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Shell Addresses Output Issue

By GUY CHAZAN

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LONDON -- Royal Dutch Shell PLC sought to allay concerns about its petroleum reserves, saying it had 50 big projects in the pipeline that would deliver strong growth for decades to come. But, reflecting the uncertain climate the oil majors face, Shell declined to give production guidance for the year, saying only that output will increase after 2010.

Separately, Shell Chief Executive Jeroen van der Veer acknowledged the company's share-price performance had lagged behind nearly all its main competitors in the past three years, an outcome he said was a "disappointment."

Shell said it replaced 17% of what it pumped out of the ground last year, using standards set by the U.S. Securities and Exchange Commission. That figure for what is known in the industry as reserve replacement reflects losses in Russia as the government there tightens its grip on the nation's reserves.

Excluding acquisitions and divestments, and including the price effect, Shell said the reserve-replacement rate was 109%, higher than analysts had expected. That rate is closely watched by investors, and particularly in the case of Shell. A reserves misreporting scandal at the company in 2004 triggered the departure of several senior executives and a corporate shake-up.

The international majors have found it increasingly difficult to tap new sources of oil amid rising nationalism in crude-producing countries and soaring industry costs. Shell itself has been a casualty -- it lost the equivalent of 402 million barrels of oil in proven reserves when it was forced to sell part of its stake in the Sakhalin II oil-and-gas venture in far eastern Russia to OAO Gazprom, the state-run natural-gas company.

Shell has dealt with the problem by investing in complex ventures involving massive capital spending and huge technological challenges, some of which will only start producing oil in large volumes in the next decade. These new assets, many of them with production lives of several decades, include projects to turn Qatari natural gas into liquid fuel and Canada's sticky oil sands into crude.

The company said it had invested in projects totaling about 10 billion barrels of oil equivalent of resources -- which are less certain than reserves -- that would deliver one million barrels of oil equivalent a day of oil and gas. That would ensure long-term growth of between 2% and 3% a year after 2010, it said.

Shell has been cagey about more short-term targets. Last year, it produced 4.5% less oil than in 2006 and warned in January that production is likely to dip again this year. It cited uncertainty over divestments; production in Nigeria, which has been wracked by violence; and the high price of oil, which gives governments a greater share of production under some production-sharing agreements.

Analysts were generally upbeat. "They've put the reserves issue behind them, and brought a new set of opportunities to the fore that will underpin the long-term outlook," said Jason Kenney of ING Bank. But he said the absence of production targets up to 2010 meant investors had no immediate catalyst to favor Shell over its peers.

Shell's lackluster performance compared to its competitors came up in a memo sent by Mr. van der Veer to staff this month. A copy was given to royaldutchshellplc.com, a Web site regularly used by Shell whistleblowers. The memo said Shell came in fourth out of five oil majors in terms of total shareholder return over the last three years, which measures share price growth and dividend payments. It said Shell lagged Exxon Mobil Corp, Chevron Corp, and Total SA of France, though it was ahead of British major BP PLC.

Mr. van der Veer called the outcome a "disappointment," though he noted that Shell's business results over the last three years were "strong." Shell also boosted Mr. van der Veer's pay by about 20%. He earned total compensation of €6.5 million last year, including salary, bonuses and other benefits, up from €5.43 in 2006.

Shell earned $31.3 billion in profit last year, one of the strongest results ever for a European company.

Write to Guy Chazan at guy.chazan@wsj.com