ALASTAIR GRANT/AP

Shell CEO Ben van Beurden at a press conference on the group's 4th quarter 2013 results, in London, Jan. 30.

Shell's troubles may indicate that the difficulties outweigh the potential economic benefits.

Shell Put Drilling Off Alaska's Coast on Ice

By Toby Sterling

AMSTERDAM—Oil companies' rush to find reserves off Alaska's Arctic shores suffered a setback Thursday after Shell said it would suspend its operations in the region—and possibly withdraw for good.

Royal Dutch Shell PLC is the main company to have purchased leases for oilfields off Alaska's Arctic shores, but its attempts to drill have been halting due to technical and legal hurdles.

While other companies are still seeking to exploit deep-water Arctic fields nearby in Canada, Shell's troubles may indicate that the difficulties outweigh the potential economic benefits.

"We will not drill in Alaska in 2014, and we are reviewing our options there," Shell CEO Ben van Beurden told reporters in London.

Shell received a negative U.S. Federal court decision last week.

Environmentalists are still challenging whether the U.S. government's 2008 decision to open the area to exploration was correctly granted in the first place: It is covered by sea ice for much of the year.

Asked whether Thursday's retreat means the project is finished, van Beurden said that depends in part on how the ongoing lawsuit proceeds.

Environmental activists cried victory.

"Shell's Arctic failure is being watched closely by other oil companies, who must now conclude that this region is too remote, too hostile and too iconic to be worth exploring," Arctic oil campaigner Charlie Kronick at Greenpeace International said in a reaction.

Jackie Savitz, the vice president for U.S. oceans at conservation group Oceana, said Shell's retreat shows that offshore drilling in the Arctic is "simply not a good bet from a business perspective."

Series of Setbacks

Shell's troubles in Alaska are only the most visible in a series of setbacks for the company in the United States, and van Beurden hinted he won't prioritize investments there in the future.

While oil prices remain high globally, "North America natural gas prices and associated crude markers remain low, and industry refining margins are under pressure," van Beurden said.

Last month, Shell said it was scrapping a $20 billion dollar project to develop an onshore natural gas-to-diesel facility in Louisiana.

Van Beurden's predecessor, Peter Voser, spent billions building up the company's portfolio of U.S. shale properties to $26 billion, only to write $2 billion off their value last summer.

"Yes, we went into North America in a big way. You could argue that we went a little bit too far too soon. But we are where we are," van Beurden said.

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>
> *Charlie Kronick, Greenpeace International*

He described the North American shale market as "a different game, a very efficient market."

"The sort of pressures you have there are therefore fundamentally different from what you would have in places like Russia, Argentina," he said.

Still, Shell's Arctic misadventures stand out.

Arctic Setbacks

After purchasing licenses for $2.1 billion in the Chukchi Sea off Alaska's coast in 2008, Shell began preliminary drilling in the summer of 2012.

But it was unable to get far after difficulties deploying an oil containment system it had on standby in the event of a spill. Then it was forced to retreat because of approaching winter ice.

Then one of its rigs was damaged while being transported on Dec. 31, 2012, and no drilling took place in 2013.

CFO Simon Henry said Thursday Shell wrote around $1 billion off the value of its Alaskan business in 2013.

"The group's exploration near the North Pole cost billions of dollars and generated reams of negative press—yet not a single drop of oil has been pumped," said Garry White, Chief Investment Commentator at British brokerage Charles Stanley.

"Like the mining sector, capital discipline has been lacking at the major oil groups and there is pressure from shareholders to cut back investment to improve cash flows," he said. "Shell appears to be listening."

Van Beurden said Shell will cut spending by $9 billion this year and is targeting $15 billion in asset sales.

Investors generally cheered the company's plans, and shares were up 2 percent at 26.27 euros in early Amsterdam trading.

Van Beurden's strategy "is pretty much what we believe the market wanted to hear," said Investec analyst Neill Morton in a note.

But Morton predicted further write-downs of Shell's North American shale assets.

Shell's reported fourth quarter net profit of $1.78 billion (130 billion euros), down 74 percent from the $6.73 billion reported a year earlier. The big fall was due to higher production costs, lower production, and worse refining margins. The swing was also exaggerated by one-off items during the two periods. Production was down 5 percent to 3.25 million barrels per day.

From The Associated Press

Senate Passes Bill to Delay Flood Insurance Hikes

WASHINGTON—The Senate has passed a bill to delay premium hikes for years on hundreds of thousands of homeowners who buy flood insurance from the federal government.

The 67–32 vote reflects widespread concern about changes enacted two years ago to shore up the program's finances. The changes are producing sky-high insurance rates that are unaffordable for many homeowners in flood-prone areas whose insurance has historically been subsidized by the government and other policyholders.

The bill was muscled through the Senate after angry constituents, the real estate and homebuilder lobbies inundated lawmakers with complaints.

Opponents of the bill say it unravels long-sought reforms of the flood insurance program, which has required numerous taxpayer bailouts and owes $24 billion to the Treasury Department as a result.

From The Associated Press