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Shell Plans Cost Cutting As Profit Is Threatened

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By **BENOÎT FAUCON**

LONDON -- Royal Dutch Shell PLC is finalizing details of a shake-up aimed at cutting costs, as the 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 refiners make by processing crude oil into fuels, by driving industrywide cost inflation and encouraging governments to seek better terms for their contracts at the expense of majors. As a result, most oil majors reported 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 profit 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 information-technology jobs, cutting some finance positions, reshaping expatriate packages and restructuring Nigeria ventures.

Shell's moves echo an initiative at rival **BP PLC**.

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 plans to cut staff in its finance and human-resources departments, but the spokesman said "there is no plan to reduce staff numbers in a top-down, prescriptive way."

He noted the company is adding engineers 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 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.

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