LEADING THE NEWS

BP safety focus is crucial

Turnaround depends on reducing its risks, fixing U.S. troubles

By Matthew Dalton

BP PLC is hoping to reach operational health in 2008, but questions remain about whether problems within U.S. operations could undermine its turnaround.

The oil giant's two largest U.S. refineries and its oil field at Prudhoe Bay in Alaska are expected to operate at capacity for most of the year for the first time since 2004.

But the main issue isn't whether the London-based company has fixed problems that several investigations said caused a deadly March 2005 explosion at its refinery in Texas City, Texas. The question is whether BP has diminished the risk of catastrophic events that all companies engaged in the exploration, production and processing of hydrocarbons face.

The refinery blast was the first and most serious in a string of disasters that included oil spills from BP's pipelines on Alaska's North Slope, costing billions of dollars in profit.

BP's shares have lagged behind those of its main competitors, Royal Dutch Shell PLC, Exxon Mobil Corp., Chevron Corp. and ConocoPhillips. After the Alaska oil spills in 2006, Royal Dutch Shell replaced BP as the world's second-largest oil company by market capitalization after Exxon Mobil.

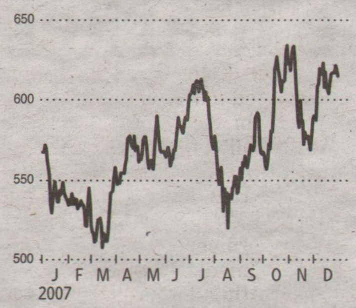
Wall Street analysts are optimistic that BP won't see its performance in 2008 marred by explosions, corroded pipelines and government investigations. BP Chief Executive Tony Hayward, who took the reins in May, has refocused the company on operational integrity while avoiding the more high-profile role adopted by his predecessor, Lord John Browne, said Fadel Gheit, oil-industry analyst at Oppenheimer & Co.

DAILY SHARE PRICE

BP

On London Stock Exchange

Monday's close: 615 pence, down 0.65%



Source: Thomson Datastream

BP seems devoted to improving safety at U.S. refineries, said Gary Beevers, international vice president at the United Steelworkers, the union that represents refinery workers. "I'm certainly encouraged with BP," he said. "Their attitude has changed."

The company has replaced the devices that were responsible for the Texas City explosion and is eliminating their use in refining units that process "heavier than air, light hydrocarbons," BP spokesman Ronnie Chappell said. The company also plans to spend an average of $1.7 billion annually between 2007 and 2010 on the integrity and reliability of its refineries, up from $1.2 billion in 2005.

Last week, BP agreed to test a key United Steelworkers safety program at the Texas City refinery, with the goal of expanding it to BP's four other U.S. refineries.

"We are becoming a better, safer operator as a result of the steps we've taken since since the accident at Texas City," said Mr. Chappell.

Cost cutting and a lax safety culture were to blame for the explosion at Texas City, according to a report issued in March by the Chemical Safety and Hazard Investigation Board, a federal agency.

"I don't think I've ever seen anything that bad," said Carolyn Merritt, former chairwoman of the safety board, of conditions at the Texas City refinery. The explosion, which killed 15 and injured more than 170, was one of the worst U.S. industrial accidents in years.

An investigation headed by former Secretary of State James Baker into safety at all of BP's U.S. refineries found similar problems with the company's safety culture, though it didn't focus on the issue of cost cutting.

Changing the culture will be difficult, said Paul Tebo, a former executive at DuPont Co. and a member of the Baker panel. "It is not a simple task," Mr. Tebo said. "I can't tell you whether it takes one year, three years or five years."

In October, the company pleaded guilty to a criminal violation of the Clean Water Act for failing to maintain its pipelines on the North Slope of Alaska properly, resulting in several large oil spills in 2006. The company took the costly step of shutting half of Prudhoe Bay, the largest U.S. oil field, to replace the pipelines.

If BP can operate its Texas City and Whiting refineries without major problems, while also bringing on production in the Gulf of Mexico, the company should be one of Big Oil's top performers in 2008, said Mr. Gheit at Oppenheimer.

"BP is the only large company that I know of that has increased volumes both upstream [production] and downstream [refining]," he said. "No other company that I know of can even come close to that."

Shell will outsource jobs as part of cost shake-up

By Benoît Faucon

LONDON—**Royal Dutch Shell** PLC is finalizing details of a corporate shake-up aimed at cutting costs, as the side effects of sky-high oil prices pose a challenge to profits at major oil companies.

High oil prices, once a key contributor to the earnings growth at oil majors, are hurting refining margins, or the profit a refiner makes by processing crude oil into fuels like gasoline or diesel. The high prices are also driving governments to seek better terms for production contracts—at the expense of major oil companies.

As a result, most oil majors reported year-on-year profit declines for the third quarter, even though crude oil flirted with $100 a barrel. Anglo-Dutch Shell looked like a rare exception, with headline third-quarter net earnings up 16%. But the figure concealed a 13% drop in profits excluding inventories and one-time items, which analysts consider a better reflection of the company's financial performance.

The planned changes at Shell include outsourcing about 3,000 jobs in the information-technology department, cutting some finance positions, reshaping expatriate packages and restructuring Nigeria ventures. Shell's moves echo a similar though farther-reaching initiative at rival BP PLC designed to reduce overhead costs, streamline management and improve operational efficiency.

Shell intends to transfer "close to 3,000 positions" from its IT staff to outsourcing companies, according to a Shell newsletter obtained by Royaldutchshellplc.com—a Web site critical of the company. The document says IT staff will receive a letter in early January telling them whether they will remain.

A Shell spokesman confirmed the company is reviewing the IT unit's future. "We can confirm we're in discussions to outsource a substantial part of our IT infrastructure services to three suppliers," the spokesman said. "We are in the middle of commercial conversations and expect contracts to be signed in 2008, at which point we will share more details."

The company is also looking to cut staff in its finance and human-resources departments. But the spokesman said that "there is no plan to reduce staff numbers in a top-down, prescriptive way."

He noted that the company is adding engineering staff and other specialists. "We have hired some 3,000 graduates and 9,000 experts since 2005," he said.

In Nigeria, Shell's largest oil-production area outside the European North Sea and the U.S., the company also plans to cut costs and jobs as it faces pressure from the government to change the terms of its contracts and suffers from local insurgent attacks. The new organization is due to be effective in April.

—Guy Chazan contributed to this article.

CORRECTIONS & AMPLIFICATIONS

Merrill Lynch & Co. expects the sale of most of its commercial-lending business to **General Electric** Co. to free up about $1.3 billion in capital. The value of the deal wasn't disclosed. In the Friday-Sunday edition, a page-one article about potential asset sales by banks incorrectly reported Merrill was selling most of the business for $1.3 billion.

William Rhodes is Citigroup Inc.'s senior vice chairman. A Leading the News page article Monday about U.S. President George W. Bush's trade agenda incorrectly identified the company as Citicorp.

INDEX TO BUSINESSES

This index of businesses mentioned in today's issue of The Wall Street Journal Europe is intended to include all significant references to companies. First reference to these companies appear in boldface type in all articles except those on page one and the editorial pages.

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INDEX TO PEOPLE

This index lists the names of businesspeople and government regulators who receive significant mention in today's Journal.