, China, South Korea, Jordan and Malta. Shell has developed the largest LNG liquefaction capacity through joint ventures. In 2020, due to COVID-19, the demand for LNG slowed down and grew by 1% as the entire global gas demand declined. However, the share of LNG in the global gas supply is expected to increase in the longer run, from 13% to 25% by 2050 (Royal Dutch Shell, 2020). Royal Dutch Shell can continue to make the most of this opportunity by ensuring that each country where the organization has a presence, there is a competitive position on the supply and sales of LNG. Plans to spread to other other regions and take up new markets could also be explored.

2.3.2 Positive Outlook for the African Energy Industry

Shell has a large presence in Africa as it is a continent very rich in oil and gas resources. In the early 1980s, Shell and Egyptian General Petroleum Corporation formed a joint venture named Badr Petroleum Company in Egypt. In 2019, Africa accounted for 8.8% of the global total oil production with Nigeria coming first with 2.2%, followed by Algeria, Angola and Libya (Royal Dutch Shell, 2020). Shell could look towards establishing a renewable energy base in Africa as well since there is already a strong presence in the continent.

2.3.3 Increasing market for biofuels worldwide

In 2016, the total biofuels market value worldwide was estimated at \$168 billion. In 2022, it is aimed at growing up to \$218.7 billion. The primary drivers for growth can be attributed to a positive turn in the economy, improvement in living standards and an increase in demand for biofuels globally. North

America is predicted to be the largest revenue contributors up until 2022, followed by the continent of Europe. Shell is currently a major biofuels' producer globally. In 2018, an estimated total of 9.5 billion liters of biofuels were combined with the other petrochemicals and then traded globally by Shell. Shell has partnered with Scania, IVECO, DISA and Nordsol to launch vehicle powered by 2000 bio-LNG as well as construct various LNG stations providing this kind of fuel. Through this partnership, Shell aims to provide net-zero bio-LNG to customers by 2025 (Royal Dutch Shell, 2021).

2.4 Threats of Royal Dutch Shell

2.4.1 Variations in prices of petrochemicals

Prices of petrochemicals are influenced by the forces of demand and supply. The determinants that influence demand and supply vary from operational problems to political unrest and natural disasters. The COVID-19 pandemic shook the prices of oil and gas products worldwide. There was a decline in the demand for oil and gas combined with a high supply of oil and gas. The oil and gas sector is also already transitioning to renewable sources of energy which led to 30-year all time low in oil prices. As many more nations are moving away from fossil fuels, the demand for oil is predicted to increase in a few years, reach its peak and then undergo a downward spiral (German, 2021).

2.4.2 High competitiveness in the oil and gas industry

Every business sector of the organisation faces intense competition. Shell may not be advantaged in comparison to oil and gas organisations owned by local regions during bidding for new oil and gas ventures since these organisations may not necessarily need very high returns. Based on the 2020 Fortune Global 500's revenue figures, Shell ranks third in the world with a revenue of \$352 billion in 2019-20, behind China's Sinopec (\$407 billion) and PetroChina (\$379 billion) (George, 2018).

2.4.3 Interference in operations by cyber-attacks

Royal Dutch Shell is usually aimed at for cyber-crimes that try to obtain access into the organisation's data. In 2008, personnel of Shell's contract-staff had used private data of Shell workers to carry-out an insurance fraud. In 2009, the organisation's system was hacked into and private data of 1400 New Zealand and 4500 Australian customers was stolen. Shell has begun to prioritize early detection of these dastardly acts and prevent them as this could not only lead to reputational damage but also affect financial performance (SWOT & PESTLE, 2021).

2.4.4 Increasing anxiety around climate change

Royal Dutch Shell is faced with the dilemma of new laws surrounding the current focus on climate change. These new measures put in place to combat climate may lead to delays and calling off projects. Shell is currently dealing with a rise in costs of compliance and regulatory restrictions that are aimed that making sure that its GHG emissions are regulatory-compliant (Royal Dutch Shell, 2020).

Conclusion

The PESTLE and SWOT analysis has shown that Royal Dutch Shell possesses great prospects globally in terms of strengths and opportunities for growth. The company also possesses various weaknesses and certain aspects that serve as threats to the business. The positive aspects of the business landscape such as the large market share in the global oil and gas industry, strong business model, investment in science and technology and a diversification to alternative energy sources, if focused on and harnessed will offset the negative aspects of the business as measures are being put in place to curb those weaknesses and threats.

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