

REPLY TO SHELL:

ECCR RESPONSE TO COMPANY STATEMENT ON SHAREHOLDER RESOLUTION

April 2006

The Ecumenical Council for Corporate Responsibility (ECCR), the faith-based organisation that has initiated a resolution for Royal Dutch Shell shareholders to consider at their AGM in The Hague and London on 16 May, notes the Company's published response and urges responsible shareholders to **vote for the motion.**¹

ECCR was born out of an exchange between Industrial Missioners in the UK and a trade union in the Philippines. The latter said: 'The lives and livelihoods of our people are decided in your boardrooms.'

ECCR has maintained a dialogue with Shell for 12 years, primarily over the Niger Delta but including Shell's retail operations in the Sudan, involvement in Angola, proposals for new exploration in Peru, and partnership in the Chad-Cameroon pipeline; Shell withdrew from the last two. ECCR has been monitoring developments in the Corrib project, Co. Mayo, Ireland, since 2002.

ECCR's view is that Shell's formal response to the present resolution, posted on the Company's website and issued to shareholders with the AGM papers, fails to address very genuine concerns. ECCR agrees that good Company policies are in place - it is Shell's implementation of its policies that is deficient.

Shell states in the first bullet point of its published statement that it 'is committed to comply with all relevant local standards'. However, contempt of court proceedings were filed against Shell Nigeria in December 2005 for failing to stop the flaring of poisonous waste gases in the Niger Delta.²

ECCR argues that evidence from Corrib (Ireland), the Niger Delta and Sakhalin (Russia) highlights the gap between, on the one hand, Company policies and statements, and, on the other, the reality on the ground. ECCR also questions whether Shell's Social Responsibility Committee has been adequately involved in reviewing Company performance in these three projects and whether it has been satisfied that implementation fully complies with Shell's policies, principles and standards. Hence the request that Directors report to shareholders how the Company has indeed implemented its policies and statements.

Where the Company emphasizes its `engagement' with local communities, ECCR considers that Shell's consultations have been one-way. It has failed to convert dialogue into changes in project design to accommodate stakeholder concerns. Hence the frustration that stakeholder communities have experienced – and have expressed so violently in the Niger Delta. The militants who kidnapped Shell oil workers recently took their hostages on a tour of the Delta, so that for the first time they saw for themselves the damage that the Company's operations have caused.

Turning to the three specific cases in question:

1. Corrib, Ireland

Shell is seeking to push ahead with the Corrib project despite the fact that the Irish Government-commissioned Independent Safety Review (ISR) report has only been issued in draft form, while neither the final document nor its recommendations have been made public. Because of this, Shell's assurance that it `has committed to comply with the recommendations of the ISR' must be questioned.

Shell claims that the public consultation and regulatory process has been exhaustive. This cannot be so if the final document has yet to be made public. Even so, work has started on the project regardless.

Shell's view that Corrib's final project design complies with `internationally recognised safety standards' is called into question by independent expert Richard B. Kuprewicz's 2005 report on Corrib. According to Kuprewicz's report: `many of these standards are in a state of flux and do not adequately address the very unique operation of the Corrib onshore pipeline'; `Proclamations claiming "highest international standards" carry very little weight'; `critical information regarding this project has not been disclosed, and maybe not even considered'.³

2. Bayelsa State, Niger Delta

The Company's reference in its published statement's first bullet point to `problems of identifying who actually represents the community where there are conflicting demands' is apparently contradicted by its assertion that `a Sustainable Community Development plan has been developed and discussed with the communities' in the Niger Delta, leading to `the preparation of a joint Memorandum of Understanding (MOU) with the 17 communities where the processing facility and wells will be sited'.

To illustrate the shortcomings of Shell Nigeria's consultations, ECCR cites the example of Ogboloma community in Bayelsa State, on whose land an oil flow station is sited, with new wells and a gas manifold due to be sited there also.⁴ Ogboloma was largely excluded from the `Global MOU' process

begun in 2005, and this resulted in its concerns and interests being inadequately addressed. Ogboloma will receive much less money from Shell's proposed community development fund than two other similarly situated hosting communities, and it is denied other Shell-supported projects, such as proposed school blocks. Ogboloma people see these denials as stemming from Shell's failure to recognize them as a special landlord community like their two neighbouring communities.

ECCR understands that these grievances heightened tension between Ogboloma community and its two neighbouring communities, and with Shell.

Further, Nigeria's Federal Ministry of Environment had given provisional approval in 2004 to Shell's project Environmental Impact Assessment (EIA) on condition that (a) the Company would provide sustainable clean drinking water to Ogboloma households affected by dredging of the Taylor Creek tributary of the Nun River, and (b) that it would resettle and/or compensate a significant number of households for loss of homes and livelihoods as a result of the laying of pipelines. Latest reports indicate that Shell has complied with neither of these requirements.

Work on the Bayelsa project site has now started, despite the fact that the Global MOU for the project is in Government House at the state capital Yenagoa, not yet finalised or signed by the state government, by Shell or by the affected communities.

3. Sakhalin, Russia

Regarding oil spills, ECCR is advised by WWF-UK that Shell is unable to assess the risk from an oil spill in ice conditions and has not, despite several requests, produced maps showing likely spill extents in winter ice conditions. Shell plans year-round production but does not have a year-round oil spill response plan. A review by Alaskan experts has predicted periods when ice, wind, waves, temperature, safety or other factors will make any response unfeasible. This could result that oil becomes trapped in the ice for weeks or months until it melts, delaying impact until the gray whales arrive.⁵

Shell contradicts its statement that 'There has been no discernable effect on the Western Gray Whales from Sakhalin Energy's existing Piltun platform, which has been producing oil since 1999' when it says: 'The company's decision last year to reroute an offshore pipeline underlines its efforts to mitigate adverse impacts on the whales.'

The independent whale advisory panel that Shell refers to recently stated: 'no definitive conclusion can be drawn ... with regard to potential impacts on whales during the 2005 construction season. This

is particularly regrettable considering that the most active SEIC [Sakhalin Energy Investment Company, led by Shell] construction season to date is slated to begin in just two months, i.e. in early June 2006.⁶

As to dredging and impacts on local fisheries, ECCR understands that the European Bank for Reconstruction and Development has accepted a complaint from a local fishing company that saw its catch reduce by 70% (1000 tonnes) in 2005; and Japanese buyers are refusing to take fish caught in Aniva Bay for fear of contamination, which has resulted in the fishing company making redundancies.

Shell asserts that new jobs will be created for local people by the project. But this \$20 billion investment will result in only about 1,500 permanent jobs, i.e. one job for every \$13 million invested – very limited job creation compared to the traditional fishing industry, which is under threat.

ECCR also understands that the project's 'Sustainable Development Council' is made up entirely of company employees and has spent community development money on housing for contractors rather than local communities. Local officials including the Mayor of Korsakhov and the Governor of Yuzhno have joined protests over the lack of benefits for the region. In addition, local people are suffering exposure to diseases brought by workers migrating to Sakhalin.

If Royal Dutch Shell is persuaded, by wide and influential shareholder support, to implement the positive recommendations spelt out in the ECCR resolution, it will be a win-win-win-win situation for the Company, its shareholders, local stakeholders and the environment.

Notes:

1. ECCR resolution and supporting statement available at www.eccr.org.uk/docs/0603_shell_resolution_statement.pdf; background statement at www.eccr.org.uk/docs/0603_shell_resolution_background_paper.rtf
2. See e.g. <http://news.bbc.co.uk/1/hi/sci/tech/4556662.stm>
3. 'The myth of highest international standards', chapter VII in Accufacts Inc., *The Proposed Corrib Onshore System: An Independent Analysis*, Centre for Public Inquiry, Dublin, Ireland, October 2005, www.publicinquiry.ie/pdf/Fiosru_2_LOW_RES_Final.pdf
4. The Ogboloma community belongs to Gbarain clan. The Ogboloma king is one of ten traditional rulers under the Gbarain clan paramount ruler.
5. Comments on Sakhalin based on a communication to ECCR from James Leaton, Extractive Industries Policy Officer, WWF-UK

6. Interim Independent Scientists Group, *Report ... on Mitigation Measures to Protect Western Gray Whales during Sakhalin II Construction Operations in 2006*, Vancouver, British Columbia, April 2006, p19, www.iucn.org/themes/business/ISRP_Followup/IISG%20April%2006.htm