

Working in challenging locations

How we are addressing environmental and social concerns at two of our most important and challenging locations.

Nigeria

Interview with Basil Omiyi by Roger Hammond



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2006 saw an alarming escalation of violence in the Niger Delta. What is going on?

There are three issues. The first is poverty in the Delta. It is being addressed, but too slowly. The second is the way the Delta is represented in national politics. The third is the rise of organised crime, fuelled by large-scale thefts of crude oil. Think of these as overlapping circles – the bigger the overlap, the bigger the crisis.

The approach of the presidential election [Editor: April 2007] has made the current crisis so big.

The politically motivated militia groups continue to demand, among other things, the release of a former state Governor and of a militia leader held on treason charges, and a greater share of oil revenue for the Delta States.

The rise in violence is bad for the Delta and Nigeria. We have had to shut down most facilities in the Western Niger Delta, reducing production in 2006 by 50%. Militants have sabotaged flow stations and pipelines and made it impossible for us to get to many of these facilities to repair the damage or do normal maintenance. The Finance Ministry has estimated that the crisis cost the Government \$4.4 billion in lost revenue.

Fifty-four of our staff and contractors were kidnapped last year. Nine were killed in assaults or kidnappings. That is a terrible loss that I feel very deeply.

Isn't there a major risk that the Government will take a military approach that violates human rights?

I don't think so. It knows that being heavy-handed risks causing further incidents and losing local support. The Government's approach has been to lead with development, continue with dialogue and ultimately improve law and order.

Our role, as a company, is to support this effort and encourage government to respect human rights. I am proud of the way we are doing that with the two groups providing security in the Delta. One is the Supernumerary Police, seconded by the Nigeria Police Force. They

protect our facilities and are usually unarmed. We agree their terms of engagement, making sure they are in line with our security guidelines. We also run human rights training programmes for them and report any violations of our security standards.

The second group is the Joint Task Force. Its military personnel guard the handful of our facilities that are designated as national strategic assets. We make clear our stand on human rights to the Joint Task Force, including our commitment to the Voluntary Principles on Security and Human Rights and our guidelines on the use of arms. All our frontline staff also do human rights training to help them follow our procedures and monitor the security staff guarding our facilities.

What are the chances for reconciliation with the Ogoni people?

Overall, I am cautiously optimistic. We left Ogoniland in 1993 and haven't produced oil there since. We still hold the concession including oil wells, which are still occasionally sabotaged or set on fire.

We have consistently said that we will only go back with community acceptance. To that end we continue to support the President's reconciliation initiative that is trying to find lasting peace and reconciliation in Ogoniland.

Government and the traditional rulers both tell us they want us to come back. In my meetings with Ogoni leaders they have talked about putting the past behind us and sitting around



WHAT IS IT?

The Shell Petroleum Development Company of Nigeria (SPDC):

- Operator of Nigeria's largest oil and gas joint venture (Nigerian National Petroleum Company 55%, Shell 30%, EPNL 10%, Agip 5%).
- In a typical year produces approximately 40% of the country's oil from over 1,000 onshore wells in the Niger Delta.
- Generates more than \$40 for the Government for every barrel produced (and \$1.46 for Shell) at oil prices of \$50 a barrel.

Shell Nigeria Exploration and Production Company (SNEPCo):

- Operator and 55% shareholder in the offshore Bonga oil field, Nigeria's first deepwater project.

Nigeria Liquefied Natural Gas Company (NLNG):

- Joint venture (Shell 26%) producing 8% of the world's LNG.

Shell-run operations in Nigeria paid \$3.5 billion in taxes and royalties to the Government in 2006.

the table to talk. It will take patience and understanding, but I think we will get there.

You have made tackling corruption in Shell in Nigeria a priority. An impossible task?

In 2006, we kept the spotlight on this problem in SPDC and our other operations in Nigeria, despite the security crisis. Integrity is part of staff assessments. SPDC publicises proven corruption cases on its website so people are aware of what happens if they cross the line.

Shell has been accused of using lower environmental standards in Nigeria. True?

Absolutely not. We apply the same Shell standards worldwide and all our assets in Nigeria are certified to ISO 14001 standard by external assessors. We do, however, have a substantial backlog of asset integrity work to reduce spills and flaring. That backlog is caused by under-funding by partners over many years, operational problems and, more recently, the lack of safe access to facilities.

In 2006, we kept moving forward with asset integrity work, despite the security crisis. For example, of the 253 old spill sites that were scheduled for clean up in 2006, we successfully restored all the 179 sites where we could get access. We completed the pipeline inspection work we had planned for 2006 wherever we had access – about half the total originally planned. We're currently discussing different ways of funding this work with the Government that would allow it to go much faster in the future.

You mentioned flaring – will you meet your commitment to end continuous flaring?

Already today, there is no continuous flaring of natural gas at our offshore operations and NLNG. We remain committed to ending continuous flaring at the SPDC joint venture's more than 1,000 wells during 2009. We believe this can still be achieved, provided we get access in time and the needed funding. I'm afraid I can't be any more definite. The security situation means we don't know exactly when we will get back to specific locations. However, when we get access, we plan to accelerate the remaining gas-gathering projects, doing many of them as part of the repairs needed to get shut in facilities running again. Ending continuous flaring is a massive effort. We have already invested over \$3 billion in it since 2000, reducing our flaring by 30% by 2005. In 2006, we did manage to install gas-gathering equipment at one site.

So much clearly depends on the security situation. So what is the way out of the current crisis?

The three overlapping circles of the crisis must be pulled apart. Development is the most important. Making progress on it will help tackle the violence. It would undermine the support that criminals enjoy because they pretend to be the voice of the oppressed. There is enough money going to the state governments for development in the Delta now. The four Delta states where we operate now typically get more than \$3.5 billion a year from the federal government. However, the money is not being properly used, because of corruption and a lack of local capacity to invest it.

A problem for government then, not for Shell?

No. We are part of life in the Delta and Nigeria. Our success depends on peace and prosperity here. And we are deeply committed to helping make this happen. We do this not only by generating oil and gas revenues for the Government; we help the Government strengthen public institutions, for example through the Extractive Industries Transparency Initiative, and through our relationships with international development experts. We also help through our own development programmes. Shell-run operations spent over \$59 million [Shell-share \$18 million] in 2006 on these programmes, and contributed a further \$114 million [Shell-share \$61.5 million] to the Government's Niger Delta Development Commission.

Overall, how do you see the future for the Delta and Shell's operations there?

This is a very challenging time for all Nigerians. I am pleased that our offshore operations and the NLNG joint venture have been able to expand so successfully through this period. My main concern though is safety – of our staff, contractors and the local communities. We are wholly committed to working with the Government to promote peace and security in the Delta and bring the development that the region so desperately needs.

Additional web content:

 www.shell.com/nigeria

Sakhalin

Sakhalin II emerged from a tumultuous 2006 with a new shareholder – Gazprom – in sight and an agreement in principle with the Russian Government on an amended development budget for Phase 2. These are important steps forward, helping position the project to finish construction, deliver its first LNG to customers in 2008, and meet its environmental commitments and create lasting community benefits.

Sakhalin II is typical of the projects needed to meet the energy challenge – large, complex and often in environmentally sensitive frontier locations. It will add 6% to the world's current LNG capacity, helping meet rapidly growing natural gas demand in Japan, Korea and North America. Completing it successfully will also help Russia demonstrate its continuing ability to host world-class energy projects with foreign partners. At an oil price of \$34 a barrel, federal and local governments will earn an estimated \$50 billion from Sakhalin II over its lifetime.

With the entry of Gazprom, which Shell welcomes, Sakhalin II is expected to continue to provide significant long-term value for our shareholders. Under the terms of the protocol, Sakhalin II will add nearly 100,000 barrels of oil equivalent a day (two-thirds of this natural gas) to Shell's production at its peak and create

the possibility of expanding activities with Gazprom in Sakhalin.

With construction approximately 80% complete, the first priority now is to get the project up and running – on time, safely, and responsibly. All shareholders are fully committed to delivering a world-class project in all respects, including environmental and social performance.

River crossings

A novel and transparent approach has been adopted to protect wild salmon during the construction of the project's onshore pipelines. The pipelines cross about 180 sensitive salmon spawning rivers. Sakhalin Energy requires contractors to use low-impact techniques for these crossings, including working in winter when the rivers are frozen or at low flow. When some contractors failed to do so during the winter of 2004/05, Sakhalin Energy stopped work, improved its controls and sought help from outside experts. Independent observers and environment agency representatives were invited to monitor, first-hand, how each sensitive crossing was made during the winters of 2005/06 and 2006/07. This was a first for the industry. The observers' findings are published on Sakhalin Energy's website.

Most of the sensitive crossings were done in the winter of 2005/06. In addition to the precautions taken during construction, temporary erosion controls were put in place

and grass replanted on steep river banks along the pipeline route to prevent sediment run-off into rivers during the spring thaw. A few rivers had more sedimentation than planned.

However, the likely impact on the salmon spawning grounds is limited and temporary, with the rivers expected to return to normal in two to three years. By the end of April 2007, all sensitive crossings had been completed.

Western gray whales

Most of what scientists know about the critically endangered western gray whales, which spend the summer months off Sakhalin Island, comes from the \$1 million a year research and monitoring programme that Sakhalin Energy and Exxon Neftegas Ltd have sponsored for many years.

Sakhalin Energy has taken advice from independent experts on protecting the whales during offshore construction. The project re-routed the offshore pipeline 20 km further away from the whales' feeding ground, and used advanced acoustics and strict speed limits on vessels to minimise disturbance. Impacts on the whales have been carefully monitored and their population has grown.

In 2006, a long-term western gray whale advisory panel was established. Convened by the World Conservation Union (IUCN), its scientific experts will study the whales' habits and monitor the project's impacts during final construction and operation.

WHAT IS IT?

- The largest and most complex oil and LNG project currently under construction.
- Phase 1 of Sakhalin II began producing oil from Russia's first offshore platform in 1999.
- The \$20 billion Phase 2 includes two more offshore platforms, more than 1,800 km of pipelines and Russia's first LNG plant.
- Construction was approximately 80% complete at end 2006. LNG production is due to start in 2008.
- A joint venture operated by Sakhalin Energy Investment Company Ltd (SEIC).
- Protocol was signed in December 2006 to sell 50% plus one share of Sakhalin II to Gazprom for \$7.45 billion. This will reduce Shell's share of SEIC from 55% to 27.5%, Mitsui's from 25% to 12.5% and Mitsubishi's from 20% to 10%.



Environmental permitting

In October 2006, the Russian environment agency threatened to suspend crucial licences, citing violations of environmental permits. These alleged violations would not have caused long-term environmental damage. Sakhalin Energy developed an Environmental Action Plan which, after further refinement, was re-submitted to the authorities in March 2007 for further review.

Sustainable benefits for local people

Sakhalin Energy is actively helping islanders benefit from oil and gas development. In addition to the \$100 million it contributed to the regional government's Sakhalin Development Fund, \$390 million is being spent upgrading and building new infrastructure on the Island.

By the end of 2006, 17,000 staff and contractors, nearly 7,000 of them local, were working on Sakhalin II. Once construction ends, employment and business activities from the project will be lower.

Nonetheless, Sakhalin II is expected to employ about 2,400 permanent staff and create work for approximately 7,000 local contractors and suppliers. Managing the transition is a priority for the Island and for Sakhalin Energy.

Indigenous people

Large-scale energy developments pose challenges for the Island's 3,500 indigenous people. Sakhalin Energy was the first company to support and work with the democratically elected Sakhalin Indigenous Minorities Council that was formed in 2005 to represent this group. In 2006, the Council, regional government and Sakhalin Energy launched the first five-year Indigenous Minorities Development Plan. Developed with advice from the World Bank, the plan identifies practical ways to mitigate impacts from oil and gas development on indigenous people and promote traditional livelihoods and sustainable businesses. Sakhalin Energy is providing the funding (\$1.5 million) and is a member of the supervisory groups charged with making sure the plan is carried out.

Project financing

Gazprom's entry and the change of shareholdings may alter the way the project is financed. As a result, the European Bank for Reconstruction and Development (EBRD) ended its review of the current funding proposal in early 2007.

[Editor: text finalised 2007, while the joint ventures' negotiations with Gazprom were still underway].

Additional web content:

 www.sakhalinenergy.com



“VOICES”

RIVER CROSSING OBSERVER

For the last two winters, I have worked as one of the independent observers for Sakhalin Energy's river crossing programme. We have monitored the pipeline construction where it crosses ecologically sensitive rivers, have publicly reported on construction practices, and have provided advice to the project's pipeline engineers. We have had unrestricted access to the crossings we are monitoring and freedom to report honestly on what we saw. In my opinion, Sakhalin Energy has taken the challenge of getting its contractors to comply with its standards seriously. Compliance has steadily improved, reducing environmental impacts.

Mark Dunnigan
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