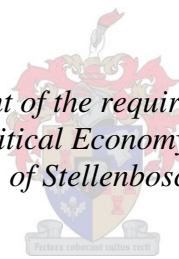# Managing Political Risk: Corporate Social Responsibility as a Risk Mitigation Tool. A Focus on the Niger Delta, southern Nigeria.

By

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*Thesis presented in partial fulfillment of the requirements for the degree Master of Arts in International Studies (International Political Economy and Conflict Dynamics) at the University of Stellenbosch*

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March 2012

# DECLARATION

By submitting this thesis electronically, I declare that the entirety of the work contained therein is my own, original work, that I am the owner of the copyright thereof (unless to the extent explicitly otherwise stated) and that I have not previously in its entirety or in part submitted it for obtaining any qualification.

Date: 01 March 2012

# ABSTRACT

The petroleum industry concern itself with natural resource extracting activities which are highly sensitive for contributing to environmental degradation by oil spills or gas flaring. A large proportion of the world's oil and gas reserves is located in developing countries where the presence of multinational oil corporations (MNOCs) is high as host countries often lack the infrastructure needed or are financially unable to conduct extracting operations on their own. The Niger Delta in southern Nigeria has one of the largest oil reserves in Africa and is one of the world's leading oil exporters. MNOCs like Shell, Chevron, Total, ExxonMobil and Statoil are some of the firms present in the Niger Delta region. The oil-rich area in the developing country poses high levels of political risk for the MNOCs. Local grievances, paired with environmental degradation and human rights violations by the oil companies, have led to a tense relationship between the local stakeholders and the MNOCs, with so-called petro-violence at the center of the oil conflict. Frequently, oil installations are sabotaged and crude oil is stolen, causing major financial losses for the firms, and armed attacks on oil facilities and kidnapping of MNOCs' staff constitute the majority of political risks facing MNOCs operating in the Niger Delta.

This study investigates how MNOCs can successfully manage such political risks, providing a business advantage in a challenging business environment. By addressing the companys' own behaviour, the research analyses if social engagement through corporate social responsibility (CSR) can mitigate political risk in the Niger Delta. The study looks at two different MNOCs operating in the Niger delta, Shell and Statoil, and scrutinises their methods of implementation of their CSR initiatives. The difference in approaches to CSR is elucidated where Shell claims it has repositioned its approach from a top-down angle during the first years of conducting CSR projects, to a more stakeholder-oriented approach. Yet, their approach is still found to carry elements of the previous top-down approach, and has not resulted in satisfactory performance in relation to stated goals. Statoil undertakes a stakeholder-oriented bottom-up approach, executed with a high level of commitment. The stated CSR goals have to a great extent been met. By assessing the two companies' CSR strategies in relation to the frequency of political risks experienced by each MNOC, the study finds that CSR has the potential to mitigate political risk depending on the approach to implementation, and could serve as a political risk management strategy.

# OPSOMMING

Die brandstofbedryf is betrokke by die ontginning van natuurlike hulpbronne, 'n aktiwiteit wat hoogs sensitief is vir sy bydrae tot omgewingsbesoedeling as gevolg van storting van olie en opvlamming van gas. 'n Baie groot deel van die wêreld se olie en gas reserwes word aangetref in ontwikkelende lande. Die teenwoordigheid van Multinasionale Olie Korporasies (MNOKs) in hierdie lande is groot omdat daar gewoonlik 'n gebrek aan toepaslike infrastruktuur is en die lande ook nie finansieel in staat mag wees om die ontginning op hulle eie te doen nie. Die Niger Delta in die Suide van Nigerië beskik oor een van die grootste olie reserwes in Afrika en is een van die voorste olie uitvoerders in die wêreld. Shell, Chevron, Total, ExxonMobil en Statoil is van die bekende MNOK wat ontginning doen in die Niger Delta gebied. Die olieryke gebiede in 'n ontwikkelende land kan groot politieke risiko vir die MNOKs inhou. Plaaslike griewe gekoppel aan omgewings besoedeling en menseregte skendings deur die oliemaatskappye het gelei tot 'n gespanne verhouding tussen hulle en die plaaslike belange groepe, en sogenaamde "petrogeweld" staan sentraal hierin. Heel gereeld word olie-installasies gesaboteer en ru-olie word gesteel, wat natuurlik groot finansiële verliese die firmas inhou. Daarby word gewapende aanvalle op die olie-installasies uitgevoer en van die MNOKs se personeel ontvoer. Al hierdie dinge vorm die groot politieke risiko's wat die MNOKs in die Niger Delta in die gesig staar.

Hierdie studie ondersoek hoe die MNOKs met welslae hierdie politieke risiko's kan teenwerk om vir hulle 'n suksesvolle besigheid te vestig in 'n baie mededingende bedryfsomgewing. Deur te kyk na die maatskappy se eie gedrag, sal die navorsing analiseer of gemeenskapsbetrokkenheid deur korporatiewe sosiale verantwoordelikheid (KSV) die politieke risiko in die Niger Delta kan temper. Die studie kyk na twee verskillende MNOK wat in die gebied bedryf word, Shell en Statoil, en kyk noukeurig na die manier waarop hulle KSV inisiatiewe toegepas word. Die verskil in benadering tot die probleem word toeglig deur die feit dat Shell beweer dat hulle 'n bo-na-onder benadering in die beginjare van KSV projekte verander het na 'n beleid waar meer na die betrokkenheid van belangegroepe gekyk word. Tog word gevind dat daar nog oorblyfsels is van die bo-na-onder benadering en dat doelwitte wat gestel is nie bevredigend bereik is nie. Statoil daarenteen. Implementeer 'n onder-na-bo benadering met betrokkenheid van belangegroepe en 'n hoë vlak van toewyding deur die maatskappy. Die gestelde KSV doelwitte is grootliks behaal. Deur te kyk na die twee maatskappye se ervaring van politieke risiko in verhouding met hulle KSV strategieë bevind hierdie studie dat KSV wel die potensiaal het om, as dit suksesvol toegepas word, politieke risiko te temper en dus kan die as 'n strategie om sodanige risiko te bestuur.

# ACKNOWLEDGEMENTS

First, I would like to thank my supervisor, Ms Derica Lambrecths, for her valuable academic guidance, sound advice and patience, and for her motivating and inspiring comments on this topic. I would like to thank and express my gratitude to Mr Jon Vea for sharing with me his extensive knowledge on the field and for contributing important insights. I would also like to thank other contributors for their good advice and direction, and my editor, Jane Housdon, for her excellent work. I would also like to thank Neil Louw for translating the abstract to Afrikaans.

My fellow students at PRIO and Stellenbosch University have made the past two years memorable, filled with valuable discussion, encouragement, joy and the beginning of life-long friendships. I thank my good friends back home for their moral support and motivation throughout the completion of this research study.

I would like to thank my family, especially my uplifting brother for always putting a smile on my face, and my inspiring grandmother for believing in me. Special gratitude to my loving parents, Eva and Alf Tore, for their unwavering love and support: without them, this would not have been possible. I deeply appreciate the sound work environment that they have provided throughout this process. The support of, Ellen and Øystein, my parents-in-law, is also greatly appreciated.

Finally, I would like to thank my partner and best friend, Roger Bjelland, for his unconditional love and support, for believing in my ability, and for encouraging me to live up to my full potential. May this be a stepping stone towards accomplishing our dreams. This one's for us.

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# LIST OF ACRONYMS AND ABBREVIATIONS

| | |
|---|---|
| ADF | Akassa Development Foundation |
| API | American Petroleum Institute |
| bbl/d | Barrels per day |
| BP | British Petroleum |
| BSEB | Bayelsa State Electricity Board |
| CDB | Cluster Development Board |
| CIA | Central Intelligence Agency |
| CSR | Corporate Social Responsibility |
| DJSI | Dow Jones Sustainability Indexes |
| DPRA | The Drilling and Production regulation Act |
| EIA | Energy Information Administration |
| EU | European Union |
| FDI | Foreign Direct Investment |
| FEPA | Federal Environmental Protection Agency Decree |
| FHI | Family Health International |
| FPSO | Floating Production Storage and Offloading |
| GBC | Global Business Council |
| GRI | Global Reporting Initiative |
| GMoU | Global Memorandum of Understanding |
| HBR | Harvard Business Review |
| HIV/AIDS | Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome |
| HSE | Health, Safety, Environment |
| HSSE | Health, Security, Safety, and the Environment |
| ILO | International Labour Organization |
| IOGP | Gbarain-Ubi Integrated Oil and Gas Project |
| IPIECA | International Petroleum Industry Environmental Conservation Association |
| ISO | International Organization for Standardization |
| IUCN | International Union for Conservation of Nature |
| IMF | International Monetary Fund |
| JTF | Joint Task Force |
| LNG | Liquefied Natural Gas |

| | |
|---|---|
| LUA | Land Use Act |
| MDGs | Millennium Development Goals |
| MEND | Movement for the Emancipation of the Niger Delta |
| MIGA | Multilateral Investment Guarantee Agency |
| MNOCs | Multinational Oil Corporations |
| MOSOP | Movement for the Survival of Ogoni People |
| NDDC | Niger Delta Development Commission |
| NDPI | Niger Delta Partnership Initiative |
| NEIA | Nigeria's Environment Impact Assessment |
| NGOs | Non-Governmental Organisations |
| NHO | The Confederation of Norwegian Business and Industry |
| NiDAR | Niger Delta AIDS Response Programme |
| NLNG | Nigeria Liquefied Natural Gas Company |
| NNPC | Nigerian National Petroleum Corporation |
| OBR | Ogoni Bill of Rights |
| OECD | Organization for Economic Cooperation and Development |
| OPEC | Organization of the Petroleum Exporting Countries |
| PRIO | Peace Research Institute of Oslo |
| scf | standard cubic feet |
| SCD | Sustainable Community Development |
| SPDC | Shell Petroleum Development Company |
| TNCs | Transnational Corporations |
| UN | United Nations |
| UNGC | United Nations Global Compact |
| VPSHR | Voluntary Principles on Security and Human Rights |
| WBCSD | World Business Council for Sustainability Development |

Map 1: Nigeria (African Studies Center, University of Pennsylvania, 2011).



Map 2: Constituents states of the Niger Delta, southern Nigeria (Idemudia, 2010:835).

# Chapter 1: Introduction to the Research Study

## 1.0 Background to the Research

The billion-dollar oil industry is highly characterised and dominated by Western multinational oil corporations (MNOCs) operating all over the globe. In their search for oil and gas revenues, MNOCs also explore and invest in developing countries that often lack the infrastructure needed or that do not possess the financial pre-requisites to conduct such operations on their own. As the political and social situations in developing countries often present uncertain conditions for the MNOCs, there are political risks[1] associated with such investments. Some countries are fragile and prone to conflict, thus presenting unique challenges caused not only by heightened risks of recurring political violence, but also by structural and institutional weaknesses (MIGA, 2011a:29). Regardless of such conditions, however, MNOCs realise the value of acquiring an early market share even if it is in areas that appear risky (Alon et al., 2006:623-624). The risks concerned with investing in such environments mean that MNOCs need to evaluate the political risks involved at all times. Political risk analysis sets out to assess the probability that various factors within a political system will affect business and investment climates in such a way that forecasted profit will be negatively impacted (Brink, 2004:21). Importantly, political risk analysis also enables corporations to develop risk management strategies that allow them to identify and manage the various risks identified.

Doing business in a politically risk-prone country thus requires MNOCs to explore ways to manage political risks strategically. Industry-specific[2] political risks in addition require specific attention from the company. By extracting natural resources, the nature of the activities of the oil and gas industry is subjected to various political risks, including kidnapping of employees, physical sabotage of oil pipes and oil theft. Besides representing economic power (Brink, 2004:152) as part of a country's main income source, MNOCs' dominance within host communities is also felt through their social and environmental impact. This has led to the growing discontent of locals and resistance towards the oil industry in many host communities due to the devastating impact they can have on the environment and livelihoods of local communities. Footprints left by MNOCs could therefore influence or even contribute to industry-specific political risks (Brink, 2004:152). During the last decade there has been an increasing

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[1] The term 'political risk' will be used broadly in this study, incorporating socio-political risks as these pose industry-specific risks for MNOCs (Frynas and Mellahi, 2003:547). This will be further outlined in Chapter 2 under the section of conceptualisation.

[2] The term 'industry-specific political risk' will be used throughout this study, but this can also be referred to as 'micro political risk' (Brink, 2004:38).

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demand for MNOCs to engage with host communities beyond mere profit-seeking activities. Corporate social responsibility (CSR) has become a catalyst for meeting such expectations, and is of strategic importance to most large companies today. CSR is a commitment from corporations to act in an ethical manner and contribute to their host communities, of which they are an integrated part. CSR in developing countries incorporates formal and informal ways in which business makes a contribution to improving the governance, social, ethical, labour and environmental conditions of the developing countries in which they operate (Visser, 2010:131).

Africa has been at the centre of international competitive power positioning by foreign parties as well as by local elites for at least the last 150 years (Clarke, 2010:66). Today, one of the main arenas for such strategic play concerns African oil and gas resources. The Niger Delta, located in southern Nigeria[3], contains one of the largest oil reserves on the African continent and Nigeria is among the leading oil nations in the world; specifically, it has one of the world's top ten largest oil and gas reserves and ranks as the sixth largest oil exporter and the eleventh largest natural gas exporter in the world (CIA World Factbook, 2010). Several MNOCs therefore have a great interest in the Niger Delta and more than twenty of the world's largest oil and gas companies are present in the region today (Shah, 2010). Yet, despite excessive revenues from the oil and gas production, Nigeria is considered to be a developing country with problems of poverty in the midst of plenty with 64 per cent of its population of 155 million people living on less than US$1.25 a day (CIA World Factbook, 2010; World Bank, 2011a; Amaeshi et al., 2006:83).

The political and social challenges in the country are pressing, providing a demanding and high-risk business environment for MNOCs. The oil and gas sector's history in the region is one characterised by frequent oil spills, environmental degradation and conflictual relations between the MNOCs and the local people. The MNOCs have faced numerous demonstrations and uprisings against them and are confronted with the ethical dilemma of extracting oil resources while leaving little but profit for the elite and oil spills behind. As a result, civil riots and attacks by armed rebels represent some of the main political risks for MNOCs in the Niger Delta. The question concerning this study, therefore, is whether CSR programmes could contribute to minimise the footprint left by the MNOCs and facilitate sustainable development in host communities and to reduce political risk. This background lays the foundation for this research, which aims to investigate if CSR could serve as a political risk mitigating tool for MNOCs.

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[3] See Map 1 and Map 2.

# Chapter I

## 1.1 Literature Review

The literature that lays the foundation for this research will cover three main areas, and the texts range from older studies with valuable contributions to its field to new texts with the most recent information. Industry- specific political risk management is at the core of this study, and will be the theoretical grounding of the research. Yet, political risk and political risk analysis will also be covered as political risk analysis and political risk management are intricately intertwined (Brink, 2004:164). There is a vast amount of literature on political risk and risk management; however, one of the main texts reviewed for this research is Brink's (2004) *Measuring Political Risk: Risks to Foreign Investment*. In this book, Brink accounts theoretically for both the areas of political risk and political risk management and will therefore be one of the most frequently consulted texts in this study. '*An Introductory Context of the Methodological, Conceptual, and Theoretical Framework of Risk Analysis*' by Hough (2008) is also of great value to the research, along with Frynas and Mellahi's (2003) *Political Risks as Firm Specific (Dis)Advantages: Evidence on Transnational Oil Firms in Nigeria*, Berlin et al.'s (2003) *Managing Political Risk in the Oil and Gas Industries,* Bremmer and Keat's (2009) *The Fat Tail: The Power of Political Knowledge for Strategic Investing*, Kobrin (1978) '*When does Political Instability Result in Increased Investment Risk?*, Robbock's (1971) *Political Risk: Identification and Assessment* and Alon et al.'s (2006) *Managing Micropolitical Risk: A Cross-Sector Examination*. Other authors' views examined for this study include Fitzpatrick (1983), Bekefi and Epstein (2006), Lax (1983), Wood (2009), and Wagner (2000). Their articles and books provide insight into the concepts of political risk and political risk management, as well as insight into aspects of industry-specific political risk.

The second main area covered in the literature review involves CSR. However, a limited amount of research has been done regarding CSR and its implications for risk management and risk mitigation. According to Husted (2005:175) 'the relationship of corporate social responsibility to risk management has been treated sporadically in the business and society literature'. The article by Husted (2005) *Risk Management, Real Options, and Corporate Social Responsibility* as well as Kytle and Ruggie's working paper (2005) *Corporate Social Responsibility as Risk Management: A Model for Multinationals* will thus serve as a starting point for further exploration of the potential relationship between political risk mitigation and CSR. Although there is a wide variety of literature concerning CSR, the common themes revolve around whether

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or not CSR is merely a 'greenwashing[4]' alibi for companies or if CSR initiatives are adequate in addressing the challenges they are intended to (see, for example, Frynas, 2010; Utting, 2005). However, on the other hand, some studies imply that MNOCs are devoted to their social responsibility and implement a thorough and hence successful CSR policy for all stakeholders (Aras and Crowther, 2009). To lay the foundation for the analysis in this research, the core texts concerning CSR will offer an insight into the concept itself as well as CSR practices in relation to the oil industry and developing countries. Some of the main contributors will be Utting and Ives (2006), *The Politics of Corporate Social Responsibility and the Oil Industry;* Aras and Crowther (2009), *Global Perspectives on Corporate Governance and CSR;* Rwabizambuga (2007), *Negotiating Corporate Social Responsibility Policies and Practices in Developing Countries: An Examination of the Experiences from the Nigerian Oil Sector;* Akpan (2006), *Between responsibility and rhetoric: some consequences of CSR practice in Nigeria's oil province;* Visser (2010), *The A – Z of Corporate Social Responsibility* and Frynas' articles *Corporate Social Responsibility and Societal Governance: Lessons from Transparency in the Oil and Gas Sector* (2010), and *The False Developmental Promise of Corporate Social Responsibility: Evidence from Multinational Oil Companies* (2005). Other articles that are found insightful and helpful include those by Kolk and Lefant (2009), Visser (2006), Obalola et al. (2009), Louche (2011), Idemudia (2011) and Aaron (2011). In addition, reports have also been reviewed, including NHO and PRIO (2003) *Corporate Actors in Zones of Conflicts: Responsible Engagement.*

The third main area covered by this literature survey overlaps to some extent with the second field of literature, and concerns the case study of the Niger Delta in southern Nigeria and the oil and gas industry in the region. The texts surveyed concentrate on MNOCs and the various aspects of their presence in the area and their CSR strategies in the Niger Delta, and include the following; Orogun (2009) *Resource control, revenue allocation and petroleum politics in Nigeria: the Niger Delta question*, Eweje (2006) *Environmental Costs and Responsibilities Resulting from Oil Exploitation in Developing Countries: the Case of the Niger Delta of Nigeria*, Wheeler et al. (2002) *Paradoxes and Dilemmas for Stakeholder Responsive Firms in the Extractive Sector: Lessons Learned from the Case of Shell and the Ogoni*, Obi and Rustad (2010) *Oil and Insurgency in the Niger Delta – Managing the Complex Politics of Petro-Violence*, Watts (2007) *Petro-Insurgency or Criminal Syndicate? Conflict & Violence in the Niger Delta*, Olowu (2011) *From defiance to engagement: an evaluation of Shell's approach to*

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[4] The term 'greenwashing' was coined at the UN Conference on Environment and Development (UNCED) in 1992 to criticise large companies for exaggerating their environmental credentials (Utting and Ives, 2006:15; Rwabizambuga, 2007:409).

*conflict in the Niger Delta,* Idemudia (2010) *Rethinking the Role of Corporate Social Responsibility in the Nigerian Oil Conflict: the Limits of CSR*, and Frynas (2004) *Social and Environmental Litigation Against Transnational Firms in Africa.* However, a significant amount of the literature and data gathered to constitute the base for this part of the study consists of reports from Shell and Statoil, as well as from non-governmental organisations (NGOs) and other institutions: Royal Dutch Shell Sustainability Report (annual, from 2000-2010), Statoil Sustainability Report (annual, from 2004-2010), United nations Environment Programme (UNEP) (2011), Platform (2011), Christian Aid (2004), World Business Council for Sustainable Development (WBCSD) (2005), and Amnesty International (2009).

## 1.2 Research Problem and Research Question

As seen in the introduction, the lucrative revenues of the oil and gas sector have led to a competitive power-play that has contributed to the investment of MNOCs in areas of increased political risk. As briefly touched upon earlier, the situation in Nigeria is characterised by political instability that has resulted in an investment climate of increased political risk, posing challenges for Foreign Direct Investment (FDI), particularly for the oil and gas industry. Still, according to the International Monetary Fund[5] (IMF) the Nigerian economy is heavily dependent on the oil sector which accounts for over 95 per cent of export earnings and about 65 per cent of government revenues (IMF, 2011a). Nigeria has been a member of the Organization of the Petroleum Export Countries[6] (OPEC) since 1971, and according to the Energy Information Administration[7] (EIA), Nigeria exports most of its production of 2.2 million barrels per day (bbl/d) (EIA, 2010a; OPEC, 2011a). The oil industry, mainly located in the Niger Delta, has thus been a source of conflict where local stakeholders and local groups seek a share of the oil wealth.

Ever since MNOCs established themselves in the Niger Delta, there have been concerns regarding the risk aspects as well as the ethical aspects of foreign companies extracting natural resources in the area. Dissent has been vividly expressed through ongoing actions such as the sabotage of oil pipes and other parts of the oil refinery infrastructure, the kidnapping of oil workers, demonstrations and other incidents, which occur on a regular basis. Oil theft, often

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[5] The IMF is an 'organisation of 187 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world' (IMF, 2011b).

[6] According to OPEC, their mission is to 'coordinate and unify the petroleum policies of its Member Countries and ensure stabilisation of oil markets in order to secure an efficient, economic and regular supply of petroleum to consumers, a steady income to producers and a fair return of capital for those investing in the petroleum industry'(OPEC, 2011b).

[7] The U.S. Energy Information Administration (EIA) collects, analyses, and disseminates independent and impartial energy information to promote sound policymaking, efficient markets, and public understanding of energy and its interaction with the economy and environment (EIA, 2011).

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referred to as 'bunkering', is also common and often leads to severe pipeline damage that causes loss of production, pollution and sometimes forces companies to shut down production (EIA, 2010a). Nigeria's hydrocarbon resources are the mainstay of the country's economy but production and growth of the oil and natural gas sectors are often hampered by instability in the Niger Delta (EIA, 2010a). Further, there has been increased pipeline vandalism, kidnappings and militant takeovers of oil facilities in the Niger Delta since December 2005. The Movement for the Emancipation of the Niger Delta (MEND) is one of the leading groups behind politically motivated attacks on oil infrastructure and kidnappings of oil workers for ransom, claiming to seek redistribution of wealth and greater local control of the sector (EIA, 2011). The region is entangled with resistance against the Nigerian state and the MNOCs and the industry have been blamed for decades of oil exploitation leading to environmental degradation and loss of arable land, political manipulation and state neglect. This has again created a marginalised, impoverished citizenry that has culminated in youth militias and sporadic insurrection where armed rebellion is a part of everyday life for the locals (Ikelegbe, 2005:208).

Nigeria's volatile security situation and political complexity renders it imperative for foreign investors working in the country to keep ahead of the risks that may impede their commercial activity and undermine the security of their personnel and assets (Nigeria Focus, 2010). Brink (2004:160) claims that political risk mostly occurs in developing countries and this is based on the notion that governments in developing countries are either struggling to meet the fundamental responsibilities of primary governance, or lack the political will to see these responsibilities met. Fundamental responsibilities here referred to as being primary and secondary educational systems, basic national infrastructure, and research in areas of broad national concern such as health care (Brink, 2004:160). Owing to corporate scandals and the growing interest in environmental issues, there has been increased pressure on MNOCs to adopt a responsible role in society and conduct business in a sustainable way. Even more so, there is pressure to contribute to sustainable development when doing business in developing countries where governments cannot fulfill their fundamental responsibilities, particularly for the extraction industry like the oil and gas sector.

The volatile nature of corporate-community relations, resulting in alternatively great revenue and profit loss for MNOCs, has contributed to this 'social license to operate' and thus become a central element of strategic business planning (Idemudia, 2007a:2). As such, most large corporations demonstrate commitment to CSR, and it has become an integrated part of most multinational corporations' policy (Louche, 2011). However, critics have argued that CSR is a

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distraction for business from meeting its primary goal of profit making, an inefficient means of allocating scarce resources, and that business lacks the legitimacy and competency to take on any such responsibility outside its primary area of expertise (Idemudia, 2008:3, see: Friedman, 1962; 1970; Henderson, 2001; Levitt, 1958). In contrast, proponents of CSR have responded that the monumental increase in business power, the widespread incidence of corporate misdemeanors, issues of ethics and the increasing inability of governments to meet their basic responsibility to society as well as regulate business activities have meant that the acceptance of social responsibility by business was both inevitable and a necessity (Idemudia, 2008:3, see: Davis, 1960, 1973, 1967, Davis and Blomstrom, 1973, Carroll, 1979, 1991, Bowen 1953, Bowie, 1991; Mosen1975; Moon 2001).

CSR has acquired broad support in various international fora, yet there is no universally accepted definition of the concept. There is, however, a consensus that it demands a demonstration of responsible behaviour on the part of governments and the business sector toward society and the environment. The three international institutions, The World Business Council for Sustainability Development [8] (WBCSD), the Organization for Economic Cooperation and Development [9] (OECD) and the Dow Jones Sustainability Indexes[10] (DJSI) have all underlined the need for governments and corporations to adhere to the principles of CSR. They have further identified the following core values as integral to CSR: human rights, employee rights, environmental protection, community development, stakeholder rights, supplier relations and monitoring (Natufe, 2005:449-450). The oil and gas sector has been among the leading industries in championing CSR, and oil companies are attaching greater importance to both their social and environmental impact as they engage more with local communities than they did in the past (Frynas, 2005:581). Some oil companies have taken a leadership role in CSR, yet there are also significant variations both within and between companies' CSR initiatives (Utting and Ives, 2006: 11).

Given Nigeria's position as one of the world's leading oil nations hosting several MNOCs which challenge the pressing social and political situation with their presence, including Royal Dutch

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[8] 'The WBCSD is a CEO-led, global association of some 200 companies dealing exclusively with business and sustainable development. Their mission is to provide business leadership as a catalyst for change toward sustainable development, and to support the business license to operate, innovate and grow in a world increasingly shaped by sustainable development issues' (WBCSD, 2011).

[9] 'The OECD provides a forum where governments can work together to share experiences and seek solutions to common problems, and work to understand what drives economic, social and environmental change. Their mission is to promote policies that will improve the economic and social well-being of people around the world' (OECD, 2011).

[10] The DJSI was launched in 1999 and they are the first global indexes tracking the financial performance of the leading sustainability-driven companies worldwide (DJSI, 2011a). Extended information is provided in footnote 30.

Shell[11] and Statoil[12], the Niger Delta has been identified as a relevant case study for this research. The region is characterised by social discontent aimed at the government and the oil and gas industry, resulting in political risks for MNOCs. Anchored in the core values of CSR identified by the WBCSD, OECD and DJSI, it is evident that MNOCs have the ability to directly impact their host communities through social responsibility. In a developing country with high political risk, like Nigeria, this suggests that CSR could not only have an impact for the local stakeholders but could also contribute to political risk mitigation for MNOCs.

As such, the main research question to be investigated in this study is:

- Do CSR strategies have the ability to contribute to, and therefore function as, a political risk mitigating tool for multinational oil corporations in the oil and gas industry?

The independent variable in this research is CSR strategies and the dependent variable is political risk mitigation. In order to provide a more comprehensive insight to the relationship between political risk mitigation and CSR, the following sub-research questions have been identified to supplement and support the main research question:

- What are the current CSR strategies of MNOCs operating in the oil and gas industry in the Niger Delta, southern Nigeria?
- Are the current CSR strategies implemented by Royal Dutch Shell and Statoil in the Niger Delta successful in terms of obtaining the announced goal of contributing to sustainable development?

### 1.3 Objectives and Relevance of the Research Study

The objective for this research study is twofold. The main aim is to investigate whether strategic policies of social responsibility initiatives by MNOCs operating in developing and risk prone countries could influence and hence minimise political risks. By systematically analysing the relationship between CSR and political risk mitigation by undertaking a case study analysis of the Niger Delta where the CSR policies of Shell and Statoil will be scrutinised, the study aims to elucidate the potential relevance of CSR with regard to political risk mitigation. This implies that CSR could provide a business advantage for MNOCs, as found by Porter and Kramer[13] in their McKinsey 2006 award-winning article stating that CSR can be a significant business advantage

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[11] Royal Dutch Shell will hereafter be referred to simply as 'Shell', as elaborated on in footnote 29.

[12] Further presentation of the two MNOCs will be conducted in the following chapters.

[13] Porter and Kramer won the McKinsey Award 2006 for the year's most significant article with their work: 'Strategy and Society: The link Between Competitive Advantage and Corporate Social Responsibility' (Baue, 2007). For the past fifty years, the McKinsey Foundation for Management Research has offered awards for the best articles published each year in *Harvard Business Review* (HBR). These awards, judged by an independent panel of leaders in the business community, recognise outstanding works that are likely to have a major influence on the actions of business managers worldwide (HBR, 2009).

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(Baue, 2007). As mentioned, CSR has grown in relevance internationally during recent years. The number of global companies is growing, economic and political globalisation is increasing and there are growing demands on companies from society– at the same time the companies themselves need to maintain legitimacy and secure a license to operate (Jamali and Mirshak, 2007:243). Little research has been done on risk management and CSR as an entity and improved knowledge on the relationship between the two will become useful to companies, authorities and society. The main aim of this study is therefore to contribute to this knowledge and supplement the existing literature on the topic which, according to Husted (2005:175) and as mentioned earlier, has only been addressed sporadically in the academic literature.

Secondly, by analysing the CSR strategies, the study aims to investigate how MNOCs can contribute to sustainable development in their host community. The sub-research questions will provide insight into CSR practices by MNOCs in the Niger Delta, and by doing so address another unexplored field as, according to Rwabizambuga (2007:408), little is known about firms' CSR policies in the international context, especially in developing countries, as most research has focused on domestic issues in developed countries. This study thus explores the importance of corporations' awareness of their social responsibility. In developing countries like Nigeria, this question is timeous.

## 1.4 Research Design and Research Methodology

The purpose of this study is to analyse the effect that the undertaking of social responsibility expressed through CSR programmes might have in mitigating political risk in the oil and gas sector. The study has thus been given a qualitative research design and by conducting a case study analysis which is both explorative[14] and explanatory[15] the research will be able to provide a more detailed and richer account for the dynamics explored, adopting an inductive as well as critical and descriptive approach (Neuman, 2006:40; 60, Babbi and Mouton, 2008:281). The research will be explorative as it will explore a little understood phenomenon, and it will be explanatory through the focus on the CSR - political risk mitigation nexus. The research will be descriptive as it will describe the current situation in the Niger Delta. The data used in the research study will consist mainly of secondary data such as academic articles, risk reports, CSR reports from the corporations in question and other corporate documents, books, and newspaper articles. Data will be gathered continuously in order to allow for changes to the research or

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[14] Explorative research is 'research in which the primary purpose is to examine a little understood issue or phenomenon to develop preliminary ideas and move toward research questions by focusing on the 'what' question' (Neumann, 2006:33).

[15] Explanatory research is 'research in which the primary purpose is to explain why events occur and to build, elaborate, extend, or test theory' (Neumann, 2006:35).

collection methods (Neuman, 2006:46). Limited primary data have been collected in the form of key interviews with relevant experts in the field of CSR and the oil and gas industry. However, the study is aware of the problematic aspects of relying too heavily upon the researcher to identify relevant information and thus intends to undertake a non-linear and circular research path to ensure that new data will continuously be collected (Neuman, 2006:222; 152).

The theoretical framework of this study will be based on decision-making and problem-solving theory. As the study will undertake an inductive approach, secondary theoretical frameworks will be utilised to complement the study, here by integrative and protective techniques as well as real options theory. With regard to the time frame of the analysis, it will include sources dating from the early 2000s needed for historical perspective and analysis, yet it will focus on Shell and Statoil's recent CSR strategies dating until October 2011.

**1.5 Limitations and Delimitations to the Research Study**

The nature of the limitations to this study determine that a less comprehensive and accurate analysis than is desired will be provided. Yet, an attempt to overcome this by specifying concrete elements of the topic to be explored will be made, and a comprehensive analysis based on the chosen focus areas will be conducted. One of the limitations to this study is thus that only certain elements of CSR will be focused upon, and others, such as, for example, employee satisfaction and security routines at the workplace will not be regarded, which limits the full spectrum of what CSR entails. Neither will every CSR initiative in the Niger Delta be included in the analysis as this requires a wide-ranging research project of greater dimensions than is possible here. Also, what have been identified as political risks specifically by Shell and Statoil through political risk analysis is confidential, so the analysis will be general in terms of the industries investigated in the Niger Delta. In addition, undertaking field research in the Niger Delta in order to collect primary data could have enhanced this research and its findings, but the research study was unable to undertake this type of primary data collecting due to cost and time restraints. However, this is rectified by telephone interviews and e-mail correspondence with primary sources with expert knowledge of the field of political risk and CSR, who have work experience from the oil and gas business in the Niger Delta or are familiar with this industry in the area. Still, the secondary data gathered will be the main sources for this study. Importantly, it is necessary to take into consideration the lack of objectivity of publicised reports from both Shell and Statoil where these have not been outsourced. A final limitation to this study is of a practical nature regarding the length requirements of this research study and time-related limitations.

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## 1.6 Chapter Outline for the Remainder of the Study



Figure 1: Outline of the Remainder of the Research Study

Chapter two of this study will explore the theoretical grounding of the study, decision-making and problem-solving theory and it will further conceptualise the most important concepts relating to this study. Effectively, this chapter will provide a theoretical foundation for the analysis of CSR's potential to serve as a political risk mitigating tool for MNOCs operating in developing countries in general and the Niger Delta in particular. Chapter three will present the case study and contextualise the following analysis. A brief background to the political and social situation in Nigeria will be provided, before an introduction of both Shell and Statoil's activities in the Niger Delta will be reviewed. The primary objective of this chapter, however, is to present the general industry-specific political risks identified in the Niger Delta, as well as the CSR initiatives and practices of Shell and Statoil in the region, manifesting the basis on which the analysis will be conducted. Chapter four will undertake a critical analysis of the presented data in the former chapter, anchored in the theoretical grounding presented in chapter two. CSR will then be scrutinised with regard to political risk management as a risk mitigating tool, evaluating the various policies' impact and potential impact that successful CSR strategies might have in this regard. Chapter five will conclude this research study with an overview of the previous chapters in the light of the research questions. The findings of the undertaken research will be evaluated, reaching concluding remarks in terms of the stated objective and aims of this study. Finally, a number of recommendations for further research in certain areas of the field of political risk management and CSR will be given.

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## 1.7 Conclusion

The first chapter of this research study has served as an introduction to the topic explored through the background and problem statement, building up a context for the research questions and their relevance. In addition, it has outlined the technical aspects of the study, exploring the methodology and research design as well as the limitations and delimitations. The first chapter has thus laid the foundation for the further investigation of MNOCs' opportunities to mitigate political risk through ethical values and social engagement with the aim of contributing to sustainable development in regions where governments do not fulfill their social commitments. The following chapter will begin this journey by providing the theoretical perspective of this research study and by conceptualising key terms.

# Chapter II: Theoretical Perspectives and Conceptualisation

## 2.0 Introduction

Today's business world is one of a globalised marketplace where many risks exist and must be considered before decisions to invest in or to expand a business operation are made. Risk is a constantly present factor in the business decision-making process, making it crucial to determine appropriate ways to manage and mitigate risks in order to achieve success in such business investments (Berlin et al., 2003:1). Particularly, it is of paramount importance to the oil and gas industry due to the high economic reward at stake and the extensive time frame required for the completion of such investments. Yet, although the oil and gas sector is susceptible to market price and commercial risks, it is also an industry which is highly exposed to political risks given that the production pattern is directly related to the geopolitical location of oil reserves[16]. Thus, political risk management in the energy industry is of the utmost importance and should therefore play a key role in business strategies (Berlin et al., 2003:2).

This chapter aims to introduce and present the theoretical foundation guiding this study. By doing so, the directions and principles for the analysis and findings of this research are given. This chapter will further clarify the main concepts used throughout the study by providing a conceptualisation of the main concepts. This is deemed necessary as key concepts such as political risk and corporate social responsibility (CSR) covers widely. The clarification of what this research is referring to by using these concepts is therefore essential in order to follow the argumentation in the upcoming analysis.

## 2.1 Theoretical Framework – Problem Solving and Decision-Making Theory

Every aspect of business is ultimately a result of decisions made, a process of weighing and considering alternative possibilities in a given situation. This is, according to Simon et al. (1987:11), what steers the course of society and its economic and governmental organisations, namely the process of problem solving and decision making. Problem solving involves the work of fixing agendas by choosing the issues that are to be given attention, setting goals, and constructing appropriate actions to undertake. Following this is the decision-making part, which involves evaluation and finally choosing the decision to make (Simon et al., 1987:11). These acts require that organisations and individuals be rational and, therefore, risk-averse actors aiming to minimise and mitigate any uncertainties through utilising detailed information. As such, decision

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[16] According to Berlin et al. (2003:2) the major oil reserves are located in the regions of the world characterised by an unstable political environment. See Figure 4: Distribution of oil reserves in appendix A.

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problems will continuously occur throughout the decision-making process. A decision problem is defined as 'the acts or options among which one must choose, the possible outcomes or consequences of these acts, and the contingencies or conditional probabilities that relate outcomes to acts' (Tversky and Kahneman, 1981:453).

It is, however, important to bear in mind that 'problems' do not exist in a vacuum but relate externally to the explicit decision-making environment as well as internally to the individual's perceptions of reality (Brink, 2004:30). This may bring additional uncertainties to the table, deriving from limited knowledge or from the objectively random nature of the process occurring in or around the decision-making environment (Beroggi, 1999; Bunge, 1998; Rapoport, 1983 in Brink, 2004:30). Brink (2004:31) makes an interesting link to Kaufman (1991) who explains the difficult choice for businesses to decide among one or more choices under conditions of uncertainty and risk. He explains this to be a result of comparing the existing situation with a future imagined state of affairs that constitutes a desirable goal for problem solving. Put differently, the 'problem' refers to the discrepancy between an existing situation and a desired state of affairs. In order to reduce such uncertainties, Chicken (1986 in Brink, 2004:30) suggests taking the steps involved in decision making, including conceptualising the idea to invest or expand operations as well as conducting a feasibility study of the possible outcomes. Linking this to the field of political risk as mentioned in chapter one, a political risk analysis provides such an insight, enabling the decision maker(s) to draw attention to the various problems political risks might pose to the profitability of the investment (Brink, 2004:30). Once possessing such knowledge, strategies on how to manage this need to be devised, and it is the aim of this research study to address this discrepancy between the current situation and any uncertainties preventing a desired goal by exploring the potential of political risk management through CSR initiatives.

### 2.1.1 Real Options Theory

Complementary to problem-solving and decision-making theory, this study finds the real options theory useful to highlight the role of CSR in relation to political risk management. The relationship of CSR and risk management has only been addressed sporadically in the business and academic literature. However, Husted (2005:175) suggests that by applying the real options theory, there is a negative relationship between CSR and a firm's *ex ante* business risks when allowing for a strategic view on CSR. Spicer (1978 in Husted, 2005:175) found evidence for this negative correlation between the two; as CSR increased, risk decreased. The argument relating CSR to risk is straightforward: as part of strategic management, CSR may be used to reduce

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business risk as firms with proactive CSR strategies engage in managerial practices like environmental assessment and stakeholder management that tend to anticipate and reduce potential sources of risk, such as potential governmental regulations, labour unrest or environmental damage (Bowman, 1980; Wood, 1991; Orlitzky and Benjamin, 2001, in Husted, 2005:176). Based on these findings, Husted (2005:175-176) launches the notion of CSR being a *real option*. CSR involves corporate decisions about the allocation of resources, and therefore stands the chance of being overlooked based on a traditional analysis of cost and benefits projects in terms of cash flows. However, what is not considered in such traditional evaluations is the value of strategic flexibility that CSR investments may create. Husted analyses this flexibility in terms of the concept of real options: 'An option refers to those investments, resources, and capabilities, which provide the decision maker with "the ability to select an outcome only if it is favorable" '(McGrath, 1997:975). As a result, options are a tool of risk management because they limit 'downside outcomes' (Husted, 2005:176). Real options are, unlike financial options, based on operating assets and they include both the option to undertake activities and to acquire resources.

## 2.2 Conceptualisations of Core Terminology

This section aims to conceptualise the key terminology found relevant for this study. By doing so, it will clarify and help to further an understanding of the field of political risk management as well as the intentions of CSR. This is vital in order to present and analyse the research data in chapters three and four. To commence this section, a conceptualisation of the terms risk and political risk will be provided. Following this will be a discussion on macro and micro risk, or industry-specific risk, as the analysis that will follow in chapter four is micro in its scope. The concept of risk management and risk mitigation will then be addressed, being the core of this research. Finally, a discussion and conceptualisation of CSR will be presented.

### 2.2.1 Risk

To fully grasp the idea of political risk, the concept of *risk* must first be defined. It can be understood as 'the desirable and potential harm or danger to anyone that results from behavior and action, or from a particular event, situation or issue' (Hough et al., 2008:10). A more comprehensive definition of the term is offered by Vertzberger (1998:22) who states that 'risk is the likelihood that validly predictable direct and indirect consequences with potentially adverse values will materialize, arising from particular events, self-behavior, environmental constraints, or the reaction of an opponent or third party'. As this definition suggests, risk can arise from a range of areas. It is, however, closely related to and often wrongly equated with the terms

*uncertainty* and *instability*. These are both properties of risk, with the latter referring to biased uncertainty about the probability of political events taking place. Instability refers to unexpected or unforeseen changes originating within the environment, leaving instability to be a property of the environment whereas risk is a property specific to the organisation[17] (Kobrin, 1978:114). Uncertainty, which in itself is a key aspect of political risk, results from inadequate information, whereas risk is a more objective measurement of the *amount* of doubt, in contrast with the more subjective nature of instability and uncertainty (Brink, 2004:19). Information is thus the crucial element in enabling organisations to convert uncertainty into risk that is at least 'measurable, insurable, and avoidable' (Haendel et al., 1975 cited in Kobrin, 1979:68).

Without any uncertainty there would be no need for political risk analysis and risk management tools as they aim to reduce risk by reducing uncertainty. To make a final separation between the two concepts, uncertainty entails a characteristic of the environment referring to the unexpected or unforeseen, while risk on the other hand is a 'phenomenon presents [*sic*] in the organisation-environment interface' (Friedman and Kim, 1988:64). Importantly though, one must not overlook that risk can be associated with possibility, accordingly resulting in gains as well as losses (Robock, 1971:7; Hough et al., 2008:10). Risk may therefore have positive outcomes in terms of, for example, financial or political advantages if, for instance, a change of government occurs. The presented definitions imply that risk is generally understood to carry negative consequences rather than the contrary.

### 2.2.2 Political Risk

The field of political risk and the analysis thereof is one of great importance not only academically, but also within the increasingly globalised business forum where transnational investments and operations occur. Political risk concerns multiple fields, including international businesses, development agencies, political organisations and NGOs, each of them offering a unique understanding and definition of the concept. Other variables affect what the concept entails, as Alon et al. (2006:626) states: 'the nature and scope of political risk changes with respect to the specific time, home and host countries, and organisations involved'. Potential risks to an investor can be divided into hard factors and soft factors. Hard factors refer to those events that are clearly and observably a risk to the investor, while soft factors are those events that could potentially be a risk to the investor but are not clear and observable (Boshoff, 2010:19). Failed states; political instability; states of emergency; the erosion of support for government and government consent; external, internal or border disputes; military mutiny; fiscal or monetary

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[17] Throughout this research study the term 'organisation' will refer to both business and non-for profit organisations.

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decisions overwhelmingly influenced by ideology; foreign policy and international relations; and leadership succession issues are all examples of hard factors. The more subtle and less obvious soft factors which could contribute to political risk, include: low levels of adult literacy; uneducated or unemployed politically mobile workers; and scarce resources. Health-related aspects may also contribute to political risk, as for instance the Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome (HIV/AIDS), which can represent a possible economic and political threat to a specific country (Brink, 2004:25).

Historically, the term political risk has been used in a broad sense to refer to the aggregate of several various types of risk, including social risk, policy risk, security risk and economic risk (Alon et al., 2006:624). As such, given the social conditions in the Niger Delta, a brief look at what social risk entails is deemed valuable. Many social issues can affect an organisation operating in any given country, whether in a developing or developed country. However, some industries are more prone to these risks than are others, especially businesses with large installations like factories, ports, mines and refineries which can lead to dissatisfaction and unrest in a local population when there is a perception that local expectations are not being met, the surrounding area is being polluted, or business is undertaken in a region of general political unrest and where the military protects a site while at the same time harassing the local population for reasons unrelated to the business. The local population can sometimes associate the company with these practices, and begin to target it as a proxy for the government or the military (Bekefi and Epstein, 2006:11). Social risk may also occur on the basis of empowered stakeholders addressing a social issue and who apply pressure on a corporation by, for example, exploiting a vulnerability in the earning drivers like corporate image or reputation. This could lead a company to change its policies or approaches to the marketplace (Kytle and Ruggie, 2005:6). As will be shown later in the contextualisation, several risk factors facing the MNOCs operating in the Niger Delta can be attributed social risks.

Multiple definitions of the concept *political risk* exist in the wide literature on the field. In the narrowest sense, political risk can be explained as concerning itself with the effects of politics on the markets in which companies currently or potentially operate (Bremmer and Keat, 2009:VII). To elaborate on the concept of political risk, Robock (1971:7) explains that political risk in international business exists when discontinuities occur in the business environment, when they are difficult to anticipate, and, when they result from political change. To constitute a 'risk' these factors must have the potential to significantly affect profit or other goals of the enterprise. Compared to the term risk, political risk thus suggests a more direct concern with the effects

political issues may have for an organisation. Before reaching a suitable definition, Lax (1983:8) explores the two terms 'political' and 'risk' separately. He explains that 'risk' revolves around the probability of changes in current conditions in which risk may arise; hence risks are future occurrences that may change the initial settings. He further explains that the term 'political' refers to decisions and events that concern the authoritative allocation of values and resources, or that otherwise involve issues of legitimacy, authority, or the use of force. With these terms separately explained, he arrives at a definition which is neither too broad nor too narrow in its scope as several of the existing definitions might tend to be. He states that '… political risk is the probability that the goals of a project will be affected by changes in the political environment. It is the likelihood that political changes will prompt a change in the investment climate regulating a project'.

Like Lax, Fitzpatrick (1983:249) also argues that the definitions that exist are wide ranging between the general and the specific, and that there is not yet consensus on the precise meaning of the term. Still, most political risk authors seem to agree that political risk broadly supposes 'the probability that business will either earn less money, or suffer losses in profit as a result of stakeholders within a political system's (in)actions or reactions to events, decisions and policies' (Brink, 2004:18). A more specific definition is offered by Simon (1982:68) who holds that 'political risk can be viewed as governmental or societal actions and policies, originating either within or outside the host country, and negatively affecting either a select group of, or the majority of, foreign business operations and investments'. These definitions suggest that political risk implies losses for the organisation, and as mentioned in the conceptualisation of 'risk', it may, however, result in both positive and negative outcomes (Robock, 1971:7). As the presented definitions emphasise different aspects, for the purpose of this research study the definitions offered by Brink (2004) and Simon (1982) will be utilised throughout the analysis as they differentiate between macro and micro risk[18], as well as consider political risk in the general environmental context.

### 2.2.3 Macro and Micro Risk or Industry Specific Risk

The political risks that may pose a threat to organisations are not necessarily universal in scope in the sense that not all organisations operating in the same country are affected. Rather, certain risks only affect specific industries. As mentioned briefly above, risks change according to various factors, including the type of organisations involved. This therefore suggests a broad

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[18] Macro and Micro risk refers to two types of political risk which will be further outlined and conceptualised in the next section of this study.

variety in types of risks and scope, and some types of risks can in fact affect all industries in a host country. Political risks to a multinational company can therefore be identified as war and security issues, governmental fiscal policies and trade barriers, for example. This is the nature of macro and micro risk, but the magnitude of their effect will inevitably vary from one company to another, depending on the nature of the business and the industry in which these organisations are involved. (Alon et al., 2006:625).

These different types of risk are divided into macro and micro types of political risk. Macro risk can be identified as unexpected and politically motivated environmental changes which are broadly directed at all foreign enterprise (Fitzpatrick, 1983:250). They tend to have a sudden and dramatic impact on a state's economy and political risk profile, as opposed to micro risk (Lax, 1983:10). Micro risk refers to environmental changes intended to affect only certain foreign enterprises with specific characteristics or selected fields of business activity (Robock, 1971:9). This is also referred to as industry-specific risk, or firm-specific risk, which is discriminatory by nature as it is directed at a particular company (Berlin et al., 2003:4). In addition, macro risk occurs on a national and transnational level, whereas micro risk occurs on a regional or local level (Bremmer and Keat, 2009:3). For the purpose of the upcoming analysis, Frynas and Mellahi (2003:541) offer a fitting definition of micro political risk as they expand the definition by casting transnational corporations (TNCs) as 'actors capable of acquiring and upgrading firm specific resources and capabilities for coping with or even benefiting from political risk'. When understanding industry-specific risk in this way, assessment of CSR as a means for handling risk becomes possible.

Macro risk can further be divided into internal and external dimensions. Internal causes of macro political risk stem from within the country, while the external causes are brought upon the home country by a third country, or the global environment (Alon and Martin, 1998:12; Robock, 1971:9). To illustrate, an example of an internal source of macro risk could be seen in the uprisings in Libya that started in February 2011. Foreign oil companies decided to shut down their activities in the country in the same month due to the high risk involved in operating in Libya under such conditions. An example of an external source could again be taken from Libya, when international sanctions were imposed on the Gaddafi regime in the early 1990s for a decade and this had an effect on the entire country regardless of the industry. Compared to macro risk, which is often more dramatic and visible, micro risks are more prevalent and occur with greater regularity. As stated above, however, the different types of investments affected by these industry-specific risks differ considerably from industry to industry.

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The extractive industries, particularly petroleum and mining industries, face a high degree of political risk because of growing nationalistic feelings and a conviction that natural resource endowments should be exploited for the welfare of all the people in a nation rather than for private profit (Robock, 1971: 10). Examples of risks directed at this industry include the risk that a government will nullify its contract with a given firm or that a terrorist group will target the firm's physical operations (Berlin, 2003:4; Wagner, 2000). Another important element of micro risk worth noting is that within a specific industry there are two factors that can change the potential for micro risk over time. Firstly, the higher the share of foreign-owned companies in a specific industry, the higher the micro risk the industry faces. Secondly, the greater the capacity of nationals to operate the business successfully, the greater the micro risk to the industry (Robock, 1971:10). The number of foreign-owned MNOCs operating in the Niger Delta could thus in itself be seen to impact the political risk environment.

### 2.2.4 Risk Management and Risk Mitigation

*Identifying and managing risk is what we are about. There are very few countries in which an oil company cannot operate. Most risk is manageable, but cannot be eliminated completely.*

Tony Ling, BP regional security advisor in the 1990s cited in Alon et al., 2006:633

Risk mitigation plays a vital part of MNOCs' management of their operations abroad. Economic, social and political consequences are at any given time at stake, and determining appropriate ways to manage and mitigate risk is therefore crucial for successful investments and business operations (Berlin et al., 2003:1; Control risk, 2010). Political risk management can be explained as '… the sum of actions foreign investors or MNOCs take to try and keep at an acceptable level the degree or measure of foreign investment risk associated with their activities' (Brink, 2004:149). Specifically, it can be described as a 'managerial function aimed at protecting the organisation, its people, assets, and profits, against the physical and financial consequences (adverse) of event risk' (Hough, 2008:5).

Political risk has traditionally been considered difficult to quantify thus posing a challenge to mitigate, often leaving exposures unaddressed. This could be a contributing factor as to why the area of defined political risk management has been left underdeveloped to date (Control Risk, 2010). Yet there are different options to manage risk. One option is political risk insurance, which can be obtained either through private companies or multilateral government insurance

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programmes like MIGA[19] or Opic[20] (MIGA, 2011a; Opic, 2011). They are both public sector insurers and provide project-specific political risk insurance while private market insurers like Meridian can provide cover for projects as well as portfolios of investments (Meridian, 2009). In addition to providing coverage, political risk insurance may be useful in situations such as when banks require coverage in order to arrange finance for a major project. It can also be useful when negotiating with foreign powers, especially if the coverage is provided by a government agency (Wood, 2009; Berlin et al., 2003:8). However, insurance is essentially a 'tool of last resort', and there are other drawbacks by investing in insurance coverage as there might be incidents where the insurer disputes the claim or the coverage is insufficient. Other more proactive options could be to engage a well-regarded local joint partner or to hire lobbying firms that could sway critical decisions in the company's favour (Wood, 2009). These are just some examples of steps that can be taken, yet whatever strategy a company chooses there needs to be full commitment (Control Risk, 2009). These examples can all be classified under overarching risk management techniques.

Brink (2004:156) suggests integrative and protective techniques as two ways of reducing the impact political risk might have. Integrative techniques are concerned with 'reducing the frequency of loss and their main aim is to influence relations with institutions and actors in the political environment', while protective techniques are constructed to 'reduce the severity of loss and aim to protect the key internal strengths of the MNOC' (Gregory, 1988, cited in Brink, 2004:145). Both of these techniques have specific aims on how to manage political risks. The purpose of integrative techniques is to increase the integration of the foreign company with the host society, thereby reducing the perception of the company as 'foreign' to that specific environment. The use of integrative techniques also enables MNOCs to respond to the demands of a host country's political environment as well as responding to the opportunities this environment provides. Examples of such techniques include policies which deal with local sourcing and having a local partner with political connections, distribution and employment, sharing of ownership with host government, and careful selection and training of expatriate managers to ensure a cultural match. Integrative techniques are also apparent when firms are promoting good labour policy and good relations with the host government by engaging in

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[19] MIGA is a member of the World Bank Group and works to promote FDI into developing countries. They provide political risk insurance guarantees to private sector investors and lenders. MIGA's guarantees protect investments against non-commercial risks and can help investors obtain access to funding sources with improved financial terms and conditions (MIGA, 2011b).

[20] Opic is the U.S. Government's development finance institution. They provide political risk insurance and guarantees to the U.S. private sector, and work to mobilise private capital to help solve critical world challenges and in doing so, advance U.S. foreign policy. Opic helps businesses gain footholds in emerging markets through, for example, political risk insurance (Opic, 2011).

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contractual and joint venture relations (Brink, 2004:156). Protective techniques, on the other hand, are designed to discourage host governments' interference, or if they do, minimise the firm's potential losses and seek to provide non-integration with the host country. Examples of these range from financial techniques, maintaining full ownership, intra-company sourcing, subcontracting and farming out blocks (Brink, 2004:157).

In order to reach the best risk-management strategy, a MNOC should seek to implement both techniques in their risk management strategy for every host country in which they operate. This will result in a combination strategy that leaves the firm flexible enough to respond to the political environment in which it is integrated, as well as being able to protect their competitive strengths, minimising the severity of loss if high levels of political risk should occur with a negative impact (Brink, 2004:156-157). This research study will, however, focus on integrative techniques as CSR is an example of such[21]. Importantly though, and as discussed under the section of theoretical framework, one must keep in mind that risk and therefore risk management is ultimately a question of how it is perceived and processed by individuals, groups and organisations: different individuals assess the likelihood of events (risks) taking place in different ways, and they also see the consequences of those events differently. (Bracken et al., 2008:4-5).This is an essential point to consider when the two MNOCs Shell and Statoil's activities in the Niger Delta are discussed in chapters three and four.

### 2.2.5 Corporate Social Responsibility

According to Brink's (2004:21) definition of political risk, it is the action or inaction of the various stakeholders within a political system that could lead to potential risk. CSR policies are primarily stakeholder oriented, and CSR can be understood to focus on the control of enterprises and the responsiveness of an organisation to its stakeholders and the environment in which it operates (Obalola et al., 2009:133). However, the concept of CSR is contested, and there is no clear consensus on one established definition (Moon, 2002 in Visser, 2006: 32). Moreover, CSR is a very broad concept that addresses many and various topics such as human rights, corporate governance, health and safety, environmental effects, working conditions and contribution to economic development. Nevertheless, the various definitions usually attempt to capture and explain the relationship between a corporation and its stakeholders, and its relationship with society as a whole (Aras and Crowther, 2009:23). A straightforward definition of CSR, which will be guiding this study, is offered by the World Bank that defines CSR as 'the commitment of

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[21] Although integrative techniques will be the focus of this study, it is worth noting that CSR also contain elements of protective techniques, such as discouraging host government's interference through for example environmental initiatives seeking to avoid financial fines for the environmental impact caused by the extracting activities.

business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life, in ways that are both good for business and good for development' (World Bank 2003:6)[22].

CSR has become increasingly important for corporations in recent years and although it has its roots in Western economies it has spread to other parts of the world through the activities of TNCs. Globalisation and technology have contributed to the spread of these ideas, but due to poor developmental infrastructures the acceptance and development of CSR has been slow in Africa and little research has been done on the subject in the region (Kolk and Lenfant, 2009:241). Some believe that the concept of CSR is intrinsically alien to Africa and has no bearing on these economies. They argue that this is due to the differences in socio-cultural and political antecedents of the African and Western economies (Obalola et al., 2009:131). However, in recognition of the fact that context matters, there has been a growing interest, although slow, in CSR in developing[23] countries (Kolk and Lefant, 2009:241-242).

As mentioned previously, the concept of CSR is contested and there are those who dismiss the intentions of CSR as nothing less than a 'greenwashing' tool for TNCs. The term 'greenwashing' was coined at the UN Conference on Environment and Development (UNCED) in 1992 to criticise large companies for exaggerating their environmental credentials (Utting and Ives, 2006:15; Rwabizambuga, 2007:409). Owing to corporate scandals and the growing interest in environmental issues, there has been increased pressure on TNCs and MNOCs to adopt a responsible role in society and conduct business in a sustainable way. As such, most large corporations demonstrate commitment to CSR, and it has become an integrated part of most TNCs policy (Louche, 2011). This is especially true of the oil sector, as the devastating impact of their activities can potentially be, and already have been, tremendous (Frynas, 2010:163-164). As such, the oil and gas sector has been among the leading industries in championing CSR, and oil companies are attaching greater importance to both their social and environmental impact as they engage more with local communities than they did in the past (Frynas, 2005:581). Some oil companies have taken a leadership role in CSR, yet there are significant variations both within

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[22] An alternative definition which focuses more broadly than on mere philanthropy is offered by the Kennedy School of Government's CSR Initiative who define CSR to 'encompass not only what companies do with their profits, but also how they make them. It goes beyond philanthropy and compliance to address the manner in which companies manage their economic, social, and environmental impacts and their stakeholder relationship in all their key spheres of influence: the workplace, the marketplace, the supply chain, the community and the public policy realm' (Kytle and Ruggie, 2005:9).

[23] Developing countries will here refer to a broad category of countries to include those that have relatively lower per capita incomes and are less industrialised. For a listing of countries, see the World Bank's classification of lower and middle income countries http://databank.worldbank.org/ddp/home.do?Step=12&id=4&CNO=2

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and between companies' CSR initiatives (Utting and Ives, 2006: 11). Thus, although they acknowledge the importance of CSR, companies have had varying success with it as will be described in chapters three and four.

CSR initiatives relating to community development have undergone significant changes from *ad hoc* assistance to development partnerships with government agencies and NGOs. Instead of adopting a re-active CSR strategy, more weight is being put on sustainable pro-active CSR initiatives which potentially may serve as a bridge between oil companies and their stakeholders (Utting and Ives, 2006:20). Kytle and Ruggie (2005:1) argue that for the complex and evolving area of social risk, CSR programmes represent an excellent mechanism for addressing these challenges across the business enterprise. Nevertheless, as the level of stakeholders' activism in the host country may impact or even guide MNOCs to embark on philanthropic gestures of CSR, it is desirable to engage the various stakeholders more in determining CSR policies (Rwabizambuga, 2007:407; Obalola et al., 2009:135). As mentioned above, CSR in developing countries is still a rather unexplored field in terms of available research data. Still, the following distinctive characteristics of CSR in developing countries can be identified: CSR tends to be less formalised or institutionalised in terms of benchmarks used in developed countries, that is, CSR codes, management systems and reports, formal CSR guidelines applicable to developing countries seem to be issue specific, for example, HIV/AIDS, fair trade; CSR is most commonly associated with philanthropy or charity through corporate social investment in education, health and sports development; business often engages in social services usually regarded as government's responsibility, for example, investment in infrastructure, schools and hospitals; and, many of the CSR issues in developing countries present themselves as trade-offs, for example, development versus environment, job creation versus higher labour standards, and strategic philanthropy versus political governance (Visser, 2010:132-133).

Although CSR initiatives originate in corporations, other organisations play a meaningful role in CSR issues in the form of guidance and cooperation. Examples of such important international organisations include the World Business Council for Sustainable Development (WBCSD), OECD, Amnesty International, the United Nations (UN), International Labor Organization (ILO), European Union (EU) and International Organization for Standardization (ISO), and the World Bank (Odeleye, 2005:450). The OECD has also developed the General Policies of the OECD on CSR which hold that enterprises should take the established policies of the countries in which they operate fully into account. With regard to the difference in CSR practices in developed and developing countries, there is often a lack of compliance between a company's

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CSR policies in a Western country and their implementation of the same stated CSR policies in a developing country. Examples of such include environmental considerations, safety policies, and human rights. This could be the result of deficient requirements and governmental regulations, or the lack of implementation thereof (Vea, 2011; Rwabizambuga, 2007:412). Based on the above, CSR holds a key angle of approach to the complicated question of political risks facing MNOCs in the Niger Delta. The stated intention of CSR to contribute to sustainable development could have a major impact on communities in the Delta, and through this open room to investigate whether such initiatives could potentially mitigate some political risks for MNOCs.

## 2.3 Conclusion

The objective of this chapter has been to provide a conceptualisation of the key terms relevant to this research study, as well as to explore the theoretical framework on which this research is grounded. Political risk management was located in decision-making and problem- solving theory, supplemented by the real-options theory. The conceptualisation of main concepts followed, including risk and political risk, macro and micro risk (industry-specific risk), risk management and risk mitigation, and finally, CSR. Having explored these theoretical and conceptual aspects of the research sets a frame for the upcoming chapters. Chapter three will address the history of MNOCs in the Niger Delta before looking more closely at Shell and Statoil's role in the region. The main focus of the chapter will be investigated when the two companies' CSR strategies in the Niger Delta are discussed.

# Chapter III: Case Study – Shell and Statoil in the Niger Delta

## 3.0 Introduction

The Niger Delta is a region characterised by political and social challenges. Embedded in these challenges are factors like increased population pressure due to immigration, while at the same time the health and educational facilities are in a deplorable state of neglect in many areas outside the state capital, Abuja. Further, formerly a net food exporter, the Delta now reportedly imports 80 per cent of its food. Life expectancy in the region is only 48.8 (UNDP, 2010; ECCR, 2010:10). As seen in the previous chapters, the Niger Delta question represents one of the most intractable sources of political destabilisation (Orogun, 2010:459), affecting the business environment in which the multinational oil corporations (MNOCs) operate. In such a resource-abundant area where poverty is widespread, MNOCs may be perceived as representing, or as an expression of, wealth and income generated and retrieved from the local communities based on revenues from oil extraction. Additionally, a severe consequence and downside of the activities performed by the MNOCs include environmental degradation, jeopardizing the livelihoods of plenty. Attacks on oil installations and oil bunkering[24] express the grievances held by many of the local people in the Niger Delta. Given the nature of oil extracting with the constant risk of oil spills and the fact that this concerns extracting one of the most valuable natural resources on earth, expectations and demands for MNOCs to 'give something back' to society have been an implicit ethical desire. Establishing enduring and mutually beneficial relationships with the societies in which MNOCs operate is necessary in order to expand and sustain their business (Statoil, 2010d). Corporate Social Responsibility (CSR) can function as a channel for corporations to address this dilemma, which can be viewed as an ethical imperative, or as a business strategic necessity. The question is, however, how MNOCs approach these initiatives in their aim to build beneficial relationships for both the company and its stakeholders.

The purpose of this chapter is to present some of the CSR initiatives provided by two of the MNOCs operating in the Niger Delta region: Royal Dutch Shell and Statoil. The two companies have been chosen for this case study based on their international recognition as leaders and serious actors within their field, both promising commitment to social responsibility in the workplace as well as in the local communities where they are present. In line with increased pressure on MNOCs, companies have gradually realised the need to undertake social responsibility programmes in response to the demand to give back to local communities. This

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[24] The expression 'bunkering' refers to theft of crude oil from pipelines and tankers or via barges and flow stations for the underground oil market. (Ukiwo, 2007:588; Shell, 2006).

chapter will begin with a brief background to the case study by contextualising the political and social conditions in the Niger Delta, both historically and contemporarily, which constitute the business environment in which MNOCs operate. A short overview of MNOCs' footprints in the Niger Delta will follow, serving as a background for the later presentation of Shell and Statoil's CSR measures. Following this, there will be a section assessing the local resistance before identifying some of the main political risks facing MNOCs in the Niger Delta. The essence of this chapter will thereafter be given when firstly, a discussion regarding Shell's CSR initiatives in the Niger Delta will be presented, followed by an overview of Statoil's CSR initiatives in the region, thus providing a background for the upcoming analysis of corporate social responsibility's potential to serve as a political risk mitigating tool. The conclusion will close the chapter.

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## 3.1 The Niger Delta – A Host Region for the International Oil Industry

*[For oil companies in Nigeria,] kidnapping is just a cost of doing business, ethnic militants often kidnap their staff and demand money or jobs [and] oil firms really do hire people at gunpoint, or at least pay them to go away. Shell, the largest operator in Nigeria, said that 10 per cent of national oil output is lost to thieves, who puncture pipes to get at the contents. But these expenses are bearable. It still costs under $5 a barrel to pump Nigerian crude, so the oil firms will stay.*

Another Day at the Office, 2003:17 cited in Alon et al., 2006:623

The explosion of two car bombs near the governor's office in the oil city of Warri in the Western state of Delta on 15 March 2010 shortly after an online warning issued by Movement for the Emancipation of the Niger Delta (MEND), served as a rude reminder of the militia's existence. This illustrated that despite the acceptance of an amnesty programme announced in June 2009 where leading members of ethnic militias agreed on a disarmament process; other factions who felt that this process did not address the root causes of the Niger Delta conflict were willing to continue using violence to press home their demands. The bombings demonstrated how deep-rooted the nature of the conflict is, and how solutions that do not go far enough serve only to ensure that the struggle for power over, and access to the benefits of, oil remain at the core of insurgent violence in the Niger Delta (Obi and Aas Rustad, 2010:1).

Given Nigeria's position as Africa's leading oil producer and exporter, the 'oil war' in the Niger Delta is of critical importance to Nigeria's economic growth and political stability. Oil-related

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conflict and 'petro-violence'[25] has assumed insurgent proportions and threatens oil production and billions of dollars worth of Western investment and export revenue, as well as the stability of Nigeria and its immediate sub-region. The complex drivers of the conflict in the Niger Delta have, for strategic, economic, and political reasons brought the Niger Delta to the forefront of international energy and security concerns. The complexity of these drivers can be ascribed Nigeria's history, internal contradictions and politics, and the nature of the integration of the Niger Delta into the international political economy of oil in ways that have simultaneously enriched international oil companies and their partners – national and local elites – thus contributing to the disempowerment and impoverishment of the local people, through direct dispossession, repression and the pollution of the air, lands and waters of the region (Obi and Aas Rustad, 2010:1-2).

As important as the historical aspect of the oil conflict in the Niger Delta is the element of ethnicised politics where ethnic minority agitation for local autonomy and resource control have metamorphosed (before and after oil became a strong national factor) from non-violent protest to militant resistance. In brief, the oil politics in Nigeria has been defined by the high stakes involved in controlling power at any cost, by the tension in the country's fiscal federalism between hegemonic federal elites who dominate the control of oil rents derived from oil production by the MNOCs in the Niger delta, and the ethnic minorities of the Niger Delta who are marginalised in the distribution of those rents. These high stakes have turned into a vicious cycle of exploitation, protest, repression, resistance, militarisation and the descent into a volatile mix of insurgent violence and criminality. The complex nature of petro-violence shows why it is of paramount importance to grasp the historic, socio-economic and political context of conflict, including the ways in which global forces are implicated in, and benefit from, oil extracted under conditions of structural violence and inequity.

The turn to violent resistance took place in the context of prolonged military rule, marginalisation and repression of community protests. Frustration from achieving no result from the peaceful demonstrations spread, and armed militias soon resorted to violence. Kidnapping of expatriate oil workers and attacking oil installations started off as a strategy to attract attention to their cause, but this later turned into goals different from the initial ones of protest, resistance and demand of resource control. In a combination of a generational shift from local chiefs to younger people that took place in the 1990s, and the various actors who emerged, the conflict

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[25] The term 'petro-violence' was coined by Watts (1999:1 in Obi and Aas Rustad, 2010:1) meaning the violence that so often attends the extraction of oil (and necessarily the ecological devastation which is its handmaiden).

was further complicated in the absence of peaceful protests, and the lines between militancy and criminality became blurred (Bøås, 2010:120-123). Rebellion and insurgency in the Niger Delta are thus compounded by a number of factors, yet can in part be seen as an attempt to address social injustice.

### 3.1.1 Oil in the Niger Delta

With one of West Africa's longest rivers running into the Atlantic Ocean between the Bights of Benin and Biafra, in the Gulf of Guinea, the Niger Delta, a vast coastal plain, is the largest wetland in Africa supporting a wide range of biodiversity. The region is very fertile, providing a livelihood for the people who reside there from its rich resource base (Obi, 2010:222). It is, however, also home to the abundance of oil and gas resources, and therefore it hosts Nigeria's oil industry, including MNOCs, state and local companies, oil service companies, thousands of kilometers of oil pipelines, ten export terminals, four refineries and a massive liquefied natural gas (LNG) sector[26] (Watts, 2007:639). With regard to the national implications of the oil reserves in the Niger Delta, it is ultimately the fiscal basis of both state and federal power and economic development. Still, 95 per cent of the oil is produced by local subsidiaries of vertically integrated MNOCs like Shell, Chevron and ExxonMobil. These are bound to the Nigerian state through contracts, underpinning the transnational nature of oil extraction and sharing of profits. Dependence on oil rents paid by MNOCs who also control the technical processes of oil production makes the Nigerian state more of an oil gatekeeper and oil revenue collector, operating in partnership with the MNOCs (Obi and Aas Rustad, 2010:4). This dependency is evident through the impact MNOCs have on the environment and thus the livelihood of the local people. Environmental degradation has become an obvious and direct consequence of the MNOCs activities in the region. This has made the Niger Delta one of the world's most severely petroleum-impacted ecosystems and one of the five most petroleum-polluted environments in the world. This reflects a lack of governmental regulation and implementation of environmental laws that has resulted in the destruction of local livelihoods and subsistence economies in the region (Obi and Aas Rustad, 2010:4).

### 3.1.2 Background to the Petro-Violence in the Niger Delta

As mentioned above, understanding history is essential when trying to understand the background for the conflict in the Niger Delta. It is a history characterised by struggles for self-determination and local autonomy by the people of the region, and from the political and socio-economic impact of transatlantic trade on the region. The British colonised Nigeria in 1914 when

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[26] See Map 3 in appendix B: Map of Pipelines in the Niger Delta.

they took control of the trade in palm oil. Thus began the division into three regions of Nigeria as people were relegated into ethnic groups according to the numerically superior ethnic groups that dominated political life in the old Western, Eastern and Northern regions of Nigeria (Obi and Aas Rustad, 2010:5). Although Nigeria gained independence in 1960, feelings of marginalisation did not dissipate. In 1956, Shell-BP discovered oil in commercial quantities and oil export commenced two years later. Still, it was only in the 1970s that the oil business in Nigeria became large and several MNOCs joined in. The Nigerian civil war broke out in 1966 after conflicts over the Delta and ethnic empowerment involving the Ijaw, Igbo and Biafra groups. The civil war encouraged agitation for minority rights in the Niger Delta as the region became the main source of national revenue and export earning. Secondly, the Petroleum Act of 1969 stated that all petroleum on Nigerian soil was to be vested in the state. This also underscored the power shift from regions/states to the federal government by the centralisation of power over oil. In 1966, the oil-producing ethnic minority states were given 50 per cent federal allocation from the revenue, but by 1996 this share was decreased to only 3 per cent. However, this was raised to 13 per cent in 1999 partly as a response to the protests in the region. In spite of this, the ethnic minorities in the Niger Delta are still demanding control over the oil, and strong feelings of lack of justice reign in the area that non-oil producing ethnic groups who dominate the federal government also control the oil resources while they who produce oil suffer from neglect, exploitation and pollution (Obi and Aas Rustad, 2010:7).

The Land Use Act (LUA) of 1979, updated in 1990, allows for the state government to claim and acquire community land in 'the public interest'. Consequently, this has meant loss of control over oil-rich land for the locals, and loss of compensation for trees, crops and property on the surface of such land. Further, this act enabled MNOCs to get oil and land leases directly from the government without recourse to local communities. Like gasoline to the fire, this feeds local grievances and MNOCs are considered to be partners of the government and the actual perpetrators of neglect and exploitation of the region's resources, polluting its waters and lands (Obi, 2010:223). As a result, protesting groups emerged. One of the most important milestones in the conflict between the ethnic minorities and the federal government was when the Movement for the Survival of Ogoni People (MOSOP) presented the Ogoni Bill of Rights (OBR) to the federal government in 1990. They demanded compensation for oil exploitation and oil pollution that was believed to be threatening the existence and survival of the Ogoni people, as well as local autonomy and the right to control the Ogoni natural resources. In addition to the federal government, MOSOP also targeted Shell, the oldest and largest oil operator in the country. Fronted by Ken Saro-Wiwa, the international campaign waged effective local non-

violent protest and a global campaign that placed the Nigerian government and Shell under immense pressure for their roles in the abuse of human rights and exploitation and pollution of Ogoniland, resulting in Shell being forced to stop their operations there. However, the government replied with military raids and a systematic repression of the Ogoni protest, culminating in a flawed trial against Saro-Wiwa and eight other MOSOP members. They were found guilty of inciting a mob to murder four allegedly pro-government chiefs, and were sentenced to death by hanging in a Port Harcourt prison on 10 November 1995 (Boele et al., 2001:78-81).

In the aftermath of the MOSOP struggle, several other resistance movements were formed, including MEND. Despite Nigeria's return to democratic rule in 1999, some elements of the youth had become socialised into a belief that non-violent protests were not of much use, and violence was considered a legitimate weapon of protest when peaceful protest fell on deaf ears. The return to democracy also had wider ramifications for the human rights and pro-democracy movement as politicians of the Niger Delta tapped into the groundswell of popular anger among the unemployed or alienated youths in the region. As such, some of them became ready tools of politicians, feeding into a spiral of local violence in the 1999 and 2003 elections which developed into a full insurgency by 2006. This complex conflict involved broad militant alliances, like MEND, which combined lethal attacks on and sabotage of oil installations with the effective use of the global media to publicise its campaign 'fighting for the control of oil revenues by indigenes of the Niger Delta' (Obi and Aas Rustad, 2010:8-9). By such means, MEND has been successful in forcing a shutdown of a third of Nigeria's oil production, and increasing domestic and international concerns, resulting in huge losses to oil companies and the state[27].

## 3.2 Multinational Oil Corporations' Footprints in the Niger Delta

Commercial exploration and exploitation of Nigeria's petroleum resources began in 1956 when large deposits of hydrocarbon were discovered at Oloibiri in the River State of Nigeria. Since the first delivery of crude oil to Europe in 1958, activities in Nigeria's oil industry have witnessed a dramatic increase (Okonmah, 1997:43). In the following years more resources were discovered and as mentioned in chapter one, numerous MNOCs are now operating in the area, including large companies like Exxon, Chevron, Total, ConocoPhillips, Shell and Statoil (EIA, 2010). Nigeria lacks the capacity to translate oil to cash-yielding assets and therefore depends on

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[27] For a more comprehensive overview, see Table 1 in appendix C: 'Historical outline of important political events in the Niger Delta'.

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foreign MNOCs who possess the required skills and financial power needed in this respect (Nwete, 2007:319). Their footprints can be seen in the transfer of foreign direct investment (FDI), skills, technology, as major employers of labour, contributions to social projects and in accounting for a large proportion of state revenue (Tuodolo, 2009:531). Ironically, although the oil industry has brought development to many parts of Nigeria, it has also been a source of misery to the people of oil-producing communities whose existence is now threatened by the scourge of oil pollution[28].

The Niger Delta is a productive ecosystem and thus a so-called High Consequence Area for oil spills (Amnesty International, 2009:60). However, although the Federal Environmental Protection Agency Decree (FEPA) was established in 1977, it was not functional until 1988 when the FEPA decree was formally promulgated (Okonmah, 1997:47). Part of the agency's responsibility is to protect, develop and manage the Nigerian environment. It should also deal with the core elements of oil pollution, namely water quality, effluent limitation, air quality and atmospheric protection. Although the decree prohibits and criminalises discharge of hazardous substances in harmful quantities, these provisions do not apply where such is permitted or authorised by any law in force in Nigeria (FEPA, 1988:4-20). There are several Nigerian laws and regulations for the petroleum industry concerning pollution and environmental degradation, several of which MNOCs are required to sign in order to get license to operate. For instance, the Drilling and Production Regulation Act (DPRA) of 1969 (no.25) requires the licensee to prevent pollution of internal waters and territorial waters, and yet another regulation, the Petroleum Refining Regulation Act of 1974 (no.43), stipulates that a refinery must provide up-to-date equipment to prevent pollution of the environment by petroleum products (Eweje, 2006:47).

Although Nigerian law sets the precedents for MNOCs' practices and responsibilities, the non-enforcement of most of these laws by the state means that in reality Shell, Statoil and other MNOCs are relatively free to decide whether or not to comply with them (Stappenbeck 2010:24). In fact, oil companies have refrained from using the best available technology in the Delta or follow practices they employ elsewhere in the world (ECCR, 2010:10). Whether this is an expression of poor or questionable management from key quarters could be debated, yet, a further reflection of the dynamic between the Nigerian government and MNOCs can be recognised as such. Inadequate capacity and corruption of regulatory agencies and the shallow rule of law mean that even the regulatory laws that do exist remain largely unenforced thus

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[28] See Table 2 in appendix D: ECCR's analysis of the environmental and social consequences of oil exploration in the Niger Delta.

leaving the oil industry in Nigeria highly self-regulated (Amnesty International, 2009:41; Iledare and Suberu, 2010:5). Securing the government's key resource of revenue, typically for a petrostate, Nigeria's state security personnel are commonly used to protect MNOCs' oil production facilities (Watts, 2005:11; Stappenbeck, 2010:3-4). Under strict military rule in the early 1990s, ethnic minorities in the Niger Delta were subject to extraordinary human rights violations perpetrated by the notorious mobile police and by special state security forces like Operation Flush, Operation Salvage and Rivers State Task Force (Watts, 2005:19). A Nigerian civil society submission to the United Nations Human Rights Council for Nigeria's Universal periodic Review emphasises the human rights cost:

'The standard response of the government to crush community protests in the Niger Delta has been the militarization of the area in order to ensure the protection of oil facilities and the continued flow of crude oil. This militarization has resulted in indiscriminate arrests, torture, rape and the extrajudicial execution … contrary to the principles of increasing the wellbeing of the people of Niger Delta and avoidance of adverse impacts … [L]ands and backyards … are being divided, partitioned and allocated to Lagos and Abuja in the name of oil blocks and wells without the knowledge and participation of Niger Delta peoples.' (MOSOP 2009:2-5).

To illustrate such experiences and perceptions, in 2001, 10 000 cases were submitted to the Oputa Panel – Nigeria's Truth Commission – from the Ogoni region alone. By the late 1990s, 20 per cent of Shell's workforce was devoted to security, in addition to having an extensive system of surveillance to monitor protests and conflicts in the Delta (Watts, 2005:19). In essence, the country's excessive dependence on oil revenues has engendered rent-seeking extremes and the abuse of state powers by successively ruthless and politically unaccountable military dictators. Attempts by the oil communities to protest or mobilise against their perceived marginality have been met by military reprisals, extra-judicial killings and brazen destruction of towns and villages (Orogun, 2010:488). From early on, the expanding oil industry has been criticised for allowing its financial proceeds be exported or lost in corruption rather than used to provide aid for the millions living on about US$1 in the Niger Delta or to reduce its catastrophic environmental impact (Vidal, 2011). As it is so important in terms of Nigerian revenue, the oil industry is bound to mark the local communities in one way or another.

### 3.2.1 Oil Spills and Environmental Degradation in the Niger Delta

Compared to oil spills and air pollution in oil-extracting areas in the Western world, the environmental impact of MNOCs' activities in the Niger Delta is severe. For instance, the

amount of oil that has been spilled in the Niger Delta since production commenced amounts to the volume of oil spilled by the Exxon Valdes disaster, *every year* (ECCR, 2010:43). Another example is the oil spill in the Gulf of Mexico in 2010 where more than 780 million litres of oil flowed into the Gulf. This incident received global attention and safety issues were placed on the agenda. Although this was the worst US oil spill in recent history, this too represents less than the annual oil spills in the Niger Delta (Vidal, 2011; BBC, 2011). Over the past fifty years, 1.5 million tons of oil have spilled into the Delta. According to Nigerian government figures, there were more than 7 000 spills between 1970 and 2000, and there are 2 000 official major spillage sites, many going back decades, with thousands of smaller spills still waiting to be cleared up (Vidal, 2011).

These leaks affect creeks, streams and traditional livelihood by destroying mangrove forests, eroding soil plots and killing marine life. Gas flaring has other consequences such as sulphuric acid mists that damage plants and cause acid rain. Amid this pollution many residents in the Niger Delta suffer from oil poisoning which causes respiratory ailments. Additionally, they suffer from waterborne diseases such as malaria, dysentery, tuberculosis, typhoid and cholera (Kew and Phillips, 2007:159-60 cited in Ahonsi, 2010:30). Despite this, an oil spill in the Niger Delta rarely makes the headlines in the international news. There are arguably several reasons for such severe pollution having been allowed to take place without more national and international resistance, but one important factor is governmental complicity and lax environmental regulations (EIA, 2010b). Watts (2005:16) questions the extent to which local judiciaries, which are often corrupt or limited by authoritarian state policies, are capable of addressing legal action brought by harmed parties. According to him, MNOCs in Nigeria often tie up legal cases in the courts for ten to fifteen years. Many oil spills are neither recorded nor acted upon, and national environmental legislation is rarely effective.

In recent years, however, Nigeria and other African countries have experienced rebukes and there has been an increase in litigation against Transnational Corporations (TNCs) for adverse social and environmental impact. According to Frynas (2004:363-365), this should be seen in the context of changing global governance where litigation can assume a role in creating 'checks and balances' on the activities of MNOCs. By doing so, litigation presents a strategy to hold MNOCs accountable in the absence of effective international policing. But, it is important to call attention to the local communities' part in the oil spills as well. It is not the case that MNOCs can be held entirely responsible for every oil spill in the Niger Delta due to, for example, poor maintenance of pipelines. Oil bunkering and sabotage on pipelines by rebels and criminals occur frequently

and often result in oil spills. As oil spills ruin agricultural land and fishing waters, livelihoods are severely threatened. Thus, the issue of money and compensation has come to dominate the oil spills agenda in the Delta and clean-up has become less of a priority than establishing who is responsible for the spill and how compensation can be maximised. At times, this has created perverse incentives; some fishermen and farmers have found that it may be more lucrative to allow an oil spill to continue for a number of days before reporting it as they may be likely to make more money from a compensation claim than from their primary economic activities (Baumüller et al., 2011:20). Similarly, local contractors employed for the clean-up process stand to benefit financially from oil spills. Thus the lack of development and employment opportunities in the Niger Delta have had an indirect impact on the environment in relation to oil spills (Baumüller et al., 2011:20-21). This aspect of oil spills has inevitably led to numerous disputes over where the responsibility lies, and it creates a great environmental challenge in the Niger Delta.

## 3.3 The Emergence of MEND and Armed Rebellions

*It must be clear that the Nigerian government cannot protect your workers or assets. Leave our land while you can or die in it. Our aim is to totally destroy the capacity of the Nigerian government to export oil.*

Part of MEND's message to MNOCs in the Niger Delta, statement cited by Howden, 2006 in Obi, 2008:423.

The activities of MNOCs and the government have not gone unchallenged in the Niger Delta. A long history of community grievances has fuelled the perceived political disempowerment that has been persistently articulated by activists and grassroots leaders in the region (Orogun, 2010:487). According to Ikelegbe (2010:129), MNOCs have further contributed to this resentment in the communities by deploying divide-and-rule tactics, and using military personnel to intimidate and molest defenceless communities, further intensifying a culture of impunity and violence that fuels counter-attacks by militias and armed groups seeking to disrupt oil production. By making cash payments to some armed and youth groups, often through the award of 'surveillance contracts', MNOCs have tended to accentuate deviant youth participation in conflicts, as well as provide funds for arms purchase (Ikelegbe, 2010:129; Human Rights Watch, 2005:5-7). The Niger Delta has, in recent years, experienced an escalation in armed resistance movements and militias, resulting in violence and other criminal activities characterising the region of today. As seen previously in this chapter, attempts to explain conflicts such as the one

in the Niger Delta commonly emphasises the problem of state recession, combined with the emergence of warlords and warlordism (Reno, 1990; Thomas et al., 2005; Rich, 1999; Rashid, 2001). A crucial aspect of this, however, is the behaviour and actions of the non-state armed groups fighting these conflicts, and how these tend to change over time. As such, an important question to ask is: why do movements that began as social – albeit violent – rebellion against an authoritarian and corrupt state end up as a distorted mirror-image of the state they originally set out to destroy? Greed and increased access to resources may be one motive, yet according to Bøås (2010:115-117) the contextual frame of the insurgency in regard to pre-conflict and structural violence in society also plays a crucial role, thus the violent character of these movements needs to be understood in relation to patterns of violence already embedded in society. Further, a collective experience of corruption, abuse of power and position, and poverty need to be considered as well when explaining the insurgency in the Niger Delta.

The failure by all stakeholders to address the underlying causes of the conflict and to opt for long-term solutions has pushed the Niger Delta to the brink of an internationally important conflict. Although peaceful action for change continues, it is perceived by many as unsuccessful thus making violence a more attractive and acceptable option for many of today's disengaged youths (Stakeholder Democracy Network, 2010). Eweje (2006:15), argues that business has an ethical responsibility to become more involved in dealing with social concerns, and should not isolate itself, leaving it up to others to find the answers and tell it what to do. The communities in the Niger Delta believe that the MNOCs should do more in terms of development projects and also to reduce the environmental impact of oil exploitation. This places MNOCs in the midst of the conflict, portraying the role as proxy for the government.

The multifaceted dimensions of a militarised culture within the Niger Delta communities have, according to Orogun (2010:494), fostered a persistent pattern of impunity, extra-judicial killings, sea piracy, youth restiveness, repeated military occupations and recurrent reprisal raids within the political economy of violence, predation, pillaging and profiteering. Much of the Delta's population resents the fact that oil revenues seem to be distributed among foreign businesses that exploit the country's natural resources. They also resent their historically corrupt government, which they perceive to be unresponsive to its citizens' needs. This sentiment has put many foreign businesses in the crosshairs of militant groups, which not only look to grab their piece of the pie, but in some cases to capitalise on a booming oil market (O'Rourke, 2008:60). The oil-rich reserves located in the swamps, creeks, and mangrove coastal communities have thus become the geo-territorial targets for militancy, brigandage and insurgency, with consequential

effects for the region and the broader international energy markets. From the beginning of oil activities in the region there have been protests and activists fighting for better rights and justice. However, since 2005, the resistance against both the state and MNOCs operating in the Niger Delta has taken a more violent and sophisticated turn with the emergence of Movement for the Emancipation of the Niger Delta (MEND) and there has been an increase in attacks on oil facilities and abduction of expatriate and local oil workers by insurgents (Courson, 2009:19).

MEND emerged from the backwaters of Warri as an Ijaw militant group and is still led by Ijaw youths. It currently networks with several militant organisations in the Delta and has taken up agitations of the people of the Niger Delta for resource control and the wider struggles in Nigeria for democracy and good governance (Ukiwo, 2007:605-606). MEND is the main militant organisation attacking oil infrastructure for political objectives in the Niger Delta, claiming to seek a redistribution of oil wealth and greater local control of the sector (EIA, 2009). According to their spokesperson Jomo Gbomo, MEND's objective is to 'totally destroy the capacity of the Nigerian government to export oil' (cited in Courson, 2009:18). The activities of MEND and other groups operating in the region have resulted in the shutting-down of about a quarter of the nation's daily oil production, costing at least 800 000 bbl/d, or over 25 per cent of the country's oil output (Ukiwo, 2007:606; Courson, 2009:7; Hanson, 2007). They are behind numerous kidnappings of oil workers, several bomb attacks against various MNOCs, oil bunkering and other criminal activities and are also threatening to target and sabotage MNOCs' installations (Courson, 2009:18-19). Such disruption of the oil flow from the Niger Delta to the global market has had a severe effect on the federal government, MNOCs and the international community. Attacks on the infrastructure of the oil industry, particularly oil production and oil export, has had the effect of cutting oil production and pushing up the price of oil in the tight and nervous market.

MEND as a group has no clear leadership structure, and is a loose coalition of shadowy cells and a number of leaders across the states of the Niger Delta. The strategy of not having a single command structure has made the movement elusive, but highly efficient in guerrilla warfare, extending over the whole region. As such, the 'invisible' nature of MEND makes it difficult for the government and the MNOCs to target the organisation effectively and neutralise its activities in the region. Its use of local force to block the global oil trade has been significant as it has led to international attention being focused on the situation in the oil producing communities, especially the plight and demands of the people. At the same time, it has raised the energy security stakes of the world's established and emerging powers in the region. By taking Western

nationals as hostages and the shut-downs resulting from sabotage of oil facilities that contribute to a higher price of crude oil, MEND has connected these acts to a sophisticated strategy for engaging the global media through the use of IT and the media, drawing attention of intervention agencies to the crisis in the region (Courson, 2009:19).

MEND has demonstrated the intention as well as the capability of planning and executing coordinated attacks on government and the assets of oil companies, with numerous attacks on their résumé. As they claim to fight for justice, they have additional demands other than control over the oil resources for the Niger Delta. Among these demands are: the demilitarisation of the Niger Delta; upgrading of infrastructure of schools, roads, electricity; clean water; job creation for locals; compensation for pollution; and the release of jailed activists. By anchoring their actions in the need for political, social and economic change they have created a huge following in the delta communities. They have also inspired fear and awe among the oil multinationals. As such, many locals identify with their cause and they have gained legitimacy and support among the local populace, making them a potent enemy with a strong foothold in the region. The oil industry, as MEND sees it, has not only sided and colluded with the Nigerian government in crackdowns on peaceful protesters, but it has also neglected the needs and concerns of the local population by allowing oil spills, corruption and decay to ruin the delta for decades. Therefore, international oil firms, and their staff, have become legitimate targets. (Nodland and Hjellestad, 2007:14-16). Although MEND represents only one example of a militant group's activities targeting MNOCs and the government, it illustrates the complex and comprehensive resistance found in the local communities of the Niger Delta.

### 3.4 Political Risk in the Niger Delta

Political risk has leapfrogged up the corporate agenda over the past years. A series of events from the war on terror (September 2001), to the financial crisis (August 2009), to British Petroleum's (BP) Macondo disaster in the Gulf of Mexico (April 2010), to the tumultuous Arab uprisings (January 2011), to Japan's post-tsunami nuclear crisis (March 2011), has shown that even the biggest corporate behemoths are vulnerable to political and public opinion; that the global economy is as fragile as a house of cards; that entrenched regimes can suddenly topple and that decades-long energy policies can be transformed almost overnight (McLellan, 2011). As mentioned in chapter two, risk presents different consequences for different companies, as Kobrin (1982:40) stated that 'the impact of most political events varies from firm to firm and from project to project'. Important to recognise is also the point made by Hough (2008:13-14) that certain factors have to be taken into account concerning Africa specifically, the regional

situation being one factor as different markets may dominate in a specific region. Another factor is that African countries are particularly vulnerable to external events, such as commodity price fluctuations, increases in crude oil prices, and climate change. Additionally, the effect of the AIDS epidemic, prevalent in Africa, is especially pertinent (Hawkins, 1996:8-15). It has been stated that 'profit opportunities abound for medium-sized companies that make a name for themselves by opening operations in Africa, but disaster looms if they do not do their homework' (Hough, 2008:14). Still, return on investments in Africa can be four times higher than in developed countries (Coplin, 1994:5). By identifying some industry-specific political risks to the oil and gas industry in the Niger Delta, this section seeks to outline the main political risks that MNOCs in the Niger Delta are facing and need to mitigate or manage in the best possible way.

The relationship between the oil and gas industry and political risk is a dynamic and evolutionary one and this must be taken into account when conducting a political risk analysis or when identifying the current core industry-specific political risks in the Niger Delta (Alon et al., 2006:626). However, as the focus of this study is not on political risk analysis *per se* but rather political risk mitigation, a political risk analysis will not be conducted in this research study as it will rely on empirical data. Thus, for the sake of this case study, in which the socio-economic aspect of political risk is prominent, the research will draw attention to these factors, but also include other elements of political risk as conceptualised in chapter two.

According to the political risk analysis company AON, Nigeria is currently rated at a *High Risk* level, being the second highest level on a six-point political risk scale from low risk to very high risk. AON identify the current political risks in Nigeria in terms of five factors: war/civil war; strike, riot, civil commotion or terrorism; sovereign non-payment; political interference; and legal and regulatory risk (Aon, 2011). *Firm-specific* (micro) political risk is by nature discriminatory, for example, a terrorist group will target the firm's physical operations, while *country risk* (macro) is not directed at the firm, but is countrywide, for example, the outbreak of a civil war within the host country. Further, a second distinction to be made is between *government risks* that stem from the governmental authority, and *instability risks* that stem from political power struggles (Berlin et al., 2003:4). This can again be further categorised, as seen from Kobrin's (1982:67) framework for political risk assessment where he divides socio-related and governmental-related risks into internal and external risks. Internal micro socio-related risks include selective terrorism, selective strikes, selective protests and national boycott of firms, while external society-related risks involve international activist groups, foreign TNC

competition, selective international terrorism and the international boycott of firms. These distinctions consist of a number of variables within industry-specific (oil industry) risks, including: sabotage, kidnappings, oil-bunkering and international boycotts (Boshoff, 2010:53; Berlin et al., 2003:4-5). Although traditionally most prominent regarding onshore operations, another aspect of sabotage and kidnappings has materialised concerning the offshore operations beyond the marine frontier of the Delta where piracy has emerged and the Niger Delta rebels operate (Reuters, 2011).

In political risk reports by Bergen Risk Solutions, Nigeria is described as a demanding and challenging place for companies to do business, and where MNOCs are at the 'receiving end' of rebels' and militant groups' rage (Bergen Risk Solutions 2007:4; 2010). Statoil (2010d:154) agrees with this as they admit that their interests in Nigeria could be disrupted by the instability of the political, economic and social environment. They list war, terrorism, guerrilla activities, civil strife, strikes, political unrest and insurrection as risks that may impact their operations and further business opportunities in the region, and they submit that these factors could lead to a decline in production. Like Statoil, Shell has also identified their operations in Nigeria would expose them to political risks such as social instability, terrorism, piracy and local security concerns (Shell, 2010a).

## 3.5 Social Engagement in the Niger Delta

The oil and gas sector makes strong claims to business ethics and CSR in terms of human rights, employee rights, stakeholder rights, environmental protection, transparency, corruption, community relations or codes of practice (Frynas, 2005). MNOCs are active in developing good corporate practices and engagement with different facets of society, and several are involved in international commitments like the United Nation's Global Compact, the Global Reporting Initiative (GRI), the Sullivan Principle, the Voluntary Principles on Security and Human Rights, the Millennium Development Goals, Dow Jones Sustainability Index, and the World Summits on Sustainable Development in Rio de Janeiro and Johannesburg to mention some (Tuodolo, 2009:531). In Nigeria, under the banner of CSR, MNOCs invest large amounts of money in community projects and direct payments to communities (Baumüller et al., 2011:33). Until the 1990s, MNOCs did not regard community matters in the Niger Delta as their responsibility and they restricted their engagement with local communities to a top-down approach in the form of donations of what they considered was needed by the various communities, such as schools and hospitals. These assistance programmes involved dealing primarily with chiefs, local government officials and other ruling elites, purchasing consent through cash payments or

infrastructural projects, and awarding construction contracts to indigenes with the occasional short-term service contract to local youth (Watts, 2005:27).

By the late 1990s, conflict and militancy had triggered change, as violence in the Delta increased sharply. The inadequacy of the community assistance programmes was addressed after the Ogoni case which was a public relations disaster for Shell and also, inevitably, for all the other major MNOCs in Nigeria. After all, the companies had documented human rights abuses and had relied on the corrupt and violent Nigerian mobile police and state security forces to protect their installations; none could hold up any community relations success. Shell's renaming of community assistance to community development in 1997 was intended precisely to present a new face and a new set of practices shaped by the World Business Council's CSR initiatives (Watts, 2005:28). This was the turning-point for MNOCs' social engagement in the region, moving away from policies of community aid and started focusing on community development. Later, in 2005, the strategies of social engagement once again shifted focus, to sustainable development practices. As such, along with increasing international awareness and recognition of the importance of CSR, there has been clear re-positioning of CSR strategies in the Niger Delta since the 1990s. Today there is therefore a great variety of MNOCs' CSR projects in the Delta, including a growing collaboration with Non-Governmental Organisations (NGOs). The following section will introduce two of these MNOCs, Shell and Statoil, by taking a closer look at their presence and CSR strategies in the Niger Delta.

### 3.6 Shell in the Niger Delta

Shell has been in Nigeria since 1936 and was the first to find oil in 1956 in a joint venture with British Petroleum. It was then called Shell-BP Petroleum Development Company, but later the Nigerian Federal Government owned shares in the company, nationalising BP's shareholding in 1979. Nigeria has an important position among Shell's African businesses due to the varied nature of assets held there (MBendi Information Services, 2007). Royal Dutch Shell operates through several companies in Nigeria, most notably the Shell Petroleum Development Company (SPDC), Nigeria's largest private sector oil and gas operator. SPDC is a wholly-owned Shell company that operates on behalf of the partners of an unincorporated joint venture agreement between the state-owned Nigerian National Petroleum Corporation (NNPC) which holds 55 per cent, Royal Dutch Shell 30 per cent, Total/Elf Nigeria 10 per cent and Agip 5 per cent (Shell, 2011e; ECCR, 2010:12). Although there is a legal difference between Royal Dutch Shell and

SPDC, Shell is the operator and it considers SPDC to be a 'Shell-run company'[29]. It employs about 6 000 people directly and another 35 000 staff through third party contract labour (Shell, 2011e; ECCR, 2010:12; Emmanuel, 2010:51; Stappenbeck, 2010:3). Shell operates the most crude oil production capacity in the Niger Delta, estimated at between 1.2 and1.3 million bbl/d and approximately 1.650 million standard cubic feet (scf) of gas per day. This accounts for about half of the total oil production, constituting a total of 100 oil fields, eighty-seven flow stations, two oil terminals, 62 000 kilometers of flowlines and pipelines, and several gas stations. This clearly illustrates the heavy presence of Shell in the Niger Delta.

### 3.6.1 'Giving Back to Society': Shell's Development Initiatives in the Niger Delta

The adaption of Shell's corporate strategy required a policy anchored in and emphasising social as well as ethical aspects. Internationally, Shell is now considered to be one of the most responsible oil and gas companies and is viewed as a CSR champion (Watts, 2005:396; Wheeler et al., 2002:313). This recognition is prominent through various leading private indices that assess companies' economic, environmental and social performance on behalf of investors. Shell has been included in the sustainable indices Dow Jones Sustainability Index[30] (DJSI) since it started in 1999, and, with the exception of 2010, it has remained in the top 10 per cent of the oil and gas sector, as well as in the FTSE4Good Index[31] every year between 2001 and 2009 (Shell, 2011e; Shell, 2010b; DJSI, 2010). Further, Shell is a member of the United Nation's Global Compact (UNGC) which has set up ten principles in the areas of human rights, labour, environment, and anti-corruption[32] (UNGC, 2011; Fritsch, 2008). In 2010 Shell was ranked second by Goldman Sachs GS Sustain ESG (environmental, social and governance), which focuses on sustainable investment in the energy sector. Shell also did well in the Carbon Disclosure Leadership Index[33] rankings, being one of three energy sector companies included in the Index, with eighty-nine points in 2010 up from seventy-five in 2009 (Shell, 2011f).

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[29] See for example Brinded (2009) 'It is time to move on'. Also, Shell itself refers to 'Shell Nigeria' – see http://www.shell.com.ng/.

[30] The DJSI is a market initiative that identifies and ranks companies according to their corporate sustainability performance. The concept of sustainability captures qualitative information about criteria such as reputational risks, stakeholder relations and corporate social responsibility. Out of the 2000 largest capitalised companies it identifies and ranks the top 10 per cent in each of sixty-four industry groups with regard to performance in corporate sustainability and includes them in the index on the basis of a yearly review. The assessment criteria (which are general as well as industry specific) include among many more responsibility for environmental performance and social issues, child labour and occupational health and safety (DJSI, 2011b).

[31] Companies must meet the index's criteria on the environment, relationship with interested parties, supply chain labour, resistance to bribery, and human rights to be included. There is no ranking within the index (Shell, 2010b).

[32] Participants of the compact are committed to align their operations and strategies with the ten accepted principles, and by doing so, business, as a primary driver for globalisation, can help ensure that markets, commerce, technology and finance advance in ways that benefit economies and societies everywhere (UNGC, 2011).

[33] The Carbon Disclosure Project is an independent not-for-profit organisation launched in 2000 to collect corporate information on climate change (Shell, 2011f).

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Since 1997, Shell has published annual sustainability reports based on The Global Reporting Initiative's[34] (GRI) guidelines, reporting on their environmental and social performance and the sustainability report from 2008 was revised by GRI and received the best possible grade (Shell, 2009; Murphy and Bendell, 2002:227). As mentioned above, Shell has sought consultation with USAID and NGOs regarding implementation of CSR projects, resulting in cooperation with some of these. They have partnered with environmental biodiversity experts, with, among others, the International Union for Conservation of Nature (IUCN) and Wetlands International. The IUCN and Shell have been working together on energy and biodiversity issues since 2000, and in 2007 they signed a five-year collaborative partnership agreement with the overall objective to enhance the biodiversity conservation performance by Shell and raise the biodiversity performance standards in the energy sector and supply chains (IUCN, 2011). The partnership with Wetlands International started in 2008 with a duration of five years. The cooperation aims to minimise the loss of nature and negative impact on livelihoods in the Niger Delta wetlands (Wetlands International, 2011).

In the mid-1990s, Shell's approach to dealing with stakeholder concerns came under significant pressure. This culminated in November 1995 with the previously discussed Ogoni controversy resulting in the hanging by the Nigerian military regime of Ogoni writer and environmental and human rights activist Ken Saro-Wiwa. Media and civil society groups accused Shell of having degraded the Ogoni environment and the Delta for over forty years while providing little or no social or economic benefits to the community. Worse still, some of those groups which had supported the Ogoni cause since the early 1990s accused Shell of having played a role in the death sentences (Wheeler et al., 2002:300-301; Stappenbeck, 2010:22). As radical activists attacked Shell gas stations in Europe to state their disapproval of the company, the majority of commentators, however, saw the events of November 1995 simply as the inevitable, tragic outcome of the company's clumsy approach to dealing with the Ogoni community over the previous four decades. Nevertheless, whatever the evidence and merits for the accusations, the company's reputation was severely tarnished. World-wide campaigns for disinvestment were launched against Shell by various actors, including Greenpeace, Amnesty International, and The Body Shop. In 2000, Shell was fined £26 million in Nigeria's court for an oil spill in Ogoni land thirty years earlier when thousands of gallons of oil escaped into farmlands and rivers (Vaughan, 2011). As a result of the Ogoni experience, Shell International revisited and updated its Statement of General Business Principles, first crafted in 1976. The corporate strategy was re-

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[34] The Global Reporting Initiative is a network-based organisation that has developed the world's most widely used framework for reporting on sustainability and CSR (GRI, 2011).

invented in line with principles of sustainable development which involved a Sustainable Development Road Map and a Sustainable Development Framework, both of which made explicit reference to stakeholder interests (Wheeler et al., 2002:301).

The foundation of Shell's CSR strategies is based on its Business Principles, which contain the company's core values of honesty, integrity and respect for people, all of which are applied through their Code of Conduct. Further, the Shell Commitment and Policy on Health, Security, Safety, and the Environment (HSSE) is designed to help protect people and the environment and it includes aims aligned with its Business Principles (Shell, 2011i). By following these guidelines, Shell affirms its aims to earn the confidence of customers, shareholders and society, and to contribute to sustainable development (Shell, 2011g; Shell, 2010d). Through this, Shell and its subsidiaries, including SPDC, states commitment to various principles, with some of the fundamental responsibilities set out in the Business Principles being:

- […] to support fundamental human rights […] and to give proper regard to health, safety and environment.
- […] manage all social impacts of our business activities carefully and work with others to enhance the benefits to local communities, and to mitigate any negative impacts.
- […] to make sure that our employees understand the principles and confirm that they act in accordance with them (Shell, 2010c).

Complying with these official basic principles is essential for Shell and its subsidiaries, including SPDC, if it is to be considered a serious and responsible actor. Thus, the purpose of the Code of Conduct is to enable Shell's employees to put the principles into practice (Shell, 2010d). Importantly though, this business code is strictly a guideline and therefore cannot be monitored by an external party, therefore violations can only be reported by employees of Shell companies (Shell, 2006). However, occurrences of major violations of the business code concerning environmental and social aspects are reported by NGOs and civil society groups and this often leads to media or public attention. This has been the case for Shell in the Niger Delta, and as mentioned earlier, the oil industry in Nigeria is poorly regulated by the state. Instead of regulating the oil industry more effectively, the Nigerian state has increasingly handed the obligation of providing remedies for oil-related damage to the oil companies themselves (Amnesty International, 2009:78). The specific CSR issues that Shell has engaged in and prioritised, reflect to a large extent the state of play regarding activist and global concerns on social and environmental issues (Utting and Ives, 2006:19). As such, reputation building was reported to be very important following decades of bad publicity.

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As seen in previous sections, the negative publicity stemmed from, among other things, Shell's close ties with the Nigerian Government. Oil conflicts and political-military conflicts abound in the oil-producing region, with Shell inevitably becoming a part of this. Despite these conflicts starting off as conflicts between the federal government and local communities, in the absence of federal government officials to whom grievances could be expressed, Shell (and other MNOCs) became proxy targets as the best way to obtain government response to community grievances due to the vital nature of oil production for Nigeria (Rwabizambuga, 2007:416). Given the operating agreements between the government and the MNOCs, security in the operating regions is the responsibility of the state, which has often responded to community protests heavy-handedly, rather than seeking dialog and peaceful conflict resolution. Thus, given the historically close collaboration between the state and Shell, the latter was increasingly perceived to be an accomplice of government violent tactics. As such, an attack on Shell was regarded as an attack on the Nigerian government. Shell has further been accused of having been supportive of repressive tactics directed toward protesting communities, and has also been accused of being involved with the import of arms on behalf of government security forces (Rwabizambuga, 2007:416). This, and other issues previously touched upon like environmental degradation and the Ogoni case, have severely damaged the reputation of Shell and this explains the importance of restoring its reputation through social engagment (Frynas and Mellahi, 2003:556).

Some of the earlier CSR strategies Shell introduced to the Niger Delta concentrated on social infrastructure, which they 'sponsored', examples of such being the building of school and health clinic buildings. However, they failed to provide personnel or medicines. Virtually all the major projects were subjects of community conflict, either inter- or intra-community. Some communities were not included in the projects and thus felt marginalised, while other communities were left with abandoned or uncompleted projects and they did not have the ability to complete these themselves or provide staff and equipment to run them, for example, the new schools and hospitals (Akpan, 2006:231). According to Frynas (2005:584), this is the consequence of Shell's previous CSR strategy as they initiated development projects only in communities where they had oil operations. To avoid community protests halting oil operations, the development projects served as a way of buying the local communities. For instance, Shell provided its major contract managers with a development budget, so that when a new pipeline was built, the manager could initiate a new development project within a community in order to enable the pipeline to continue unhindered. When it was finished, the community development budget for the area was simply closed, which followed the logic driven by short-term expediency rather than the long-term development needs of a community (Frynas, 2005:584).

Having undertaken a more stakeholder-oriented approach in recent years as part of the repositioning of CSR, types of stakeholders per volunteering and employment sponsorship of Shell Nigeria could be identified as follows; *mandated outsiders*; *independent sponsors*; *influential observers*; and *influential claimants*. *Mandated outsiders* are friendly with a clear mandate, hired or compensated to solve a particular problem. This type of involvement is akin to contracting, and may include previous employees of Shell, specialists in consulting firms or individual experts. This category also includes NGOs and academic institutions that operate from inside out and have special access to the internal environment of the firm. *Independent sponsors* receive no instruction from the firm, and are motivated by the fact that CSR features among their main interests. This includes research and advocacy-oriented development and environmental NGOs, development agencies and multilateral agencies. They operate from their own resources and interact with the firm from the outside, and they draw their influence from their ability to reach and sometimes influence wider audiences (Rwabizambuga, 2007:145). *Influential observers* are independent entities with varied interests in the firm's CSR agenda. These stakeholders are driven by the interest of their respective profession and operate from the outside in, and include members of the media, academia, political agents and regulatory institutions. *Influential claimants* have direct interests in the firm's CSR programmes, and mostly consist of local community organisations and other organisations that champion the cause of local communities. They are often invited by Shell Nigeria to their annual stakeholder consultation workshops, and engage with the company on the basis of certain claims and grievances related to the allocation of oil proceeds, compensation schemes, environmental matters and so on. They often use confrontational tactics to promote their cause and draw influence from their ability to mobilise public opinion and run negative campaigns against Shell. They may include organisations such as Movement for the Survival of Ogoni People (MOSOP), Friends of the Earth, to mention a few (Rwabizambuga, 2007:415). This clear focus on stakeholder involvement has been crucial in Shell's repositioning and is evidently a major factor in the current CSR approach, Global Memorandum of Understanding, GMoU.

### 3.6.2 Global Memorandum of Understanding (GMoU)

Shell has changed its approach to CSR in the Niger Delta on more than one occasion over the years before reaching the present strategy of GMoU. Learning from the annual sustainability report of 2000, Shell stated that, contrary to their earlier experience, they were now benefiting from engaging with their stakeholders, including human rights groups and local communities (Shell, 2000:2). In 2003, an executive officer of the African operations of Shell confirmed that his company had embarked on a fundamental policy shift in the way the company built social

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partnerships in the communities hosting its operations. Shell was now undertaking a 'proactive' role in regard to community development, environmental protection and biodiversity conservation (Akpan, 2006:224).

Over the years, Shell has adapted how it engages with local communities to deliver development projects, and in 2006 the Global Memorandum of Understanding (GMoU) was introduced as a new way of working with these local communities, thus representing an important shift in approach, placing emphasis on more transparent and accountable procedures, regular communication with the grassroots, sustainability and conflict prevention (Shell, 2011j). Shell explains GMoU as an agreement between the company and a cluster of several communities. Clusters are based on local government or clan lines with well defined governing structures, including a Cluster Development Board (CDB) which functions as the main supervisory and administrative organ ensuring implementation of projects. The GMoU brings communities together with representatives of state and local governments, SPDC and non-profit organisations (Shell, 2011j). The purpose of this is to let it be up to the communities to decide the sort of development they want while SPDC provides secure funding for five years, ensuring that the communities have stable and reliable finances. SPDC should also provide access to development experts or NGOs to help deliver projects and build the capacity of the CBD to grow into registered community development foundations. According to Shell, this system replaces past practices whereby SPDC agreed to hundreds of separate development projects with individual communities and managed them directly. Shell illustrates the improvement of the GMoU approach compared to previous approaches as seen in figure 2:

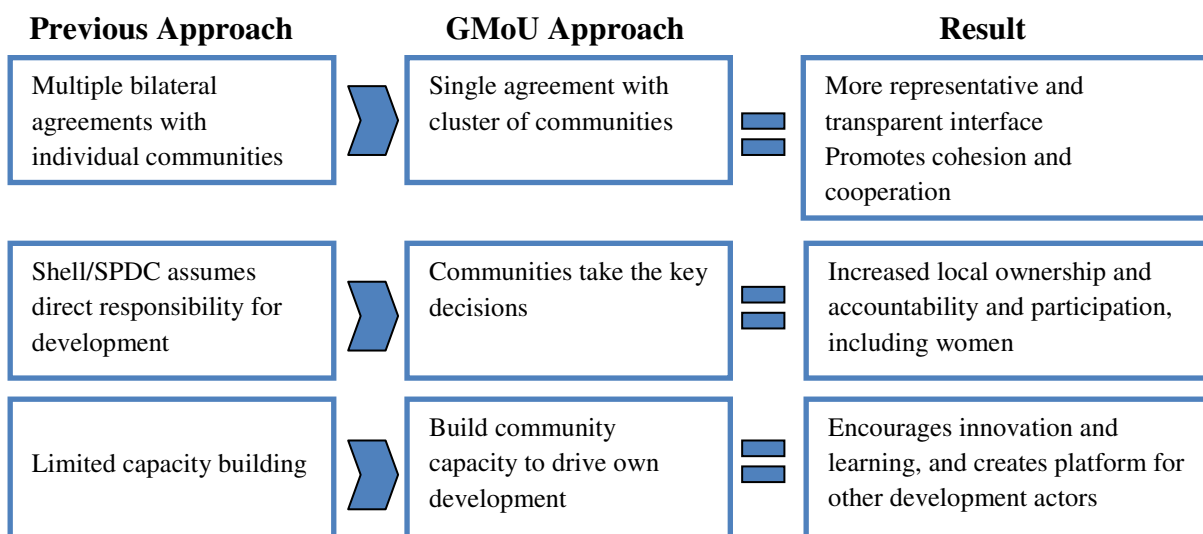| Previous Approach | GMoU Approach | Result |
|---|---|---|
| Multiple bilateral agreements with individual communities | Single agreement with cluster of communities | More representative and transparent interface Promotes cohesion and cooperation |
| Shell/SPDC assumes direct responsibility for development | Communities take the key decisions | Increased local ownership and accountability and participation, including women |
| Limited capacity building | Build community capacity to drive own development | Encourages innovation and learning, and creates platform for other development actors |

Figure 2: Development of Shell's CSR strategy, adapted from Shell (2011j).

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Since the introduction of GMoU in 2006 where communities are given the opportunity to identify their own needs, Shell and its joint-venture partners have continued this approach and provided funding to implement such projects directly. By the end of 2010, Shell had a total of 490 GMoU projects in 244 communities (Shell, 2011h). One example of GMoU project commitments can be found in Gbarain-Ubie, one of Shell's key investment areas in Nigeria, with several concrete community projects, covering areas like infrastructure, health, economic empowerment and public relations. Some concrete examples of Shell's commitments include: providing water to all communities in Gbarain and Ekpetiama kingdoms through the construction of appropriate water supply facilities; connecting communities to the Bayelsa State Electricity Board (BSEB) power supply system; the rehabilitation or construction of a total of fourteen kilometers of roads, seven in each of Gbarain and Ekpetiama kingdoms; the construction of and equipment for two health centres at Gbaraintoru and Ogboloma; and the provision of the sum of $1.22 million for economic empowerment projects in the kingdoms. (ECCR, 2010:60-63; Shell, 2011k: 9).

In a joint venture with NNPC, Total and Agip, Shell planned to eliminate routine gas flaring by 2008 through the development of gas gathering facilities and capturing domestic and export gas markets. The Gbarian-Ubie node in Bayelsa State was chosen for Shell's largest gas investment: the Gbarain-Ubie Integrated Oil and Gas Project (IOGP). The project involves the separation of associated gas from crude oil at the flow stations where the gas would otherwise be flared off, and its delivery through pipelines to a central processing facility. In accordance with Nigeria's Environment Impact Assessment (NEIA) Decree No.86 of 1992, all such projects must pass the EIA process where community consultation plays a central part. Shell undertook an EIA off the IOGP to meet statuary requirements, however, the process was much criticised by communities for lack of consultation. More than seventy communities claimed not to have been informed, but Shell responded by claiming that they had held EIA workshops. Without the knowledge of the communities, workshops on sustainable development were apparently held as part of an EIA process (ECCR, 2010:58-59). Further, the GMoU was supposed to cushion the communities from the negative impact of some of the IOGP activities such as dredging, well drilling and construction of road access and pipelines. What has later been discovered is that although GMoU is part of Shell's 'sustainability community development' effort, in practice Shell applies this development programme only in communities where it extracts oil.

Shell's annual sustainability report of 2010 proclaims the company's environmental commitment and the continuous work to reduce gas flaring in the Niger Delta (Shell 2011h:4). Shell claims

that it conducts environmental, social and health impact assessments before beginning work on major projects or existing facilities. This is in order to help understand and manage risks and opportunities, and so communities, government, NGOs and environmental experts are consulted to help develop plans and inform approach. According to Shell, such early engagement has led to re-routing of pipelines, adjusting the schedule of seismic activities and increasing local contracting (Shell, 2011k:3). In April of 2011, Shell signed a contract with Saipem worth $101 million to build a gas pipeline system in the Niger Delta, which it hopes will reduce flaring and boost domestic supply to the population. The deal is to build forty-two kilometers of pipeline to take gas currently being flared in the vast wetlands of the Niger Delta to a new processing plant where it will process thirty million cubic feet per day of gas. A time-frame for the project has not been specified (Reuters Africa, 2011). Whether the local communities were consulted prior to this decision is not known. As seen in this section, Shell has a variety of CSR projects in the Niger Delta, having undergone major changes in their CSR approach.

## 3.7 Statoil in the Niger Delta

Statoil is one of the world's leading oil and gas companies and the second largest supplier of gas to the European market. It focuses primarily on upstream[35] oil and gas operations, and is among the world's largest net sellers of crude oil and condensate (Statoil, 2010b; Statoil, 2011a:9). The main stakeholder is the Norwegian state that used to fully own the company but now holds 67 per cent stock share after it listed on the Oslo and New York stock exchanges in 2001 (Statoil, 2011a:10). Statoil is present in over forty countries worldwide and has operations in thirty-two of them with an increasing operation base on the international continental shore. Statoil entered Nigeria in 1992[36] when Statoil and BP formed an alliance for international operations in 1990. Statoil has been the operator for several exploration fields and partners in others, and has spent significant sums of money in Nigeria (Statoil, 2009a). Today, Statoil mainly has an interest in the Chevron-operated Agbami field, the largest deepwater producing field located approximately 110 kilometers off the Nigerian coast. It spans 182 square kilometers and is located in water depth of 1500 meters with subsea wells tied back to a floating production, storage and offloading (FPSO) (Chevron, 2009:3; Statoil 2010a). Statoil has an interest of 20.21per cent in the field, an increase from 18.85per cent in 2010. Besides having operator licenses for the Agbami field, Statoil also has interests in other offshore blocks, and has recently completed a first exploration

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[35] The upstream oil and gas sector refers to the searching for and the recovery and production of crude oil and natural gas. This also includes the searching for potential underground or underwater oil and gas fields, drilling of exploratory wells, and subsequently operating the wells that recover and bring the crude oil and natural gas to the surface (Oil and Gas IQ, 2012).

[36] Statoil Nigeria Ltd was established in 1992, and will be referred to as Statoil throughout this research sturdy (Amadi et al., 2006:30)

phase on block OPL315 where they have a 45 per cent interest (Statoil, 2011a:56; Statoil, 2008;Statoil, 2011b). As of 2010, Statoil has had fifty-four employees in Nigeria and an oil production of 38.000 bbl/d.

### 3.7.1 'Giving Back to Society': Statoil's Development Initiatives in the Niger Delta

Even though Statoil is not as heavily involved in the Niger Delta as Shell is, it does have a significant presence and investment in the country. Consequently, it too faces the political risks and challenges it entails to operate in the region. The company is hence fully aware of the necessity to interact with host communities and this is arguably mirrored in the company's code of conduct. Statoil portrays itself as a business actor that takes social responsibility very seriously. Statoil declares that it has a responsibility towards both its owners and the society in which it operates. It further proclaims that '…shareholders are a company's owner, while stakeholders are everyone else with an interest in its operations – employees, the authorities, suppliers, customers and the local community' (Statoil, 2004 cited in Amadi et al., 2006). In 2000, Statoil undertook to operate in accordance with the Global Sullivan Principles for business ethics, which requires companies to promote economic, social and political justice and to support human rights (Statoil, 2000; Leon H. Sullivan Foundation, 2010). Statoil further highlights its values, which are to be courageous, open, hands-on, and caring; to be an integral part of their Ethics Code of Conduct that describes the requirements that apply to its business practice and thus constitute the basis and framework for its performance culture.

The company states that its ability to create value is dependent on applying high ethical standards, thus it is determined that Statoil shall be known for these standards. It follows that Statoil attempts to comply with applicable laws and regulations and to act in an ethical, sustainable and socially responsible manner. Respect for human rights is thus an integral part of Statoil's value base (Statoil, 2009b: 3; Statoil, 2011d: 6; Statoil, 2011a:184). Like Shell, Statoil is closely associated with high profile CSR institutions such as stock market sustainability or ethical indices, including the Global Reporting Initiative (GRI), Amnesty International, Voluntary Principles on Security and Human Rights (VPSHR), and the International Union for Conservation of Nature (IUCN), and it was one of the first companies to sign up as a member of the UN Global Compact (UNGC) in 2000 (Utting and Ives, 2006:18; Statoil, 2011c). In August 2010, Statoil established a corporate social responsibility and ethics subcommittee to '…ensure an even stronger focus by the board of directors and facilitate the development of knowledge about often complex issues. The committee […] will monitor and assess the practicing [*sic*], development and implementation of policies, systems and principles in the areas of HSE, ethics

and CSR' (Statoil, 2011e). As such, Statoil claims that it contributes to social responsibility and sustainable development in the Niger Delta through its core activities by: making decisions based on how they affect Statoil's interests as well as the interests of the societies around them; ensuring transparency, anti-corruption and respect for human rights and labour standards; and, by contributing to local content in their projects by developing skills and opportunities in the societies in which they operate (Statoil, 2010d).

The Agbami field was discovered in 1998 but prior to this Statoil, in alliance with British Petroleum (BP), was operating offshore west of Port Harcourt (Statoil, 1998; Leadership, 2011). Having been aware of other MNOCs' development projects in Nigeria, when the Statoil-BP alliance entered Nigeria in 1992 the two companies consciously attempted to avoid mistakes made by others with regard to community relations. Statoil-BP stated that there had been too many projects in the Delta which had been unsuccessful or abandoned which they ascribed the use of a 'top-down approach' that had been imposed on the local residents, rather than directly working with the communities at grassroots level (Frynas and Mellahi, 2003:558). This assumption was based on the results of the early work done when they first entered the region and explored new avenues of appeasing communities. This entailed community involvement and dialogue with NGOs, which led to the innovation of conducting social impact assessment studies. Another innovative result stemming from this exploration was the decision to engage only in development projects with a grassroots approach as opposed to constructing externally imposed large-scale projects such as hospitals. Still, even more remarkable was the introduction of a self-help project based on the premise of sustainable development, executed by two NGOs, rather than the oil company itself (Frynas and Mellahi, 2003:558).

These early assessments of new CSR approaches in the Niger Delta are still the foundation of Statoil's CSR approach today. Statoil declares that 'an integrated impact assessment approach process that addresses both the environmental and social impacts of our activities and engages stakeholders is one of the company's main tools for ensuring sustainable project performance'. Each CSR strategy is initiated with the company's country-specific business plans and goals, the risk and opportunity profile of the area, and local needs and expectations. Extensive mapping of relevant context factors also plays a vital role as stakeholder involvement, from politicians to local communities, are of great importance in Statoil's CSR strategy (Statoil, 2011f; Statoil, 2011g). One concrete example of a practice is told by then senior vice-president of country analysis and social responsibility in Statoil, Rolf Magne Larsen: 'We contact the relevant authorities about our plans early on in order to find common solutions and avoid surprises. That

makes developments in Nigeria […] a good sign. The political leadership supports cooperation with an oil industry which aim to fight corruption through greater openness and transparency' (Statoil, 2004:11). Stemming from this, it suggests that Statoil has had a clear and consistent approach to social responsibility in the Niger Delta dating back to its early years in the country. The innovative aspects of their stakeholder approach are still part of the core elements of Statoil's CSR approach in the Niger Delta.

### 3.7.2 The Akassa Project

The following section will take a closer look at Statoil's main flagship within CSR in the Niger Delta, the Akassa project. This project dates back to 1997 when Statoil had its first meeting with the community. Akassa is a remote coastal Ijaw community in the Niger Delta. There are over 30 000 members in the Akassa clan, are of Ijaw origin, speak the Akaha dialect and are scattered over nineteen villages. Most are fishermen, living sandwiched between the saltwater of the ocean and the brackish water of the world's largest mangrove swamps, on sand barrier islands that stand only 1.5 meters above sea level. There is no road system, no electricity supply and no clean drinking water (Statoil, 2010c). It is therefore vulnerable to any environmental pollution and any possible oil spills. Statoil's operation on the Agbami field is located in the deep water off the coast of Akassa, and the Akassa community has therefore been identified as the community most likely to be affected by any oil spills from Statoil's exploration wells in blocks 128 and 129 (Statoil, 2010e). Statoil partnered with NGO Pro Natura as part of their strategy of applying a participatory approach to CSR.

The Akassi project began by gathering communities to discuss, plan and produce a development plan that involved all the communities. This resulted in a corporate community-based organisation called the Akassa Development Foundation (ADF). All stakeholders are represented in the General Assembly of ADF, ranging from community groups like youth and women, to the Council Chiefs. Each year, the ADF facilitates the adoption of a development plan for the Akassa Development Area, which is in line with the Millennium Development Goals[37]. By doing so, this ensures a range of projects spread across the development area through a prioritisation process, and representatives from the communities decide which projects should be given priority (Statoil, 2010e). Thus the strategy forces community members to think about the whole development area rather than just their own community, removing the potential for powerful so-

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[37] In September 2000, the UN adopted the United Nations Millennium Declaration committing to reduce extreme poverty and setting out a series of time-bound targets – with a deadline of 2015 – that have become known as the Millennium Development Goals (MDGs). The eight MDGs range from halving extreme poverty to halting the spread of HIV/AIDS and providing universal primary education (UN 2011).

called benefit captors to allocate funds to projects in their own community. However, although the types of projects are prioritised according to perceived needs, they are usually in the following categories; health facilities; educational support; women in development projects; youth in development projects; natural resource management programmes; and micro-credit schemes (Statoil, 2010e). The chosen projects are then implemented by the relevant institution affiliated to the ADF. Each institution must submit a technically correct, fundable proposal to the ADF outlining how it will implement the project. In summary, a study was completed to identify development needs, community resources and possible action paths. Solutions to problems were then explored, focusing on those that incorporated self-reliance and programmes that could attract funding and support. In brief, this is the procedure of the Akassa model, seeking to obtain sustainable development using a long-term 'bottom-up' approach (WBCSD, 2005).

Most noteworthy about this CSR project is that it is based entirely on grassroots priorities, driven not by outsiders deciding which specific initiative should be implemented but largely by the local people (Frynas, 2005:593). Pro Natura conducted an in-depth appraisal of the needs of the community over a long period of time. Pro Natura staff went to live in the villages and had extensive discussions with the local people about their problems and causes of these, before starting to plan initiatives. As previously mentioned, women and youths also participate in the planning process, and importantly, Pro Natura has helped build up capacity of the local people by setting up institutions such as development foundations and community development councils (Frynas, 2005:593-594). As such, represented by the Akassa model, Statoil's CSR strategy in the Niger Delta can be summarised as an long-term, bottom-up and stakeholder-oriented approach, focusing on 'self-help' sustainable development.

### 3.7.3 Chevron in the Niger Delta

As Statoil's main interest in the Niger Delta is the Chevron-operated Agbami field, the study finds it relevant to briefly present some of Chevron's experience in the Delta. This is because even though the two companies work side by side, they may have different approaches to CSR which could affect the implementation of these strategies. As such, the effects of CSR and its impact on political risk may be different for the two companies.

Chevron is the third largest oil producer in Nigeria and one of its largest investors, spending more than $3 billion annually. Chevron has indirectly been involved in Nigeria since 1913 as the history of the company Texaco, now owned by Chevron, dates back to that year when it first started to market its products in the country, and later began energy exploration and production

work over forty years ago. In 1963, American Overseas Petroleum Ltd – which later became Texaco Overseas (Nigeria) Petroleum Co. – discovered oil at the Koluama Field, off the coast of Nigeria. In the same year, Chevron Nigeria Ltd started drilling near the Escravos River and found the Okan Field (Chevron, 2011a). Today, Chevron operates in a joint-venture with the Nigerian National Petroleum Corporation (NNPC) and has assets on land, swamp and near-offshore concessions covering approximately 8 900 square kilometers in the Niger Delta region. In addition to extensive interests in the Agbami Field, one of Nigeria's largest deepwater discoveries was made in 1998 with Statoil as a partner. Chevron also has interests in another deepwater development, the Usan project located 100 kilometers off the coast in the eastern Niger Delta region. NNPC is Chevron's principal subsidiary in Nigeria, and Chevron operates and holds a 40 per cent interest in thirteen concessions while NNPC holds the other 60 per cent. Altogether, Chevron has interests in ten deepwater blocks in offshore Nigeria, with shareholding ranging from 18 per cent to 100 per cent. Chevron employs 3 100 workers directly and another 3 500 workers under contract. The majority of the employees are Nigerian. In 2010, total daily production averaged 524 000 bbl/d of crude oil, 206 million cubic feet of natural gas, and 5 000 bbl/d of liquefied petroleum gas (LPG) (Chevron, 2011b; Chevron, 2011c).

Chevron's involvement in Nigeria, and its over forty years of operating history in the Niger Delta, has also meant interaction with local communities. Like Shell, Chevron has been responsible for several oil spills and gas flaring over the years, and has announced initiatives that will reduce the environmental impact of its activities. Despite this, Chevron is still among the worst offenders in the Niger Delta, and as in as recently as 2008 they flared over 64 percent of its gas (JNN, 2011). In response to the environmental damage caused by the company, communities in the Delta engaged for decades in peaceful protests. Chevron responded by engaging the Nigerian military Joint Force (JTF), which was created to protect the MNOCs from protests or local riots. However, the soldiers of JTF are often accused of heavy-handedness that results in unnecessary deaths and destruction (AfricanLoft, 2009). This has fuelled further accusations against Chevron, and by allowing the JTF to use Chevron's Escravo's oil terminal as a base for launching attacks, they are seen to be indirectly supporting the actions made by the JTF. In general, the accusations against the company have revolved around human rights violations, environmental degradation, and for fuelling conflict in the communities (JINN, 2011).

### 3.7.4 'Giving Back to Society': Chevron's Development Initiatives in the Niger Delta

According to Chevron, the company conducts its business in a socially responsible and ethical manner, respecting the law and human rights, protecting the environment, and benefitting the communities in which they operate. The company's foundation is built on its values which serve to guide their actions, and their stated values include: integrity, trust, diversity, partnership, and protecting people and the environment (Chevron, 2011d). These values are also reflected in their Business Code of Conduct and Ethics[38] that contains Chevron's diversity and anti-corruption policies as well as the human rights policy it adopted in 2010 (Chevron, 2011e; Si2, 2011:6). Since 2004, Chevron has been included in the Dow Jones Index for Sustainability for North America, and over the years it has rewarded with numerous awards and recognition for its performance within the areas of governance, environment and social and economic development (Chevron, 2011f). In terms of the company's reporting framework, it has annually produced a sustainability report since 2002. The GRI G3 Guidelines and the International Petroleum Industry Environmental Conservation Association (IPIECA) and the American Petroleum Institute (API) Oil and Gas industry Guidance on Voluntary Sustainability Reporting have helped shape its reporting metrics and disclosures. However, while GRI informed its reporting, Chevron has not declared a GRI reporting level or made reference to the GRI's oil and gas sector supplement, although it registered its report with the GRI website (Si2, 2011:6; Chevron, 2011g). Chevron's early CSR policies were characterised by a top-down approach, with the company's own analysis of where and what sort of community aid was needed. This resulted in the building of schools, roads and hospitals (Chevron, 2003:10). However, these projects did not include schoolbooks, medicines, teachers or doctors. Yet, one initiative still continuing today was the introduction of the Riverboat Clinic in 2001. The Riverboat Clinic is a mobile health service for more than thirty-three communities along the Escravos and Benin rivers in the Western Delta, operated in partnership with the NNPC (Chevron, 2010:6).

In 2005, Chevron adopted a new approach to CSR. The new approach sought to improve local participation in determining the needs that the CSR programmes should address (Chevron, 2011h; Egba, 2011). Targeting the communities in its operational areas with its joint venture partner NNPC, the new strategy is the community engagement model called GMoU, the same model used by Shell. The GMoU model has been implemented in eight community clusters referred to as Regional Development Committees (RDCS) across the Niger Delta. The GMoU involves a wide range of stakeholders, including representatives from state and local governments, the Niger Delta Development Commission (NDDC) and NGOs. The key principles

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[38] See more on http://www.chevron.com/documents/pdf/chevronbusinessconductethicscode.pdf

underlying the GMoU concepts include participatory partnership and stakeholder engagement, transparency and accountability, sustainability assurance, conflict mitigation and resolution, and continuous monitoring and evaluation (Egba, 2011). As such, the main aim of adopting this approach to CSR is instituting community-driven development in the clusters of communities neighbouring Chevron's operations, with a focus on the socio-economic and environmental issues of the Niger Delta. So far, the memoranda have generated approximately 200 projects in more than 400 communities, villages and chiefdoms (Chevron, 2011h).

As part of their new approach to CSR, Chevron has also established, and continued, cooperation with NGOs and other institutions to improve the implementation of the CSR initiatives. According to Chevron, local NGOs play an essential role in the implementation process of GMoU. They help provide technical assistance and are helping to resolve conflicts that arise in the communities (Chevron, 2011h). The Arrive Alive Road Safety Initiative serves as one example of such collaboration where the Lagos state government and NGOs have been part of the project (Chevron, 2011a). Another notable collaboration is with USAID. Together they will give $50 million over a four-year period to the Niger Delta toward socio-economic development of the region through the Chevron-established Niger Delta Partnership Initiative (NDPI) Foundation (Chevron, 2011h). As such, the new approach to CSR taken by Chevron aims to bring stability and sustainable development to the areas in which they operate through stakeholder involvement. Chevron seeks to do this by providing funding for governance, administration, and project and partner costs.

### 3.8 Conclusion

This chapter has presented significant background material for the analysis in chapter four. Firstly, it presented the political and social aspects of the Niger Delta, contextualising the conditions in which MNOCs operate. By exploring MNOCs' footprints in the Niger Delta it has become evident that oil-extracting activities in an oil-revenue-dependent country like Nigeria can have positive and negative implications for the host communities. This chapter has illustrated that oil spills and environmental degradation have been prominent in the region. As further illustrated, local grievances are extensive and this has led to strong local resistance over the years. The chapter also sought to identify the main industry-specific political risk factors in the Delta before presenting a general overview of CSR practices in the area. Against this background, both Shell and Statoil were presented, regarding their activities in the Niger Delta and their CSR strategies for the region. In addition, as it is Statoil's operating partner at the Agbami field, it was deemed necessary to introduce some of Chevron's experiences and its

approach to CSR as this may impact Statoil's presence. Using Shell and Statoil's CSR strategies in the Niger Delta, the following chapter will analyse whether CSR can impact political risk, and this will comprise the essence of this research study.

# Chapter IV: Analysis of Corporate Social Responsibility as a Political Risk Mitigating Tool for Multinational Oil Corporations

### 4.0 Introduction

Political risk represents a significant challenge for multinational oil companies (MNOCs) operating on a global scale where certain regions call for intensified political risk management. This requires developing strategies in order to avoid or minimise negative business implications, thus an important aspect of risk management concerns risk mitigation. The socio-economic challenges experienced by local communities in the Niger Delta reveal intricate and embedded problems, and as established in the previous chapter, some of these can be traced to stem from, or worsened by, the activities carried out by MNOCs.

The Niger Delta region has been identified as an area of high political risk, thus the industry-specific political risk picture in the Niger Delta calls for active measures. Political risk mitigation is hence of uppermost importance in any MNOC's business strategy, especially in an area like the Niger Delta where a lack of political risk precautions could have major consequences for business performance. The purpose of this research study is to investigate the concept Corporate Social Responsibility (CSR) and its potential for, as well as its relation to, political risk management and mitigation. CSR has gained international credibility over the last decade, simultaneously developing a public expectation or demand for such initiatives by larger Transnational Corporations (TNCs), especially in developing countries. Although covering a wide area, CSR most notably entails the 'giving back to the society' aspect which perhaps has been at the centre of public attention. The notion of CSR has thus been recognised as a necessity by MNOCs operating in the Niger Delta in order to build or maintain a constructive relationship with the local communities, with a main focus on environmental and socio-economic initiatives. Some of these initiatives address social grievances in the Delta or attempt redemption of past mistakes, however, could CSR serve to function as a political risk mitigating tool? If so, how successful is it likely to be?

Thus far in the study a comprehensive overview of the relevant theory, as well as a description of the case of MNOCs in the Niger Delta has been given. This chapter presents the focal point of this research study and will proceed to analyse whether or not CSR has the potential to mitigate political risk. The information presented in the previous chapters one, two and three, will be processed and serve as the basis for the discussion. The presented CSR strategies will be

scrutinised against political risks (armed attacks, kidnappings, and sabotage), facing MNOCs to determine whether these have been successful or not. It is important to note that other factors like, for example, local and national elections, change of government, swings on the global market, or intensified militia conflict, can impact on political risk. At the outset of the chapter an overview of the CSR strategies in the Niger Delta will be presented, after which the implications of the CSR strategies of Shell and Statoil will be discussed, also including some of Chevron's initiatives, in three separate sections. A discussion of other political risks of the MNOCs operating fields will then follow under each of the three sections, before analysing the presented findings of the research study. The main research question will be the focus for the discussion, concentrating on political risk mitigation and CSR as part of risk management. The final section of this chapter will provide concluding remarks.

## 4.1 Business-Oriented or Stakeholder-Oriented - Two Approaches to CSR

The demand for active business involvement in the issues of peace and conflict rests on the idea that companies are inevitably a part of the local context in which they operate and, when a particular context involves conflict, the company becomes part of that conflict. This is because corporate activities are bound to have either a positive or a negative impact on conflict dynamics but are never neutral (Idemudia, 2010:834). Some MNOCs operating in the Niger Delta, for example, Shell, have even been said to fuel conflict through corporate practices (Watts, 2005:28; Platform, 2011b). Thus, host countries' level of stakeholder's activity may force MNOCs to embark on philanthropic gestures of CSR as in the Niger Delta where MNOCs' activities have resulted in environmental degradation due to oil spills and gas flaring, affecting the local population's means of livelihood. According to Obalola et al. (2009:135-144) this has partly given rise to the host communities forming NGOs to articulate their concerns and bring attention to their plight. It is further argued that MNOCs in the Niger Delta thus see CSR as a strategic response to local grievances.

Having examined various CSR strategies offered by Shell, Statoil and Chevron (in part) in chapter three, it became evident that there is variety in companies' approaches to CSR. MNOCs have initiated, funded, and implemented significant community development schemes. They help build schools and hospitals, launch micro-credit schemes for local people and assist youth employment programmes; they participate in partnerships with established development agencies such as US Aid while using Non Governmental Organsiations (NGOs) to implement development projects on the ground. Nonetheless, the effectiveness of CSR initiatives in the oil and gas sector has been heavily questioned (Frynas, 2005:581). Arguably, this can be seen in

relation to the mounting evidence of a gap between the stated intentions of MNOCs and their actual behavior and impact in the real world. Some oil industry insiders are also highly critical of CSR, whom Frynas (2005:582) found to be mainly of the opinion that CSR is a 'waste of time' and 'about managing perceptions and making people inside and outside the company feel good about themselves'. However, there are, of course, a number of oil industry insiders who support CSR and are genuine CSR practitioners who would undoubtedly dismiss such claims. Hence, in order to assess the impact of CSR, it should be seen in a broader context than through the lens of the business case, as the expectations of what CSR could potentially accomplish are much broader. Nevertheless, it is important to have sober expectations of how far these CSR initiatives can go. From a community's point of view, it is important to assess the contribution that MNOCs can make to development (Frynas, 2005:582). Following this, MNOCs' CSR strategies may cause repercussions beyond their stated intentions, influencing, for example, political risk, in its attempt to promote social development among other things. However, the actual and potential contribution of oil companies to development faces structural constraints. Frynas (2005:583) argues that the CSR agenda may be inappropriate for addressing social problems in developing countries and may divert attention from broader political, economic and social solutions for such problems.

Public pressure has directed MNOCs to embark on CSR strategies in the Delta even though this public pressure has been of varying strength, which helps to explain why the reactions of companies to call for greater social engagement have also varied. However, a company's motives for social engagement are much more complex than simply a response to external pressure and these motives greatly limit the positive developmental potential of corporate social engagement. As touched upon above, corporate motivational factors that inhibit development can be recognised as business-minded, and include the following; obtaining competitive advantage; maintaining a stable work environment; and, managing external perceptions. There are obviously MNOCs that are partly driven by a genuine desire to 'do the right thing', but the listed factors can help to clarify why some social initiatives have only limited development success. They represent the business case for CSR, namely using social initiatives to attain corporate objectives, thus it is not surprising that many CSR initiatives do not go beyond narrow philanthropic gestures (Frynas, 2005: 583). Examples of such, include the donations of hospital buildings and school buildings that were left unfinished, and other white elephants such as water projects where the water was unfit for consumption (Ereba and Dumpe, 2010:37; Emmanuel, 2010:60-61; Frynas, 2005:587). On the other hand, the stakeholder-oriented approach to CSR has been successful in terms of addressing development issues and stakeholder involvement.

Several stakeholder-oriented models have been developed over the last years as this approach to CSR in the Niger Delta has gained substantially better results compared to many of the previous CSR strategies.

The rethinking of the role of business in the pursuit of sustainable development objectives since the mid 1990s has also meant business has had to respond to this changing societal expectation by increasingly redefining and justifying its involvement in developmental issues in terms of CSR. Regardless of whether one accepts or rejects the CSR premise, the idea of CSR presupposes that businesses have obligations to society that go beyond profit-making to include helping to solve societal social and ecological problems (Idemudia, 2011:1). Despite the turbulent context in the Niger Delta, the centrality of oil in the region highlights the significant latitude of opportunity for MNOCs' leverage to prevent, manage and resolve risks concerning its operations. Thus, the conceptual linkage of CSR to political risk management in the Niger Delta is based on the assumption that the CSR initiatives that contribute to sustainable development have the potential to address local grievances and improve community livelihoods (Idemudia, 2010:826). Having presented Shell, Statoil and briefly Chevron's CSR strategies in chapter three, the study will now assess these initiatives and how they are followed through. The following sections will explore the implications of Shell, Statoil and Chevron's CSR strategies for the Niger Delta.

## 4.2 Shell's Approach to Implementation of CSR Strategies in the Niger Delta

During its early years of promoting and initiating CSR strategies in the Niger Delta, Shell undertook a top-down approach to such strategies in terms of planning, deciding and implementing the initiatives. Through this approach, Shell's stakeholder engagement had two overarching objectives: mending corporate reputation, which had been tainted by the 1990s incidents, and securing a license to operate by abating societal hostility to the company and its operation in Nigeria. These two main objectives shaped the implementation of Shell's CSR policies in the Niger Delta, and determined stakeholder engagement process and mechanisms at all levels (Rwabizambuga, 2007:416). Shell's CSR programme has as many supporters as it has detractors. Part of this can be attributed to Shell's focus on PR, in which CSR has played an important role. In collaboration with the Nigerian government, in order to combat adverse publicity, Shell has spent millions of dollars on advertising and a cutting-edge internet website advertising the company's achievements in Nigeria (Frynas and Mellahi, 2003:557).

## Chapter IV

In 1998, after the Ken Saro-Wiwa case, Shell poured more than $150 million into local development schemes in attempts to 'clean up' its corporate image. The company sought to work with villagers to help them with sustainable development, however, three years later, independent consultants found that after having looked at eighty-two of the 408 projects, ranging from electrification of villages to building schools and hospitals, they concluded that fewer than a third had been completed. Farm projects and those projects that aimed to make villages more self sufficient by giving them the means to earn more did least well, while micro-credit schemes run by women performed best (The *Economist*, 2001).

During the period in which the company undertook this top-down approach to CSR, the majority of its initiatives had limited success. Host communities distrusted Shell's reports on community spending as their perceptions of Shell's involvement in community development was far below the success claimed by Shell. The donations of hospital buildings and school buildings were often left unfinished and abandoned, and with no plan of making it sustainable (Frynas, 2005:583). From the point of view of the communities, the assistance programmes were seen as politically corrupt, clouded in secrecy, and inadequate for the issues to be addressed (Watts, 2005:27). Despite launching programmes to address local challenges, the communities continued to lack any meaningful ownership of these projects as they were poorly designed and unsustainable (Baumüller, 2011:33). Observations made by Christian Aid on Shell's CSR projects in Umuechem represented a general pattern of Shell's CSR outcomes in the Niger Delta: 'As well as taps that are dry, this town of 10,000 people also has a hospital that has never treated a patient, a secondary school where no lesson has been taught, a post office that has never handled a letter and a women's centre that has never held a meeting' (Christian Aid, 2004:1).

Part of Shell's CSR initiatives included vocational training and job creation, expecting locals to set up businesses after the vocational training was completed. What was not accounted for, however, was that the residents in the communities had to be empowered before they could utilise the businesses, thus this policy and the programmes emanating from it resulted in failure (Oruwari, 2006:15). Shell (2011k:19) acknowledges this, but explains it by communities' poor capacity to plan and execute such projects, resulting in the failure or abandonment of projects. Other consequences of the failed CSR strategy were community development pay-offs. The youths and elders were paid off whenever there was a complaint, in order to buy peace. First, it caused more conflict and violence over the modalities for sharing the money. Second, after the money was exhausted, the youths regrouped and caused more violence and collected more money. As more groups formed, greed and violence escalated and this created joblessness and

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idle youths causing trouble in the communities. This degenerated into the youths disregarding the traditional order system in the communities and led to disrespect of chiefs and elders by youths (Oruwari, 2006:14). From the above description, it is clear that the failure of the stated ambitions of the early CSR strategies of Shell in the Niger Delta could have negative impacts on the communities, in some cases causing more harm than good, further altering the political risk picture.

After taking a new approach to CSR in 2006, every project now follows guidelines and templates for commercial processes which Shell publicises and they utilise independent non-governmental organisations (NGOs) to conduct project assessments (MENAS, 2008). They have re-positioned their approach to CSR, taking a proactive role by building social partnerships with the host communities. This has yielded some success, evidenced in improved relationships between Shell, NGOs and some communities where effective facilitation has brought about strategies that were not possible in the past, and they have collected several awards for their CSR strategies in recent years (Draper, 2010:74; Shell, 2010e). Their new effort is also mirrored in the financial budget, and in 2008 for example, it is reported that Shell spent US$84 million – up from US$32 million five years earlier – on community development programmes in its host communities, as well as paying US$158,2 million to the Niger Delta Development Commission (NDDC) (Aaron, 2011:780).

Shell has repeatedly expressed its commitment to reducing the environmental and social impacts from its extracting activities as part of its contribution to sustainable development. Shell states that they have 'researched and adapted a technique for cleaning up oil spills that we believe to be the most effective for the soil and climate conditions in the (…) Niger Delta' (Shell, 2010 cited in Olowu, 2011:88). This is part of a continuous programme initiated to clean up oil spills that happened before 2005, numbering seventy-four oil spills. According to Shell, they involve local communities by letting them take part in the remedial work on paid contracts and, in a number of successful projects, local youths have been employed in the cleanup process. As there are, on occasions, problems gaining access to sites by the local community, they are intensifying their efforts at negotiation in order to be able to carry out the work of clean ups. They are also looking at involving local communities in monitoring facilities (Shell, 2010 cited in Olowu, 2011:88). Despite Shell's own proclamations of satisfactory results from their CSR initiatives of cleaning up oil spills, others would claim that Shell engages in image-laundering through media, as vigorous campaigns backed by empirical data by civil society groups and the affected communities continue to showcase Shell's claims as grossly inadequate and self-serving (Olowu,

2011:89; Draper, 2010:74). There are many such examples of uncorrelated perceptions regarding Shell's CSR initiatives.

Despite Shell's stated commitment to cleaning up oil spills, the striking UNEP report (2011:98) revealed several environmental concerns ignored by Shell. For instance, the discovery of abandoned wellheads and other facilities in Ogoni land covered by overgrown vegetation poses great danger in terms of fire, and suggests a lack of regular attention from the operator. This in turn encourages encroachment by individuals to make use of the site for farming or to tap into the facility. There are a number of such Shell-operated sites where there appears to be a lack of control, and where pipelines are listed as 'abandoned' and no longer operational. There are, however, no records of whether such sites have been decommissioned following international standards, or, literally, abandoned. Thus, oil often remains in the facilities, potentially exposing the site of oil contamination, presenting both environmental and safety risks for the locals (UNEP, 2011:99).

The UNEP report further reveals a number of environmental irregularities in terms of the pollution of soil, groundwater and drinking water (UNEP, 2011: 112). Although Shell has been learning internal lessons regarding clean-up and the changes in their procedures are an improvement on the existing situation, they do not meet the local regulatory requirement or international best practice (UNEP 2011:149). In fact, an internal report by Shell points out the company's failure to redress poor clean-up performance out of fear of conflict with communities (Amnesty International, 2009:67). Shell's clean-up performance in the Niger Delta generally falls below internationally accepted standards and are completely different from the company practices in other parts of the world (Pyagbara, 2010:24). Shell's response to the overwhelming criticism by UNEP is characterised by support of the findings, and Shell states they will use the findings as a valuable contribution towards improving the understanding of the issue of oil and the environment.

Further, a newly released report by Platform[39] revealed Shell's involvement in fuelling human rights abuses in the Delta by involving militant groups to help protect its oil infrastructure. In one case in 2010, Shell transferred over $159,000 to a group credibly linked to militia violence after the company's siding with clashing gangs and picking the more powerful group. The report

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[39] Platform is a UK charity that campaigns for social and ecological justice. The coalition backing the report 'Counting the Costs' includes Centre for Environment, Human Rights and Development (CEHRD), Friends of the Earth, Netherlands/Milieudefensie, Environmental Rights Action/Friends of the Earth Nigeria, Social Action, Spinwatch, Stakeholder Democracy Network and Platform (Platform, 2011b).

concludes that Shell's poor community engagement has provided a 'catalyst' for major disruption and fuelled human rights abuse. The striking report found that Shell has not lived up to its promise to end contracts with armed militants, thereby contributing to further deterioration of the situation in the Niger Delta. It states that Shell has not taken the necessary steps to de-militarise its operations in the region, or to resolve long-standing grievances and respect the human rights of local communities (Platform, 2011a:7). These environmental violations and human rights abuses severely question the legitimacy of Shell's CSR initiatives, yet Shell acknowledges the findings and at the same time calls for greater responsibility from other institutions for the environmental and social situation in the Niger Delta.

As mentioned, the new approach to CSR revolves around communities being at the centre of planning and implementation of projects, known as the global memorandum of understanding (GMoU). Communities identify their own needs and decide how to spend their funding from Shell and its joint-venture partners. By the end of 2010, Shell had GMoUs in 244 communities, including the provision of electricity to nine communities in Bayelsa state, and in June 2011 Shell committed N4.324 billion to regular GMoU development projects in the Bayelsa state alone (Shell, 2011k:19; James, 2011). The GMoU model has effectively improved Shell's contribution to development by letting the communities plan and execute the projects, resulting in far less failed and abandoned projects compared to the earlier approach. An example of a successful project was the launching of the Niger Delta's first community health insurance scheme in Port Harcourt in 2010.Over 8,000 people have signed up and receive affordable medical treatment, including vaccinations, maternity care and operations, at an annual premium of $50, with GMoU subsidising half that amount (Shell, 2011l:19).

The company's CSR initiatives have been recognised externally, and in 2009 Shell was awarded the first annual award for Partnership in Collective Action by the New York-based Global Business Council (GBC) for a partnership with Family Health International (FHI) which has resulted in the establishment of the Niger Delta AIDS Response Programme (NiDAR). The project started in 2007 and provides comprehensive HIV/AIDS care and treatment services in five hospitals in the Delta region. According to Shell, the NiDAR project became an 'avenue not only to scale up HIV/AIDS care and treatment services, but a pathway to developing capacities of people in different specialized areas' (Shell, 2011o). NiDAR has thus integrated HIV/AIDS and tuberculosis delivery alongside other health care services at the selected rural hospitals.

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However, despite examples of successfully implemented GMoU projects, it is evident from the presented findings that Shell's CSR strategies in the region are far from successful. Although the GMoU initiative has been profiled by Shell as an effective and successful strategy for CSR implementation, as previously mentioned, this has been debated and refuted by NGOs and academics[40]. Watts (2007:27) even goes so far as to claim that the GMoU projects, to the extent they exist at all, are shrouded in secrecy and ambiguity, and corporate responsibility on the ground often appears as a raft of unfinished community projects all of which have contributed to festering resentments among the youth. Returning to the Gbarain-Ubie GMoU project discussed in chapter three, ECCR (2010:60-63) found only few of the mentioned sustainable development initiatives have been completed[41].

Their new approach to CSR has been condemned as demonstrating 'The usual lack of community consultation, top-down approach, failed projects, sporadic cries and questionable close ties to locations of company operations. Most projects appear to be less a response to priorities of communities than guided by the company's logic of providing access to locations and comfort for its staff' (Pyagbara, 2010:25). The execution of the new GMoU approach to CSR must therefore be evaluated and the change in the approach assessed. The portrayal by the company of their success as far as implementation of the projects is concerned also needs to be analysed.

### 4.2.1 Shell's Political Risks in the Niger Delta

Shell is one of the MNOCs operating in the Niger Delta which has experienced most resistance and attacks, including protests, lawsuits, oil bunkering, sabotage, and kidnapping and killing of staff (Shell, 2011b). Shell's massive presence in the region and its close ties to the Nigerian government has resulted in communities considering Shell as *being* the government and thus being equally accountable for the social conditions. Between 1995 and 2006, Shell alone recorded an annual average of 300 oil spill incidents resulting in the spillage of over 450 000 bbl/d in the Niger Delta and a daily gas flaring of about 604 million scf per day (Tuodolo, 2009:535). Admitting responsibility for several oil spills, including the 2010 spillage of 14,000 tons of crude oil into the delta creeks in 2009, double the year before and quadruple that of 2007, Shell nevertheless argues that over 70 per cent of all its spills over the last five years have been caused by vandalism, theft or sabotage by militants and communities, and are therefore the result of criminal activity (Vidal, 2011; Shell, 2011m; Shell, 2011n). In its response to the UNEP

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[40] See, for example, Amnesty International (2009), Platform (2011), Watts (2007) Frynas (2010).
[41] See Table 3 in appendix E: 'Status of Gbarain-Ubie GMoU project commitments'

report mentioned above, the company stresses the need to curb illegal oil theft as they claim that this is the key reason for the oil spills in the area. For the case of the Ogoni-land area, Shell explains Ogoni-land to pose unique challenges characterised by violent attacks on staff, sabotage and theft. Since they stopped production there in 1993, access to maintain facilities in the area has been difficult (Shell, 2011L)

Not only are oil leaks costing Shell astronomical financial sums annually, but they also damage the company's chances of signing new contracts by weakening the company's reputation and image when failing to meet its own, as well as international environmental standards, creating concerns among investors and host governments (Ma'anit, 2011). Due to its environmental history and reputation in the Niger Delta, Shell has met great resistance outside Nigerian borders, like in South Africa where there have been demonstrations against its planned gas fracturing project in the Karoo. Demonstrators draw on the Nigerians' experience and demand a halt to the project, fearing environmental degradation in the Karoo region (Cape Argus, 2011; Gosling and Huang, 2011).

Armed groups and militant groups present a challenging environment in which to operate for MNOCs, exemplified by a high number of kidnappings and killings. In the years prior to the GMoU approach to CSR, Shell reported a high number of violent incidents against their staff. In 1999, there were 349 violent incidents of which 102 involved hostage-taking (Shell, 2000:25). The annual reports from Shell for 2000, 2001 and 2002 do not report specific numbers for the Niger Delta, but state that the number of fatalities and violence was high in general. In 2004, five employees lost their lives due to security reasons[42], and the same year community incidents increased by 10 per cent to 176 compared with 2003 (Shell, 2005:25). The year 2005 saw a decline in the number of oil thefts by criminal gangs due to increased government security patrols. However, December 2005 saw the onset of a series of attacks on Shell facilities, set off by the bombing of a major pipeline (Shell, 2006:27). When the violent petro-conflict reached its peak in 2006, and Shell introduced the new approach to CSR, Shell recorded fifty-four incidents of kidnapping of staff and contractors, and the loss of nine lives as a result of violence (Shell, 2007:67). In 2007, forty-seven staff members and contractors were kidnapped by militants, while three were killed (Aaron, 2011:780).

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[42] 'Security reasons' is not specified by Shell and could refer to various meanings, not necessarily related to attacks by armed groups.

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The year 2008, Shell re-started operations at twenty-six sites that had previously been shut down because of violence, but offshore the Delta conditions worsened. The Shell operated FPSO vessel at the Bonga field was attacked by MEND in June, the first time militants reached offshore operations in deep water. Shell declared *force majeure*, a practice which frees a company from contractual obligations in the face of extraordinary obstacles and halted production of 225,000 bbl/d for about a week. A previous attack in May at its Bonny Light Field had stopped production of 130,000 bbl/d for almost two months (O'Rourke, 2008:60). In November 2008, Shell temporarily shut down the Soku gas plant which supplies 40 per cent of all the gas used by the Nigeria Liquefied Natural Gas Company (NLNG) in order to repair damage from fires and oil spills caused by criminal gangs (Shell, 2009:20). In 2009, MEND called a ceasefire but later announced an 'all-out oil war' after a crackdown by the Nigerian military (Vaughan, 2011), and fifty-two employees were kidnapped that year. In 2010, the number went down to twenty-six employees kidnapped and one killed in an armed assault (Shell, 2011d). According to Shell's (2011d:1) own publications, it is difficult to estimate precisely how much oil is stolen as this varies according to the source. In 2009/2010, there were one hundred and fifty-five reported incidents of crude oil theft from Shell facilities that involved vandalism, spills, fire or arrests of vandals. In 2008/2009 there were two hundred and eleven such incidents, and in 2010 authorities arrested one hundred and eighty-seven people, and, among others, twenty tankers and fifteen vehicles were seized as well as twenty-eight barges and thirty-eight other boats.

### 4.2.2 Evaluation of Shell's CSR Strategies and the Implications for Political Risk

Based on the presented data, the research study finds Shell's initial approach to CSR to be a failure, both in the sense of accomplishing its stated goals, as well as in its contribution to social development and reducing political risk. The CSR strategies were implemented in such a way that there was little possibility of success, resulting in the opposite of the desired effects. In addition, the severe environmental and human rights violation was a strong signal of Shell's 'business' take, generating more resentment in the local communities than compliance. The inadequate CSR strategies and the reprehensible security policies and environmental degradation coincided with the most violent period during which there were numerous attacks on Shell's facilities. Although there was a slight decrease in sabotage against oil installations due to security measures, the research study finds that the level of political risk increased for Shell in the Niger Delta as this approach to CSR continued, with a climax of violent attacks on Shell's staff and facilities occurring in 2006. The findings thus suggest a causal relationship between the

unsuccessful implementation of the company's CSR approach and a growing disapproval in the communities, resulting in an increased industry-specific political risk level.

At the petro-conflict's most severe stage in 2006, Shell introduced the new GMoU approach to CSR. Allegedly more stakeholder-oriented, Shell repositioned its strategy to a bottom-up focus. From the following year there was a reduction in the level of political risk in terms of armed attacks and sabotage on Shell's facilities; a reduction which has been stable in recent years, accompanied by a significantly improved security situation and production in 2010. (Shell, 2011k). However, the data does reveal that the company faces serious political risk in the Niger Delta, with the latest development being attacks on the company's facilities offshore. Thus, despite a clear improvement from the initial years, many elements suggest that the new approach to CSR is not as successful as portrayed by Shell. The presented data suggesting that Shell is still exercising a top-down approach in its CSR projects, as well as the disclosure of ongoing environmental degradation and human rights violations, suggest a failed implementation of the CSR strategies. The research study finds that when Shell conducted a new approach to CSR, there was a reduction in political risk. Yet, the findings also indicate that the matter of implementation is critically important, as a stakeholder-approach to CSR clearly has not been consistent.

### 4.3 Statoil's Approach to Implementation of CSR Strategies in the Niger Delta

To avoid the mistakes made by first generation MNOCs in Nigeria, Statoil jump-started its operations by first establishing a community development partnership scheme for its host community, the Akassa Kingdom, while using an NGO, Pro Natural International (PNI) to facilitate the process (Oruwari, 2006:15). The Akassa region was identified as a potential impact zone for future oil spills after Statoil had conducted an environmental impact assessment of Statoil's offshore interests. As a newcomer to the Niger Delta, Statoil wanted to establish a reputation as a good corporate citizen from the very beginning and sought to promote understanding between the company and its primary stakeholders.

Statoil's corporate strategy seeks to minimise risk and create a safe operating environment by obtaining a holistic license to operate, meaning not only receiving formal operating authority from the government but also acceptance from the local communities in, or near, its areas of operation (Chen, 2007:37). The Akassa project is a bottom-up community-based development scheme with activities within five main areas: the environment, abolition of poverty, building local capacity, infrastructure, and institutional capacity development. It is based on the principles

of participation, democracy and transparency, and all facets of the Akassa society are represented and the final development plan is owned by the people of Akassa. Its success is explained by the project being largely based on substantial local involvement and participation, where the objectives and activities include training the local people to plan and carry out their own development work, and the establishment of the Akassa Development Foundation (ADF) as an independent development organisation that finances its own activities without assistance from Statoil (Oruwari, 2006:15). This bottom-up community-led development approach has further led to other MNOCs seeking to adapt and adopt their strategy for their social investments in the Niger Delta, as seen in, for example, the Shell-funded GMoU approach (Draper, 2010:67; Idemudia, 2007a:15; Oruwari, 2006:15).

Participation and self-help are regarded as the best routes for sustainable development assistance by organisations as diverse as the World Bank and Oxfam. A central idea expressed in the World Bank's Comprehensive Development Framework is that the 'doer' (a person, a community etc.) needs to be 'in the driver's seat' and actively help itself (Frynas, 2005:589). Not many of the MNOCs operating in the Niger Delta have funded projects which could be regarded as 'best development practice' along the lines advocated by the World Bank or Oxfam, but the Statoil-initiated Akassa project in the Bayelsa state is one. According to Frynas (2005:589), the project has come to symbolise the potential positive benefits of oil company development work. In 2005, Statoil's Akassa project was awarded best community project by the World Petroleum Council (Chen, 2007:31). Some of the results reported by WBSCD of this CSR initiative of 2005 include, human resources development: eighteen health posts have been established and thirty-two health post attendants have been recruited; natural resources management: an inventory of forest resources of Akassa has been undertaken and the Akassa Forest and Wildlife Regulation has been amended; poverty alleviation: successful micro-credit groups with a 100 per cent recovery; and, infrastructure: rehabilitation of schools and health centres and construction of wooden bridges has taken place (WBSCD, 2005).

Draper (2010:67) points to numerous factors that constitute the apparent success of the Akassa project, including gender balance and women's representation in decision-making, residence of all key actors and decision-makers in the local community, wide consultancy within and outside the communities, focus on the specific geographical area rather than the entire Kingdom, and provision of external facilitation, technical and management support. These elements have thus demonstrated that community institutions in the Niger Delta can develop capacities and accountability; that participatory processes can ensure that even the marginalised can contribute

to a programme; and that community projects can be completed, which all in all represent the success of this CSR strategy. The people of Akassa have their own development plan, updated annually, and a corresponding budget. The plan forms the basis of wider-scale planning whereby local or state government or MNOCs can determine what they will support. In addition, it is registered with Nigeria's Corporate Affairs Commission and has bank accounts, a seal and a constitution; and it can sue or be sued – factors that make it an accountable partner for development.

In comparison with the way Shell claims recognition for their projects by placing logos and signboards outside their projects, Statoil does not want their name and logo on signboards in the Akassa communities as this may reinforce the belief that these projects belong to the company rather than to the community. However, although the communities recognise the Akassa Development Foundation as being responsible for the implementation of the project, the inhabitants know the funds are provided by Statoil and that the ADF reports to Statoil. Company visits are welcomed, also by the youth, in acknowledgement of Statoil's support and empowerment. Other companies that have adopted the same approach experience similar acknowledgement elsewhere, like Total in Eastern Obolo and in the Opobo Nkoro community (Draper, 2010:74). So it seems that companies fear that a loss of credibility will result in loss of goodwill, yet ironically, the companies with most goodwill from communities are those that have found a better balance between support and minimal interference.

The Akassa Clan has remained quietly working for their own development, and being geographically located between the offshore platforms, oil wells and flow stations, one Reuter correspondent called it 'a haven of sanity in a sea of madness' (Knight et al., 2000:1). Another part of Statoil's success with its CSR approach can be attributed to their understanding of the lack of government capability, arguably the core reason for the Niger Delta conflict. Statoil has funded activities designed to build up governance capabilities, such as working in partnership with the UNDP and Amnesty International and it has, for instance, funded a local NGO to provide training for Shari'a court judges in the north of the country (Frynas, 2005:597). MNOCs tend to reject the notion that they could play a constructive role in helping to address governance failures, and they have legitimate concern over corporate involvement in the political process. However, they are already part of the political process when lobbying for legislation agendas, for example, and their extracting activities could contribute to governance failures. As such, MNOCs could potentially benefit commercially from governance failures through, for example, non-enforcement of certain government regulations (Frynas, 2005:597). Although Statoil's CSR

approach in the Niger Delta has been recognised as one of few to also address governmental responsibilities, some of the criticism of the Akassa project concerns this issue. A major challenge of the project is to be truly sustainable and it therefore is making the local government council assimilate some of the responsibilities that the project presently manages since they normally fall within the local government responsibilities, for example, the provision of services (Oruwari, 2010:18). Given their significance, governance issues could conceivably be an important part of a CSR strategy, and could hence be a more prominent element of Statoil's CSR approach in the Niger Delta.

### 4.3.1 Statoil's Political Risks in the Niger Delta

Statoil has not reported any kidnappings or fatalities of their staff in the Niger Delta since they entered the region. However, several political risks are facing the company and Statoil has therefore met the need for armed security personnel as a safety measure. Of all its international operations, Statoil only sees the need for armed security personnel in two of its locations: at their offices in Russia and in Lagos, Nigeria (Statoil, 2004:45). Although Statoil has not reported any attacks on their staff or facilities, there have been incidents relating to the Agbami field on a couple of occasions. In 2008, there was an attack on an oil supply boat returning from the Agbami field, where gunmen hijacked the boat with eight crew members, the vessel belonging to the local oil service company West Africa Offshore and carrying supplies to Escravos in the neighbouring Delta state. The occurrence emphasised the increased insecurity offshore the Niger Delta after military groups announced an escalation of attacks in 2006 (News24, 2008). Also in 2008, another incident was a threat by MEND directed at Statoil's operator, Chevron, of attacks on the Agbami field (Green, 2008). This threat was put forward only two months after MEND had attacked the Shell-operated Bonga field, causing tremendous fear that they would strike again. So far though, there have been no attacks on the Agbami deepwater vessel.

### 4.3.2 Evaluation of Statoil's CSR Strategies and the Implication for Political Risk

The research study's finding of no recorded attacks on Statoil's staff or facilities in the Niger Delta signifies the company's success of its CSR strategies. The CSR initiatives have generated compliance in Statoil's host community, as their strategy has involved community engagement from the very first impact assessment carried out before the company entered the area. As elaborated upon above, threats have been made to the Agbami field by MEND, but not to Statoil's facilities. The research study argues that the case of implementation of their strategies is decisive for its success and has a direct impact on the low frequency of political risk to the company. Statoil's CSR approach is characterised by a bottom-up angle through all stages,

creating a perception and feeling of local ownership of the projects. Statoil is recognised as its facilitator, creating compliance and the reputation of an actor who takes its social responsibility seriously. The contribution of successful sustainable development practices is therefore an empowerment of the community, a resource for the locals where government obligation falls short. By paying attention to this aspect, the research study suggests that local grievances are being addressed.

## **4.4 Chevron's Approach to Implementation of CSR Strategies in the Niger Delta**

Chevron is the operator of the Agbami field, Statoil's main interest in the Niger Delta, and the research study thus finds it relevant to briefly explore the effectiveness of its CSR strategies as this could potentially be associated with Statoil and thus influence the political risk picture for Statoil. Like Shell, Chevron has been in the Niger Delta for decades and has adapted their CSR strategies over the years. As seen in chapter three, Chevron also undertakes the GMoU approach to CSR in the Delta as the latest development of their CSR strategy (Chatham House, 2011:33). This has resulted in numerous CSR initiatives in the areas where they operate, and, additionally, Chevron has also contributed financially to the Statoil-initiated Akassa project for which Chevron is being recognised by the local communities in the Akssa Kingdom (ADF, 2005:4; Idemudia, 2007a:15).

There are many records claiming great success of Chevron's CSR strategies in the Niger Delta, however, there are also claims of CSR failures. Unlike Statoil, Chevron has not conducted a geographical impact assessment and one major issue that has been the cause of tension between Chevron and some local communities has been the blurring of the criteria 'host' or 'impacted' community (Faleti, 2009:24). Prior to the GMoU approach, Chevron implemented CSR through a top-down approach, often providing a certain group in the community with the task of managing the funds donated by the company. Funding placed in the care of such trustees was often unaccounted for and spent without any development project being properly implemented (Faleti, 2009:16). In one instance, Chevron insisted on continuing to work with the Ugborodo Community Trust, which allegedly could not account for $N171 million donated by Chevron to community development. Chevron's continued recognition of the group worsened the community crisis. The local community started protesting against Chevron, and the escalation hit new highs after the killing of the new chairperson Metseagharun by persons suspected to be Ugborodo indigenes. Chevron was accused of being partly responsible since they still cooperated with that group. As such, Chevron was accused of employing a 'divide and rule' strategy, aiming

to set local people up against each other, preventing them from uniting in their demand for their rights (Faleti, 2009:17).

The tense relationship between Chevron and the Ugborodo community continued to deteriorate due to the lack of response to their social grievances by the company. In 2002, the women of Ugborodo invaded and occupied Chevron's terminal, causing a halt in production for ten days. They also blockaded Shell's facilities, and approximately 25 per cent of Nigeria's oil production was closed down. In 2005 the Ugborodo women attempted a repeat performance to address the local grievances, but were repelled with maximum violence by a combined force of armed police and soldiers, hired by Chevron to control the protestors. One demonstrator was killed and thirty more were injured. Chevron argued it had no control over security forces posted to oversee security of the facilities (Platform, 2011a:48; Faleti, 2009:19). The report by Platform mentioned earlier, accuses Shell of funding armed gangs which again fuelled human rights abuses in the Niger Delta. The same report also identifies Chevron as having committed human rights abuses on several occasions in terms of their involvement with armed groups and the military. The report further claims that Chevron's tank-farm was allegedly used by the Nigerian military to conduct a series of raids on villages in as recently as May 2009 (Platform, 2011:63). Although Chevron promises commitment to human rights, these serious allegations demonstrate the inconsistency of words and action, and to what extent CSR is integrated in the company.

As a response to the failing CSR approach, Chevron adapted a bottom-up strategy in 2005. However, despite the progress that has been made with the new GMoU approach to CSR, the resistance to Chevron has made implementation of the new GMoU approach difficult in several communities. One of the most prominent issues has been to gain acceptance for the framework in the communities due to local disputes and mistrust of actors involved. There is still a perception of the GMoU being imposed on communities, and locals do not feel included in the various stages and processes of the projects (Faleti, 2009:23). Although there is mostly recognition for the notion of the GMoU, many local people continue to expect and express preference for cash payment and claim they have lost access to several benefits they previously enjoyed by virtue of their status as host communities, for example, unemployment allowances, compensation for environmental degradation etc. Many see the abolition of such payments as demonstrating a lack of respect for community members. Still, most importantly, is the anger of environmental degradation from Chevron's extracting activities, including oil spills, which threaten livelihoods yet are still not incorporated into the scope of activities covered by the

GMoU (Faleti, 2009:23). Chevron's implementation of CSR in the Niger Delta clearly represents a double-edged sword for the local communities.

### 4.4.1 Chevron's Political Risks in the Niger Delta

Although Chevron has a similar history in the Niger Delta to Shell, the reason for incorporating Chevron in the study is to examine its history of political risks in terms of being Statoil's operator. The previously-mentioned threat by MEND towards the Agbami field was considered a threat towards Chevron, yet, as already stated this threat was never implemented. Chevron has experienced several serious operational set-backs due to sabotage of pipelines and oil installations. In the early 2000s, Chevron was the target for a demonstration by the Ugborodo women occupying Chevron's terminal and tank farm, due to the company's inability to fulfill its part of an agreement from 1998 (Faleti, 2009:18). When the women demonstrated again in 2005, Chevron replied with armed security ending violently, further worsening the tense situation, and like Shell, the peak of the petro-violence hit Chevron in 2006 (Chatham House, 2011:25). As Chevron does not publicise an overview of political attacks in the Niger Delta, no certain numbers or frequency of such activities can be given. However, according to Faleti (2011:25), sabotage and oil bunkering have been reduced since 2006. Despite this, Chevron still experiences political risk to a great extent, and one of the most prominent examples was in 2008 when Chevron shut down its production on the Escravos facilities, halting production by 90,000 bbl/d after armed gunmen attacked the pipeline. The same year, Chevron declared another *force majeure* on its oil exports following a particularly destructive attack on one of its oil installations, halting production by 100,000 bbl/d, and in 2009, MEND destroyed major pipelines feeding into a Chevron facility (CNN 2009b). Additionally, armed attacks and kidnappings of Chevron staff continue to be a high risk (see CNN, 2009a; SkyNews, 2011).

### 4.4.2 Evaluation of Chevron's CSR Strategies and the Implication for Political Risk

In the early years of Chevron's CSR initiatives, the projects sought to ease the resentment towards the company in local communities based on the environmental degradation stemming from its extracting activities, and its low job creation, especially for the youth. The CSR initiatives, however, did little to generate consent within the local communities, as they were characterised by a 'top-down' approach, often leaving projects unfinished or abandoned. The research study finds that during this period, several demonstrations towards the company were conducted, as well as oil bunkering and sabotage, resulting in major production losses for Chevron, and increased political risk (Faleti, 2009:19). From the 1990s there have been numerous demonstrations against the company and there have been a number of kidnappings of

their personnel as well as attacks on their oil installations (CNN, 2009; AfricanLoft, 2009). This has led to Chevron being forced to shut down its operations on certain platforms on several occasions, including during the clashes around the elections in 2003 where some 40 per cent of the country's oil production was shut down for weeks and Chevron suffered $500 million in infrastructural damage in addition to significant oil production losses. In 2008, it was estimated that Chevron lost $750 million due to community strife and oil bunkering (International Crisis Group, 2006:2; Idemudia, 2010:834).

The incident with the demonstrating women of Ugborodo is illustrative of how Chevron's failure to address local grievances damaged the situation (Faleti, 2009:19). Chevron also experienced regular attacks and kidnappings of staff during this period, with the local resentment at its peak in 2006 (Chatham House, 2011:25). After undertaking the GMoU approach to CSR in 2005, Chevron claims that projects have improved because 'community-sponsored attacks on facilities have become a thing of the past due to the end of cash payments to locals' (Faleti, 2011:25). Nevertheless, the new approach to CSR has not led to a mitigation of political risk completely. Instead, the execution of the CSR strategies has shown signs of the 'top-down' approach, and paired with the findings of the UNEP and Platform report, it is evident that environmental degradation and human rights violation still continues to this day, thus suggesting a mere business take on its CSR strategies. Hence, although Chevron claims local oil bunkering and sabotage has been reduced since the new CSR approach, local consent has not been obtained and armed militant attacks, including kidnapping of staff, seems to occur frequently and take place on a regular basis.

### 4.5 Analysis: CSR and Political Risk in the Niger Delta

Chapter three illustrated the complex and diverse nature of CSR strategies in a developing and conflict-ridden country. The different approaches to CSR have therefore been scrutinised and lay the grounds for the upcoming analysis when discussing the findings. For the sake of the discussion, the themes will be debated together rather than splitting the focus on Shell, Statoil and Chevron.

The research study has highlighted accomplishments as well as failures of CSR initiatives in the Niger Delta, and the limitations of CSR have been apparent through this analysis as the areas addressed by CSR in the Niger Delta are essentially areas of government failures. Therefore, one must be cautious not to be naive or to expect CSR to accomplish more than it can actually contribute. Keeping this in mind, it also became apparent through the analysis that the angle of

approach to CSR may be a determinant of its success. Of the CSR strategies examined, the study found that Statoil did attempt to address governmental tasks as part of their CSR strategy, as seen by the example of the education of Shari'a judges. This, combined with a sincere 'bottom-up' approach, which incorporates all the stakeholders in every potentially affected community in all the stages of the CSR execution, have shown to generate sustainable development. Statoil experiences compliance from the host communities as a direct result of the success of its CSR strategies.

Shell and Chevron repositioned their take on CSR in 2006 and 2005, towards a Statoil-influenced approach with the stakeholder-oriented GMoU model. The research study has pointed to an inadequate internalisation of such CSR programmes in both companies. For Shell, it was found to be a significant improvement from previous community initiatives, yet in practice the GMoU approach does not involve local stakeholders at the level it proclaims. Instead, this suggests that Shell adds a business-case dimension to its CSR strategies. This finding is backed by the disclosure of the continuing human rights violation, oil spills and environmental degradation, which goes against the company's stated CSR intentions and values. Chevron was also found to be continuing its previous 'top-down' approach to CSR to some extent, showing inconsistency in its CSR initiative offers and how the actual implementation is conducted. The research study argues that the limitations of CSR, combined with inadequate CSR implementation, have led to an inconsistency of the success of CSR programmes for both companies.

A significant dimension of the examined MNOCs' CSR strategies is the use of social engagement in varying degrees to portray the company's social conscience locally and internationally. CSR will contribute to reputation or image building, which can be a crucial aspect when applying for a license to operate, and a business advantage. After the BP accident in the Gulf of Mexico in 2010, more weight is placed on MNOCs' reputations as serious actors, increasingly serving as a pre-qualification for the award of operating licenses (Vea, 2011). Owing to the recent reports by UNEP and Platform on Shell's environmental and human rights abuses in Nigeria, the company, which was thought to have transformed its social responsibility ways after the Ogoni case, now suffers a major reputation setback as seen in Shell's attempt to establish operations in the Karoo of South Africa. However, it is claimed by Ljosne[43] (2011) that the CSR initiatives that are successful, for example, educational scholarships, agricultural skills

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[43] Olav Ljosne has worked for Shell since 1990 where he has held positions like Director of Corporate Communications, Policy Co-ordinator and Regional Director of Communications, Africa. Now, Senior Manager, International Operations, Shell.

etc., do get recognition in host communities and that this contributes to minimising the local resistance in the Delta. As such, CSR can contribute significantly to a MNOC's reputation, creating compliance and recognition in host communities if implementation of CSR is successful. Vea[44] (2011) claims that Statoil has a good international reputation as a serious actor and has acquired a good deal of goodwill, and this was decisive in assigning the company its oil license in Angola. According to Vea, other MNOCs with less experience and poor environmental track records were not even considered in the tender process. As such, Statoil's winning CSR strategy could provide a competitive edge vis-à-vis other operators in the conflict-ridden Niger Delta (Frynas and Mellahi, 2003:558). Thus, CSR could indirectly affect business advantages.

Another aspect of CSR, which is also an integrative technique of risk mitigation that Shell and Statoil have to a great extent made use of, is local employees. This is a sustainable contribution to development, and perhaps one of the better ways to 'give something back' to society rather than empty school buildings and other white elephants. By undertaking an integrative technique, and aiming to relate with locals in the political sphere, the perception of the company as 'foreign' is reduced (Brink, 2004:156). As seen above, an important part of CSR is to involve the local communities, and create a sense of ownership of the projects. Statoil has managed this through its Akassa project which is run by the ADF without any involvement by Statoil in its practices, yet the local population recognises that Statoil is behind the funding and that ADF reports to them.

The success of Statoil can further be recognised as an internalisation of corporate values, which, according to Vea (2011), is important if CSR strategies are to be successful. On the other hand, Shell's pledge of commitment to environmental responsibility is incorporated in their business principles, yet it is clear that Shell has not followed up on its own pledges of commitment. Again, this must be seen in relation to the company's internalisation of its values, as Shell does not practise such environmental practices in other countries as it does in the Niger Delta. Vea (2011) points to the environmental aspect being perhaps the most notable area that mirrors a company's values, considering the double standard often demonstrated when companies disregard their stated environmental practices and disregard the host country's national standards given a country's poor law enforcement and regulation structure, like in Nigeria.

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[44] Jon Vea is the current Norwegian Ambassador to Angola, Gabon, Republic of the Congo, São Tomé and Principe and Equatorial-Guinea. He was former Director of International Affairs at the Confederation of Norwegian Business and Industry (NHO). He was Chairman of the 'Reputation-board', initiated by Norwegian Foreign Affairs, and in partnership with PRIO, Vea also published a report on CSR in 2003, and is considered an expert in the field.

## Chapter IV

Shell and its subsidiary companies in Nigeria have sought to provide, and to show, social benefits from their presence in the country, and in some areas they have made progress. However, the historical context of the company is an important factor to consider when assessing the company's progress. The prevailing view in the Niger Delta is that currently and cumulatively the benefits of the oil industry's presence are far outweighed by the negative consequences with which Shell, as the region's largest operating oil and gas company, continues to be closely associated (ECCR, 2010:10).

Comparing the two companies, Shell and Statoil, they have been identified as having two different approaches to CSR. The data presented in this study suggests that Statoil undertakes a somewhat more philanthropic approach to CSR in the Niger Delta than the business-oriented approach that Shell appears to be undertaking. As such, traces of turning CSR into a business case can be seen, as there are still reports of the GMoU project being a top-down approach in practice. Statoil seems to have taken CSR seriously and has initiated a winning stakeholder approach to address local grievances without demanding any credit for the company itself. The findings of the analysis can be summarised into two aspects of CSR implementation in the Niger Delta:

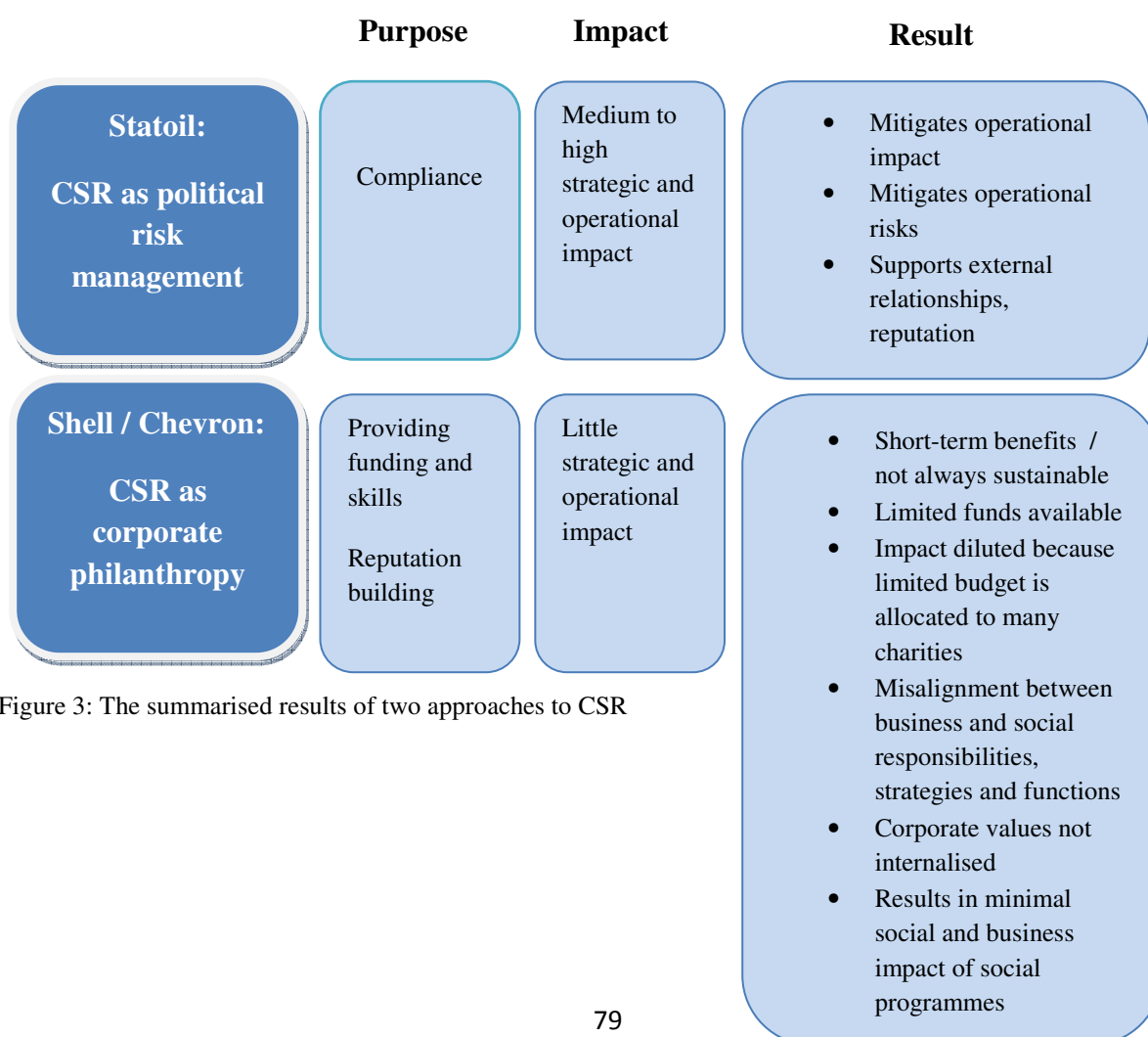| | Purpose | Impact | Result |
|---|---|---|---|
| **Statoil:** **CSR as political risk management** | Compliance | Medium to high strategic and operational impact | • Mitigates operational impact<br>• Mitigates operational risks<br>• Supports external relationships, reputation |
| **Shell / Chevron:** **CSR as corporate philanthropy** | Providing funding and skills<br><br>Reputation building | Little strategic and operational impact | • Short-term benefits / not always sustainable<br>• Limited funds available<br>• Impact diluted because limited budget is allocated to many charities<br>• Misalignment between business and social responsibilities, strategies and functions<br>• Corporate values not internalised<br>• Results in minimal social and business impact of social programmes |

Figure 3: The summarised results of two approaches to CSR

## Chapter IV

Importantly, external factors can also impact the political risks facing companies, yet, given the capacity of this research the study has not accounted for numerous variables, ranging from the emergence of militant groups, local and national elections, to the factors of difference in Statoil's limited presence and history in the region compared to that of Shell, which could potentially affect the findings of the research. Still, based on the presented data, the study has found a relationship between political risk mitigation and CSR policies. What has been accounted for are the different approaches MNOCs take to implement their CSR strategies in the Niger Delta. Shell experienced a high frequency of political risk concerning sabotage and armed attacks on its facilities and towards its employees from the late 1990s until 2006. The CSR strategies in this period were found to be unsuccessful, with some initiatives further damaging the petro-conflict. After adopting a stakeholder-oriented approach in 2006, the study shows a reduction in political risk in terms of armed attacks and fatalities. Importantly, the level of political risk for Shell in the Niger Delta is still high, which based on the presented data, is explained by a failed implementation of the company's CSR strategies.

In the case of Statoil in the Niger Delta, the relationship between CSR and political risk mitigation is found to be significant. The study shows that by conducting a thorough stakeholder-oriented approach, Statoil has managed and mitigated political risk by creating compliance in its host communities. Although political risk for MNOCs is very high in the area, including for Statoil, the company has not experienced such to date. The initiative to engage the locals before Statoil entered the region, as well as dialogue and delivering the agreed objectives, combined with the following-up of these projects, has made way for the company as a serious actor with a solid reputation among its host communities.

The research found that Chevron has experienced a similar level of political risk in the Niger Delta as Shell, explained by factors such as their share size of interest in the region and their many years of operating in the Niger Delta. The general data provided for the case of Chevron implies a reduction of community sabotage on the company's oil facilities after the implementation of a stakeholder CSR approach in 2005, however, the execution of this policy has not been consistent: armed attacks were frequent in the following years. However, Chevron financially supports the Akassi project as the Akassa Kingdom was identified by Statoil to be the area of potential impact from the MNOCs' activities, and Chevron has not experienced any militant attacks or other political risks on the Agbami field. The case of Chevron further supports the research study findings on Shell, that the implementation of CSR strategies influences political risk management.

MNOCs began embarking on CSR strategies in the Niger Delta in order to develop constructive relationships with local communities and improve the stakeholder dialogue. At first, most MNOCs undertook a community-assistance approach but this was later replaced by a sustainable community-development approach. The adaption of new CSR strategies could be seen as a response to increasing resistance in the communities and the emergence of militant groups. Watts (2005:28) explains that these actions against MNOCs were shaped by various factors, including local and national elections, the emergence of ethnic militias and armed struggle as a political programme for some restive youth, and by the deepening of the militarisation of the oil fields and oil installations throughout the 1990s. The tactics and repertoire of actions against the MNOCs were substantial: demonstrations and blockades against oil facilities, occupations of flow stations, sabotage on pipelines, oil bunkering, legal actions, hostages, and strikes.

These factors constitute the main political risks facing the MNOCs in the Delta. The majority of such actions have been directed at MNOCs with onshore and near-shore operations in the Delta, where Shell and Chevron are the largest companies. MNOCs that mainly operate offshore, such as Statoil, are less culpable for environmental offences against and encroachment on human settlements and livelihoods, and thus they are less likely to antagonise the Niger Delta communities (Omeje, 2011:48). However, in a statement by MEND after the attack on the Shell-operated Bonga offshore platform, MEND explained that the location was deliberately chosen to remove any notion that offshore oil exploration is far from their reach: 'The oil companies and their collaborators do not have any place to hide in conducting their nefarious activities' (MEND cited on Nairaland Forum, 2008). Clearly there are no guarantees or modes of prediction for attacks for MNOCs.

## **4.6 Conclusion**

The assessment of Shell, Statoil and Chevron's CSR strategies in the Niger Delta was one of two the main objectives for this chapter. The second objective for this chapter was to discuss and analyse the findings against the research questions guiding this study. In order to reach an orderly and consistent presentation of the data before indulging in the discussion, the outline of this chapter began with a brief assessment of CSR in the Niger Delta and what drives MNOCs to embark on CSR initiatives. An evaluation of the effect of MNOCs' CSR strategies presented in chapter three then followed, starting with Shell and its policies in the Delta. It soon became clear that Shell's implementation of its CSR strategies was not entirely successful, and the negative effect of failing CSR has to a large degree come to override the positive sides of their initiatives. Statoil was scrutinised next, and here it was revealed to be one of few, if not the only company,

to have a thriving CSR project and strategy in the Niger Delta. Chevron's experiences were then reviewed, with a fairly similar outcome to Shell, however this was based on unspecified data of the frequency of political risk, hence concluding on general figures available.

From this, the study chose to investigate the level of political risk to MNOCs, comprising armed attacks on facilities, sabotage, demonstrations, oil theft, attacks and kidnappings of staff, as an expression for direct political risk in the Delta. The analysis suggests that Shell is the main goal for several militants and armed groups in the area, as well as discontent from local communities. Killing and kidnapping of staff occurs on a regular basis, and sabotage to their facilities even more so. Shell is considered to be a part of the conflict and has experienced tremendous financial loss because of it. Statoil has never experienced any direct attacks on their facilities nor on their staff. Like Shell, Chevron has seen many attacks over the years, however, none has been directed to their Agbami field where Statoil operates and hence has not impacted Statoil's operations. Finally, a further analysis and debate on the findings were provided, addressing the stated objective of this research, finding that CSR can assist to reduce the level of political risk if the approach to implementing it is successful. In the next and final chapter, the research study will be evaluated on its progress and offer implications and recommendations for future research. The final section in chapter five, and of this research study, will be the conclusive remarks.

# Chapter V: Evaluation of the Research Study and Concluding Remarks

## 5.0 Introduction

The purpose of this thesis has been to research and analyse the potential of social engagement by multinational oil corporations (MNOCs) to mitigate and manage political risk, through corporate social responsibility (CSR). The objective was to arrive at increased knowledge on the relationship between CSR and political risk mitigation and thus expand the existing literature, illuminating a potential business advantage for MNOCs. A second objective of this research study was to address MNOCs' CSR practices and contributions to sustainable development in developing countries by highlighting the companies' CSR policies in an international context as this is a field of limited exploration.

MNOCs will continuously seek to manage political risk in the best possible way. Several host countries of the petroleum industry pose unique and demanding political risks for the companies operating on their soil, as the case study of the Niger Delta has shown. The Niger Delta was singled out as a particularly relevant example of a hostile environment where MNOCs face high levels of political risk. The research study commenced therefore by providing a background to the research as a point of departure, showing the centrality of oil to the conflict in the region. This justified an enquiry into the relationship between CSR and political risk mitigation. This chapter will provide a brief outline of the study's progression and further review the contribution of this study as a whole, as well as identify possible paths for future research. This chapter culminates in the final remarks of the study, and a final conclusion brings this research to a close.

## 5.1 Progress of the Research Study

The opening chapter launched this research study by introducing the topic, underlining the relevance of conducting this study. A review of the literature in the field on which this research is based was discussed, emphasising the three central areas: industry-specific political risk management, CSR, and the case study of the Niger Delta. An intensified discussion addressing the research problem followed, in which the research questions guiding this study were outlined. The progression of such was given a qualitative research design, and an extensive account of the research design and methodology were specified. Lastly, the limitations and delimitations of the research study were accounted for.

## Chapter V

The second chapter anchored the research in terms of theoretical guidance, displaying the theoretical frameworks of problem-solving and decision-making theory further accompanied by the framework of the real options theory. Key concepts and analytical tools for the thesis were critically discussed, identifying Brink's (2004:156) proposition of integrative and protective techniques as a means of political risk management. Whereas the study argued for an incorporation of both techniques as an optimal political risk management strategy, it nevertheless proclaimed CSR to mainly have integrative technique qualities.

In chapter three, the research study progressed to the presentation of the case study. Having already established the relevance of choosing the Niger Delta as a case study in the previous chapter, in addition to their presence in the region, Shell and Statoil were identified as two internationally recognised actors within the oil and gas sector and therefore suited for this research. Both firms profile themselves as socially responsible, with high standards in all their operations. Describing the working conditions for MNOCs stressing the socio-political circumstances contextualised the case study. The comprehensive account of MNOCs' historical background in the Niger Delta, their footprints and the local resistance were deemed vital in comprehending the underlying dimensions of which industry-specific political risk are to be managed or mitigated. The aim of this chapter was to introduce and discuss the presence of Shell and Statoil in the region, and more importantly, their CSR strategies. Chevron was briefly scrutinised in the same manner as it is Statoil's operator in the Niger Delta.

The fourth chapter provided the case study analysis. Here, the primary aim was to investigate the relationship between political risk mitigation and MNOCs' CSR policies. This involved examining the impact of CSR strategies and approaches of implementation on the local communities against their stated goals of achievement, before analysing the frequency of political risks, exemplified as armed attacks, sabotage, oil theft, demonstrations, attacks and kidnappings of MNOC staff. The results of their CSR programmes were considered and discussed.

### 5.2 Evaluation of the Research Study

The research study established that social challenges can affect a company's business performance. The petroleum industry is prone to such risks as their presence can lead to dissatisfaction and unrest in a local community when there is the perception that local expectations of what a MNOC should 'give back to the society' are not being met: the surrounding areas are being polluted; business is undertaken in a region of general political

unrest, where the military is protecting a site and using its presence to harass the local population for reasons unrelated to the business. The local population can sometimes associate the company with these practices, and begin to target it as a proxy for the government. Consequently, the aspect of risk management was at the core of this study, the main research question with which this study was concerned was formulated as follows: *Do CSR strategies have the ability to contribute to, and therefore function as, a political risk mitigating tool for multinational oil corporations in the oil and gas industry?* Clearly, based on the presented analysis, the findings suggest that CSR strategies do have the potential to mitigate political risk. However, the findings of the research also suggest that the selected approach to CSR has implications for this outcome, directing attention to sub-question numbers two and three: *What are the current CSR strategies of MNOCs operating in the oil and gas industry in the Niger Delta, southern Nigeria? Are the current CSR strategies implemented by Royal Dutch Shell and Statoil in the Niger Delta successful in terms of obtaining the announced goal of contributing to sustainable development?* Question two was addressed in chapter three where the investigated CSR initiatives of Shell, Statoil and Chevron all proclaimed a stakeholder-oriented approach to the matter. Addressing question three in the fourth chapter revealed that only Statoil practices this claim with a high degree of commitment, while the others continue to demonstrate elements of a top-down approach. Their degree of commitment is seen to be low as they fall short of their stated objectives. As a result, Statoil has been successful at contributing to sustainable development through its CSR initiatives, while Shell and Chevron have experienced both some success but also considerable failure in their initiatives.

As one of many strategies that can be used to reduce political risk, the main argument in the findings of this research study is that political risk can be managed and mitigated through the CSR initiatives of an MNOC, on condition that a holistic execution driven by a stakeholder and bottom-up agenda is used. The host communities' compliance with Statoil and the company's avoidance of political risks suggests a relationship between its successful CSR approach and political risk mitigation and serves as an expression of Brink's (2004:156) integrative management techniques. This finding was reinforced as the operator of Statoil's field, Chevron, was found to have a failed CSR approach and thus experienced a high frequency of political risks at its widespread facilities in the region, except for at the Agbami field. The impact of CSR on political risk is significant as can be seen by the experience of Shell, which suggests that the frequency of political risk was slightly reduced after embracing a stakeholder-oriented CSR approach, although the incidents of political risk were still high. The research study thus established that the failure of CSR projects could, in fact, negatively impact political risk.

## Chapter V

It should be noted that several of the detections made by this study are supported by other academic journals and reports that point in the same direction. The elements contributing to Statoil's success can be aligned with the real option theory for the proactive response by the company can be regarded as an investment, generating direct and indirect benefits (Husted 2005:177). Sound environmental performance and effectively contributing to sustainable development, for example, by addressing governmental challenges are supported by MIGA (2010:9) and Frynas (2010:163) among others. At the same time, it was established in the research that several of these elements were not provided by Shell or Chevron, for example sound environmental performance and consistency of corporate responsiveness, which resulted in a lack of compliance, negatively affecting political and reputational risks. This is also supported by Wheeler et al. (2002) and Heugens and Dentchev (2007).

The evaluation of this research would be incomplete without addressing the main limitations of the study. Ideally, more specific and accurate calculations should have been made by accessing MNOCs' internal evaluations of their CSR initiatives and recording frequency of political risks, in order to assess concrete measures of correspondence between time and place for CSR projects and attacks. Secondly, the case study of comparing Shell and Statoil has taken into account the companies' disproportionate presence in the Niger Delta, with Shell being the largest MNOC in the area with a longer history than Statoil, and the implications this has for the findings. The omission of a discussion of the MNOCs' organisational structure incorporating their values and codes of ethics should also be accounted for, as this could have limited the enhancement of explanatory factors. Lastly, the time and space aspect of this research study has brought natural limitations of scope and in-depth analysis, forcing the study to narrow its focus. For instance, the academic debate concerning the concept of CSR was limited in its scope, and several other elements relevant to the research were not discussed, for example the relevance of the company's organisational structure, and the MNOCs take on engaging security personnel to address the security situation.

To encapsulate, the research question in this study was successfully answered by using two supportive questions. The aims and objectives presented in chapter one were achieved, contributing to the existing literature by addressing a little-explored field, and importantly highlighting a potential business advantage for MNOCs in mitigating political risk. The aim of investigating how MNOCs can contribute to sustainable development in their host communities was also achieved. The following section will suggest recommendations for future research.

## 5.3 Implications and Recommendations for Future Research

Several recommendations for future research can be made from this evaluation. Firstly, it is recommended that this study's findings be built upon, as it would be valuable to carry out a more in-depth engagement of the problem statement underlined by political risk management theory. This could enhance the understanding of the relationship between CSR and political risk mitigation, thus contribute to knowledge for MNOCs to utilise to inform business decisions. Secondly, this thesis dealt with a narrowed scope of CSR, and a broader definition of the concept could provide a broader analysis, including the aspects of contribution to economic development, health and safety, work environment, and corporate governance, and this could be beneficial for the study. Identifying areas of CSR that are more relevant to political risk mitigation than others, could provide valuable insight into which areas to attend to when seeking to reduce political risk. Thirdly, from the findings in this research, it is suggested that failed CSR initiatives can negatively affect political risk. A recommendation for future research will thus be to investigate the implications of failed CSR strategies on political risk, scrutinising the relationship between the two variables CSR and political risk further. Lastly, as this study only looked at one region of the MNOCs' global operations, a comparative study of a firm's strategies in other countries could be a valuable contribution and indicator to determine the effects of CSR as a political risk mitigating tool.

## 5.4 Conclusion

'The private sector and security are linked in many ways, most obviously because thriving markets and human security go hand in hand. Global corporations can do more than simply endorse the virtue of the market, however. Their active support for better governance policies can help create environments in which both markets and human security flourish.'

*Kofi Annan, United Nations Secretary-General 1999* (NHO and PRIO 2003:2).

The petroleum industry is increasingly recognising that constructive social engagement may facilitate stability and development, which is also constructive for business. By applying the concept of CSR as a catalyst for such engagement, a political risk mitigating tool has been identified. This chapter has summarised this thesis' findings by exploring the progress of the research, evaluating the study, and by finally suggesting recommendations for future research.

The extent to which a MNOC is able to influence its surroundings has shown to be significant, either creating a relationship based on compliance or resentment. The final conclusion of this thesis is that social engagement through CSR *can* serve as a political risk mitigating tool, however, the implementation needs to be one of commitment to a stakeholder-oriented approach.

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**APPENDIX A**

## Distribution of Oil Reserves



- Middle East 65.7%
- Africa 6.1%
- Commonwealth of Independent States and Eastern Europe 5.9%
- Western Europe 1.6%
- Latin America 12.3%
- North America 3.9%
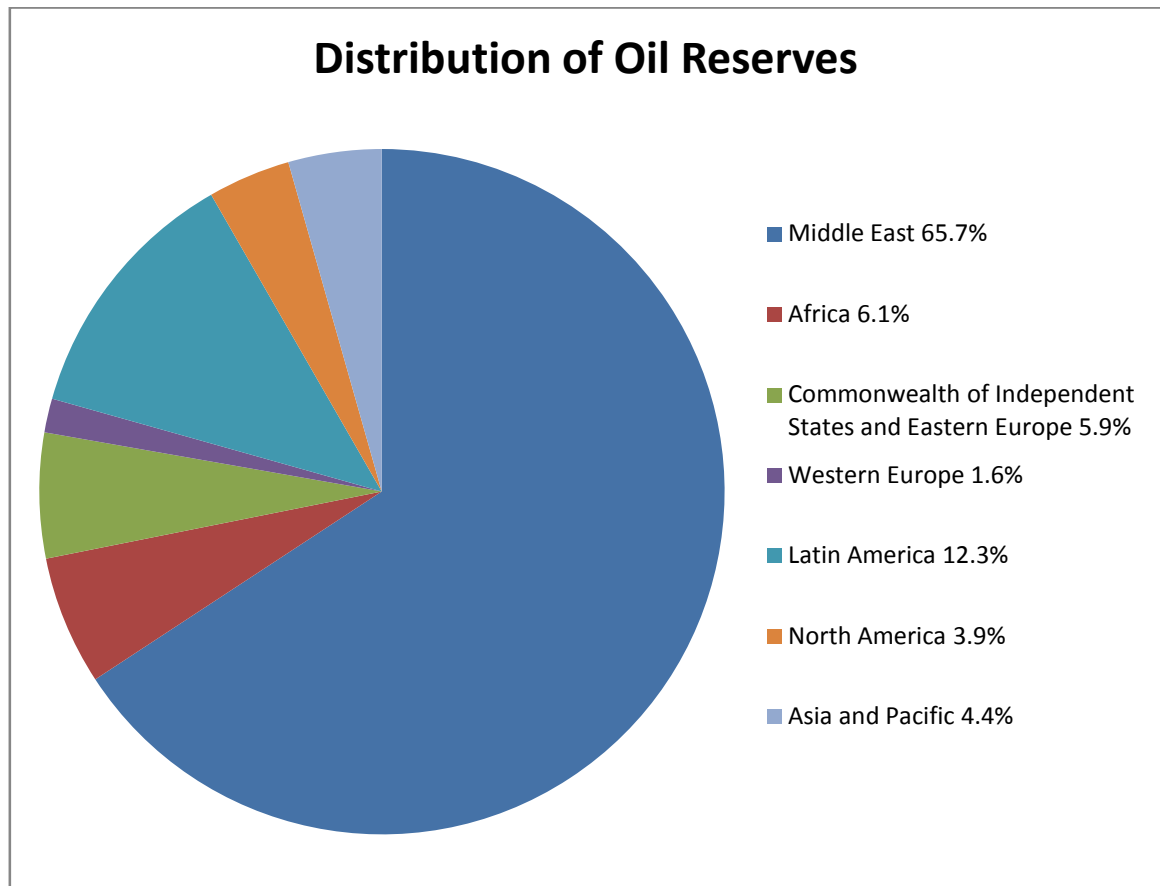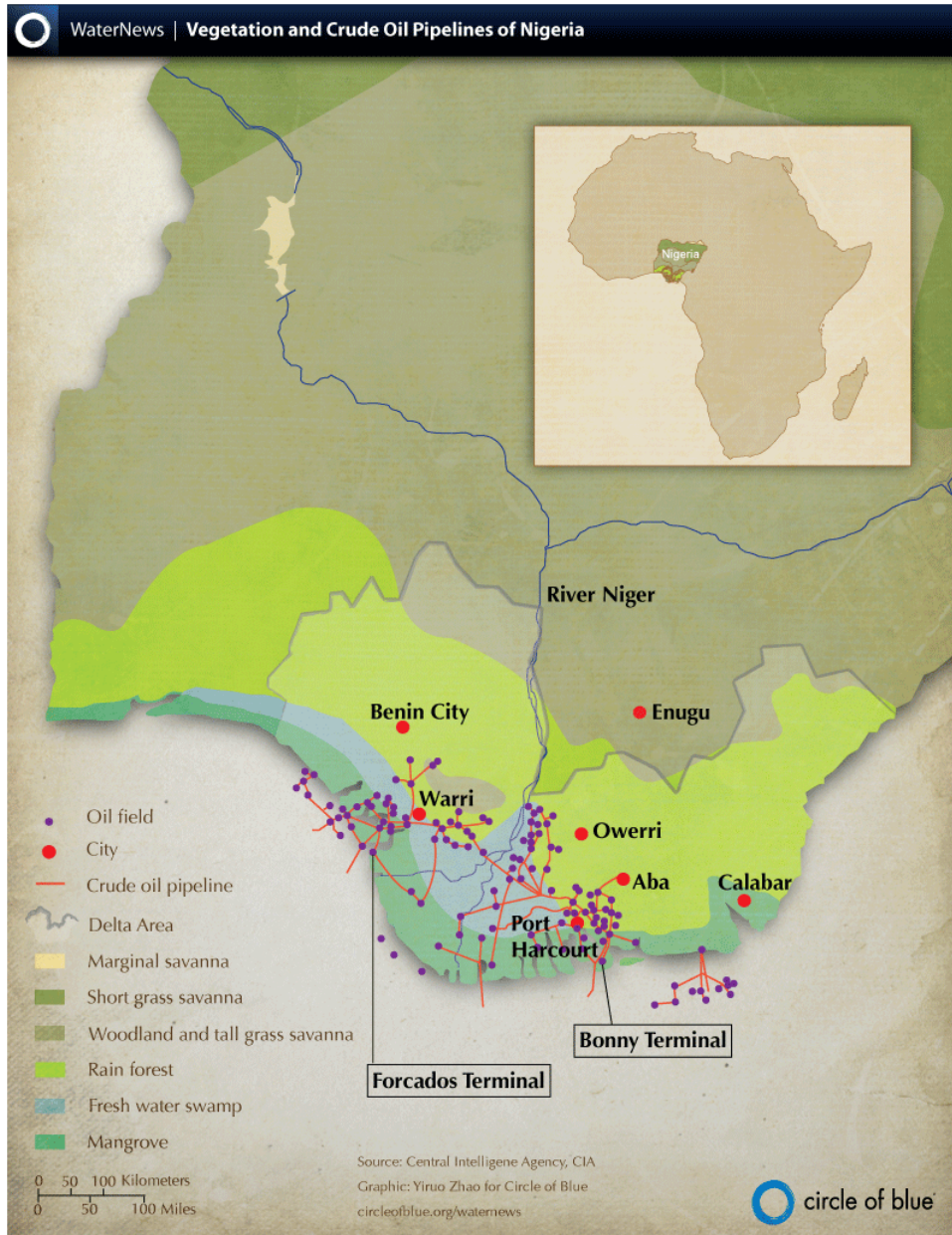- Asia and Pacific 4.4%

Figure 4: Geographical overview of Distribution of Oil Reserves, adapted from Berlin et.al. 2003:2.

# APPENDIX B



Map 3: Map of pipelines in the Niger Delta (Zhao, 2009).

**APPENDIX C**

**Table 3: Historical Timeline of Important Political Events in the Niger Delta**

**1995** - Ken Saro-Wiwa, writer and campaigner against oil industry damage to his Ogoni homeland, is executed following a hasty trial. In protest, European Union imposes sanctions until 1998, Commonwealth suspends Nigeria's membership until 1998.

**1999** - Parliamentary and presidential elections. Olusegun Obasanjo sworn in as president.

**2001** - Nigerian President Olusegun Obasanjo, South African President Mbeki and Algerian President Bouteflika launch New Partnership for African Development, which aims to foster development and open government and end wars in return for aid, foreign investment and the lifting of trade barriers to African exports.

**2003 April** - First civilian-run presidential elections since end of military rule in 1999. Olusegun Obasanjo elected for second term with more than 60% of vote. Opposition parties reject result. EU poll observers cite "serious irregularities".

**2003** - Inter-communal violence in the Niger Delta town of Warri kills about 100 people, injures 1,000.

**2004 August-September** - Deadly clashes between gangs in oil city of Port Harcourt prompts strong crackdown by troops. Human Rights group Amnesty International cites death toll of 500, authorities say about 20 died.

**2006 January** onwards - Militants in the Niger Delta attack pipelines and other oil facilities and kidnap foreign oil workers. The rebels demand more control over the region's oil wealth.

**2006 April** - Helped by record oil prices, Nigeria becomes the first African nation to pay off its debt to the Paris Club of rich lenders.

**2006 May** - The Senate rejects proposed changes to the constitution which would have allowed President Obasanjo to stand for a third term in 2007.

**2007 April** - Umaru Yar'Adua of the ruling People's Democratic Party is proclaimed winner of the presidential election.

**2007 September** - The rebel Movement for the Emancipation of the Niger Delta (MEND) threatens to end a self-imposed ceasefire and to launch fresh attacks on oil facilities and abductions of foreign workers.

**2008 January** - Oil trades at $100 a barrel for the first time, with violence in oil producing countries such as Nigeria and Algeria helping to drive up prices.

**2008 February** - MEND leaders Henry Okah and Edward Atata extradited from Angola on suspicion of involvement in attacks on oil companies. Report that Okah was subsequently killed in custody proved to be untrue.

Tribunal upholds election of Umaru Yar'Adua as president following challenge by rivals who wanted the vote annulled because of vote rigging.

**2008 April** - Oil production cut by about half as a result of strike action and attacks on pipelines by militants; problems in Nigeria help keep world oil prices at record highs.

**2008 September** - Militants in the Niger Delta step up their attacks on oil installations, in response to what they describe as unprovoked attacks by the military on their bases.

**2008 October** - The government announces major budget cuts following steep falls in the price of oil.

**2009 January** - The main militant group in Niger Delta, MEND, calls off four-month cease-fire after army attacks camp of an allied group.

**2009 May** - Niger Delta militant group MEND rejects government offer of amnesty and declares offensive against Nigerian military.

**2009 July** - Government frees the leader of the Niger Delta militant group MEND, Henry Okah, after he accepts an amnesty offer.

**2009 August** - Two-month offer of a government amnesty for Niger Delta militants comes into force.

**2009 November** - President Yar'Adua travels to Saudi Arabia to be treated for a heart condition. His extended absence triggers a constitutional crisis and leads to calls for him to step down.

**2010 May** - President Umaru Yar'Adua dies after a long illness. Vice-president Goodluck Jonathan, already acting in Yar'Adua's stead, succeeds him.

**2010 October** - Nigeria marks 50 years of independence. Celebrations in Abuja marred by deadly bomb blasts.

**2011 March** - Goodluck Jonathan wins presidential elections.

**2011 July** - President Jonathan says he will ask parliament to amend the constitution so that presidents will serve a single, longer term in office.

**2011**[45] **August** - Suicide bomb attack on UN headquarters in Abuja kills 23 people. Radical Islamist group Boko Haram claims responsibility.

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[45] The timeline is adapted from BBC (2011) http://www.bbc.co.uk/news/world-africa-13951696, 27.10.2011.

**APPENDIX D**

**Environmental and Social Consequences of Oil Exploration in the Niger Delta**

| Problem | Immediate causes | Underlying causes | Root causes |
|---|---|---|---|
| Poverty and hunger | Environmental degradation | Poor environmental performance and lack of enforcement of standards and regulations | Oil industry |
| Unemployment | Loss of livelihood | Major arable land acquisition and lack of adequate compensation | Oil industry activities |
| Underdevelopment | Lack of social infrastructure, corruption and lack of rule of law | Ethnicity-based politics and lack of patriotism | Poor governance |
| Low life expectancy | Widespread transfer of bacteria, viruses and parasites, contaminating water resources, soil and food<br><br>Air pollution from gas flaring<br><br>Water contamination from oil spills | Water and sanitation crisis<br><br>Local air pollution<br><br>Poor diet and poor health | Oil industry activities<br><br>Poor governance |
| Environmental degradation | Depletion of flora and fauna<br><br>Air pollution<br>Water contamination | Destruction of habitats<br><br>Gas flaring oil spillage | Oil industry activities |

Table 1: Environmental and Social Consequences of Oil Exploration in the Niger Delta. Adapted from ECCR 2010:54-55.

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**APPENDIX E**
**Status of Shell's Gbarain-Ubie GMoU Project Commitments**

| Item | Shell Commitments | Projects Status |
|---|---|---|
| Water supply | • Provide all communities in Gbarain and Ekpetiama kingdoms access to reliable sources of potable water through the construction and/or installations of appropriate water supply facilities/equipment | No functional or successful water supply project. Saipem is trucking in the area to cushion the effect |
| Electricity supply | • To connect communities to the Bayelsa State Electricity Board power supply system <br><br> • To work with the Bayelsa State Electricity Board to enhance the capacity of its power supply system | No positive action <br><br><br><br> No action |
| Construction of health centres | • To construct and equip two health centres at Gbaraintoru and Ogboloma | Health centres constructed but not equipped or commissioned |
| Provision of hospital equipment | • To complement the efforts of Bayelsa State government to equip the two hospitals at Okoloibiri and Agudama | No action taken |
| Scholarship awards | • To award a total of 80 post-secondary scholars to indigenes of Gbarain and Ekpetiama kingdoms who pass a qualifying test jointly administered by the community and Shell | No evidence of progress |
| Provision of craft, technical and laboratory equipment | • To provide laboratory equipment in five schools | Implemented |
| Economic empowerment projects | • To provide buses for the Gbarain and Ekpetiama kingdoms including driver training | Implemented |

Table 2: Status of Shell's Gbarain-Ubie GMoU Project commitments