Out in the Cold: Royal Dutch Shell and Arctic Drilling

On April 18th Royal Dutch Shell plc will hold its annual briefing to socially responsible investors in Central London. The Arctic will form the basis of one of the break-out sessions for investors. This briefing provides investors with questions they can ask the company on the issue of Arctic offshore exploration.

Shell’s Arctic Plans

Arctic offshore exploration is a priority for Shell: its Alaskan project alone accounted for about one-seventh of Shell’s total exploration spending in 2011 while further lease purchases were made in Greenland and Canada in 2010-11, and negotiations continued for a strategic Arctic partnership with Russian state-controlled major Gazprom. More bidding is expected soon for concessions in Arctic Norway, Greenland and the US.

In addition to the potential financial impact of an oil spill, high extraction costs, doubts over the amount of commercially recoverable reserves, and a precedent of cost overruns and delays combine to raise questions about the commercial viability of some proposed Arctic projects.

Spill Risks

Arctic projects present new and unique challenges for the oil industry. Shell and other companies acknowledge the ineffectiveness of existing technology to deal with such a spill but have chosen to focus on the supposed low probability of it happening rather than prepare for its inevitable high impact. In the wake of Deepwater Horizon, this approach seems unwise.

No analyses have been published quantifying the specific oil spill response impediments in Shell’s lease areas in the Chukchi and Beaufort seas. Such a ‘response gap’ analysis needs to be carried out and published to be able to accurately assess the threat that spills pose to Shell’s operations.

Across all Arctic waters, the potential environmental and financial impact of any potential major oil spill has not yet even been assessed.

Commons Environmental Audit Committee

Caroline Lucas MP: I don’t doubt that you have very good measures in place, but what I am saying is that accidents will always happen. BP wasn’t expecting the Macondo to happen, it happened. So when accidents happen, can I just be really, really clear that you are telling me that Shell does not have any estimate financially of how much that will cost you?

Peter Velez, head of Shell’s emergency response operations in Alaska: We do not apply a figure to it because our responsibility, as a responsible operator, is to protect the environment and to clean it up, and we are going to do whatever it takes regardless of the cost to clean it up.

Robert Blaauw (Shell): The likelihood is indeed extremely, extremely small that such an incident will happen, in this case in offshore Alaska.

Zac Goldsmith MP: ...even though it is a big enough risk that you would have spent time modelling the possibilities, you haven’t bothered to put a figure on it, you haven’t bothered to tell your shareholders how big that risk is. That seems to me to be hugely irresponsible financially.
Questions for Shell

• Will the company carry out an analysis of the environmental and financial impact of the worst case scenario and make it available publicly?

• Has the company carried out a spill response gap analysis of its prospects in the Beaufort and Chukchi seas? If so, will the company make it available publicly? Without such an analysis it is not possible to accurately assess the risk posed to Shell by an oil spill in its Arctic operations

• Will the company test its spill response technology (particularly well-containment devices) in Arctic conditions, and make detailed disclosure of the conditions and results of these tests?

Further information:

We encourage investors to contact FairPensions for further information.

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