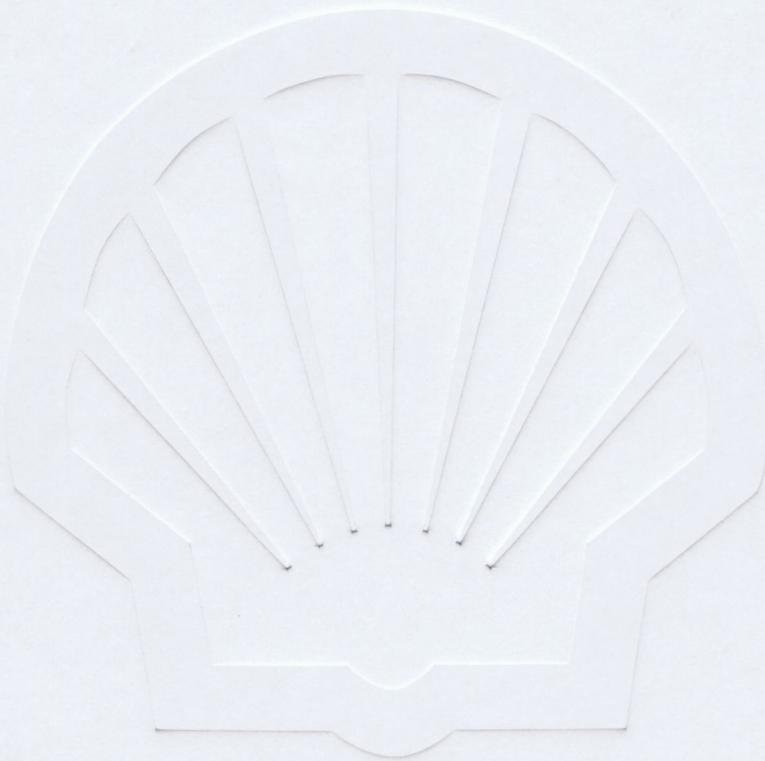


Keeping Competitive in Turbulent Markets, 1973–2007

A History of Royal Dutch Shell, volume 3



Keetie Sluyterman





Great Clarendon Street, Oxford OX2 6DP

Oxford University Press is a department of the University of Oxford.
It furthers the University's objective of excellence in research, scholarship,
and education by publishing worldwide in

Oxford New York

Auckland Cape Town Dar es Salaam Hong Kong Karachi
Kuala Lumpur Madrid Melbourne Mexico City Nairobi
New Delhi Shanghai Taipei Toronto

With offices in

Argentina Austria Brazil Chile Czech Republic France Greece
Guatemala Hungary Italy Japan Poland Portugal Singapore
South Korea Switzerland Thailand Turkey Ukraine Vietnam

Oxford is a registered trade mark of Oxford University Press
in the UK and in certain other countries

© by Royal Dutch Shell plc, 2007

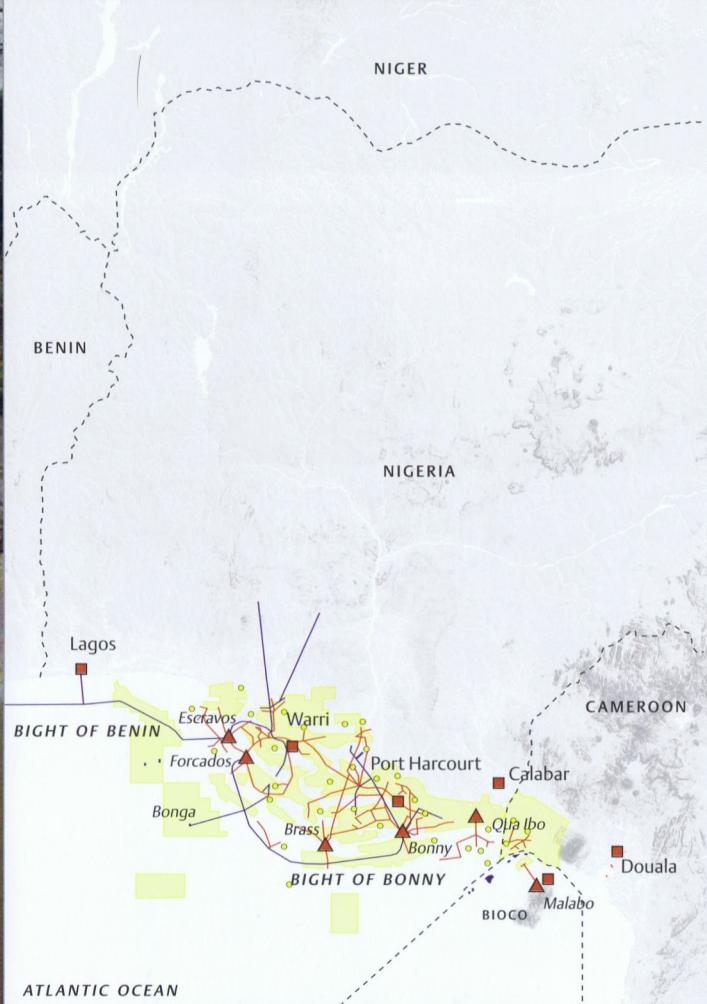
All rights reserved. No part of this publication may be reproduced,
stored in a retrieval system, or transmitted, in any form or by any means,
without the prior permission in writing of Oxford University Press,
or as expressly permitted by law, or under terms agreed with the appropriate
reprographics rights organization. Enquiries concerning reproduction
outside the scope of the above should be sent to the Rights Department,
Oxford University Press, at the address above. You must not circulate this
book in any other binding or cover and you must impose the same condition
on any acquirer.

British Library Cataloguing in Publication Data
Data available

ISBN: 978-0-19-929880-8



[44]



[45]

Nigeria

- Shell interest
- Gas pipelines
- Oil pipelines
- ▲ Terminal

In the 1950s a joint-venture company owned by Shell and BP, of which Shell was the operator, discovered oil in commercial quantities in the Niger delta, signalling the start of oil production. The Niger delta turned out to be an oil-rich region, though production was far from easy in this swampy territory.

Shell in Nigeria

Like Shell in South Africa, and in contrast to the Brent Spar issue, the debate about Shell's activities in Nigeria covered a long period of time with regular incidents and accidents drawing intense media attention. In the mid-1990s, the basic issue at stake for Shell was how to operate according to its own business principles under a military regime which used excessive force towards its own people and divided the oil wealth very unequally, leaving out the very people most affected by the oil production. By acting as one of the important operators of oil facilities, Shell worked closely together with the national oil company and it supported the regime indirectly through the oil revenues the state received thanks to the oil production. How the governments used these oil revenues was for them to decide, not for Shell. But the discontent of the local communities in which Shell operated had its impact on Shell. What were the options for the company under these circumstances?

Shell had first entered Nigeria in joint venture with Anglo-Persian (later to be named BP) during the 1930s, when the country was a British colony. In 1956 their joint-venture company of which Shell was the operator discovered oil in commercial quantities in the Niger delta, signalling the start of oil production. After Nigeria acquired independence in 1960, a democratic multi-party government encouraged direct foreign investment. This period, lasting for six years, ended in 1966 with a military coup, followed a year later by a civil war when oil-rich Biafra sought independence. The civil war ended in 1970, after which military regimes alternated with short spells of civil administration. Between 1960 and 1998 Nigeria had seven different military regimes and three civilian governments.¹¹⁷

[47]



Local people were experiencing the downside of oil production in the form of gas flaring and oil spills without benefiting from the substantial earnings, which mostly went directly to the national government. Above: A woman passing a gas flare from the local flow station in Etelebou; below: Peremabiri, with the plumes of smoke of a Shell-operated flow station in the background.

[46]





[48]

Nigeria joined OPEC shortly after the end of the civil war in July 1971. As in other OPEC countries, the Nigerian government sought to renegotiate the agreements with oil companies, providing for government participation via its Nigerian National Petroleum Corporation (NNPC). Starting with a claim for 35 per cent in 1973, a year later Nigeria raised its participation to 55 per cent.¹¹⁸ In 1979 Nigeria nationalized BP's marketing activities and BP's 20 per cent stake in the joint venture, alleging that it had violated the boycott against South Africa by transporting Nigerian oil to that country. As a consequence the stake of NNPC in the joint-venture company rose from 60 to 80 per cent, with Shell Petroleum Development Company (Shell Nigeria), holding the remaining 20 per cent.¹¹⁹ In the 1980s the Nigerian government faced a fall in its oil revenues. For instance, between 1980 and 1983 these revenues fell from \$24 billion to \$9 billion, a decline which took place even before the oil price collapse in 1985.¹²⁰ Therefore it became more difficult for the government to keep up its investments in the joint venture with Shell Nigeria. In 1989 Nigeria reduced its share in the joint venture to 60 per cent, with Shell Nigeria taking an extra 10 per cent, and Agip and Elf both 5 per cent.¹²¹ In 1992 Elf acquired another 5 per cent in the joint venture from the Nigerian government. By 1994 the shares in the unnamed joint venture, the largest producing venture in Nigeria, were divided as follows: the Nigerian National

A woman sells gasoline for motor bikes and cars on one of Okrika's main roads, Niger delta, 2005.

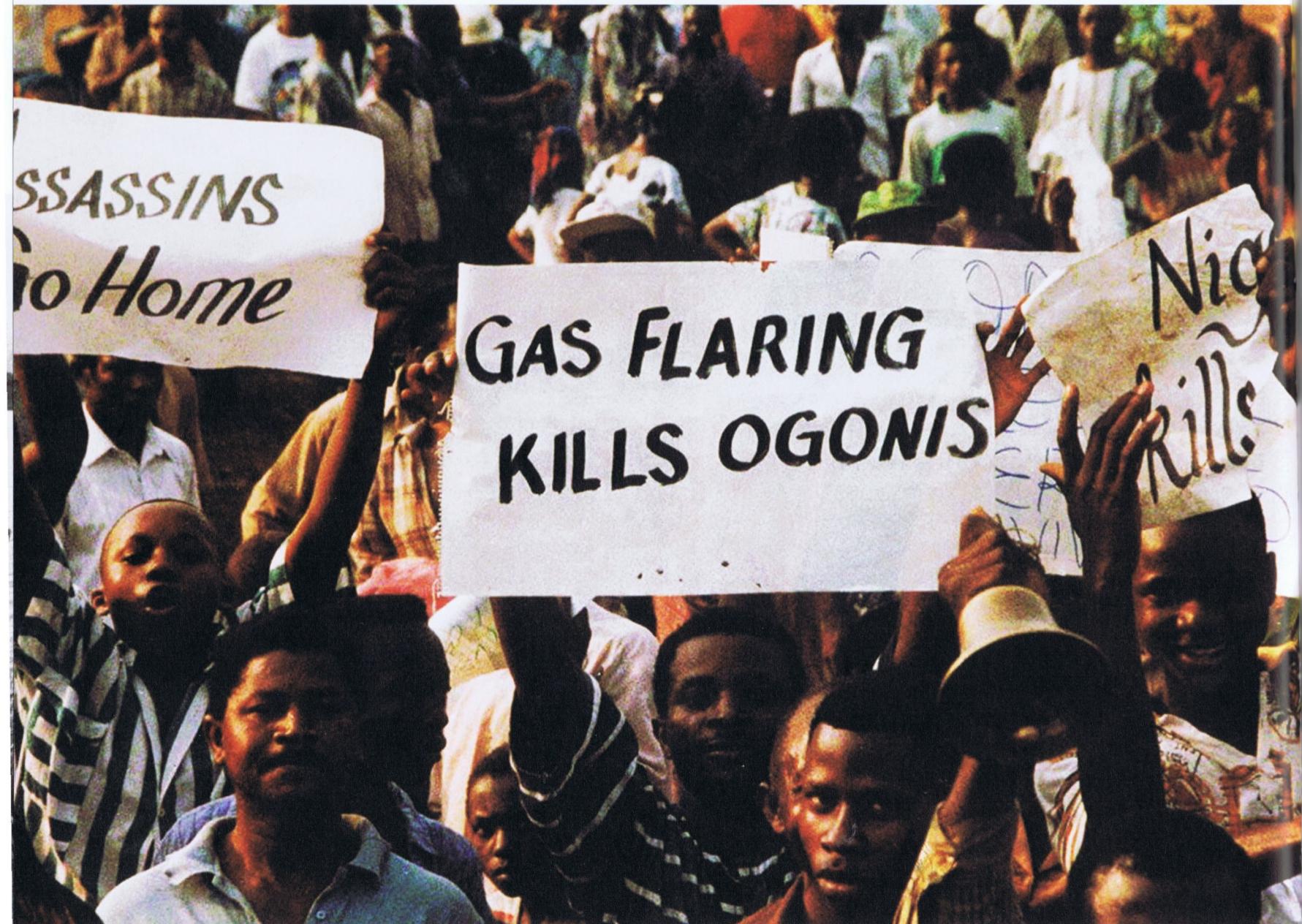
Petroleum Company owned 55 per cent, Shell Nigeria 30 per cent, Elf 10 per cent and Agip 5 per cent. Shell Nigeria acted as operator for the joint venture. For Shell's oil production Nigeria was an important country. In the years 1991-4 Nigeria produced on average 18 per cent of the Group's equity oil and natural gas liquids. It contributed 12 per cent of the Group's E&P net income over these years.¹²²

Nigeria is not only rich in oil but also in natural gas, both associated and non-associated. Most of the associated gas was flared, because of insufficient local demand. However, the flaring of associated gas was both wasteful and bad for the environment. From the late 1960s, the Nigerian government and several oil companies, including Shell, negotiated about an LNG (Liquefied Natural Gas) scheme for Nigeria, including the Bonny Liquefied Natural Gas scheme launched in 1976. In 1981 Phillips Petroleum Company, the technical leader, withdrew, and when BP did the same, the scheme was wound up. The Nigerian government appointed outside consultants to develop a new scheme. One of the options under consideration was a pipeline from Nigeria to Europe, a proposal that seemed to receive heavy encouragement from the US. Peter Holmes did not think the Nigerians would regard the pipeline as a realistic proposal, basically because they lacked trust in their neighbours.¹²³ The LNG project was interesting for

[49]

In the 1990s the Ogoni people demanded political autonomy so as to participate in the affairs of the Federal Republic of Nigeria as a distinct and separate unit, with the use and development of Ogoni languages and

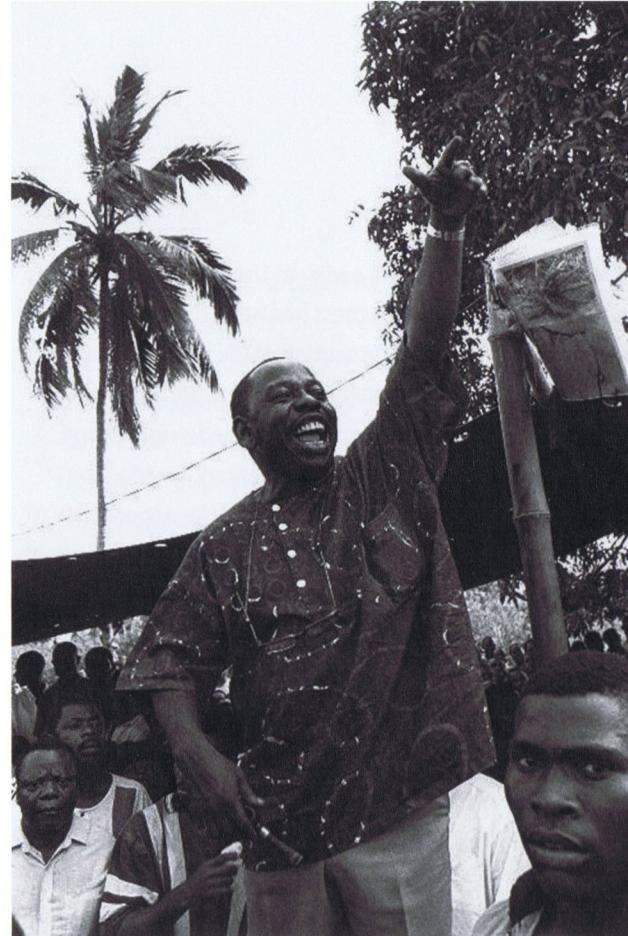
culture, and the right to religious freedom. They also asked for the right to protect the Ogoni environment and ecology from further degradation, including protesting against the continued practice of gas flaring.



Shell on its own merits, but also because it offered possibilities to process associated gas and reduce the contested gas flaring. In 1989 the military rulers made moves towards returning to parliamentary democracy, but this process was slow, creating much political uncertainty. When finally the presidential elections were held on 12 June 1993, the military government annulled the result and set up an interim government.

The negotiations about the Nigerian LNG project were equally drawn out, because the government was an important partner. The minutes of Shell's Conference in November 1992 give a glimpse of the difficult negotiations. Considering the best choice for the construction of the project, Shell as technical adviser for the LNG project had recommended consortium A over consortium B on the basis of the overall tender audit. Prior to a decision by the Nigerian LNG board, however, the Minister of Petroleum and Mineral Resources had intervened and recommended that the consortia be combined to 'get the best out of each'. In response, the LNG board convened and agreed that such a combination was not desirable and that Shell's recommendation should be accepted. This decision was sent forth in a memorandum to the Minister. As Henny de Ruiter, Group managing director, explained to the Conference: 'The Memorandum was not favourably received by the Minister's office, and the National Nigerian Petroleum Company had subsequently removed each of its Directors from the Nigerian LNG Board. (...) It was thought that the chances of making a Final Investment Decision by the 16 December 1992, as scheduled, were remote'.¹²⁴

As negotiations were continuing, the media began to scrutinize Shell's activities in Nigeria. Channel 4's television programme 'Heat of the Moment', broadcast in October 1992, accused Shell of double standards in environmental matters and



The writer Ken Saro-Wiwa became spokesperson for the Ogonis and leader of the Movement for the Survival of the Ogoni People (Mosop). He travelled abroad to enlist support for the cause of the Ogonis with great success. In June 1994 he and several others were arrested and accused of having been connected to the murder

of four traditional leaders, accusations they vehemently denied. On 31 October 1995 Ken Saro-Wiwa and eight co-defendants were found guilty and sentenced to death in a process that was widely considered unfair. Despite international protests and requests for clemency the executions went ahead.

referred to an incident two years earlier at Umuechem in the Niger delta, during which a peaceful protest had been turned into a bloody confrontation by the intervention of the brutal Mobile Police Force. Shell Nigeria had a different version of the same incident. A group of Umuechem youths occupied a rig location and oil production flow station, operated by Shell Nigeria. The protesters chased out the staff before they had the opportunity to make the locations safe. Complying with its statutory requirement to report any threat to oil production the authorities were informed. But the local police were also driven out by the demonstrators. The Police Commissioner then sent in a contingent of the Mobile Police Force, which attacked the village, causing destruction and killing a number of people. Therefore the police were to blame for the unwarranted attack on the village. Looking deeper into the disturbances, Shell argued that in a number of rural oil-producing areas of Nigeria unease was growing among a group of unemployed but well-educated young people, who were challenging traditional local leadership. Shell Nigeria tried to maintain dialogue with the various groups without becoming caught up in local disputes.¹²⁵ The television programme marked the start of an international campaign against Shell and its performance regarding environmental and human rights issues in Nigeria.

The campaign focused on the plight of the Ogoni people and the environmental damage to Ogoniland in the Niger delta by the oil industry. The Ogonis were an ethnic group of over half a million people, who lived by farming and fishing. The oil production in Ogoniland was about 1.5 per cent of oil production in Nigeria. In 1990 a group of five families presented the Ogoni Bill of Rights to the Nigerian government. While reaffirming their wish to remain a part of the Federal Republic of Nigeria, they demanded that the

Ogoni people be granted political autonomy to participate in the affairs of the Republic as a distinct and separate unit. Apart from demanding the use and development of Ogoni languages and culture and the right to religious freedom, they asked for the right to protect the Ogoni environment and ecology from further degradation. They also pointed out that the Ogoni people had not profited in any way from the oil revenues: 'It is intolerable that one of the richest areas of Nigeria should wallow in abject poverty and destitution', they wrote.¹²⁶ One of the signatories of this Bill of Rights, the writer Ken Saro-Wiwa, became the spokesperson for the Ogonis and leader of the Movement for the Survival of the Ogoni People (Mosop). Saro-Wiwa travelled abroad to enlist support for the cause of the Ogonis with great success.

As the Nigerian government remained unresponsive to the claims of the Ogoni, Mosop decided to focus their campaign on Shell Nigeria instead and claim from it a sum of \$10 billion, \$6 billion in rent and royalties and \$4 billion in compensation for environmental damages. Mosop accused Shell Nigeria of collusion with the government in 'the genocide of the Ogonis'. One might ask why Shell was targeted with the other oil companies seemingly escaping attention. In the first place, Shell Nigeria was the operator of the most important production venture, which controlled half of the Nigerian oil production. Second, it had a larger share in this joint venture than either Elf or Agip. Third, it had a strong position in the onshore oil production, while competitors worked predominantly offshore. In short, Shell Nigeria was an important player in the Nigerian economy and a well-known brand internationally.

In January 1993 Mosop mobilized large groups of Ogonis, who staged a mass protest at oil facilities operated by Shell Nigeria. Though Mosop claimed that their campaign was non-violent, Shell felt it was no longer safe for staff and contractors to work there in the face of growing intimidation from members of the communities. As a consequence, Shell withdrew from Ogoniland, though pipelines still passed through the region.¹²⁷ Shell Nigeria acknowledged that the people in the oil-producing areas, including the Ogonis, did not receive their fair share of the oil revenues, but Shell believed that these political issues should be addressed to the government. In negotiations with the Nigerian Head of State, General Sani Abacha, Shell's representative underlined that more money should be allocated to the oil-producing states. Though there were certainly extensive environmental problems, Shell did not think the word devastation applied. Shell agreed that the facilities built in the 1960s and 1970s were no longer acceptable by modern standards, and some were indeed in a poor state. A programme to update these facilities was launched in 1990 and was still ongoing in the mid-1990s. Oil spills took place regularly due to corrosion and in the course of production. However, in the Ogoni area a relatively high percentage of oil spills were caused by sabotage. According to Shell, in the Ogoni area 69 per cent of all oil spills between 1985 and the start of 1993 were caused deliberately to win compensation. The usual methods were hacksaw cuts and opening or tampering with valves. In comparison, in Nigeria as a whole the percentage of sabotage was no more than 25 per cent of all oil spills, while 75 per cent resulted from corrosion in older pipelines and other facilities.¹²⁸ A study by the World Bank covering the Nigeria's Delta State found much lower figures for oil spills caused by sabotage during the period 1991-1994: only 43 (that is 15 per cent) of 287 oil spills. In volume the oil spills caused by

sabotage, however, counted for 35 per cent of total volume.¹²⁹

In June 1994 Ken Saro-Wiwa and several others were arrested and accused of having been connected to the murder of four traditional leaders, accusations they denied.¹³⁰ Human rights campaigners asked Shell companies to intervene in order to gain the release of Ken Saro-Wiwa. Shell, however, argued that commercial organizations should not use their influence to interfere in the legal processes of a sovereign state concerning an alleged criminal matter. In one of its Briefing Notes, Shell made its point of view crystal clear: 'A private company has neither the right nor the competence to become involved or attempt to interfere with those legal processes. (...) Those campaigning on behalf of Mr Saro-Wiwa would be the first to criticise Shell companies if they interfered in the politics of a country on a matter which did not suit their agenda.'¹³¹ Human rights campaigners challenged Shell's point of view in cases where the regime was oppressive and the legal system obviously flawed. Campaigners also questioned Shell's environmental performance. Moving from a defensive towards a more responsive attitude Shell decided to start an independent review of the environment of the Delta region and to increase its community spending. But even an independent scientific assessment of damage to the environment would not have solved the controversy, because the Ogoni had a different perception of their environment. For them it held a cultural and spiritual value that could not be captured in figures and tables but had to be experienced and appreciated.¹³²

One of the problems in the Niger delta is that poor people are driven to use the oil facilities in ways that were never intended. For example, Urohobo women bake their tapioca in the heat of a gas flare from a Shell operated flow station in 2004. Though gas itself is a clean energy source, the burning of associated gas introduced soot into the air that over time could cause serious health problems.

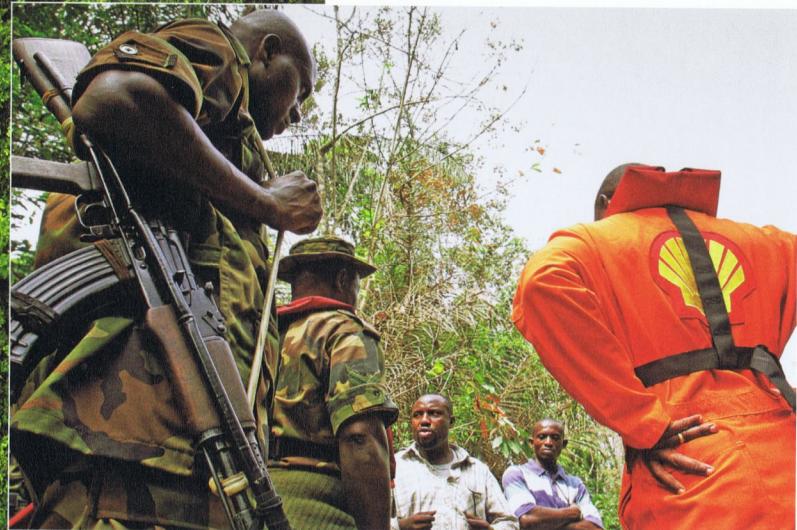




[53]



[54]



At the beginning of the twenty-first century the situation in the Niger delta remained difficult and complex for people working in the oil industry as well as for those living there.

Determined to profit from the oil in their ground, some groups stole crude oil or gasoline, causing pollution and creating dangerous situations themselves. Left below: a boat used for the theft of oil, moored in a river near a Shell facility.

[53]



From left to right: A member of the Niger Delta Volunteer Force siphons fuel into a jerry can in order to fuel one of their boats.

The national secretary of Orere Uluba village quarrels with Shell employees and Nigerian Federal Security because of their unannounced entry onto village property in 2005. Shell contractors wanted to begin a clean-up operation.

Workers subcontracted by Shell clean up an oil spill from an abandoned well.



On 31 October 1995 Ken Saro-Wiwa and eight co-defendants were found guilty and sentenced to death by a Special Tribunal set up by Sani Abacha outside the normal judicial system. This Tribunal did not allow for the right of judicial appeal to a higher or independent jurisdiction.¹³³ The trial was widely considered unfair. Shell came under increasing pressure to speak out against their conviction. Up till then Shell had followed a strategy of 'quiet diplomacy', refusing to interfere publicly in the trial. On 8 November 1995, however, the Committee of Managing Directors decided to send a letter to the Head of State to ask for clemency on humanitarian grounds. Shell had tried to get the other oil companies on board, but these had refused to join Shell in making representations to the Head of State.¹³⁴ This action did not have the desired effect, and with unseemly haste Ken Saro-Wiwa and the other eight were hanged on 10 November 1995. In his closing address to the tribunal, Saro-Wiwa argued that Shell was more on trial than he and his co-defendants: '...there is no doubt in my mind that the ecological war that the Company has waged in the Delta will be called to question sooner than later and the crimes of that war be duly punished. The crime of the Company's dirty wars against the Ogoni people will also be punished. (...) In my innocence of the false charges I face here, in my utter conviction, I call upon the Ogoni people, the peoples of the Niger Delta, and the oppressed ethnic minorities on Nigeria to stand up now and fight fearlessly and peacefully for their



Congested traffic on a road in Port
Harcourt in Nigeria in 2004.

rights. History is on their side. God is on their side. For the Holy Quran says in Sura 42, verse 41: 'All those that fight when oppressed incur no guilt, but Allah shall punish the oppressor.' Come the day.'¹³⁵

Following the executions Shell companies found themselves under attack from all sides, including the media, NGOs, single issue pressure groups, and even investors. Many critics accused Shell Nigeria of insufficiently distancing itself from the military regime. They found their point of view confirmed by the fact that Shell announced a final investment decision regarding the Nigeria LNG project only a few days later, on 15 November 1995. Indeed, Shell was well aware that the announcement came 'at the worst possible moment'.¹³⁶ Having worked on this new LNG project for more than ten years, it was understandable that Shell Nigeria did not want to put it at risk by postponing the investment decision. Furthermore, should the LNG project collapse, then Shell might well experience negative consequences for future business opportunities in upstream activities of which their competitors could be expected to take full advantage. In addition a major opportunity for reducing the flaring of gas would be lost. Therefore the LNG project would help address one of the main demands of the environmental campaigners.¹³⁷ Pax Christi and Amnesty International accepted that the Nigerian government was responsible for the deaths of Ken Saro-Wiwa and his fellow activists, but they wanted Shell companies to speak out openly against violations of human rights.¹³⁸ Nelson Mandela asked for oil sanctions to be imposed

against Nigeria during the Commonwealth Summit in Auckland, but politicians were not very keen to take firm action, despite the public indignation over the human rights situation in the country. Friends of the Earth, Greenpeace and others called for boycotts against Shell petrol stations, but consumers did not respond as eagerly as in the Brent Spar case. The Ogoni issue did not cause an immediate loss in sales as had happened over the Brent Spar controversy, but it had a negative impact on the reputation of Shell companies. As Shell had concluded many times, its 'licence to operate' depended on its reputation. The Group had some hard thinking to do.

prices, nationalizations, and alarms about oil scarcity resurfaced. As in the previous two volumes of this history, volume three focuses on five research areas. One of the fascinating aspects of Shell is its worldwide spread in regions and activities, and the changes that took place therein. In this period Shell left some regions, such as Iraq and Venezuela, and successfully entered others, notably the North Sea. It also entered several entirely new business activities, including metals, nuclear energy, coal, and renewable energy, but after a while decided to leave all of them, apart from the renewables. As a worldwide business the shaping of its internal organization was a particular challenge, and forms the second of our research areas. The Group had to try to find the right balance between centralization and decentralization, between coordination through businesses or national organizations, and between the interests of shareholders and other stakeholders, including employees. It had to respond to the rising demands from the general public, customers as well as non-governmental organizations. What will become clear is that successful solutions to deal with the new oil regime of the 1970s were not necessarily suitable for the challenges of the 1990s. To place these Group strategies in context, Shell's performance will be consistently compared with that of its US rival Exxon and its British competitor BP. The competitiveness of Shell is consequently our third research area. The fourth focuses on innovation as a way to improve competitiveness: how and when did Shell try to build up leadership in technology? What were its areas of strength? During the 1970s and early 1980s, technology was used to create growth, but after the mid-1980s it became increasingly important to cut costs. Moving on, the fifth research question concerns the role of politics. Oil and gas were important sources of income for governments but also a cause for concern when energy threatened to become

scarce. Governments and oil companies had their own agendas but also needed each other, which led to a complex interplay, part of which will be discussed in this volume.

In 1971 one Shell personnel manager, writing in the Shell publication *Personnel Management Review* wrote: 'What really happens in that complex of relationships we call "Shell" or the "Group" would keep hundreds of academics busy for years trying to discover and define. We just get on with it, and by and large, it works!'² This book touches on many subjects, all of which could be analyzed with the help of specific political, social or economic theories. However, it concentrates on the five research areas highlighted above, and focuses on the broad picture and the main developments with illustrative examples taken from different parts of the enterprise.

This volume is organized with a blend of chronological and thematic chapters. The first chapter discusses the combined impact of the OPEC nationalizations and high oil prices on Shell's oil business. The second chapter moves to the sectors outside the oil industry, namely the Group's entries into metals, nuclear energy, coal and renewable energy, as well as its earlier diversification into chemicals. The third chapter returns to the oil business during the period of low oil prices from 1986 to 1998. Chapter four discusses the internal organization in the context of conflicting demands from employees and shareholders. Chapter five adds the perspective of the public at large, analysing the expectations and criticisms of the society and the company's response. The sixth and last chapter looks at developments during recent years, developments which to some extent are still unfolding, and are therefore more difficult to place in perspective.

Like the earlier two volumes, this one is based on unrestricted access to the internal records of the Group, including

the minutes and supporting documents of the CMD and Conference. In addition trade journals, speeches, and company brochures have been consulted. Particularly useful have been the interviews with nearly fifty Shell employees, whose enthusiastic stories greatly enhanced my understanding of their business. There have been only two practical limitations on research, and these affect only the most recent incidents. First, because of unfinished court cases, the issue of the reserves recategorization of 2004 could not be discussed with Shell staff and there was no access to records, regarding the matter except those in the public domain. Second, research at the level of board minutes stopped in 2005 with the unification of the two parent companies into Royal Dutch Shell plc. In concluding any historical work about an organization that is still very much alive and active, it is always difficult to provide a detailed assessment of events approaching the present day. In a few years' time it will be possible to add that assessment.

Access to energy, particularly to oil and gas, will become a serious issue in the course of the 21st century. This book discusses one of the most important players in the international oil industry, Royal Dutch Shell plc. It takes the story from the first oil crisis in 1973 until 2007. It highlights how this European-based enterprise, with its Dutch-British nationality, faced up to the nationalizations in the oil industry in the 1970s, and how it responded to the return of globalization and privatization in the 1990s. It explains how Shell seized opportunities during high oil prices and vigorously adapted itself during periods of low oil prices. Shell's policies focused on adjusting its range of activities, looking for leadership in technology, adapting its internal organization and human resources practices, and responding effectively to the increasing demands from shareholders as well as society. Compared to its traditional rivals ExxonMobil and BP, Shell sometimes performed better and sometimes worse, but it remained one of the key players in the industry. Based on unrestricted access to internal records and numerous interviews, this book gives a unique insight into the company's efforts to assure energy supplies for future generations.

Keetie E. Sluyterman is Professor of Business History at Utrecht University, and senior researcher at the Research Institute for History and Culture at the same university. She has written or jointly authored a large number of business histories, including Océ, De Kuyper, Proost en Brandt, CSM, Rabobank, and Hagemeyer. In 2005 she published the synthesis *Dutch Enterprise in the Twentieth Century: Business Strategies in a Small Open Economy*.

OXFORD
UNIVERSITY PRESS
www.oup.com

