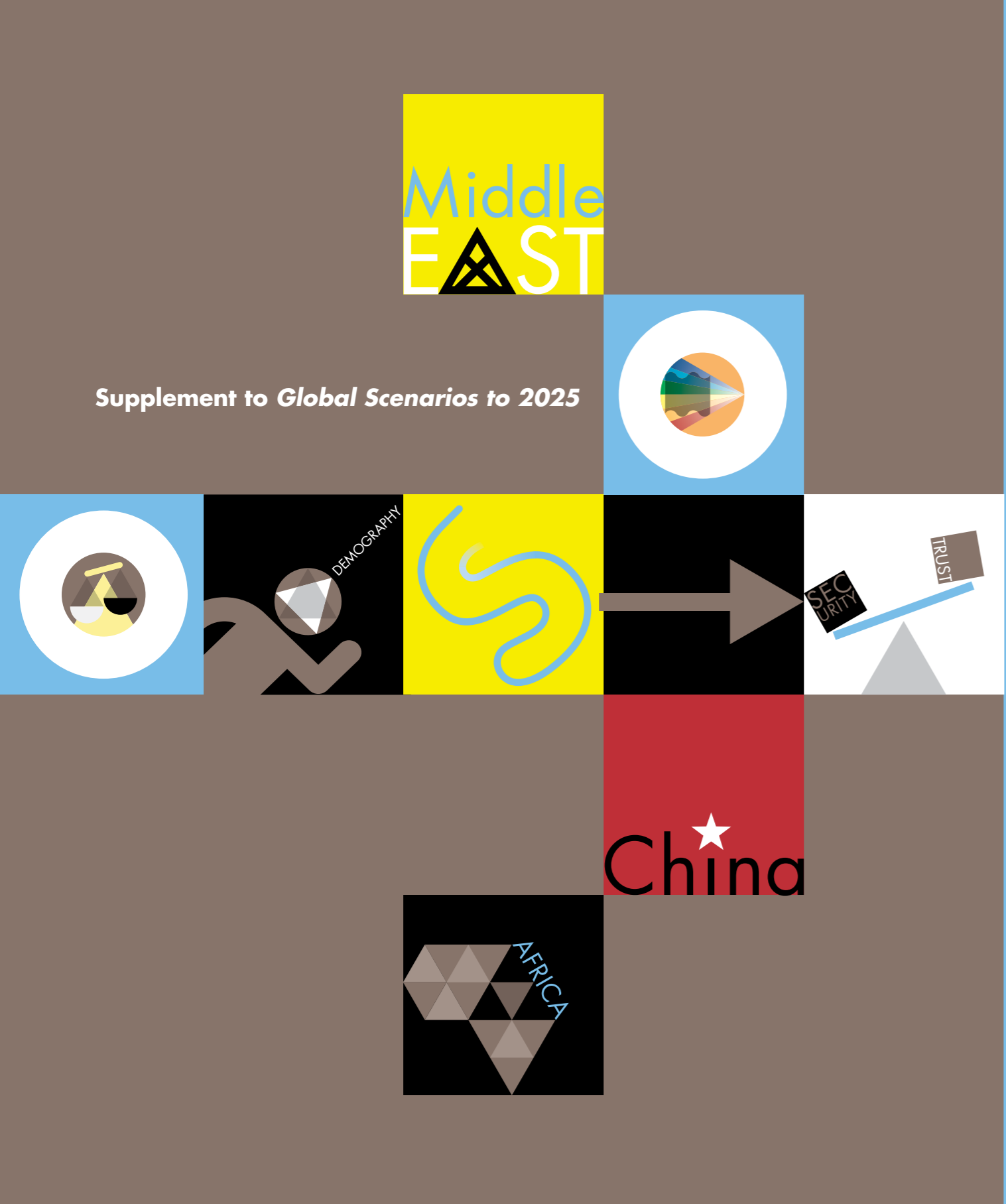
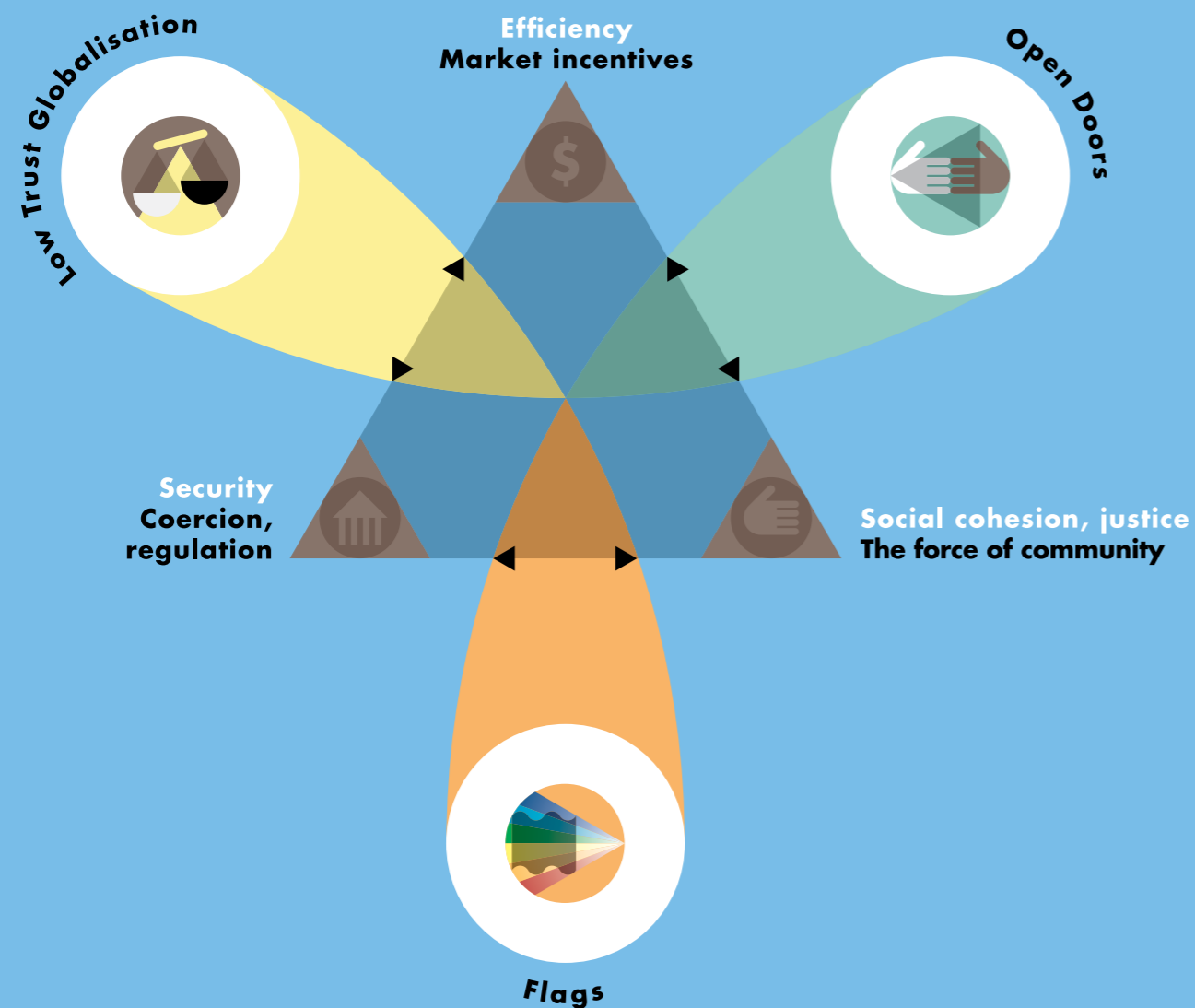




Signposts



Supplement to *Global Scenarios to 2025*



Critical uncertainties and the “Trilemma Triangle”

The Shell Global Scenarios to 2025 explores how forces of market incentives, communities, and regulation or coercion by the state advance societies’ objectives of efficiency and growth, security and social cohesion. Societies typically aspire to all three objectives and those that are more successful find ways of achieving them in mutually reinforcing ways. However, these forces can sometimes display elements of mutual exclusiveness – one cannot always be simultaneously freer, more secure and more socially cohesive – leading to difficult choices and trade-offs, particularly in the wake of sudden shocks such as 9/11 or Enron. Global Scenarios to 2025 explores the three dilemmas – a Trilemma – involved in the pursuit of these objectives.

The Trilemma Triangle provides a map of relations and interactions among market participants, civil society and states. In particular, it examines the interplay of three complementary, but occasionally competing, objectives of efficiency, social cohesion and justice and security. Using this analytical framework Global Scenarios to 2025 developed three alternative scenarios – Low Trust Globalisation, Flags and Open Doors – that capture the potential trade-offs facing society among these diverse, complex objectives in which two objectives dominate at the expense of the third.

The difficulty of achieving a satisfactory balance among these goals is a source of challenge for decision makers – in business, government and society. The three scenarios analyse potential ways in which these trade-offs will be accomplished. They also recognise that this balance may be more difficult to strike in the immediate wake of crises that create new political imperatives and that these crisis responses can have persistent effects.

In simplified terms, the balances of forces – or imbalances – in the three scenarios are as follows:

- Efficiency and security tend to dominate in Low Trust Globalisation
- In Flags, security and social cohesion trump efficiency
- Open Doors sees efficiency and social cohesion at the fore

This of course does not mean that the third objective is altogether absent in each of the scenarios. Rather, it is partially compromised in the face of achieving one or both of the other objectives.

Supplement to *Global Scenarios to 2025*

Contents	
Foreword	3
Introduction to the Shell Global Scenarios to 2025	5
Critical uncertainties and the “Trilemma Triangle”	cover
The Scenarios in Brief	6
Signposts 2006 – Fundamental objectives and force	7
Signposts: Security and trust through coercion and regulation	8
Efficiency and growth through markets and private initiative	12
Social cohesion through force of community	16
From Signposts to Scenarios – Where are we heading?	20

Shaping our future

Global headlines are dominated by events that are clearly important in the immediate present. But their significance for the future is more difficult to interpret. As I write, an uneasy ceasefire is holding in Lebanon, world powers are deciding how to react to North Korean nuclear tests, global economic growth remains robust despite both high oil prices and a softening US economy and violence continues unabated in Iraq and Afghanistan. How should we assess the long-term implications of these developments? What do they tell us about how the future may unfold?

“ This framework helps to understand how today’s geo-political, economic, and social aspirations and forces are shaping our future ”

The Shell Global Scenarios to 2025, published in 2005, provides an analytical framework to help understand how today’s geo-political, economic, and social aspirations and forces are shaping our future. This booklet complements the original report by reviewing selected recent global developments - signposts - since 2005. It illustrates how the scenarios framework can be applied to help make sense of complex trains of events and highlights key contemporary trends in world affairs.

Since 9/11 and the Enron scandal we have experienced a global business environment with a strong focus on enhanced physical security and tighter market regulation, which has given rise to new tensions and trade-offs between assertive state policies and continued market liberalisation. More recently, the rapid export-led growth of many developing countries and their impact on global energy prices has helped to fuel a new wave

of ‘resource nationalism’, as well as a rise in protectionist pressures in Western Europe and North America. This complex interweaving of political, economic and social trends can lead the world in several possible directions, which the Shell Global Scenarios seek to map out through three stylized scenarios. We call them Low Trust Globalisation, Flags and Open Doors.

Of course, the complexities of today’s global business environment cannot be distilled into a single scenario and we identify elements of all three scenarios in recent developments. The Low Trust Globalisation scenario sees the prioritisation of economic efficiency and security at the partial expense of social cohesion and examples of this can be seen in developments in the United States and China, where income inequalities have widened significantly in the face of strong growth. In the Flags scenario, concern for national identity and social cohesion trumps

considerations of economic efficiency, giving rise for example to economic protectionism or a loss of political appetite for further liberalisation as seen in the collapse of the Doha round of trade negotiations. There are perhaps fewer examples of the Open Door scenario being played out, but the recent election in Sweden illustrates how social cohesion and economic efficiency can drive the policy agenda.

Overall, the signposts found in recent developments reveal significant fault-lines and opposing pressures, suggesting that an overall, dominant direction for the world remains highly uncertain. However, it does appear that security and social cohesion dominate the day-to-day agendas of the key global players, while market forces continue to

assert themselves inexorably and the global economy remains robust. We are therefore currently living in a world that predominantly reflects the Low Trust Globalisation scenario, with a strong component of Flags. At least, that is one of the conclusions I draw from the review, but perhaps you will draw others. In any event, I have found it valuable to view developments through the lens of the Shell Global Scenarios, and I hope you will also find this to be the case.

This publication was prepared by the Shell Scenario Team and by Shell Corporate Affairs. In particular, I would like to thank Cho Khong, Chief Political Analyst, Steven Fries, Chief Economist, and James Schofield, Editor, for their efforts in bringing this publication forward.

**Jeremy B. Bentham – Vice President,
Global Business Environment**

“ I have found it valuable to view developments through the lens of the Shell Global Scenarios, and I hope you will also ”



Shell Global Scenarios to 2025

Over the last three decades, Shell has developed the Global Scenarios to help deepen our understanding of the business environment in which the Group operates, to identify emerging challenges and to foster adaptability to change. The scenarios are used to help review and assess Group strategy. The scenarios themselves are not forecasts of the future but rather are credible alternative views of the future global business environment that can challenge assumptions or established views.

The Global Scenarios to 2025 are structured around both pre-determined trends and critical uncertainties. The predetermined trends are common across each of the three of the scenarios. The critical uncertainties, which overlay the relatively certain trends, are used to build credible alternative visions of what the future may hold. The contrasting ways in

which these uncertainties are resolved critically shape the alternative scenarios for the global business environment.

The trends to 2025 that can be predicted with some degree of confidence are those involving demographics, globalisation and key geo-political actors. Over the scenario horizon, the world's population is set to increase from around 6 billion to 8 billion, with almost all of the growth occurring in developing countries. This will further reinforce the growing contribution that developing countries are making to the world economy. At the same time, the increased globalisation of recent decades – made possible by market liberalisation and technological advances – will be virtually impossible to reverse. This trend has enabled a significant rise in living standards and has helped many – but not all –

// The scenarios are not forecasts but rather credible alternatives of the future //

developing countries to begin closing the gap in living standards with industrialised countries. Going forward, the key geo-political actors will be the United States and China. Reflecting the economic rise of Asia, the global business environment will more likely be shaped by relationships across the Pacific than over the Atlantic.

While the above are reasonably certain, there are critical uncertainties faced by societies today that may be resolved in several possible ways. In particular, two crises have unfolded since 2001 – namely 9/11 and the Enron scandal – that have affected national security and trust in

the marketplace. Both have highlighted vulnerabilities in our globalised world and many societies now expect the state to lead the restoration of physical security and market integrity. Societies' demand for change in response to the two crises is accelerating the transformation of the State's agenda and methods. This role involves both direct intervention – fighting terrorism and policing the market – as well as stronger emphasis on transparency, disclosure and good governance. The precise ways in which these critical uncertainties are resolved shape the three scenarios.

Summary

Different scenarios - different worlds

Low Trust Globalisation

- This is a “prove it to me” world, a sceptical world. The key words are compliance, compliance, compliance. It’s about playing by the rules, and about being very aware of the diversity of jurisdictions that will come to you with their very different and often overlapping demands.
- A world of lawyers and accountants with a culture of blame. When things go wrong, regulation and litigation are seen as answers. Action is reactive rather than proactive. People do not operate with a sense that common problems can be dealt with in advance.
- Heavy compliance requirements bring high transactions costs in markets and foster greater business scale: markets are dominated by large, vertically integrated companies that can control the potential liabilities in the whole supply chain. Value protection is as important as value creation. Compliance and its cost and scale implications also create large barriers to market entry by small and medium-sized companies.
- In the world of Low Trust Globalisation, listed companies are large multinationals. Bond financing is popular. Small and medium-sized companies are taken out of the public eye by the private equity industry.
- The absence of market solutions to the crisis of security and trust, rapid regulatory change, overlapping jurisdictions and conflicting laws lead to intrusive checks and controls, encouraging short-term portfolio flows and arbitrage as well as vertical integration of businesses.

Flags

- Flags is a “follow me” world, where people are dogmatic about their codes and causes.
- Although still interconnected with the rest of the world, people and communities feel a stronger need to express their own identity in terms of the group/club/nation/religion to which they belong.
- Flags is fragmented and polarised – both internationally and domestically. People distrust elites, they distrust others with whom they cannot closely identify. They want to show their differences from others by stating it clearly and saying ‘no’ to anything counter to their norms, views or beliefs.
- Opposed groups in society try to capture the state for their own objectives, by one route or another: votes, violence or money. Or governments wave the national flag, encouraging unity among the diverse groups and communities by reminding them ‘we all belong to the same country.’ Careful country-risk management is a priority.
- Security is pursued through isolation and gated communities. Global mobility of people and money is seriously hampered and trade is curtailed.
- Businesses with strong national identities fare well and are granted state protection through subsidies and the tax system.
- High military spending promotes innovation – for example, in fuel efficiency.

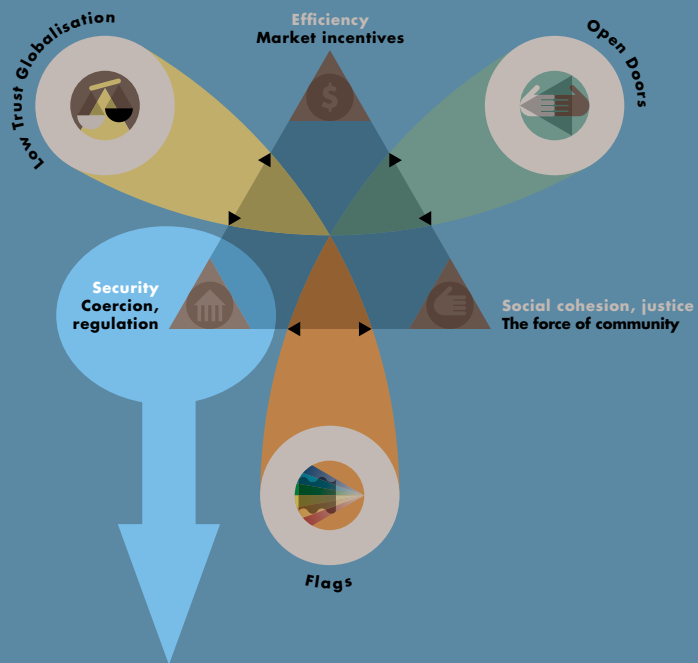
Open Doors

- Open Doors is a “know me” world, a world of trust: in global systems, and in globalisation. It is pragmatic, proactive and co-operative world. People cooperate with others to deal with future problems, because it is the most efficient way to deal with them.
- Underpinning trust is the precautionary principle, which broadly states that caution should prevail where the possibility of harmful effects on health and the environment have been identified and scientific evaluation of the risks proves inconclusive.
- In this world, government acts in the background, maintaining trust and security through incentives and soft power rather than intrusive checks and controls. States are inclusive, taking responsibility for the wider constituencies in society.
- Reputation can be a substitute for intrusive controls. A world of constant questionnaires by rating agencies and media. Reputation carries a premium, but also makes companies vulnerable. Voluntary best-practice codes, and close links between investors and civil society encourage cross-border integration and virtual value chains. Networking skills and superior reputation management are essential.
- Competitive advantage through innovation is short-lived, but not to innovate is not an option. Companies are driven to innovate more to compete. More capital is available in Open Doors to invest in innovation, because financial markets have a higher appetite for risk.
- Innovations are disseminated faster, because of the openness of the global business environment.
- Global equity markets become more integrated and large sums of venture capital chase superior returns.

In the following pages we set the context for our review of the Global Scenarios – Low Trust Globalisation, Flags and Open Doors – developed in the Trilemma Triangle and explore how relevant they are to today’s world. To do so we first survey key news stories of important recent events – signposts – that point to the strength of the fundamental underlying objectives of market efficiency, security, and social cohesion and the forces through which these objectives are attained.

Each event or signpost tends to illustrate the strength of one of the underlying forces in a particular context. For example, the collapse of the Doha round of trade negotiations represents the strength of social cohesion and the unwillingness of politicians to take on vested interests in the status quo. In contrast, its successful conclusion would have indicated a political and social priority placed on market efficiency and growth. While each event can involve some interactions or trade-offs with other objectives, they are often news because it is an “extreme” event in the sense that it shows the dominance of one objective or force over another, at least in the immediate present. At the end of each set of news items covering security, efficiency and growth, and social cohesion, we offer a brief overall assessment of the drivers of change.

The concluding section of this update will then view these and other signposts through the prism of the Global Scenarios to 2025. We do this to show how the scenarios can be used to put today’s events in a broader context in order to better monitor and interpret them. This analysis can also be used to point to the possible future directions of the global business environment and whether one or more of the scenarios, or indeed combinations of scenarios, are beginning to emerge. In this way the scenarios themselves can be reviewed, and if necessary, challenged as we move towards 2025.



**Security and trust
through coercion and
regulation**

**Security
Coercion,
regulation**



1: Terror threat grows

The New York Times newspaper has published what it says are the findings of a classified US intelligence paper on the effects of the Iraq war. The document reportedly blames the three-year-old conflict for increasing the threat of terrorism and helping fuel Islamic radicalism worldwide.

This latest finding, known as a National Intelligence Estimate, is the most comprehensive report yet, based on the considered analysis of all 16 of the US intelligence agencies.

According to the New York Times, which has spoken to officials who have either read it, or been involved in drafting it, the report says the invasion and occupation of Iraq has spawned a new generation of Islamic radicalism that has spread across the globe.

It also warns that Islamic militants who have fought in Iraq could foment radicalism and violence when they return to their home countries, much as returning Jihadis did after the war against the Soviet Union in Afghanistan in the 1980s.

It reportedly concludes that, while al-Qaeda may have been weakened since the 11 September 2001 attacks, the radical Islamic movement worldwide has strengthened with the formation of new groups and cells who are inspired by Osama Bin Laden, but not under his direct control.

'US report says Iraq fuels terror'
http://news.bbc.co.uk/2/hi/middle_east/5375064.stm

2: States struggle to find common response to nuclear proliferation

Six world powers yesterday agreed to discuss possible sanctions to punish Iran for failing to halt its nuclear programme but said they were still open to negotiations with Tehran.

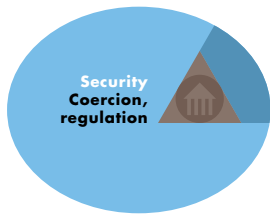
Iran says its atomic programme is only for power generation. The West suspects Iran wants to make a nuclear bomb, and the UN Security Council had set an August 31st deadline for Tehran to stop uranium enrichment.

"Further pressure is needed," British foreign secretary Margaret Beckett told reporters after talks with ministers from the United States, France, Germany, Russia and China.

In July, a UN resolution authorised the Security Council to "adopt appropriate measures" - under article 41, Chapter 7 - which referred to commercial or diplomatic sanctions but excluded military force.

The US, backed by Britain, has suggested it is time to consider a Security Council resolution to impose sanctions after four months of talks between the EU and Tehran failed to yield an Iranian promise to halt atomic work.

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Security and trust through coercion and regulation

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But Russia and China, underlining divisions among the six world powers, agreed it was “absolutely unacceptable” to threaten force and talk of ultimatums was counter-productive, Russian deputy foreign minister Alexander Alexeyev said yesterday.

‘World powers consult on Iran sanctions’, Sophie Walker, 7 October 2006, Irish Times, © 2006, The Irish Times.

3: NATO expansion fuels security concerns

In another sign of the cooling of Ukraine’s pro-Western zeal, the new prime minister said his country is putting efforts to join the North Atlantic Treaty Organization on hold because of a lack of public support for the move.

“We have to take a pause,” Prime Minister Viktor Yanukovich said yesterday after meeting with NATO’s chief in Brussels. He said Ukraine would formally launch its bid to join the alliance, but only after a referendum on the issue.

The Kremlin has lobbied hard against Ukraine’s entry. The Kremlin said that as a NATO member, Ukraine would be a threat to Russian security and warned Kiev that any movements toward membership would worsen relations.

Besides many trade ties with Russia, Ukraine must worry about its dependence on Russian natural-gas deliveries. Ukraine is in the midst of negotiations with Russia for next year’s shipments.

Ukrainian President Viktor Yushchenko, who was swept to power in the Orange Revolution, has said Ukraine wouldn’t “veer one iota” from plans to join NATO.

Before agreeing to name Mr. Yanukovich prime minister, he pushed him to sign a so-called memorandum on national unity that preserved tenets of a Western-oriented agenda – including NATO membership. But the pact appears to be nonbinding and too vague to force Mr. Yanukovich to any concrete action.

‘Ukraine puts efforts to join NATO on hold’, Alan Cullison, 15 September 2006, The Wall Street Journal, © 2006, Dow Jones & Company, Inc.

4: Market regulations place heavy burden on small business

Christopher Cox, chairman of the Securities and Exchange Commission, yesterday issued a robust defence of Sarbanes-Oxley legislation, saying it was “important to keep in mind” that many of its elements had been adopted by other regulators overseas.

The law has stirred controversy in the US, with many in the business and financial community blaming its more onerous compliance requirements for adding unwanted costs to business.

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It has also been blamed for forcing foreign company listings abroad to London and Hong Kong, damaging the competitiveness of the US capital markets.

Mr Cox said: "As we consider the effect of Sarbanes-Oxley on US competitiveness, it is important to keep in mind how broadly many of its tenets have been taken up overseas."

He cited the establishment of independent auditor watchdogs similar to the Public Company Accounting Oversight Board (PCAOB), which oversees US auditors.

He pointed out that the European Union had adopted a directive requiring all member states to create an auditor oversight body. Mark Olson, PCAOB chairman, conceded the enactment and implementation of Section 404 of Sox had been a "symbiotic over-reaction" by the PCAOB, SEC and auditors to past business scandals.

Section 404 is the most contentious part of Sox and requires CEOs to have outside auditors check their assessments of a company's internal controls.

'Cox defends "Sox" to the House', Jeremy Grant, 20 September 2006, Financial Times, © 2006, The Financial Times Limited.

5: Assessment

The drive for enhanced security through military intervention in Iraq and diplomatic initiatives to impose sanctions on Iran, in response to its continued nuclear programme, have been among the most significant security-related issues since 2005.

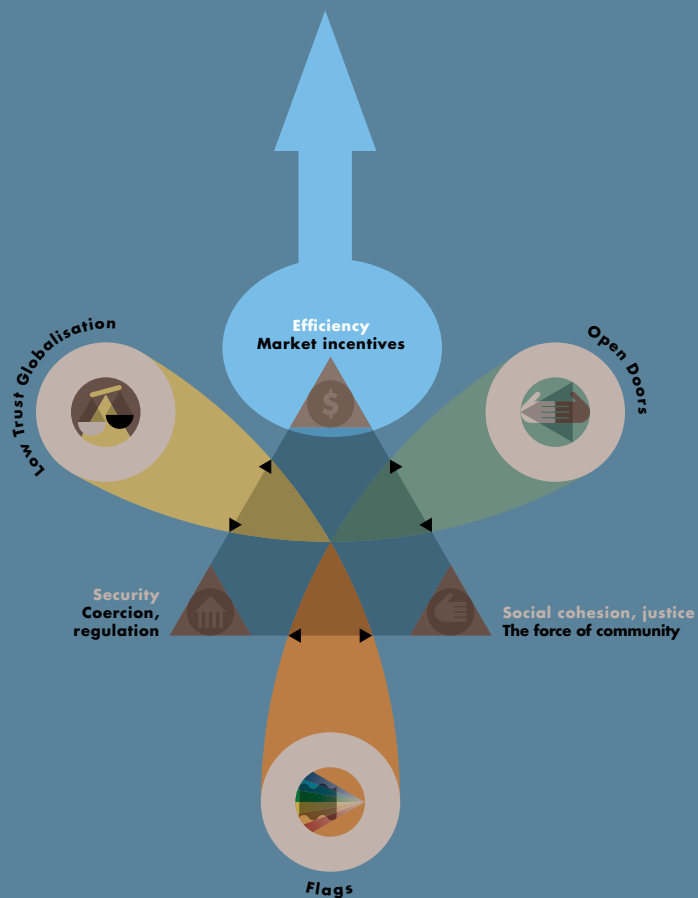
The dispute between Russia and Ukraine over the price of natural gas – a dispute that resulted in the temporary disruption of energy supplies not only to Ukraine but also to the EU – increased this preoccupation with security for many EU governments and reinforced concerns over security of supply, already high on political agendas. A backdrop to this dispute was the future geo-political orientation of Ukraine.

At the same time, the costs of rebuilding market trust through more effective regulation became more apparent. These costs have become particularly onerous on small and medium-sized firms and have resulted in the shift of international securities away from New York to London.

These are all deep and complex issues that are likely to remain open and unresolved for some time. They are therefore likely to continue to dominate political agendas.

Efficiency
Market incentives

**Efficiency and growth
through markets and
private initiative**





1: Business environment improving

Africa is making strides in cutting red tape and improving business regulation, according to a report published today by the International Finance Corporation, the private sector arm of the World Bank.

Two-thirds of African countries implemented at least one pro-business reform over the past year. With Tanzania and Ghana among the top reforming nations, the study finds.

Other active African reformers include Benin, Burkina Faso, Cameroon, Gambia, Madagascar, Malawi, Mali, Mozambique, Niger, Nigeria and Zambia. These countries have simplified business regulation and some have improved property rights and made it easier to start companies.

The Doing Business Report, published annually by the IFC, shows that in spite of these advances, Africa ranks as the world's worst regulated region.

Michael Klein, chief economist at the IFC, told the Financial Times "there is an overwhelming sense that governments continue to move along this agenda towards improvement".

He said the push for better regulation was increasingly a matter of "consensus between left and right" with leftwing governments, for instance, keen to give poor people formal property rights.

He said what mattered most was to signal a "regime shift" towards a more pro-business, better regulated economy.

"This sense of unstoppable progress released a lot of dynamism in China, India and Vietnam," he said.

'World Bank praises pro-business reforms in many African countries', Krishna Guha, 6 September 2006, Financial Times USA, © 2006, The Financial Times Limited.

2: China spurs growth

The global economy is likely to grow at a 5% rate this year and next, which would make for the strongest four-year expansion since the early 1970s, according to the International Monetary Fund's new semi-annual economic forecast.

"The global expansion was broad-based in the first half of 2006, with activity in most regions meeting or exceeding expectations, and recent indicators suggest the pace of expansion is being maintained in the third quarter," the IMF said in its World Economic Outlook, released yesterday.

Despite an expected slowdown in the USA, the European Union and Japan – and historically high prices for oil and metals – the IMF has raised its growth forecasts by one-quarter percentage point for 2006 and 2007 over the past six months, largely because of steady growth in China and other developing countries.

The outlook for slower growth in wealthier countries reflects higher interest rates carried out by the Federal Reserve and

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Efficiency and growth through markets and private initiative

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other central banks as they attempt to keep a lid on inflation. The IMF said inflation concerns are the main risk to its forecast; other risks include further oil-price increases and a more rapid than expected cooling of the USA housing market.

'IMF sees strength in global growth despite soft spots', Champion Walsh, 14 September 2006, The Wall Street Journal, © 2006, Dow Jones & Company, Inc.

3: Immigration and liberalisation of labour flows

Migrant workers from eastern and central Europe have not taken jobs from unemployed Britons, according to a government study.

Some 329,000 eastern and central Europeans, more than half of them from Poland, have registered to work in the UK since their countries joined the European Union in May 2004.

The study, commissioned by the Department for Work and Pensions and published yesterday, found there was "no discernible statistical evidence" that migrant workers from the so-called A8 accession countries had contributed to the rise in claimants. "Overall, the economic impact of migration from the new EU member states has been modest, but broadly positive."

Only Britain, Ireland and Sweden of the previous 15 EU members have allowed unrestricted access to their labour markets to workers from A8 countries. A European Commission

study earlier this month urged other members to follow suit. It said fears of an influx of cheap labour and welfare tourism had proved groundless and Britain, Ireland and Sweden had enjoyed high economic growth and high employment despite opening their labour markets.

Tony McNulty, immigration minister, said workers from the accession countries were "filling important vacancies, supporting the provision of public services in communities across the UK and making a welcome contribution to our economy and society".

'Workers from new EU states have had 'broadly positive' impact', Andrew Taylor, 1 March 2006, Financial Times, © 2006 The Financial Times Limited.

4: Foreign listings and liberalisation of international capital

London has seen a surge of listings by Russian companies in the past year but the forthcoming pipeline of deals is even more staggering.

In 2005 Russian companies raised close to £ 3bn on London's main exchange and the junior market, Aim. So far this year, Russian groups have already raised £ 4.8bn, the bulk of which has come from the flotation of Rosneft, the state-controlled oil group, which raised £ 3.5bn.

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According to a recent study by Chris Weafer, chief strategist at Alfa Bank, about 80 Russian IPOs are at various stages of preparation, with a possible funding target of US\$ 18.5bn in the next 18 months.

Of this, about US\$ 5.5bn is earmarked to be raised by year-end. Russian companies are likely to do more domestic listings but global listings will remain high, analysts say. But while investors have hoovered up share offerings of Russian companies in the past, there is growing uncertainty about appetite for future deals.

Part of this reflects broader trends in the market, which has seen a volatile few months and a rise in investors' aversion to risk. There is also a concern that investors will be unable to take up the huge amount of expected supply.

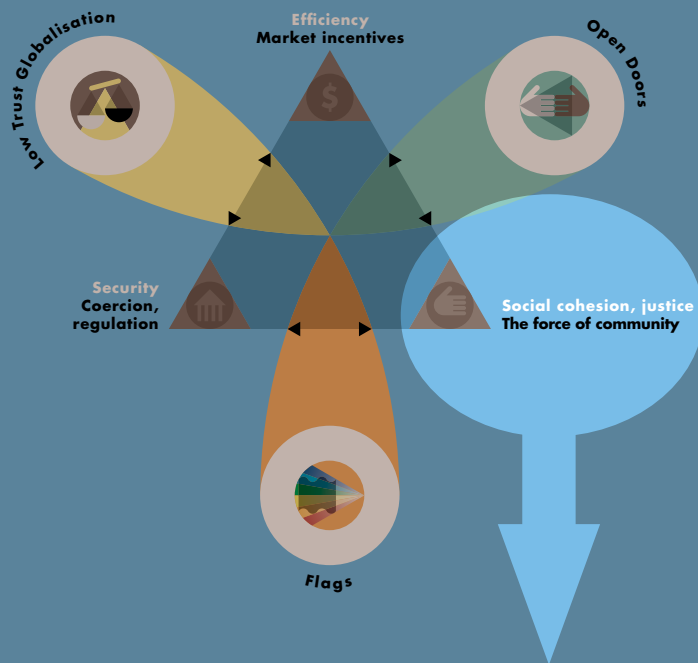
'The coming crop of Russian listings in London is expected to be huge', FT report – Investing in Russia, 10 October 2006, Financial Times, © 2006 The Financial Times Limited.

5: Assessment

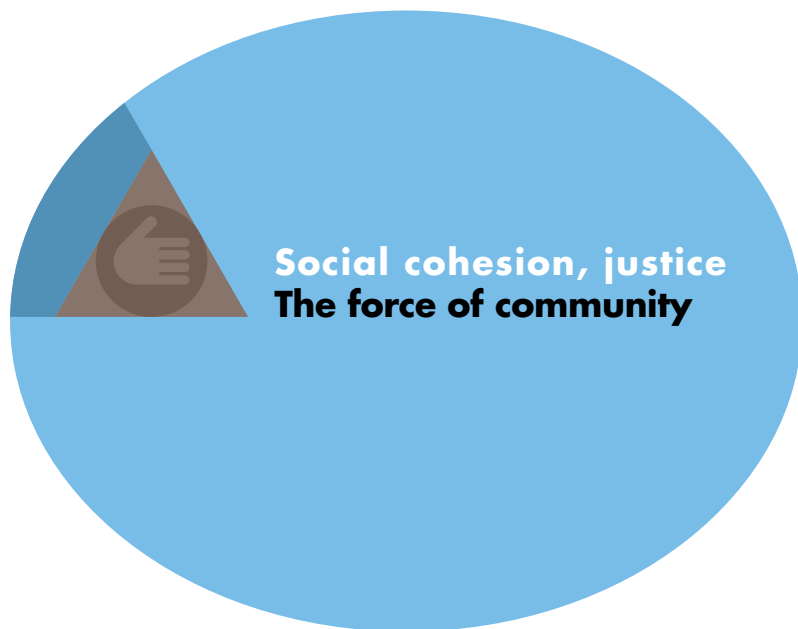
Recent signposts suggest that the strengthening of market efficiency and private initiative is more prominent in developing countries than in the advanced economies. The World Bank's annual survey of the costs of doing business around the world showed improvement in the business environment in developing countries, including many in Africa, while the IMF's survey of global economic performance highlighted the major contribution that developing countries are making to overall growth.

The UK's decision to allow migration from new EU member states has shown how labour mobility can enhance economic performance. At the same time, Russian companies are increasingly embracing international standards for disclosure, transparency and governance in a bid to access international capital markets.

These are all important examples of the continuing influential role of market forces in international affairs, although it is important to note that there have been few such market enhancing initiatives in Western Europe, North America or Japan over the past year. Many of the advances are in developing countries where the imperative of efficiency and growth is, perhaps, stronger.



**Social cohesion
through force of
community**





1: Blow to world trade

...The Doha trade talks have collapsed. On July 24th, at the end of yet another futile gathering of trade ministers in Geneva, Pascal Lamy, the World Trade Organisation's director general, formally suspended the negotiations.

Launched in the Qatari capital in 2001...the Doha round was to be an "ambitious" effort to make globalisation more inclusive and help the world's poor, particularly by slashing barriers and subsidies in farming, the rich-world's most molly-coddled industry.

Yet, despite their grand rhetoric, the world's big economies have long appeared unwilling to make the political compromises that a Doha deal requires.

The fault lines in the Doha round are deep. America wants to slash tariffs, arguing (rightly) that the best way to help poor countries is through more open markets. Since America's tariffs are already low, that puts the onus on the European Union to cut farm tariffs and on big emerging economies to reduce barriers on farm goods and industrial products.

Emerging economies, in contrast, want fewer farm subsidies and lower tariffs in rich countries, but are loath to reduce their own barriers much. Countries such as India argue that in a pro-poor Doha round they need do little. The EU chides America both for demanding unrealistically large tariff cuts from others and for offering too little farm-subsidy reform of its own.

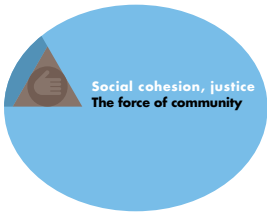
*'In the twilight of Doha', 29 July 2006, The Economist,
© The Economist Newspaper Limited, London 2006.*

2: Resource nationalism on the rise

Emboldened by Venezuelan President Hugo Chavez's moves against private oil companies, Bolivia nationalised its natural-gas industry, ordering foreign companies to give up control of fields and accept much tougher operating terms within six months or leave the country.

In a dramatic sign of how high energy prices have sparked a resurgence of nationalism from Caracas to Moscow, Bolivian President Evo Morales yesterday announced the nationalization at the country's biggest natural-gas field, San Alberto, and then ordered army troops to take control of it and the country's other fields...

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Social cohesion through force of community

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"The time has come, the awaited day, a historic day on which Bolivia retakes absolute control of our natural resources," said Mr. Morales. The former coca grower won a landslide victory in December elections partly on a promise to nationalize the gas industry, seen by many poor here as the country's ticket to prosperity.

Mr. Morales's move mimics recent measures against Big Oil by Mr. Chavez, a close ally of the Bolivian politician who has seized on high energy prices in recent years to rewrite the rules of Venezuela's oil industry. Mr. Chavez has forced major oil companies to accept a minority stake in fields they previously owned and put more money in Venezuelan coffers through higher taxes and royalties.

'Bolivia seizes natural-gas fields in a show of energy nationalism', David Luhnow and Jose de Cordoba, 2 May 2006, The Wall Street Journal, © 2006, Dow Jones & Company, Inc.

3: Social integration, exclusion and identity politics in Europe

Ayaan Hirsi Ali, a Somali-born Dutch politician known for her criticism of Islam, said Monday that her life in the Netherlands had become untenable because of security issues and a controversy over reports that she had lied on her application for asylum in 1992.

Hirsi Ali, 36, said she would resign her seat in Parliament on Tuesday and speed up her intended departure for the USA, where she plans to take a job at the American Enterprise Institute, a conservative think tank.

A Muslim who has received frequent death threats from Islamic militants, Hirsi Ali...has faced rising political pressure over charges that she lied to the immigration authorities when she fled from an arranged marriage in Somalia to hide in the Netherlands in 1992.

Her critics accuse her of further polarizing the already difficult immigration debate and of alienating rather than defending Muslim women.

In a telephone interview from The Hague on Monday, she said she had learned that as a result of the asylum application controversy she might be stripped of her Dutch citizenship. She said that was the last straw in a series of setbacks that made her decide to leave for the USA a year earlier than planned.

'Islam critic plans Dutch departure, Somali-born MP at centre of a storm', Marlise Simons, 16 May 2006, The New York Times, printed in the International Herald Tribune, © 2006 International Herald Tribune.

4: Proud to be Japanese

By a distance, Shinzo Abe this week won the election for the presidency of Japan's ruling Liberal Democratic Party (LDP), the day before he turned 52. On September 26th parliament will appoint Mr Abe to the prime ministership, after Junichiro Koizumi's extraordinary five-and-a-half years.

Mr Abe sprang into the public eye four years ago, with an uncompromising stand over North Korea's admission that it had kidnapped Japanese citizens during the 1970s and 1980s. Just this week, as chief cabinet secretary, he announced a fresh round of financial sanctions against North Korea in response to its missile tests in July. Mr Abe, certainly, is an ardent nationalist, by Japan's standards.

He wants Japan to play a more assertive role abroad, and to be prouder and less embarrassed about its past. He proposes that Japan's pacifist constitution be rewritten to allow the armed forces more easily to take part in overseas missions, and he wants legislation to make schools teach a history that is more suffused with patriotism.

For now, his chief discernible foreign intention looks rather hopeful: Mr Abe is responding to signals from a Chinese government desperate to improve bilateral relations that Mr Koizumi's visits to the Yasukuni shrine have undermined. He seems to want to resume the leader-to-leader summits that China suspended with Mr Koizumi.

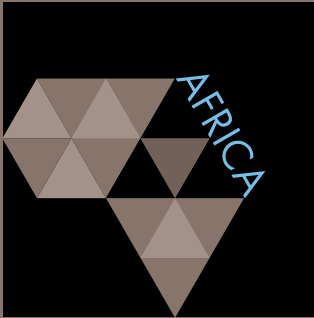
'Abe steps up – Japan's new leader', 23 September 2006, The Economist, © The Economist Newspaper Limited, London 2006.

5: Assessment

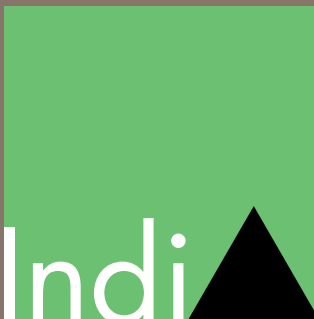
The forces of nationalism and populism can be seen across much of the world, but perhaps the single most striking event is the collapse of the Doha round of trade negotiations. While the reasons for the failure of the talks are complex, high among them was the unwillingness of key industrialised and developing countries to expose politically and socially sensitive sectors like agriculture to greater global competition.

But the strengthening of nationalist sentiments can be seen in other areas as well. In Europe, tensions across Christian and Muslim communities persist, demonstrated not only by the case of Hirsi Ali in the Netherlands, but also by controversies around religious dress in the United Kingdom. In Japan, the new prime minister has taken strongly nationalistic stances in past roles, although his approach to sensitive historical and geo-political issues as leader remains unclear.

At the same time, there has been a significant rise in resource nationalism in developing countries. This is most clearly illustrated by the Bolivian nationalisation of its natural gas sector, but this trend can also be seen in countries such as Venezuela and Russia.



So where are we heading?



From the signposts above and others, we see clear indications that all three fundamental objectives and driving forces – security and state power, efficiency and market incentives, and social cohesion and force of community – are shaping events in today’s world. As emphasised in Global Scenarios to 2025, it will be the eventual balance among these forces that will determine the direction in which the world goes.

In the short run, it appears that security and social cohesion are greater political imperatives than market efficiency, particularly in western Europe, North America and Japan. Events like the war in Iraq, tensions over Iran, identity politics in Europe and resurgent nationalism in Japan continue to dominate the headlines. Moreover, concerns over the possibility of another major terrorist attack in western Europe or North America, which security services deem highly likely, continue to grow and restrictions on air travel have tightened as a consequence. These trends reinforce the extension of state power.

// It appears that security and social cohesion are greater political imperatives than market efficiency //

The past year has also seen the security agenda expand beyond terrorism to include energy security. The year began with the Russian attempt to block gas supplies to Ukraine, which ignited a wave of concern by west European states over the security of their energy supplies and potential over-dependence on Russia. Energy security has been a leitmotif of government concerns throughout the past 12 months.

In areas as diverse as western Europe and China, concerns over the social consequences of market liberalisation continue to fester and find political expression.

In Europe, these are most clearly demonstrated by growing protectionist sentiment. But there is also increasing unease over immigration and continued expansion of the European Union with politicians and bureaucrats in Brussels seen by many as out of touch with the anxieties of the populations of many west European countries.

In China, even an unelected leadership has been forced to respond to the concerns of society, disavowing the “growth at all costs” policy of the previous Jiang Zemin leadership, and promulgating a more sustainable policy that addresses the social,

economic and environmental imbalances that have opened up as a result, and which threaten the stability of the ruling regime.

Despite these social concerns, globalisation continues to run its course and to deliver strong growth in many developing countries. This may well prove to be the more decisive trend over the longer term. Indeed, recent signs of protectionism may well be evidence of resistance to the persistent march of market liberalisation, rather than a tipping point marking the reversal of globalisation. Over the last year, the world economy has proved remarkably resilient despite

the failure of the Doha trade round and a number of adverse economic trends, including higher energy prices and a housing slump in the USA. We also see increasingly imaginative use of market incentives and market-based solutions, such as California’s initiative to reduce greenhouse gas emissions through a carbon credit trading scheme.

What does this mean for the scenarios set out in Global Scenarios to 2025? They set out a triangular space whose apexes are formed by our three fundamental objectives and driving forces and the scenarios themselves play out across this space, with

// A significant event, such as a natural disaster or terrorist attack could drag the world decisively towards a more entrenched Flags scenario //

many possible combinations. Given this complexity, no one apex will shape world developments without being checked or having to combine with or take account of others. The consequence is a world of complex interactions and tensions.

States are strengthening, but states are also continuing to globalise. Economic integration and cooperation is balanced with growing concerns over security and the need for tighter state control of markets and society. Societies do not reject the state's emphasis on market-based efficiency and people are increasingly linked globally, but their

concerns remain very much focused around themselves and the characteristics of their own specific social contexts.

Looking ahead over the next twenty years, all three of our global scenarios – Low Trust Globalisation, Flags and Open Doors – remain valid. They express, in archetypal form, the interactions and tensions playing out among our three set of objectives and forces. Where we are in the world may, however, determine our perspective on the question of which scenario is dominant.

Looking at Russia today with its tense relations with

Georgia, security concerns over NATO expansion and strategic interests shaping its energy policies, we see a calculated *realpolitik* nationalism characteristic of Low Trust Globalisation, but also evidence of a Flags-type response by the state to social pressures through increase spending on social programmes. In contrast, Sweden's September election results show a country determined to preserve its much vaunted high tax and high welfare social model, while responding to popular demands for greater choice and higher quality in its public service provision, the dilemma that lies at the heart of Open Doors.

As already mentioned, no one scenario is entirely dominant. However, it does appear that security and social cohesion dominate the day-to-day agendas of the key global players, while market forces still continue to assert themselves inexorably and the global economy remains robust. We are therefore living largely in a world that is perhaps a combination of the scenarios of Low Trust Globalisation and Flags. A significant event, such as a natural disaster, terrorist attack, economic volatility or regional conflict could drag the world decisively towards a more entrenched Flags scenario. If economic growth

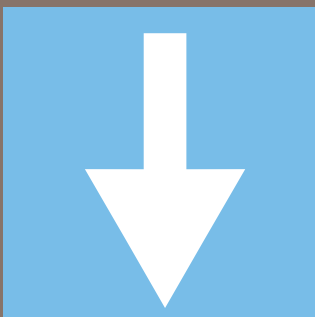
remains strong, conflicts do not escalate and no natural or terrorist catastrophes hit, the Low Trust Globalisation scenario will play out more strongly.

Our discussion suggests that we also need to consider the extent to which other combinations of our three scenarios are possible. The features that characterise each one individually – the global solutions of Open Doors, the anarchy and distrust of Flags, and the ad hoc global coalitions and structure of state controls of Low Trust Globalisation – will not occur without reference to the others. None of our three fundamental objectives

and driving forces is likely to dissipate.

Moreover, the events of 9/11 – one of the shaping moments of our 2005 global scenarios – demonstrated not only how globalised our world and our perspectives have become, but also how localised are some of the emerging powerful actors that are making their presence felt within this globalising world. States increasingly find themselves caught in the middle of this global-local axis, having to respond to the contrary demands of both sides. We can no longer entertain the certainties of the 1990s about where the world is going. Rather,

from today's vantage point, those certainties appear as simplicities. The triangular space opened up by the three driving forces of the 2005 global scenarios looks increasingly like a very complex terrain across which we have to navigate our future in today's age of uncertainty.

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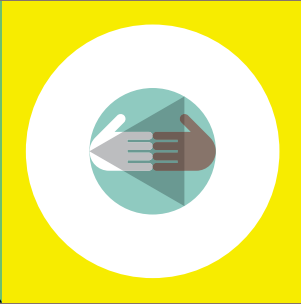
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