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HD **Shell cuts Arrow jobs, sells gas stakes GLADSTONE PROJECT IN DOUBT**

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ROYAL Dutch Shell has axed hundreds of jobs at its proposed Arrow liquefied natural gas project and sold its **stake** in the Wheatstone LNG project for $US1.135 **billion** ($1.3bn) as the **oil** and gas giant's new management team takes its first steps to whittle back its position in Australia.

About 250 jobs are believed to have been cut yesterday at Brisbane-based Arrow **Energy**, a 50-50 joint venture between Anglo-Dutch **oil** major Shell and **Chinese** state-owned giant PetroChina, putting fresh doubts about the pair's proposed $US20bn LNG development.

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Late yesterday, Shell announced that it had sold its 6.4 per cent interest in the Wheatstone LNG project, which is under construction, and an 8 per cent interest in the Wheatstone-Iago joint venture in Western Australia to the Kuwait Foreign Petroleum Exploration **Company**.

New Shell chief executive Ben van Beurden has signalled an intent to rein in spending, with Australia -- which has attracted a disproportionately large amount of the group's investment in recent years -- likely to be in his sights.

Shell last Friday night made a shock profit downgrade, with earnings for the December quarter of $US2.9bn almost $US1bn shy of market expectations.

The **sale** of the **stake** in Wheatstone will also spare Shell its share of the project's estimated $US29bn capital cost.

``Shell will remain a major player in Australia's **energy** industry. However, we are refocusing our investment to where we can add the most value with Shell's capital and technology,'' Mr van Beurden said in a statement announcing the Wheatstone **sale**.

``We are making hard choices in our worldwide portfolio to improve Shell's capital efficiency.''

Mr van Beurden's appointment has widely been seen as signalling a likely reduction in Shell's presence in Australia.

The **company** had previously flagged its intention to sell its Geelong refinery in Victoria, while its remaining 23 per cent **stake** in Woodside Petroleum and its Australian service station network are other non-core assets potentially up for **sale**.

The Arrow LNG project had long been shaping as a key target of any spending cuts, with Shell and PetroChina yet to make a final investment decision on a project that was already facing cost pressures on several fronts.

After building a big position in Queensland's **coal**-seam gasfields through the acquisitions of Arrow **Energy** and Bow **Energy** in 2010 and 2011, respectively, Shell and PetroChina have battled to make the Arrow project stack up economically at a time of significant cost inflation in the LNG industry generally.

The high Australian dollar of recent years has also dented the project's economics, while the sometimes fractious relationship between coal-seam gas companies and landowners in Queensland have added a further layer of complexity.

A spokesman for Arrow confirmed that the company had ``conducted a review of staffing levels as it manages costs".

``While the company acknowledges this will be a difficult time for employees, it is committed to supporting them through this transition," the spokesman said.

``The company remains focused on finding additional value and reducing overall costs.

``Arrow will continue to assess development options, including collaboration opportunities, as it looks to develop significant gas reserves."

The cost pressures have been particularly acute in and around Gladstone in central Queensland, where the Arrow LNG plant was proposed. Three other LNG projects are already under way there, putting pressure on wages, services and infrastructure.

While Shell and PetroChina are believed to still be interested in developing the project, both want to see the economics of any development improved substantially before it is given a go-ahead.

One Arrow staffer who was made redundant said staff at the company had been bracing for news of job losses for the past three months as it became clear that the proposed LNG development was unlikely to have Shell's support in the current climate.

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``Most people had known this was coming, we just didn't know when it would be or how many would go," said the staffer who wished to remain anonymous.

The worker said the company had made a number of bad decisions, such as the estimated $200 million building lease commitment made in mid-2013 for office space in Brisbane, much of which would now be empty.

The worker said it was apparent the Arrow LNG project would not go ahead in its current form: ``(Senior management) are the only ones still pretending that LNG is still an option, everyone else has already written it off."

The staffer said the best hope for the Arrow project would involve selling the gas from its position in the Surat Basin into the three more advanced LNG projects, and eventually revisiting a smaller LNG development based on the Bowen Basin gas reserves.

KNOW

2000: Arrow Energy lists on ASX with a market cap of $5m

2010: Royal Dutch Shell and PetroChina buy Arrow for $3.4bn, announce plans for major LNG project on Curtis Island

2011: Shell and PetroChina buy smaller CSG producer Bow Energy for $535m to build acreage position

2013: The Arrow LNG project receives federal and state environmental approvals

2014: Arrow confirms it is laying off a significant number of its workforce, believed to be about 250 people

CO kfpeck : Kuwait Foreign Petroleum Exploration Company | pechin : PetroChina Company Limited | rnlp : Royal Dutch Shell PLC | arowen : Arrow Energy Limited | cnpngc : China National Petroleum Corp | kpc : Kuwait Petroleum Corp

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