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Case study: Shell

# Shell introduces smart strategies to mitigate risks in Pakistan

From expanding relationships and acceptance to enhancing cash management, Shell's strategies enabled it to be nimbler in mitigating risks.

## Background

Shell Treasury Centre East (Pte) Ltd (STCE) conducts, coordinates and manages treasury operations within the Shell group of companies to meet various treasury requirements including foreign exchange and borrowings. Shell's oil and gas downstream operation in Pakistan is via a majority-owned public-listed entity, Shell Pakistan Limited, which STCE supported pre-divestment.

Pakistan faced many macroeconomic challenges from 2021- 23, including high inflation, soaring oil prices and Pakistani Rupee (PKR) depreciation. When oil prices spiked and international banks cut import credit lines, it was difficult for Shell Pakistan Limited to import to supply petrol kiosks. The lack of US dollar (USD) liquidity in Pakistan also meant import payments were subject to the banks' availability of USD from their own customers, causing overdue payments. The economic conditions also contributed to limited cash access for Shell and with continuing PKR depreciation and no effective hedging options, cash devaluation was inevitable.

## Solution

Shell actively expanded its relationship with international and local banks, expanded trade-financing facility limits, negotiated for multi-currency trade-financing facility and worked with Shell Pakistan Limited's supplier to accept local bank-issued letter of credit and alternative payment currency. These measures helped restore Shell Pakistan Limited's supply security to its petrol stations.

Shell also worked collaboratively with various banking partners to implement initiatives which will allow the most effective use, access and preservation of cash in Pakistan. This includes investing surplus cash to reduce currency depreciation cost, when State Bank of Pakistan hiked interest rate from 2021-24 to more than 19%. Shell's strategies are to preserve principal security by excluding high-risk securities and prioritising deposits with banks cleared internally for creditworthiness. Through perseverance and by leveraging existing bank relationships, Shell secured sufficient deposit options.

> Being nimble can have an outsized impact in today's dynamic environment. Our close partnership with clients help bring that to life.

**Mahesh Kini**
Global Head of Cash Management,
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## Results

- Well-established relationships and trust between Shell and its banking partners were catalysts to various model initiatives to mitigate business risks.
- Shell could nimbly move away from standard practices to unlock solutions to tackle the crisis and manage the risks, despite Shell's large organisation and numerous policies.
- While many accepted USD liquidity risk as inevitable, Shell innovatively added alternative currency option for import settlement.
- By looking at the bigger picture, Shell strategically prioritised principal security in its investment objectives instead of only focusing on yield.

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