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WEALTH AND POVERTY IN THE NIGER DELTA: REFLECTIONS ON THE HISTORY OF SHELL'S OPERATIONS IN NIGERIA

Frederick Bird, Concordia University

Royal Dutch Shell has been extracting oil in the Niger Delta since 1958. Over the course of more than forty years this oil has produced enormous revenues, billions of dollars worth. These revenues have benefited Shell and other oil companies like Elf and Chevron also operating in Nigeria. They have provided the primary source of finances for the Nigerian government. They have helped to build a new national capital. They have enriched a number of high-ranking government officials. In contrast after more than forty years the people of the Niger Delta are practically as impoverished as they were in the fifties. Much has happened over the course of these years. Nigeria gained its independence. Nigerians fought a civil war in which two million people died. The Nigerian government changed six times as a result of military coups. There has been on-going ethnic conflicts. Clearly, Shell has been conducting its business in Nigeria in the context of considerable political instability, wide spread social unrest, periodic times of violence, and increasingly dramatic contrasts in wealth and poverty. After more than forty years, the natural capital in form of oil reserves as well as in the form of potable and fishable water has been significantly diminished (1).

This paper is written to explore what can be learned from a thoughtful review of this history. At this point in time Shell has publicly committed itself to doing business in ways that are environmentally and socially responsible. It has acknowledged its need to learn from its experiences in Nigeria as well as elsewhere. It has consulted widely with NGOs and social critics. It has actively solicited comments and criticism from its own employees and constituencies. Two incidents in 1995 occasioned these efforts at self-examination. The first of these was Shell's attempts to sink the Brent Star oil barge in the North Sea. Threatened with a well-organized boycott of its products in Europe, Shell relented and towed the barge to shore. The second event was the military trial and eventual hangings in Nigeria of nine Ogoni men, including the popular writer Ken Saro-Wiwa. These men were charged with the deaths of four Ogoni elders in May 1994. The trial seemed so unfair that British Commonwealth temporarily suspended Nigeria from its membership after the Ogoni nine were killed. All of those that were hanged had been active in protesting against the way Shell was managing its operations in the Niger Delta. To many, Shell seemed implicated. Moreover, Shell's protest against the military tribunal had been muted at best.

This paper is written on the assumption that it is important not only to examine the issues that gave rise to the Ogoni protests and conflicts in the early 1990's. It is important as well, to examine Shell's overall history in Nigeria and to explore reflectively if Shell might have managed its operations in alternative ways so that the people of the Niger delta would be now less impoverished and their resources less diminished. Although we will focus on Shell in Nigeria for the purpose of this essay, we hope to see what other businesses interested or involved in long term investments in developing areas can learn from a thoughtful review of Shell's experiences.

Part One: Brief History of Nigeria

Nigeria did not exist one hundred years ago. It was initially formed as a single administrative unit as a British colony in 1914. During the nineteenth century the area that was to become Nigeria was peopled by a number of different self-governing peoples. In the southern area, these included several larger peoples such as Igbo, the Ijaw, and the Yoruba. The northern area was dominated by the Hausa-Fulani Caliphate, which was established in 1817. European powers had long taken an economic interest in this area. The Portuguese captured and made slaves of 235 people in 1444. The seizing of indigenous peoples as slaves continued over the next several centuries. This trade had a devastating impact on social and economic life of these peoples. As slavery ended, the British discovered another economic resource they could exploit, namely the oil extracted from palm trees. In order to control this trade the British created a crown colony in the area of Lagos in 1861. In 1864 they created a protectorate of the Niger delta and hinterlands. Initially British merchants purchased the palm oil from tradesmen in the Delta area. Realizing that they might secure a higher return if the sold directly to businesses using palm oil in Great Britain, some of these trades people sought to develop these arrangements. The British merchants in turn sought to deal directly with the growers who harvested the palm oil. Overtime these merchants succeeded in their aims aided in large part by British military powers. By 1903 the British had succeeded in conquering the Hausa-Fulani caliphate in the north as well. The three regions of Lagos, the Delta, and the north were merged into a single colony in 1914 (1).

Britain governed Nigeria as a colony until it became an independent country in 1960. In years in between it aided Nigeria's development in several ways. It helped to develop physical and social infrastructures. It established schools and colleges. It helped to develop a united armed force. It helped to form courts and legislative councils. In several ways Britain worked to help prepare Nigerians to be able to govern a country that was constituted by peoples who had never before been joined together as a common country. They established several commissions to explore these issues. Nigeria gained independence with a federal constitution that assigned some self-governing powers to three regions: the western region, dominated by the Yoruba people, the eastern region which included the Niger Delta, dominated by the Igbo, and the northern region, dominated by the Hausa-Fulani. The southern regions were largely Christian and the northern region was largely Muslim.

Nigeria's prospects at independence seemed promising to many. They had a sizeable well-educated elite, representing all the major regions. They had established what seemed like a workable federal system of government. Extensive oil resources had recently been discovered and promised to generate enormous amounts of wealth. However, in spite of these prospects, Nigerians had little or no experience governing a multi-national country that was expected to manage a complex, modern economy (Gagnon and Tully 2001, Ivison et al 2000). Their past experiences in governing had taken place in relation to the various nations and indigenous peoples included within Nigeria. Their loyalties were formed largely in relation to these groupings.

Until 1966 Nigeria had a civilian government headed by a president, Nnambi Azikiwe. At that time a number of regional and ethnic conflicts came to a head. There was a military coup led by an Igbo, General Aguiyi-Ironsi. At the same time many in the north especially resented the disproportionate influence of the government officials and army officers who were Igbo. This gave rise to a mutiny by young Hausa-Fulani officers as well as more general attacks on Igbo in other parts of the country. In fear for their lives, many Igbo fled to their own territorial home in the eastern region. Later in that year Colonel Yakubu Gowon led another coup. He was a northerner as well as a Christian and a member of a smaller ethnic group. He thereby seemed to represent Nigeria a whole rather than any particular region. He was supported by many of the smaller ethnic groups that feared being oppressed by the larger groups in each of the religions. In order to address these underlying tensions, representatives from the major regions met in Abur, Ghana and reached a compromise settlement that gave the regions greater autonomy. The military government rejected this settlement because it seemed to them to foster divisiveness. The Government in turn dealt with these issues both by strengthening its own centralized power and weakening the regions by dividing the country into twelve states instead of three or four divisions. A fourth region had been established in the middle of the south to accommodate the demands of the Ijaw people, who had engaged in an unsuccessful attempt to secede in 1966.

Many resisted the centralizing stance of the government. Led by Igbo army officers, in 1967 many within the eastern region declared themselves to be an independent country with the name of Biafra. A war them ensued between Biafra and rest of Nigeria. This war continued more than three years and resulted in approximately two million deaths, most of those to civilians. However, not all the people within the eastern region favored the creation of Biafra. The central government received support from many of the smaller ethnic groups, like the Ogoni, who feared that they would be dominated by the Igbo in the proposed country of Biafra. The war ended in 1970. Gowon announced that military rule would last another six years, This would allow time to stabilize and restructure the federation.

Prior to the seventies, Nigeria had earned much of its foreign exchange revenues from the sale of a variety of agricultural products, such as palm oil, groundnuts, and cotton. Beginning in the seventies, Nigeria became increasingly dependent on the sale of oil both for its foreign exchange accounts and the government's own revenues. The Biafra war was certainly fought to determine who would control and benefit from the oil extracted in the Niger delta. In the early seventies the oil producing countries formed a cartel and greatly raised the price of oil. This price increase generated enormous amounts of new wealth in Nigeria. This wealth funded steep salary increases in the army and the government, diverse public works, large private and public projects, and a marked increase in consumer spending especially in urban areas. The government moved to take greater control over the oil industry. They established the Nigerian National Oil Company (later re-named the Nigerian National Petroleum Company) and then either bought out or assumed greater fiscal control over the other multinational petroleum companies like Shell and Chevron. They did not take over actual operations. Rather the government served as renters, collecting huge amount of taxes and royalties.

This surge in new wealth had a number of important but mixed results. It served to increase the powers of the centralized government. It diverted attention away from the needs and opportunities that might have been associated with greater concentration of efforts on expanding and improving agricultural production. Agricultural production in fact suffered. It had produced 60% of Nigeria's export earnings in 1960. In 1978 it produced only 10% of these earnings. This surge of new wealth also encouraged a sharp increase in the consumption of both imported goods as well as goods manufactured by newly developed firms in Nigeria established by international businesses. Unlike at least some of the other major oil producing countries, most of revenues from oil production in Nigeria were directly or indirectly consumed rather than invested (Forrest, chp 8). Much of the recently developed wealth ended up in foreign hands. As a result of its new wealth, Nigeria initially enjoyed a surplus in relation to trade and investment with other countries. However, this surplus had turned into an increasingly large deficit by the end of the seventies as domestic spending on imported goods and foreign investments grew.

After ten years the military government of Colonel Gowon was overthrown in 1976 by a military coup. Brigadier general Murtala Mohammad seized power in part in order to institute a series of reforms leading to a civilian government. He was a popular leader but was assassinated. His deputy, General Olusegun Obasanjo, assumed the position of president and prepared the way for a popularly elected government of Shehu Shagari in 1979.

On per capita basis Nigeria were wealthier at GNP/person of more than $1000 in 1980 than they were earlier or since. However, in many ways the social and economic situation in Nigeria was becoming more difficult. Because their currency's exchange value remained high, it became easier to buy imported goods than to sell their own agricultural or manufactured goods. As the result their external debt grew and their agricultural and manufacturing sectors remained underdeveloped. The sharp decline in oil prices in the early eighties aggravated these trends. Between 1979 and 1983 Nigeria transferred $14 billion into foreign accounts. Corruption had markedly increased. Per capita income had declined 34%. In spite of the continued sales of oil, the country had become poorer and more economically dependent (Forrest chp 8; Ikein, 71,72).

Ostensibly to reduce the levels of public corruption, Major General Muhammad Buhari replaced the civilian government in 1983. He was in turn overthrown by General Ibrahim Babangida in 1985. General Babangida remained in power until 1993. In order to help Nigeria meet its increasing debt load, beginning in 1986 he arranged for Nigeria to undertake a series of structural economic adjustment in keeping with the guidelines of the International Monetary Fund. These reforms included measures to devalue the national currency, to reduce dramatically government spending, and to foster increased foreign investment. The reforms did not yield the desired results. Those sympathetic to the IMF argue that these structural adjustments did not work because the government began to abandon them in the early nineties before they could really become effective (Moser 1997). Critics of these initiatives argue that these reforms further weakened the economy by undercutting needed social services, by favoring foreign over domestic manufacturers, and by aggravating debt problems. The reforms were more designed to foster international trade rather than what was really needed, which was more local intra-national commerce (Forrest 1993, Bingara 1991, Ikein 1991).

General Babangida worked to increase and defend his own power. In 1990 he arranged to have military courts try 69 fellow army officers, all of whom were convicted and executed. Nonetheless at the same time he undertook to prepare to hand over power to an elected civilian government. However, he strictly controlled the process so that regional or ethnic loyalties would play no part in the process. By government ordinance, all political candidates had to belong to one of two newly created national political parties. On June 12, 1993 the voters of Nigeria elected M. K. O. Abiola, a rich merchant, as their president. General Babangida, however, annulled the election. Later that summer, perhaps in response to the protests against his usurpation of power, Babangida voluntarily retired and handed over the reins of government to an interim administration headed by Ernest Shonekan.

By the early nineties many groups in Nigeria were becoming increasingly upset with the situation in their country. Their real income levels had been halved over the previous decade. Unemployment rates remained extremely high. The central government seemed to become increasingly autocratic. As poverty increased, huge amounts of wealth had been diverted to build a capital at Abuja, in the middle of the country. Military and economic elites, like General Babangida, had grown increasingly wealthy. Movements in the north called for stricter observance of Muslim codes. In the Delta region, groups protested against various practices of the oil companies, especially their flaring of natural gas and the ways they polluted the freshwater streams. There were protests in 1987 by Iko youth, in 1990 by youth in Etche village of Umuechen, and in 1992 by youth in Barry. All these protests were met by force and resulted in deaths.

In 1990 Ken Saro-Wiwa, who was a popular writer and broadcaster, as well as a successful entrepreneur, helped to organize MOSOP, the Movement for the Survival of the Ogoni people. MOSOP created its own bill of rights. It got itself registered with Unrepresented Nations and Peoples movement in The Hague. MOSOP was a particularly well-organized and articulate movement. In November 1992 it issued a 30-day ultimatum both to Shell and to the government. This ultimatum demanded that Ogoni be paid $6 billion for unpaid royalties, that the flaring of gas cease, that all high-pressured pipelines be buried, that a $4 billion reparation payment be made for environmental damage, and that Shell and the government immediately begin conversations with the Ogoni to resolve these concerns. In January MOSOP organized a demonstration in support of their demands to which 300,000 Ogoni attended (out of 500,000). General Babangida then met with MOSOP leaders but reached no agreement. Shell decided temporarily to withdraw from its operations among the Ogoni.

In their Bill of Rights addressed to the government and people of Nigeria, the Ogoni declared themselves to be a distinct nationality within the larger republic. They objected to being forcibly included in the eastern region of Nigeria and in the Rivers Province without distinct political recognition and representation. Although oil mining in their territory had produced what they estimated to be $30 billion, they had received next to nothing. They lacked jobs, electricity, fresh pipe-borne water, as well as adequate educational and health services. Their environment had been ravaged. They demanded to be granted political autonomy, fitting representation at all levels of government, and the "control and use of a fair proportion of Ogoni economic resources for Ogoni development." (Moldoveanu 1999, pp 23,4)

Faced with continuing poverty, high rates unemployment, and the lack of any meaningful discussions or negotiation with Shell or the government, young people among the Ogoni became more restive. When at the end of April 1993, a Shell sub-contractor began digging up farmlands near Biara to bury a high-pressure pipeline, a crowd a youth attempted to stop the operation. Soldiers supported the workers and some protestors were killed. Shell then decided to close down its operations among the Ogoni. Several factors led to this decision. Shell was becoming increasing concerned with leaks in its oil lines caused, it claimed, by acts of sabotage. Many of the Ogoni people, especially unemployed young people, expressed increasing hostile criticisms of Shell. The recent protests seemed to put Shell's operations at risk. Although it subsequently indicated its wish to recommence its operations among the Ogoni, Shell has not resumed activities in this part of the Delta.

At this point differences began to surface among the leaders of MOSOP. The majority adopted a more militant stand. They opposed the laying of the new pipeline. They called for the Ogoni to boycott the federal elections called for June. The minority assumed a more moderate role in relation to both Shell and the government.

Over the course of the summer armed groups attacked and killed Ogoni people in distinct incidents in July, August, September and October. As a result more than one thousand Ogoni had been killed and more than twenty thousand had been rendered homeless. The government claimed these attacks were simply evidence of mounting ethnic conflict between the Ogoni and its neighboring peoples. The Ogoni felt they were being attacked either by federal soldiers or militias acting on government orders. In several cases the government's role in these attacks was unmistakable. Clearly the situation had become aggravated.

In November 1993 General Sani Abacha staged a military coup. He consolidated his power in a number of ways. He suppressed a protest by youth who occupied the Nembe flow station in late 1993. When in 1994 oil workers struck on behalf the president-elect M. K. O. Abioli, he had their union declared illegal. He seized the passport of the Noble prize author Wole Soyinka. In 1995 M.K.O. Abiola's wife was killed. More than forty former national leaders were imprisoned including the former president Olusegun Obasanjo. The situation of the Ogoni became even more aggravated. In May 1994 a meeting of Ogoni elders was attacked by a mob. Four elders, who had assumed as more moderate political stance, were killed. The police arrested 19 other Ogoni, some of whom like Ken Saro-Wiwa had not been present at the gathering. They put them in prison, beat them, kept them there, but failed to make any formal charges until the beginning of 1995. The Ogoni people variously grieved these deaths and protested these arrests. In the meantime armed forces raided Ogoni villages, killing, wounding, and burning. Essentially, the Ogoni were being attacked by the government (Boelle 2000; Okonota and Dougas 2001).

The situation among the Ogoni had become volatile. Some sympathetic observers have described the Ogoni as rebelling or fighting against the government (Ejobowah 2000; Maier 2000). Soyinka is probably closer to the mark when he refers to this situation as example of ethnic cleansing (Soyinka 1996, Intro.). Large number of people had joined public demonstrations. They had called for fundamental but not revolutionary or radical political changes. Large numbers of un- and under-employed youth had become increasingly overt in their expressions of dissatisfaction. Attacks of sabotage against Shell's facilities had increased but were not yet as widespread as they would become in the late nineties. Most the Ogoni felt that Shell's operation in this area should remain closed down. Both the government and Shell experienced a sense of threat. Both overtly indicated their interest in the resumption of Shell's operations in the area. Shell had solicited the government's help in dealing with social disturbance and acts of sabotage (Okonta and Douglas, 134-7). The Government's responses were neither orderly nor measured. They were repressive, violent, and autocratic. The federal government may well have feared that the Ogoni would set an example to the other peoples who would also seek political autonomy and economic control over the mineral resources of the Delta. After all, in 1992 the Ijo had formed their own political movement, modeled after organization developed by the Ogoni. Similarly, in early 1994 the Ijaw formed a congress also inspired by MOSOP. The government was absolutely dependent upon mineral wealth of the Delta for their revenues, 90% of which came from the oil extracted from this region. Did the government fear that the Ogoni and other groups would seek to secede like the Biafrans? If they did, they grossly misrepresented the stated aims of all of these groups, which sought adequate representation within the Nigerian federation rather than independence and greater share of oil wealth rather than outright control. It seems more likely that General Abacha and his government were simply acting as military despots.

Later in 1995 nine of the arrested Ogoni were tried and convicted by a military court of murdering or planning the murders of the four Ogoni elders. The trial was manifestly unfair. Witnesses had been bribed to testify against the defendants (Soyinka, 146). Unlike the case with General Obsanjo and the other arrested political leaders, their death sentences were not commuted to long-term imprisonment. International outrage with respect to this trial and these sentences grew. Almost as if he wanted to spite the international community, General Abacha ordered the hanging of these men just as the

British Commonwealth of Nations was about to begin meetings in New Zealand. As result of this action, Nigeria was temporarily suspended from the Commonwealth.

During 1997 Ijaw youth staged a number of demonstrations and protests. Some of these were aimed at the provincial government. Others protested against the way the federal government appropriated almost all the oil revenues, sharing only about 3% with local governments in the area in which the oil was extracted and refined. Protests, demonstrations and acts of violence increased in 1998 and 1999.

The situation in Nigeria changed appreciably in 1998. In June General Abacha suddenly died. He was succeeded by General Abdul Abubaker. The latter refused to free from prison Chief Abiola, who still remained the president elect on the basis of the 1993 election. In early July Chief Abiola died in prison. General Abubakar then arranged for a transition to civilian rule. Different sets of elections were held first for local government positions, then for provincial councils, followed by the national assembly. Finally a national vote was held for the presidency. On May 12, 1999 the former general and military ruler, Olusegun Obasanjo was elected as a civilian president. He quickly introduced a number of reforms. He altered the formula for disturbing revenues from oil production so that the producing area received 13% rather 3%. He established a public commission to review past instances of corruption. He freed the political prisoners.

With a population of 106 million, by 2000 Nigeria had become the tenth most populous country in the world and the most populated in Africa. It had an external debt of $32 billion. The per capita income had declined to $300 from a high of more than $1000 in 1980. Nigerians could expect to live to just over 50 years, which was an improvement on the life expectancy of 41 years that they had in 1965 but did not compare favorably to a life expectancy of 65 years in Indonesia and 69 years in Thailand. Over ten percent of children died in infancy. There has been a marked increase in the incidents of AIDS. About 60% of adults could read compared to 85% of adults in Indonesia and 95% of adults in Thailand. Nigeria spent 0.7% of its GNP on education and the same percentage on health. This compares with 4.2% of GNP for education in Thailand and 6.2% for health. Only half of the population had access to fresh water (Guest 2000, p 7; The Economist 2001). After forty years of independence, the situation in Nigeria was in many ways worse than in 1960. Ethnic strife had increased. Religious conflicts had become more pronounced. More than two-thirds of the vast oil reserves in the Delta had been extracted. The waters of the Delta have become much more polluted. The fish stocks are more at risk. Civil unrest has been on the increase. Crime rates have risen markedly. Attacks of sabotage against oil companies have multiplied. Shell experienced 106 disruptions in its operations in 1997 and twice as many the next year (Guest, 10; Ejobowah, 3). There has been an increase in kidnappings and hostage taking.

Constitutionally Nigeria has not yet found a satisfactory political arrangement for balancing the interests of its various regions and peoples. Many people think of themselves first as being members of particular peoples or internal nations, like the Yoruba or Igbo, the Hausa or the Ijaw, and only secondarily as Nigerians. Nigerians continue to debate over formulas for sharing tax revenues between the states and the federal government. In hopes of maintaining the unity of the country the federal government has asserted its centralizing authority. In the process they have typically aggravated efforts of the distinct peoples and regions to assert their political autonomy. Overall, Nigerians have had to live with both considerable political instability as well as autocratic assertions of power.

As a result of their oil resources, Nigeria has generated more than two hundred billion dollars over these forty years. Unfortunately, this wealth has not appreciably benefited the country. It has not been invested in developing adequate social infrastructures in the form of schools, universities, hospitals, and clinics. It has not been invested in helping to construct adequate physical infrastructures in the form of useful and accessible utilities, transportation networks and communication systems. It has not been invested productively in helping to expand and strengthen agricultural developments and to generate local commerce and industry. In fact agricultural production has declined. Overall most of enormous revenues produced by oil mining have been diverted into private consumption, lavish public buildings, and unfeasible mega-projects. The revenues generated by oil mining have been treated as windfall earnings to be consumed over the short term rather than invested over the long term.

Royal Dutch Shell has played a major role in Nigeria during this period. In retrospect, as we thoughtfully review their history in Nigeria, we will inquire whether it would have been possible for them to have managed their operations differently so that Nigeria would now be in situation that was less impoverished, economically more developed, socially more ordered and politically more stable?

Part Two: A brief account of Royal Dutch/Shell and their operations in Nigeria

Shell is one of largest businesses in the world with sales in 2000 of almost $94 billion (Economist, p 56). Technically Shell is not one company but a group of more than 200 separate companies governed overall through two legally independent but collaborating holding companies in the Netherlands and Great Britain. Overall these companies employ more than 100,000 workers and operate in more than 120 countries. A six person Committee of Managing Directors provides executive direction to the overall Shell group. The Shell Group of companies are involved in exploration and production of petroleum products, the distribution and marketing of these products, chemical manufacturing, as well as various other activities they list under the broad category of Renewables (3).

Shell has been involved in Nigeria since 1937 when they undertook initial explorations. They discovered oil in 1956 and began commercial production in 1958. In Nigeria Shell currently assumes the form of the Shell Petroleum Development Company of Nigeria Limited (SPDC), a corporation owned 55% by Nigerian government through the Nigerian National Petroleum Company (NNPC), 30% by Shell, 10% by Elf, and 5% by Agip. It currently operates more than 1000 wells, 87 flow stations, and more than 6000 kilometers of pipelines in the Niger Delta. SPDC directly hires about 4000 employees and works with about 5400 on contractual bases. Aside from about 250 ex-patriots, all the employees are Nigerian and 60% come from the Delta (SPDC 1999).

Once oil had been discovered Shell as well as other international oil companies rapidly expanded their operations. As Nigeria was beginning its own independent existence, Shell was involved in drilling wells, laying pipelines, constructing refineries, building port facilities, developing flow stations and exploring for new oil. They were creating a sizeable number of new but short term jobs, typical for the start up and construction phase of mining companies, as well as many on-going position. They were as well contributing to the government through taxes and royalties. During the Biafran war, they withdrew temporarily from the Delta. The war had in part been occasioned by disputes over the degree to which regional, local, and/or the federal governments should be able to control the wealth created by oil production.

Shell's operation in Nigeria further expanded during the seventies and eighties. Their status within the country shifted. They had begun largely as an international firm working as senior partners with British Petroleum with a mixture of foreign and domestic workers, Nigerian government moved to nationalize or indigenize their operation. They bought out the BP part of the collaboration and they demanded a larger portion of the royalties as well taxes. Shell responded in the same way both to the exertion of greater governmental financial control as well as to the on-going history of governmental instability and autocracy. They assumed that their primary responsibility was to operate as an effective and honest petroleum company. They worked to maintain the autonomy of their operation free from government intervention, to manage their operation in a business like way, to obey the laws, and meet their tax obligations. They committed themselves not to condone bribery and not to get involved in politics. They added that "SPDC is the only government we know."

Overall they sought to be good corporate citizens, as they understood that idea. From the beginning they had made certain kinds of social investments. Even before they struck oil they had set up a fund to offer scholarships for Nigerian students studying in Britain. Over the years they had establish more of these for students in Nigeria. They contributed to building local health clinic and schools. They had drilled wells to help some local communities obtain fresh water. In the mid sixties they had begun an agricultural extension program. In the seventies they helped local farmers obtain new strains of disease resistant cassava cuttings. They had trained and hired local workers, most of whom came from the Delta. They had addressed their security needs by hiring their own guards and by calling upon the state government or the federal government to offer them extra protection.

They were, however, meeting with increased hostility from peoples living in the Delta. People living in this area raised many different sorts of complaints. They complained at the way their environment had been degraded. Levels of pollution in the rivers and swamps had greatly increased. This adversely affected fishing. Fishermen often had to travel much further and spend greater effort to return with even smaller catches. Farm lands had been dug up for new pipelines, sometimes without appropriate consultations and negotiations. Increasing number of oil spills and leaks occurred, in part because of corrosion to old pipelines. Whatever the cause, these spells and leaks polluted lands and water and were not always cleaned up quickly. Shell burned off almost all the natural gas that was extracted along with the oil. In the mid nineties 87% of the associated natural gas was being flared in Nigeria. This compared unfavorably with flaring rates of 21% for Libya and 0.6% for the United States (Okonta and Douglas, 67). Delta residents complained especially at the way this flaring polluted the air they had to breathe. They felt that they experienced more illness because the air was contaminated by chemical produced by the constantly burning gases. They might have complained for an additional reason: namely, that by burning these gases, Shell and the other petroleum companies were using up and wasting a huge natural resource, which, if it were properly used, might have produced additional sources of energy worth billions of dollars. However, few voices were overtly raised about the loss of this immense foregone opportunity. Indirectly villager voiced their concern about this matter when they complained about the absence of electricity, which might have been produced by gas generators.

Although Shell's operation provided wages and job opportunities for several thousand workers from the Delta, the numbers employed seemed to many to be insignificant in a population of seven million in which the rates of un- and under-employed had been steadily growing. Some were hired full time. Others received contractual work. Still, the highest paid positions seemed to go either to foreigners or people from other parts of Nigeria. Shell's social investment projects generated similar responses. Those who benefited were appreciative. Others, in contrast, felt over-looked and left out. Many of Shell's social investment projects never fully became operational. In the years between 1992 and 1997, only 36 of the 64 roads that Shell helped to build had become functional. Only a little over half the efforts to support the building of town halls (15 out of 28 projects) had become functional. Their success rate for school building construction projects was higher (156 out of 286 project). However, their success rate for water projects was very disappointing. In only 24% of their drilling attempts (28 out of 115 efforts) were they able to gain access to potable water that met national standards. The failures here occurred because even the water in deeply drilled wells often contained levels of iron in excess of healthy standards. The fact that so many villages lacked adequate fresh water sources made this situation particularly aggravating. This record is very interesting. It demonstrates that Shell was in fact seriously involved in social investment projects. However, the failure to succeed with many of these efforts no doubt aggravated the expectations of those affected. If Shell could succeed with the complex enterprise of mining petroleum that generated so much wealth for others, then why were they not able to succeed with these seemingly simple operations that might have helped some of the people most adversely affected by oil production business?

The chief source of resentment among the various peoples of the Delta was the way that the oil business, which polluted their air and water, tore up their lands, and disrupted their traditional ways of life and sense of community, produced extravagant amounts of wealth for others. Military dictators and high-ranking officers got rich. Extravagant public buildings were constructed. Many business and professional people in far off Lagos enjoyed high salaries. Much of the revenues were being spent in other parts of the country with which the Delta people had almost no sense of relation. Foreign companies were thriving. But they remained impoverished, far worse off in the nineties than they were in the early eighties. Moreover, the people of the Delta feared that the oil reserve would become depleted before they would experience any real benefit.

In the early nineties officials at Shell had not yet become aware of how difficult the situation was becoming from the perspective of peoples of the Delta. In modest ways they were becoming more socially and environmentally conscious. They were now regularly undertaking Environmental Impact Assessments before each new project. Their spending on social investment projects increased. It had reached $23 million per year by 1996. At Shell's urgings, in 1992 the federal government had created Oil Mineral Producing Area Development Commission (OMPADEC) to serve as a vehicle for investing oil royalties for economic and social development projects in the Delta and other oil producing areas in the northeast. However, the government rendered OMPADEC ineffective by diverting to it only 3% of these funds. Shell promised within a few years to construct a liquefied natural gas plant. Associated gas produced while extracting oil could then be piped there and turned into a valuable product and subsequently shipped to markets in the industrialized countries.

At the same time Shell felt increasingly embattled. The numbers of voiced complaints grew. Security became more of a problem. There was an increase in the acts of sabotage against their pipelines and facilities. They agreed to provide compensation for all damages suffered from accidents or spills that were their fault but not ones caused by vandalism. However, they were accused of narrowly construing this standard for their own advantage. The relation with the Ogoni became especially strained. The Ogoni had directly asked Shell to withdraw from their territory. More than half of the Ogoni people had participated in a huge public demonstration voicing this demand and asking as well for sizeable compensation for environmental damages and appropriate royalties for profits on oil extracted from their lands. Acts of vandalism against Shell pipelines and facilities had markedly increased in this area. Shell's responses were mixed. They asked for added protection from the state and federal governments. They also sought to strengthen their own security measures. In addition after the large public demonstration, they also agreed to withdraw at least temporarily. They did not seek directly to enter consultations or negotiations with MOSOP, the militant Ogoni association that had organized the demonstration. Shell views were as follows: "MOSOP's demand for a greater share of oil revenue from the government, political self-determination and ownership of oil beneath their land are political. SPDC as a commercial organization does not – and should not –be held accountable for actions that are the responsibility of a sovereign government." (SPDC 1997a, p 8)

Shell seemed largely to stand by as the government and unidentified armed gangs launched attacks against the Ogoni and as the Ogoni in turn protested. At the behest of the Rivers state government, Shell attempted to begin work on a pipeline in the area, using a contractor. They met with further protests, and withdrew. They remained publicly mute as Ken Saro-Wiwa and others were seized by the police, imprisoned without charges, tried by the military court, and eventually killed. They had initially sent a lawyer to the court, assuming the trial would consider all of the recent civil disturbances in the area. Their lawyer withdrew after one day when it was clear that this was just a murder trial. Using some forms of quiet diplomacy, Shell privately asked for a fairer trial and for clemency. They voiced little concern about the several attacks on Ogoni villages and people. They viewed these instead as expressions of ethnic conflict (SPDC 1997a, p 2). They expressed shock and outrage at the hangings. They also directly protested several charges that had been made during the trial. They had not, they said, had any involvement with the military, nor provided arms for militia, nor had they bribed any witnesses.

With respect to trial as well as the troubles experienced by the Ogoni, many people around the world felt that Shell was in some ways complicit, for what they had done (for example, contributing to the pollution), for what they did not do (mounting a more overt protest of the trial), and for what they were suspected of doing (in some way encouraging or supporting the raids on the Ogoni). In several ways SPDC sought to defend themselves and improve their status among the Delta people. In 1996 they made the commitment to begin construction of a Liquefied Natural Gas Plant at the cost of $3.8 billion. They offered $220,000 in humanitarian aid to Ogoni and the Adoni, one of the neighboring people with whom the Ogoni had reputedly been in conflict. They supported the position of a recently held Constitutional Convention, which proposed that as of 1998, 13% rather than 3% of the oil royalties from the Delta be invested in the area through OMPADEC. They arranged for a thorough environmental survey of the Delta, the same kind of assessment that had recently been undertaken by the World Bank. They sought to obtain a more objective account of their activities. They paid for a number of European reporters to come to Nigeria and review their operations, reporting on these as they saw fit. They increased their social investment budget from $22 million to $36 million. They made a number of overtures to foster better relationships with the Ogoni although they did not formally consult with the leaders of MOSOP (Boele 2000). They began replanting paths they had cut through the forest for seismic explorations.

In the meantime Shell international had begun to respond to these events as what they referred to as a “wake-up call.” Because of events in Nigeria and the North Sea, they had suffered a sizeable blow to their reputation. Even though they had acted conscientiously and in keeping with relevant laws in both cases, the public perceived them as acting in ways that were seriously morally compromised. They treated the situation as one calling for serious “reputational management.” (Paine, 5) They initiated a series of multi-stakeholder consultations. In fourteen countries they held roundtable discussions with community groups, academics, employees, and executives. In an initiative referred to as Society’s Changing Expectations, Shell solicited participants’ criticism and advice. They were viewed, they learned, as being too Eurocentric, too arrogant, too cavalier about environmental concerns, and too secretive.

In response to these events and inquiries, Shell International launched three significant reforms over the next several years. One, they re-wrote their statement of business principles, which had been originally drafted in 1976. They now acknowledged their accountability not only to employees, customers, and society but also to shareholders and all those with whom they did business. While re-affirming their pledge to stay out of politics, they acknowledged the responsibility to speak out on issues that they deemed relevant to their businesses. They also affirmed the importance for transparency in all their activities, especially in their audits. They again stated their opposition to any form of bribery. They stated that it was important for Shell companies to respect and support respect for human rights. In subsequent years they have acted in several ways to reinforce the importance of these revised and augmented business principles. For example, much more prominently Shell has called attention to these principles, translated them in more than fifty languages, and more frequently invoked them in relation to business strategy and practices. Shell has also produced handy guidebooks on both Human Rights issues and Bribery, providing useful advice for Shell employees on how to put these principles into practice in relation to situations that may be confusing and complex. In 2000 four employees were dismissed when they were caught making or receiving illegal payments (Royal Dutch/Shell Group 2000).

Two, Shell has much more seriously recognized the importance of environmental and social issues. They have appreciably augmented staff working in these areas. They now regularly undertake environmental assessment before all new projects. They have urged companies within the Shell group to seek out formal auditing of their environmental and social practices in keeping with one of the benchmarking standards such as the ISO 14001 or the Caux Principles. In particular they have lent considerable support to the development of international Sullivan Principles, modeled after the standard written by the Rev. Leon Sullivan for companies doing business in South Africa. They have worked at developing key indicators by which they could gauge the social performance of Shell companies. In recent years as they have explored possible new production sites, they have sought to proceed in ways that were both environmentally and socially responsible. For example, together Mobile Oil they worked towards developing a drilling site at Camisea in Peru in the midst of the Amazon that would both respect local indigenous peoples and leave few environmental footprints (SPDP 1998).

Shell has also begun to re-orient their outlook on social investments. They have begun to think of this investment less as community assistance and more as community development. What does this mean? Typically, community assistance assumes the form of providing philanthropic grants for cultural or social projects. Community groups are passive recipients of these donations. The community development perspective differs in several ways. Businesses are expected to act not simply as distant donors but as collaborating partners with community groups (Nelson 1996; Sagawa and Segal 2000). They are expected to become so engaged with community groups that latter are put in a much stronger position to determine their own priorities. Businesses are also expected to support activities that are in some ways mutually beneficial to the communities and the businesses. In keeping with this shift in orientation Shell has initiated a wide range of consultations both at the global level with governmental agencies, international NGOs, foundations (in search of complementary funds and jointly sponsored programs) and at the local level with local community groups and voluntary associations.

Three, Shell has developed an annual auditing that is public and includes assessments not only of their business and financial performance but also of their social and environmental performance. Since 1997 their annual reports have assumed a quite different character. Much of space within these reports is set aside to evaluate how well the Shell group of companies are performing in relation to social and environmental indicators. Each of the companies is expected to submit an annual letter judging their own performance in relation to the common set of indicators. Furthermore, through an open internal communication network referred to as TellShell, anyone connected with Shell is invited to voice his or her criticisms and comments. A sampling of these comments, both negative and positive, is included in each annual report. As a result of these practices Shell's annual reports seem more candid, more transparent, and more realistic with respect to their failings and successes (4).

In the late nineties Shell in Nigeria initiated corresponding changes. They expanded their community projects, spending $52 million in 1999 compared to $22 million just four years earlier. They were spending even more on various environmental projects, including efforts to clean up spills and manage waste better. They were spending much more on building and repairing roads. Their success with water projects modestly improved. They decided to build or repair a number of health clinics and hospital as well as a number of classrooms and schools. The worked with women's group and helped to establish micro-credit associations. They offered even more scholarships. They provided sand fill to reclaim lands in a several areas. They continued to provide agricultural extension services. They upgraded the gas plant and flow station at Alakiri so that it met the ISO 14001 standards. They continued to replace older, corroded pipelines and bury the new lines. They were far more likely to undertake these projects by consulting with local communities and finding local partner to manage them. On an experimental basis in 1999 they developed partnerships with 13 pilot communities.

By the late nineties, SPDC had had begun to act constructively to utilize and not burn the associated natural gas. Most of this gas was being piped to the newly constructed liquefied natural gas (LNG) plant, which began operations in late 1999. A pipeline was also being constructed to transport natural gas to other parts of Nigeria as well as Benin, Toga, and Ghana. It was to be used to generate electricity in these areas. To make these projects feasible much more was required than just laying pipelines. What was required as well was to develop electricity grids, help local villages connect with these, and provide means so that households could obtain the technology to utilize this resource. Building the LNG provided an employment boon. It created 13,000 new jobs for the two to three years of the construction phase. This proved to be a mixed blessing at best. The influx of workers and their wages had the effect of inflating prices for consumer goods and rental apartments. It gave rise to undesired side effects, such as rapid increase in teenage pregnancies and escalating conflicts between former residents and newcomers. In their zeal to get the LNG plant up and running, SPDC had not through ways to manage more effectively the social unrest occasioned by the local economic bubble they had created.

SPDC faced very mixed responses to their attempts to develop better relations with the people of the Delta. Large numbers of individuals, households, and villages had been directly helped and expressed their gratitude. Many others continued to complain. A number of community projects, including a majority of the fresh water projects, failed to become functional (The Economist 2001b). In spite of its efforts, anger with Shell grew. Acts of sabotage increased from 100 in 1996 to 325 in 1998 (SPDC 1998, p 13). In 1999 there were 45 hostage-taking incidents and 2 helicopters were hijacked (SPDC 1999). Although Shell had managed to hold some talks with the leaders of MOSOP, this influential Ogoni organization remained suspicious. They were not yet ready to invite Shell to re-enter their territory to continue their operations.

Part Three: Ethical Reflections on Shell's Operation in Nigeria

We can learn a great deal from reviewing Shell's experiences in Nigeria if we approach this topic with several assumptions in mind. The first assumption leads us to review the tasks set before those managing these operations as sets of dilemmas. These dilemmas are real. Most examples of so-called best practices overlook their morally ambiguous features. In most cases, what seem like morally fitting and responsible strategies may also involve morally questionable practices. International businesses operating in developing areas face a range of characteristic dilemmas involving how they should manage their relations with autocratic or unstable governments, how they should manage security issues, how they handle ex-patriots issues, how they work with cultural differences, and many more. In the paragraph below I will consider a number of dilemmas Shell in Nigeria related to business, environmental, and social practices. The second assumption is that managing international businesses in developing areas is not simple. Most businesses make mistakes, some quite serious. We can learn much more about how we should manage these operations in the future if we thoroughly and candidly review past experiences. Accordingly in the paragraphs that follow I consider not only Shell's actual performance but also how Shell might alternatively acted. I entertain these conjectures in order to see what we can learn by exploring retrospectively other ways in which might have addressed these dilemmas. We cannot relive the past. However, unless we seriously undertake these kinds of analyses, we are likely to learn much little from these experiences (5). According to the third assumption, the most promising way ethically to assess the performances of businesses is to examine how well they manage the overall sets of assets with which they are working. We may well ask, then, how well has Shell or any other business utilized the natural, human, social, technological, and financial resources entrusted to them over a given period of time (Bird 2001). In the paragraphs that follow I consider how Shell managed the monetary, natural, and social capital with which it was working.

It is significant that Shell decided in the late nineties that it had received a wake-up call and that it had much to learn. In response Shell has devoted considerable amounts of time and resources consulting with others and soliciting criticisms. They have developed stricter environmental standards and sought to enforce these. They have recognized the need to work much more seriously on the relations with the communities in which they do business. To be sure they undertook may of these initiatives because they saw a great need to repair and enhanced their reputation. Still, this concern with reputation is understandable in a business with far-flung markets where reputations can measurably influence sales. However, excessive concern with reputation can prove to be a short run and shallow strategy.

Ostensibly, Shell engaged in these consultations not only to defend themselves and not only to gain greater approval but also because they were in some measure convinced of the importance of conducting business in a principled manner. The troubles they faced and continue to face in Nigeria, especially with respect to the Ogoni people, clearly occasioned these consultations and reforms. However, the factors giving rise to these troubles were deep-seated and revolved around matters of greater importance than the particular actions they took or failed to take at the time of this crisis. In large part this crisis occurred because over a much longer period of time Shell had not managed the overall resources entrusted to them in Nigeria as effectively and responsibly as they might have. How well Shell managed the resources entrusted to them is fundamentally a question of not primarily of their social responsibility but of their business practices and responsibilities. In the paragraphs that follow we will review how Shell managed that monetary wealth, natural capital, and social capital with which it was working in the Niger Delta.

1) Reflection on how Shell managed its monetary wealth

It is useful to begin our overall analysis of Shell by examining how they have managed the monetary wealth that they had to work with in Nigeria. Looking back over more than forty years, Shell's operations generated enormous wealth. However, very little of this wealth benefited the people of the Delta (6). If anything, their wealth, especially in relation to natural resources that have been used up and polluted and their social resources that have been weakened and challenged, has been markedly diminished. Their per capita income grew until the eighties but then has continued to decline. They are less wealthy today after more than four decades in which Shell's operation produced hundreds of billion dollars worth of wealth. Retrospectively reviewing Shell's history in Nigeria, we can then reflectively inquire if Shell might have managed their business so that more of this wealth was used to strength the economies and raise the income levels of the people of the Delta. This has been and remains a genuine dilemma. To be sure, we know the role that governments in Nigeria played in shaping how this wealth has been consumed and expended. We know how fluctuations in the international price of oil affected the extent of this wealth. We can examine the mixed impact of Nigeria's structural adjustment policies in the eighties. In addition, nonetheless, it is important to explore how Shell might have responded to these exigencies in ways that rendered the people of the Niger Delta less impoverished.

In the following paragraphs we will review how the oil wealth did and did not enter the Delta economies. We will review how Shell actually managed and might have managed the wealth their operations produced in relation to several dilemmas or challenges. These concern the extent to which Shell hired local employees and suppliers, Shell recognized the moral claims of local populations to mineral rights, and how Shell managed their tax obligations. Additional challenges related to wealth management include both how Shell contributed to local communities and dealt with the dramatic fluctuations in wealth produced in the oil industry.

We can begin by observing that little of this wealth reached the people of the Delta in terms of wages and contracts for local suppliers. To be sure, oil production is a high tech activity. It is not one that easily provides job opportunities for largely unskilled or semi-skilled indigenous people living in rural areas. Nonetheless, we can ask whether Shell worked as industriously and imaginatively as they might have to hire and train local workers as well as to invest and help to develop local suppliers capable of providing logistic and semi-technical services. Shell indicates some current interest in these objectives. They were at best only marginal concerns over much of this period. It may well have cost Shell decidedly more initially in time and money to seek out and to train local workers and to help to establish and provide start-up economic and technical assistance to local suppliers. However, over the long run, these arrangements would provide means for modest portions of wealth to enter the Delta economies on a sustainable basis. They would also strengthen Shell's relationships with local communities. It may well have been less expensive in the long run to take these kinds of initiatives than to be forced later to deal with extensive social unrest.

Shell has not directly paid the people of the Delta royalties for the minerals mined from below the surface of their lands. In terms of Nigerian law, they were not expected to make such payments. However, in other political jurisdiction these mineral rights might well be held in part by the people who have traditionally claimed such lands as their own. It could be argued that these people at least have a reasonable moral claim for mineral rights even if they cannot make legal claims. In law their property rights have been underdeveloped (see De Soto 2000). Initially, Shell may well have seen this arrangement as being advantageous. It is more convenient to deal with one government than hundreds or thousand of local property owners. However, this legal arrangement left the people of the Delta impoverished. In retrospect, then, it would be instructive to inquire whether Shell might have responded to this situation by seeking in some measure to reinforce at least partial or shared mineral rights claims of the Delta People. In the nineties Shell did undertake some steps in this direction by lobbying to augment the share of Royalties assigned to OMPADEC, the government commission assigned to receive and invest oil royalties in oil producing areas. In other settings, like Papua New Guinea, Quebec, and Alaska, mining companies have taken a variety of initiatives to transfer royalties directly to long-range investment funds managed by local communities. To be sure, any efforts by Shell to assert and strengthen the mineral rights of Delta residents would probably have been resisted by federal governments. Still, Shell might have explored ways to strengthening the title and at least modest mineral rights claims for the Delta people with respect to their lands. They might have pursued these possibilities because they saw it was in the own interest to cultivate better relations with their neighbors as well as an enhanced image worldwide.

Shell has markedly increased the amount it has been spending in community programs. The challenge they have faced is to find ways of expending this money so it operates less like one-time grants and more like a productive investment. Much of the wealth produced by oil production assumed the form of grants, most of which went to the federal government as royalties and taxes but some of which went to local communities. Economies based largely on grants suffer from several problems. On the one hand, recipients are transformed into dependents who in turn seek to gain larger and more certain grants. They tend to focus their energies more on attempts to gain greater or more secure grants rather than on efforts to utilize their resources more productively. Grants economies thereby occasion political efforts to gain more and larger grants. On the other hand, recipients of grants tend to finds ways to use these transfers to consume rather than to invest. To the degree that this new wealth is spent on consumption it is unlikely to help foster sustained economic development. Viewed with these concerns in mind, the challenge for businesses operating in developing areas like Shell in Nigeria is to explore ways of productively investing as much of their wealth as possible with the aim of developing and sustaining local economic enterprises and infrastructures generally.

Like other businesses in these kinds of settings, Shell faced several dilemmas. The first concerns the positions they may take with respect to the government's claim to taxes and royalties. Often businesses in these settings seek to reduce their tax burdens by investing as much of their earnings in the development and maintenance of their own operations. They might choose, for example, to upgrade their equipment, to invest in internal training programs, to pay for land or water remediation, to pay for local right of ways, and to support other similar projects many of which would substantively enhance the economic conditions of local populations. Shell might have chosen to help to start and then to invest in a variety of local suppliers to help build roads, develop local electricity grids, and work at developing reliable fresh water supplies as resources required for their operations that could also be made available for local communities. In these ways Shell would have added to their internal expenses, reduced their earnings, and, therefore, paid lower taxes. They would also, most importantly, directly transfer funds through business transactions, and not grants, into the local economy. Investing in these kinds of internal improvements and local transactions is similar but in principle quite different than the exercises in bloated transfer pricing that many companies engage in when doing business in developing countries. Many multinational businesses have been rightly taken to task for deliberating inflating prices they charge themselves for internal purchases in order thereby to reduce their tax burdens. Shell has been accused of deliberating seeking to reduce their tax bills by some forms of internal investing and clever accounting (Okonta and Douglas, pp 98-105). The issues here are indeed complex. Nonetheless, given the political history of Nigeria and the fact that the federal government diverted so little of its revenues on reliable basis to help oil-producing areas, Shell would be morally justified to explore ways to reduce their taxes by investing in operations and transaction that strengthen the local economy.

The second dilemma concerns the alternative ways that Shell might contribute to local community projects. For most of the past forty years Shell contributed to these projects through grants of various kinds. However, they are now attempting to shift from a charitable to business model: What is called for, they have said, is not community assistance projects where they bestow grants on others but community development programs in which they work as partners.

One of the major dilemmas facing businesses in the mining industry generally is how to manage dramatic fluctuation in earning. These are occasioned both by alterations in the global values at which mined products are sold and by the fact that mining operations take place in phases some of which generate high earnings and followed eventually at the close of operations when all earnings have ceased. In recognition of the latter problem some mining companies today begin at the outset of their operations planning for how they will manage their closures and how they help communities and states who have economically counted on these operations to find other bases for their livelihood. The basic problem here is that marked increases in the earnings produced by the oil businesses can create the equivalent of economic bubbles that have a distorting impact on the economies of communities and states. Nigeria clearly suffered from this problem. The huge increase in oil wealth in the seventies gave rise to unsustainable levels of spending and borrowing. When international oil prices crashed in the early eighties, Nigeria as a whole was left with huge debts as well as an under-developed agriculture sector that had been overlooked in the meantime. It is reasonable to ask whether Shell might have acted to moderate either the spending spree of the seventies or the economic vulnerability of the early eighties. It is reasonable to reflect on this question even as we recognize that overall economic policies were the responsibility of the federal government. Were there practices that Shell could have instituted that would have moderately reduced or limited the windfall character of their earnings? I ask this hypothetical question retrospectively in order to explore what we might learn from these events as we seek to change how we address similar dilemma today. In this case, I think, we could conjecture that Shell might have sought to buffer some of the steep increase in their earnings by a series of internal and partnered investments, such as those discussed previously, that would strengthen physical, social, and economic infrastructures in the Delta. That is, they could have invested in businesses that were designed at once to facilitate their operations and foster the economic and social development of the region. Clearly, it would have been mutually advantageous to invest in the technology, power plants, and electricity grids so that the flared natural gas might have been harnessed to produce useable electrical power for villages of the area. To be sure, they may have been able only in very modest way to buffer their earnings in this manner. Nonetheless, this strategy would serve at once to conserve their own assets and augment those of the Delta.

Shell recently faced this same kind of dilemma as it was constructing the liquefied natural gas plant. This project created 13,000 short-term jobs up to a period of three years. Many were of shorter duration. The influx of these jobs and the wages they paid had the affect of inflating local prices for housing and food. This inflation in turn had the effect of making many households less well off and rendering the new wages relatively less valuable. In some instances landlords turfed out former residents in order to secure higher rent from newly employed workers. Because local roads were excessively used, they rapidly deteriorated. By the time the plant was about to open in November 1999, most of the new wealth had been spent and the physical infrastructure – in terms of roads, reliable electricity, fresh water –was either no better off or worse. The expectations of those living near the site had been raised. But the project had come and gone without any long term sustainable benefits to those who had been locally involved with the project.

To be sure, the flaring of gas was about to be significantly reduced. It was not surprising then that about 5000 young people staged a demonstration seeking to delay the opening of the plant. For understandable reasons since 1996 Shell worked to get this project up and running as quickly as possible. They had spent less thought considering ways of managing this mini-economic bubble. They recognized in hindsight that they might have handled this aspect of the project differently.

2) Reflections on how Shell management its natural capital.

Currently Shell widely espouses its commitment to being environmentally responsible. They annually require members of the Shell Group to evaluate the performances in relation to a number of standard environmental criteria. They urge Group members to seek to license particular operations in keeping with specific standardized models such as the ISO 14001. They regularly invite Shell employees and constituents to voice criticism of sub-standard practices. In these several ways Shell has been trying to operate with much greater commitment to environmental concerns than before their wake-up call in late 1995.

I will review Shell's environmental performance in Nigeria from a slightly angle – not primarily in terms of their compliance with certain benchmarks but rather in terms of how well they utilized and conserved the natural resources with their operations were entrusted. I will look primarily at how Shell treated the following natural resources: the waters of the rivers and swamps, the sub-surface ground water, the associated natural gas, the atmospheric air, and the oil they have extracted or expect to extract. These resources represent the Delta' natural capital. By 2000 the Delta's volume of natural capital, in so far as it was reflected in the status of these resources, was of much less value than forty years earlier. This situation in many ways could be expected because oil and gas are non-renewable resources. Ideally, with respect to such limited and non-renewable resource, as these forms of natural capital are depleted the peoples in these areas are able to utilize the sale of these resources to augment and strengthen other forms of capital. Thus, for example, they might utilize the sale of these non-renewable resources to invest in education and training and thereby augment their supply of human capital. As well, they might have utilized the sale of this non-renewal capital to invest in diverse forms of productive by developing other forms of local industry. By and large Shell has effectively utilized the oil it extracted. It might be argued that they allowed some of this resource to be wasted either through leaks of faulty equipment or through acts of sabotage they might have more effectively discouraged or prevented. However, generally the process of producing oil has been effective and not wasteful. In contrast, I have already argued that the wealth produced by this was not put to the most effective uses to benefit those whose natural resource was being used up.

Shell's historical process measures up less well with respect to other natural resources of the Delta. They have been roundly criticized for the ways their operations have contaminated surface waters and degraded lands within the Delta (Okonta and Douglas, chp 4). They have debated the extent of this damage (SPDC 1997, SPDC 1998, Moldaveanu 1999). They have also undertaken scattered efforts to reforest and to dredge and clean waterways. Nonetheless, these renewable resources within the oil producing areas of the Delta are in worse rather than better conditions after forty years. Moreover, the degradation of these resources has had the effect of undermining the local agricultural activities associated with fishing and farming. The value of these natural resources has been diminished by environmental practices that have contaminated waterways and despoiled lands. It is reasonable to expect Shell and other oil companies to renew these waterways and lands. It seems reasonable as well to expect these oil companies to explore practical ways to invest in local enterprises -- agricultural, commercial, and industrial -- to compensate for the economic opportunities that Delta people lost as a result of environmental degradation.

The Delta people have been especially concerned about the ways in which oil production has made it more difficult to obtain reliable sources of fresh water. The overall oil producing activities have in some measures both increased the iron levels in subsurface water and made it more difficult to obtain reliable sources of fresh water from surface sources. It is impossible in this essay to attempt any kind estimate of the degree the oil companies have aggravated this situation. The lack of reliable sources of fresh water is a national problem. Clearly population pressures make the situation more difficult. As part of its community assistance programs, Shell has helped to drill hundreds of fresh water wells but with a very low success rate. Shell has a mandate to address this problem both to compensate for the ways their operations may have reduced reliable fresh water sources and to enhance the physical infrastructures of the Delta as resources they have regularly counted on.

By flaring almost all of the associated natural gas produced over forty years of oil production Shell and other oil companies have burned up a vast quantity of natural capital. Delta residents have understandable complained about the way this practices as polluted the air they breathe. It is reasonable to inquire about the ill health they may have suffered as a result. It makes sense for Shell to help establish health clinics to help people affected by these and other environmentally occasioned maladies and diseases. The Flaring of gases may have adversely affected the health and well-being of these people, what might be described as the quality of their human capital. At the moment, however, I am concerned with the way this practice had the effect of wasting a valuable resource that might, if properly used, have served to generate electrical power for millions of Nigerians and to produced income for those involved in various stages of extraction, transmission, and utilization. Effectively utilized natural gas could have generated income for Shell as well as for workers in diverse areas. As a result of burning this gas, the people of the Delta gained no equivalent benefit as a vast quantity of their natural capital was extracted and destroyed. In addition to whatever degree of ill health to which they have been exposed as a result of the practice, they have suffered a double loss in relation to this natural resource: one, much of this resource is now gone and the extent of their natural capital is thereby diminished without adequate compensation and, two, they have had to forego the opportunities which adequate compensation during this period might have occasioned.

Effectively utilizing this resource would not have been a simple matter. Building the liquefied natural gas plant required $3.8 billion, 12,000 extra workers, and three years in addition to the arrangements undertaken to transport and market this product. Likewise it requires considerable funds, labor, and cooperation to transport gas by pipeline to potential users. In this case, in order to utilize the gas, it is also necessary to build generation stations and to construct electricity grids. Underutilization of the gas has occurred in part because the public utilities responsible for electricity have been unreliable. It may well be that these options were not pursued in the past because they seemed too costly and too difficult to arrange. These rationales explain in part why more efforts were not directed to utilizing this resource. However, in retrospect these rationales explain but do not justify inaction. Over the long haul, the expense for these investments would have been paid off long ago. Efforts by Shell and other oil producers to help develop viable energy grids would have helped to strengthen physical infrastructures that in turn would be valuable to these businesses as well as many, many others. These efforts might well have served additionally to strengthen business and social networks. It is not enough, however, just to point to the advantages that such initiatives might yield. Shell and other oil companies did not pursue these options for several reasons besides their seeming failure to explore the long-range benefits of these projects for themselves and the people of the Delta. They may not have acted in part because there were no national laws against flaring. They may have failed to pursue these options because they were reluctant to invest in more fixed assets in a country with such extensive political instability and social unrest. They may have backed away from these options because the utilities and local politicians and business people with whom they would have had to collaborate were not easy to engage and cooperate with. Finally, they may not have seriously considered collaboration on power generation because these kinds of pursuits seemed outside domain of their business as they understood it.

3) Reflections on how Shell has managed its social capital

By social capital I refer to the valued social resources that assume the form of networks of social relations, the trust that facilities social cooperation, as well as the commitments that lead people to volunteer time, goods, hospitality and forbearance to others. Social capital assumes as well the form of community good will and loyalty particularly with others not already connected by bonds of kinship (Putnam 1993, chp 6). Social capital is valuable because it fosters cooperation, civic engagement, volunteering, and community development. In its absence people are likely to act with much greater suspicion, fear, and self-aggrandizing behavior. In settings of low social capital, people are likely to act both to exploit immediate advantages and to protect themselves from attacks or self-aggrandizing conduct of others.

In the context of our review of Shell's practices in Nigeria, we will now correspondingly inquire about the ways and the extent to which Shell has conducted its business so that the existing expressions of social capital in the Niger Delta were fostered and grew or were undermined and depleted.

In so far as we can approximately gauge the situation, during the period when Nigeria was becoming independent modest amounts of trust and good will existed within the separate nations and peoples but not much between these groupings. Primarily loyalty existed within families and kinship groups. Over time, the history of coups, civil war, ethnic rivalry, and economic exploitation has eroded any larger expressions of trust and good will. Within their own groupings, Muslim groups and Christian groups have fostered some larger feelings of community. MOSOP and the corresponding associations among other peoples occasioned loyalties, collaborations, and common identification within these movements.

For most of their history in Nigeria, Shell did little to cultivate and honor the corresponding sentiments and activities. Like many businesses they took social capital for granted. Over time Shell has invested in a large number of community assistance projects. They have contributed scholarships, school buildings, health clinic, agricultural assistance, road building and water projects. Over the past decade the budget for these programs has nearly tripled. Nonetheless, from the perspective of Nigerians, these contributions have seemed to be spotty and often of marginal quality. Given the large and steadily increasing size of the population, these contributions ended up helping some favored few and leaving others wishing they had benefited as well and/or resenting their bad fortune. While these community programs made real contributions, they also ironically and unwittingly may have occasioned feelings of rivalry and distrust – thereby reducing social capital -- among those who did not benefit. Some of the community projects funded by Shell suffered as well from poor quality. Criticisms have been raised especially with respect to road projects as well as some clinics (Okonta and Douglas, chps 5,7). It is worth noting that these criticisms have been made about public works and public projects throughout Nigeria. For the most part, Shell's programs have assumed a philanthropic social service character. They have sought to provide assistance to address people with problems. Recently this approach to charity and community aid has been criticized by a number of observers who argue that it underestimates and fails to find ways of utilizing and building on the existing personal, interpersonal, and associational resources of existing communities (McKnight 1995; Kretzman and McKnight 1994). Community assistance projects continue to leave group dependent. They rarely strengthen local social networks. They seldom augment and strengthen social capital. Acknowledging the merit of this critique, Shell International has begun to shift its community programs away from philanthropic assistance and move them more towards forms of partnering favoring community development (7).

Shell in Nigeria might well benefit from a thoughtful and critical analysis of how it has handled security issues over the past forty years but especially with respect to the past dozen years. Overall Shell has managed its security needs in ways that has diminished the social trust that it otherwise might have enjoyed. Like every other business, Shell is responsible for protecting its facilities and its employees. Furthermore, it is admittedly more difficult to provide this kind of protection in settings of social unrest and erratic violence. It is, therefore, fitting to inquire about advantages and disadvantages of alternative ways of addressing these security needs. In this case, given the extensive criticisms that Shell has received with respect to its security practices in Shell (Boele

2000; Okonta and Douglas, chp 6; Soyinka 1996; Maier, chps 4,5), it is especially important to undertake these kinds of reflections. This issue is addressed most fruitfully not by just focusing on the forms or degrees of Shell's possible active complicity in violent assaults on the Ogoni (SPDC 1997a). It is useful, I think, to consider broadly how managed its security needs.

For the most part Shell seems to have addressed these concerns as marginal problems that might be satisfactorily handled for them either by contracting for guard service or calling on the state police to offer added protection. They seem to have failed to recognize that the management of security is inevitably an integral aspect of their community relations. As we can now see in retrospect, how they handled security matters has directly affected how they have been regarded by the communities with which they interacted. When they called upon the state's police, they failed to consider how these forces had been employed and how they might be employed. They underestimated the ruthlessness of the state police. More importantly, probably, they discounted the comparatively reliable evidence that the police or hired militia acting on mandates from some still unidentified sources were acting brutally, killing innocent residents and burning villages. Why did Shell choose to regard these incidents simply as examples of ethnic conflict? Why didn't Shell pause to reflect on how the security arrangements they had put in place were in some ways clearly aggravating their relations with local communities? Having adopted particular security policies that seemed in keeping with conventional wisdom, why didn't Shell take this occasion to re-think them as their security problems became more aggravated? Given the increase in the number of acts of sabotage, it may well be timely to explore other ways of addressing security issues.

These issues are not likely to diminish in the near future, given the high rates of unemployment, the continuing poverty, the steady expansion of the population, and uneven but pervasive feelings of distrust with respect not only to Shell but government officials generally. The ways Shell has managed its security problems has had the effect of reducing in some measure the trust, commitment, and community goodwill that would have been an asset not only for Shell but also for the local communities. Managing security issues effectively represents an ongoing dilemma for international businesses like Shell that are operating in developing countries. It seems timely to reflect on these issues. Using Shell's experiences in Nigeria as a point of reference, it seems important as well to consider these matters not only in relation to concerns for protection, of people and property, but as integral features of how businesses interact with their communities.

Conclusion:

Like any other businesses, Shell's basic responsibility has been to maximize returns on invested wealth for shareholders as well as other stakeholders in proportion to the value of their contributions, their legal claims, and the risks to which their investments have been exposed. This is in no way a simple task. Businesses are expected to invest their financial resources well. They are also expected to find ways of balancing the returns to various investors, creditors, claimants, and shareholders so that they both maximize the overall good of their enterprises and benefit investors in fitting ways. This is a complex matter. For example, Shell in Nigeria was faced with the responsibility of finding ways to balance returns to overseas investors, the federal government which held 55% of their shares, the government again that assigned tax rates, Delta residents who felt that it was minerals under their lands that produced the wealth in the first place as well various workers. While the Nigerian government had considerable power to determine basic rules within which Shell managed their financial wealth, Shell like other businesses in these kinds of settings retained room for various kinds of maneuvers. Our concern in this essay has been to explore what might be learned by reviewing how Shell managed the monetary, natural, and social resources with which it was entrusted. The context of our concern is the contrast between the increase in monetary wealth created by the oil production in the Niger Delta, the continuing poverty of the Delta residents, as well as the reduction in natural and social capital occasioned by the oil business. We have been interested in exploring what might be learned from reviewing this history so that these kinds of operations might prove more beneficial and less impoverishing to developing areas.

Notes:

(1) The research on which this paper was made possible in part by a Strategic Research Grant from the Social Science and Humanities Research Council of Canada. The research is based not only on the works cited but also on a number of interviews with officials of Royal Dutch/Shell at their International offices in London.

(2) This historical survey is primarily based on the studies by Maier (2000) and Okonta and Douglas (2001) supplemented by the works by Guest (2000), Boele et al (2000), Ikein (1990) and Forrest (1993).

(3) This account of Shell is based on the case studies written by Moldoveanu (1999) and Paine (1999), studies of Shell by Boele et al (2000), Okonta and Douglas (2001), Ikein (1990), and Forrest (1993), as well as a number of Shell Reports (Royal Dutch/Shell 1998, Royal Dutch/Shell 1999, Royal Dutch/Shell 2000; SPDC 1997, SPDC 1998, SPDC 1999).

(4) In early 1997 as they were just beginning to initiate these changes, Shell faced a shareholder resolution developed by the Pension and Investment Research Council and by the Ecumenical Council for Corporate Responsibility calling for an external auditing of their performance. In spite of being formally opposed by Shell, this resolution received

10.5% of the vote with 6.5% abstaining (Paine 1999). Although Shell's auditing process had become more multidimensional, more open, and more participatory, many of their shareholders felt external auditors should be used.

(5) I recognize that it is much easier to conjecture about alternatives than to put them into practice. I recognize, moreover, that the alternatives considered here might well have to be fundamentally altered or relinquished in response to given exigencies. I have attempted to be realistic about these alternatives. I have as well outlined them, retrospectively, by using as points of references practices that have more recently been attempted by Shell or other international businesses.

(6) I realize that a strong case can be made for distributing a reasonable share of the wealth produced by oil industry for the welfare of Nigerians generally. I do not presume that the wealth generated by oil production should exclusively go help the Delta people. It just, as the Ogoni Bill of Rights suggests, that these people deserve a much fairer share than they have received.

(7) There is considerable enthusiasm among businesses to the idea of developing viable partnerships with community groups (Nelson 1996; Sagawa and Segal 2000; McIntosch et al 1998). It is, however, important not to minimize the difficulties attendant on this approach in a setting like the Niger Delta, as valuable and as long overdue as this approach may be. Developing viable partnerships and workable collaborations with community groups requires continuing sensitivities to local political realities, which are likely to contested and changing. These issues are considered in other essays related to our larger research project, especially the essays on mining operations in northern Quebec, Columbia, and Madagascar.

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