

## **Nigeria – Cleaning Up the Tarnished Jewel**

***Nick Robins***

Nigeria has long been the tarnished jewel in Shell's oil production crown. Shell Nigeria accounts for just over 10% of group output but is also inextricably linked in many people's minds with corruption, conflict and environmental degradation in the Niger Delta region. It is estimated that the violence in the region is responsible for more than 1,500 deaths each year, placing Nigeria on a par with Chechnya or Colombia.

The oil sector is currently both victim and allegedly a perpetrator of activities that undermine long-term sustainable development. Across the region, the organised theft of crude oil by criminal networks is endemic, along with persistent community disruptions of production. Militant groups continue to carry out attacks on oil installations, sometimes leading to the death or kidnapping of oil workers.

According to Shell's third quarter results published in October 2006, production in Nigeria had fallen by 185,000 barrels of oil per day from the previous year due to security problems, with little prospect of improvement.

The environmental legacy is equally stark, with sabotage and corrosion leading to extensive oil spills. Routine gas flaring continues to damage both community health and the local environment as well as generating more greenhouse gas emissions than the rest of sub-Saharan Africa put together.

### **Challenges**

For long-term investors in Shell and other multinational oil companies operating in Nigeria, this situation presents pressing financial, legal, governance and, ultimately, strategic challenges. Financially, deferred production clearly reduces short-term earnings, while the burden of unrest contributes to extra security and remediation costs; gas flaring also represents a chronic waste of a valuable asset.

Litigation is also becoming a reality, with a Federal High Court deciding in November 2005 that Shell should immediately cease illegal gas flaring in the Iwherekkan community. Shell is appealing the judgment.

In governance terms, investors need assurance that the board and executive management are effectively implementing Shell's often excellent business principles and standards on the ground in Nigeria. Strategically, there remains the risk that a deterioration in community and environmental performance could so undermine Shell's 'licence to operate' that it would find its operating conditions renegotiated by the Nigerian government. The case of Shell's Sakhalin II project in Russia is a harsh reminder of how environmental practices can be used by newly assertive petro-states in their efforts to win a better deal with foreign multinationals.

ECCR has been at the forefront of shareholder efforts to get real improvements from Shell Nigeria for over a decade, most recently tabling a resolution at the 2006 Annual General Meeting, which 17% of investors either supported or withheld their support from management.

What makes the current situation particularly acute is the forthcoming elections in Nigeria from President downwards, scheduled for April. The onset of elections has led to heightened tension in the region as factions jostle for position, and could be a serious exacerbating factor through the rest of this year.

### **Investor briefing**

To explore the possible investment implications of heightened political risk in Nigeria, Henderson co-hosted an investor briefing in November with the Stakeholder Democracy Network (SDN), a specialist NGO working on the ground in Nigeria to promote stakeholder dialogue.

The meeting revealed a mixed picture, with undeniable progress in terms of the economy and anti-corruption measures at the national level. But in the Delta communities, Damka Puebla, SDN's Nigeria co-ordinator, feared that the 2007 elections could magnify the strength of the militant groups, as happened in 2003. For SDN's Joseph Croft, current approaches to dealing with the security crisis at both the domestic and international levels emphasise hard force rather than reconciliation, potentially inflaming the situation further.

### **Security, flaring**

Two priorities for improvement at the corporate level emerged from the meeting: security and flaring. Shell is a supporter of the Voluntary Principles on Security and Human Rights, launched in 2000 to provide clear guidance to extractive companies and their stakeholders.<sup>1</sup> Shell does report on the human rights training programmes it has for staff in Nigeria, but does not yet provide sufficient information to enable investors and other stakeholders to make an informed judgement about how far the company has effectively implemented the principles on the ground.

Given the situation in Nigeria, understanding company performance on human rights and security is critical to evaluating investment risk.

In terms of flaring, progress is being made, with the amount of gas flared falling almost 20% between 2004 and 2005 as new projects came on-stream. But Shell has had to delay its target for ending continuous flaring from 2008 to 2009, due to a combination of under-funding from the government of its share of the required investment and poor contractor performance. As the end to flaring offers significant potential for building trust among affected communities, as well as realising financial value from currently wasted gases, much greater clarity is required how this target will be achieved.

2007 looks set to be a tough year for Nigeria. Shell and other oil companies operating in the region need to show how they are delivering respect for human rights and environmental improvement as a matter of urgency.

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### **Notes**

1. See <http://www.voluntaryprinciples.org/>.