

Romance Wearing Thin but Not Over for Arctic Resource Exploitation

By [The Moscow Times](#)

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An Arctic fox, one of many animals that environmentalists seek to protect.

NY-AALESUND, Norway — The high Arctic, once the irresistible frontier for oil and gas exploration, is quickly losing its appeal as energy firms grow fearful of the financial and public relations risk of working in the pristine icy wilderness.

The Arctic holds 13 percent of the world's undiscovered oil and 30 percent of its gas, and Russia's continuing passion for the precarious zone has been demonstrated by recent deals like the Total and Novatek LNG facility on Yamal, and the Exxon-Rosneft plan to expand their zone of exploration of the country's north coast.

But a series of blunders and failures there are making executives shy of such a sensitive area and turn their attention back to more conventional resources and the shale revolution.

The turning point likely came on New Year's eve, when Royal Dutch Shell's drillship ran

aground in rough waters off Alaska, setting off a public relations storm that inflicted much pain on the firm, made more acute by how little it had to show for the \$4.5 billion it has spent on the Arctic since 2005.

Shell promptly cancelled plans to drill off Alaska in 2013, and signals about its going back in 2014 are fading.

"The whole Arctic, especially the American Arctic, was set back because of Shell's issue," Choo Chiau Beng, the chief executive of Keppel, the world's biggest rig maker, said in an interview at the world's northernmost settlement.

The accident caused little damage and no spill, but it was a big lesson for firms looking for Arctic resources.

"The interest to develop oil and gas is very high, but nevertheless there is more and more concern about the environment and the risk part of it," said Harald Norvik, a board member at ConocoPhillips and a former CEO of Statoil, a pioneer in the Arctic.

"We have been focusing on areas in the Arctic. Now we put our priorities into other areas, like Tanzania, Argentina and Texas. That is the logical development," he said.

And companies simply cannot ignore the public debate about the potential environmental cost of work in the Arctic.

"The reality is that going forward, the obvious demonstration of climate change in the Arctic will affect policymakers and boardrooms for years to come, and I see that more clearly now than five years ago or three years ago," Norvik said.

Glaciers near the world's northernmost settlement, Ny-Aalesund, on Norway's Svalbard islands, have been melting fast as the impact of climate change is amplified in the Arctic.

Shell is not alone in its difficulties. Cairn Energy has spent \$1.2 billion drilling off Greenland and found nothing, while Gazprom has called off its huge Shtokman natural gas project because high costs made the project unviable.

And ConocoPhillips, which was working with Keppel to develop a landmark ice-class Arctic rig, has put the project on hold, and has shelved plans to drill in the Chukchi Sea next year.

Shale

"Nobody's coming for ice-class rigs," Keppel's Choo said. "Shale oil productivity is still being pushed ... and there's a lot of areas that are underexplored, like Mexico, which probably has as much oil and gas as the U.S. Gulf."

"These are relatively low-cost areas that can be tapped."

Shale oil is still relatively expensive but competes well on cost with deepwater projects, while shale gas, which has made the United States gas independent in just a few years, will likely conquer other countries as well.

"There are cheaper resources elsewhere with a higher probability of success; shale is taking market share away because it's lower risk and lower cost," said James Rogers, the CEO of Duke Energy, the biggest electricity distributor in the United States.

Norvik agrees: "It's not very low price, but it's competitive with deepwater and less risky," he said. "It will be developed at a much higher speed than we're talking about right now. It will come into play in Russia, China, South Africa, Argentina and all over."

Shale oil, and to a greater extent gas, has made energy in the United States relatively cheap, reducing Washington's need and appetite for supporting exploration off Alaska.

For all that, Arctic oil and gas is not dead.

Russia is still moving ahead, with Novatek and Total, on a 16.5 million ton per year Yamal LNG facility on Siberia's northern coast. It is considered a moderately challenging project where the real difficulty will be year-round transportation on an ice-heavy sea route.

And ExxonMobil recently agreed with Rosneft to jointly explore 60 million hectares off Russia's northern coast.

"I think Russia can move faster than any other country because Russia has a vested interest to develop its northern parts," Keppel's Choo said.

Norway is also working in the Arctic, though its relatively warm and ice-free Barents Sea makes it less difficult.

"There are many Arctics, with many characteristics; it's not just a single region," Runi Hansen, Statoil's Arctic chief said. "For Statoil, the priorities haven't changed, but elsewhere there have been setbacks, and some expectations were very high."

Given the size of the resource in the area oil firms are bound eventually to come back.

"If it can be developed safely, then there is no reason it should not be developed," Duke's Rogers said.

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