

The Kulluk Catastrophe

How a Few Steel Rings and Greed Destroyed Shell's Biggest Dream

Sometimes powerful business executives are so blinded by the race for profits that they make highly questionable decisions. Read how the gigantic Shell Oil Company dished out billions of dollars to find oil beneath the ice of the Arctic Ocean, developing a massive oil platform named the Kulluk. The early demise of the Kulluk would be downright comical if lives hadn't hung in the balance.

“Read my lips: Within 10 years we will be the biggest company in the world!”

The atmosphere in the luxurious office was very serious. Outside the windows a gorgeous panorama beckoned. Golden rays of sunshine streamed in and caressed the ornate wooden furniture in the richly-appointed office. The reddish glow only added to the fiery atmosphere. The board members assembled in the room were desperately hoping for some good news to break the tide of negative developments that had plagued the corporation in recent months.

Jeroen van der Veer, the new CEO of Royal Dutch Shell, the fourth-largest company in the world, was intimately familiar with the company’s situation. In 2004, Shell experienced its worst fiscal year in its almost 100-year history due to a scandal that threatened the energy giant’s future. An investigation determined that Shell had intentionally inflated its official reports on the state of its proved oil reserves, the amount of oil believed available to the company through drilling, overstating them by an astounding 4.47 billion barrels, or 22%! This led investors to place unfounded confidence in the corporation and drove up the price of its stocks. When the news broke, the US and British governments fined the corporation \$150 million and its stocks plummeted overnight by 10%.

The chairman was forced to resign in disgrace. To turn itself around the company hired a new chairman, Jeroen van der Veer. His first act in his new office was to look for a way to increase Shell’s reserves. Shell owned more than enough oil for the immediate future and its profits on sales of oil continued to rise right through the crisis. But steady, realized profits meant little in the high pressure world of contemporary business, where investors are looking for long-term promises. To increase the general value of the company required something drastic, something that would allow the oil giant to boast about its access to billions of barrels of oil.



“Read my lips: Within 10 years we will be the biggest company in the world!”—Jeroen van der Veer, former executive chairman of Shell Oil.

That’s when van der Veer dropped a bombshell. It was bold, something nobody had dared try before. It was an undertaking that virtually anyone outside of Shell would have deemed absurd and impossible to carry out. It would cost more money, effort, time and determination than NASA’s race to the moon! But when payday came, his gamble would pay off by rescuing Shell from its stressed financial situation both short and long term.

As van der Veer went on, the atmosphere in the office was transformed. The tense expressions relaxed, eyebrows lifted and dubious smiles turned to joy. That’s it! We found it! The gathered executives shared their readiness to jump into the momentous undertaking with their fullest support. They were convinced that in 50 to 100 years hence they would look back at this day as the historic milestone that turned Shell into the absolute leader in the global energy industry.

Reaching the Moon

Chairman van der Veer’s plan was for Shell to pioneer the search for more oil beneath the frigid Arctic Ocean near the North Pole.

It sounded like a great idea. A geological study carried out by the United States Geological Survey indicated that as much as one-quarter of the world’s undiscovered oil lay in the Arctic region off the coasts of

Canada and Alaska. The American side alone was home to an estimated 27 billion barrels of oil and 130 trillion cubic feet of natural gas—or 30 times America’s total annual usage!

The catch was that extracting oil from deep beneath the icy waters was expensive. In 2005, Shell purchased an area the size of 84 city blocks on the Beaufort Sea for \$44 million. In 2009, the company invested another \$39 million to double its territory in the Beaufort Sea. A year later, it spent a record-breaking \$2.1 billion to buy up a tract along the Chukchi Sea. These activities raised eyebrows, but Shell was convinced that it would prove highly profitable.

Next, Shell invested millions to buy the gigantic *Kulluk* oil barge from a Canadian drilling company (the exact price was never publicized). Then it laid out another \$292 million to refurbish the massive structure, which can support a load of 28,000 tons and a crew of 108. It was reinforced to enable it to withstand floes of ice in the Arctic. The platform was specially designed to drill in extremely deep waters.

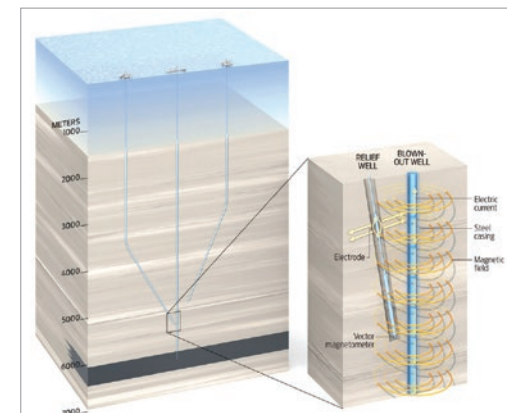
(In the Inuvialuktun language spoken by the Inuvialuit natives of the western Canadian Arctic region, the word *kulluk* means “thunder.” The name, chosen in a competition among the locals, was proposed by a 12-year-old girl. Shell adopted it in the hope that this oil platform would echo throughout the energy industry and transform Shell into the wealthiest corporation in the world.)

One noteworthy feature of the platform was its round shape—unlike all other oil platforms that are built square—intended to allow it to rotate 360° in a storm without disturbing work. This was particularly important in the stormy Arctic region.

And that was not all. Once oil was found, it still had to be delivered to the company’s refineries. But the remote Arctic with its sparse population did not have the necessary infrastructure, such as ports capable of handling the heavy traffic of oil tankers. In fact, there was not one deep-water port in the entire region that could service the massive supertankers with their deep draft



The Chukchi Sea where Shell purchased oil rights for the astronomical sum of \$2.1 billion.



Since the 2010 BP oil spill, offshore oil wells must be accompanied by a relief well that can be used to plug an oil spill by pumping earth into the main well.



Shell decided to go to the far north to tap into the vast oil reserves beneath the frigid Arctic.

