

BAN439 Detecting Fraud through Textual Analysis

Final Paper

Group 2

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2022-11-12

Executive summary

In this report we present evidence of Shell's unethical and illegal actions in Nigeria. Using leaked transcripts of diplomatic cables published on Wikileaks, we identify relevant information about their operations in the region. We confirm Ann Pickard's, Shell's Executive Vice President in Africa, awareness of widespread corruption, political instability, and kidnapping in the country. This includes big oil companies bribing Nigerian government officials, including but not limited to Umaru Yar'Adua, Tanimu Yakubu and Turai Yar'Adua.

Evidence of unethical behavior by Shell includes intent by Pickard to politically influence key Nigerian representative to UN climate change negotiations Mohammad Barkindo towards support of the petroleum sector. Additionally, strong competitive incentives and pressures to engage in corruption are shown to practically make it a prerequisite for Shell to succeed in the region. The analysis uncovered the corporate culture of Shell, the political situation in Nigeria and the oil industry at large. Consequently, we find a high probability of active participation of Shell in corruption through bribes to politicians and militias, as an inherent part of their activities.

Key personnel to discuss Shell's activities in the region with, primarily include ambassador Robin Sanders and consul Brian Browne. Sanders has written extensively about corrupt activities of oil companies in the region throughout his term, and Browne has written the most about Shell in general overall.

Introduction

Unethical behavior by oil companies can lead to significant negative consequences for the environment and local communities. Oil spills cause ecological disasters and toxic impact on the residents in the involved areas, and corruption and poor working conditions are relatively common characteristics of operations in third world countries by big multinational oil corporations. In this study, we focus more specifically on Shell, which is an international energy company with expertise in the exploration, production, refining and marketing of oil and natural gas, and the manufacturing and marketing of chemicals (Shell, 2021). In terms of market capitalization, Shell is the 4. biggest oil company in the world (Companies Market Cap, 2022), and has according to Amnesty International (2021) spilled up to 17.5 million liters of oil since 2011.

The goal of this study is to explore Shell’s operations in third world countries, and how they potentially are able to cover up environmental damage, fraud, corruption and, in general, behaviors which are illegal or can be considered unethical. A thorough investigation into the laws of the countries Shell operate in is beyond the scope of this study, so here we focus primarily on empirical data about Shell’s operations that can provide the basis for normative judgements about potential unethical behavior. As most of the relevant documentation identified is from Nigeria, we have decided to focus the dataset on documentation of Shell’s activities in Nigeria in the dataset.

Our data source is entirely based on leaks of classified or formerly classified US diplomatic cables accessed through Wikileaks. Wikileaks has a reputation for providing reliable access to undisclosed governmental and corporate communications through properly vetted leaked primary documents. Relevant documentation from the released diplomatic cables can thus be used as the basis for investigating Shell’s operations in the third world. As the documentation itself is written by American diplomats, it may still represent a skewed and biased perspective of the transpired events in favor of American governmental and corporate interests in the region.

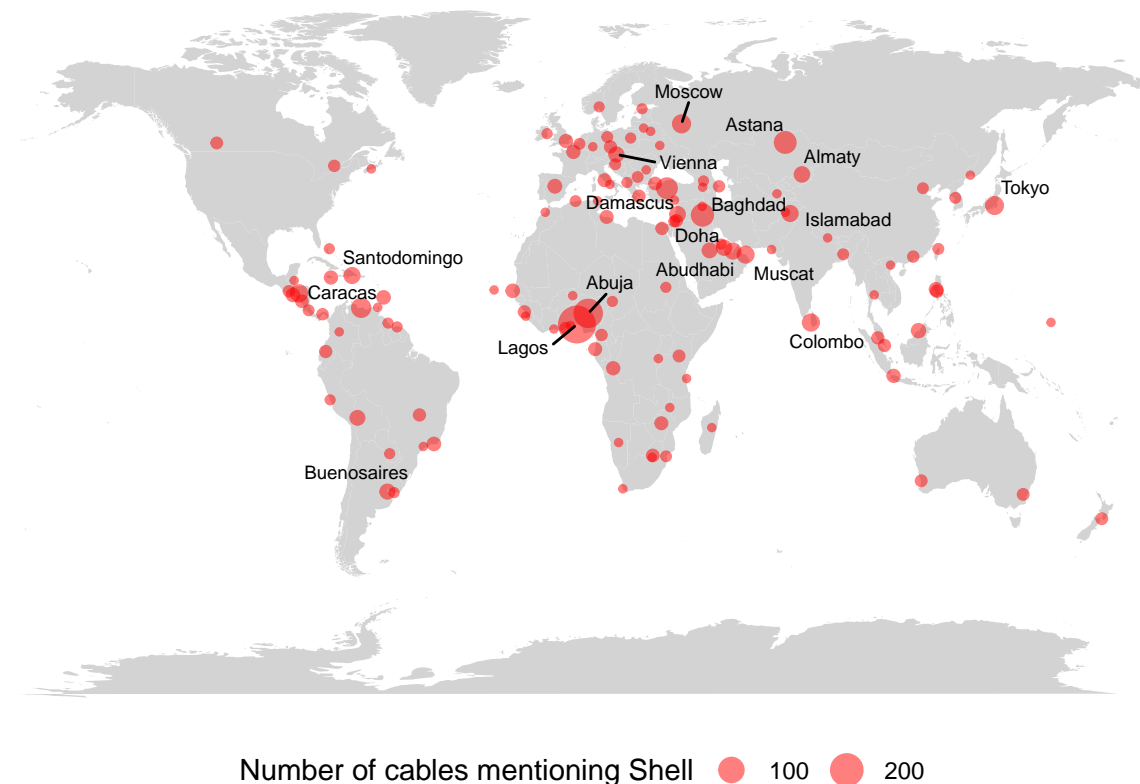
Interpreting the data may also be conducive to several biases. We have limited understanding of the context in which the communication transpired and incomplete information about the events. As the basis for interpreting the data, we therefore apply the fraud triangle model. Unethical behavior is, according to the fraud triangle, particularly likely to occur when there is both the possibility, incentive, and the rationalization present to justify it. Through analyzing the relevant documents, we can identify situations where Shell has the possibility and/or opportunity to conduct unethical behavior, as well as cases which indicate that they might already have. Additionally, the cables might also include possible US-centric rationalization of the events that provide a picture of the justifications thereof.

Data

For this study we will be using leaked transcripts published on Wikileaks of diplomatic cables between the American government and its embassies and consulates around the world. This source can be considered reliable since it is not affiliated with any government, political party, or corporation. Wikileaks is also transparent about its sources and methods, and has a strong track record of accuracy.

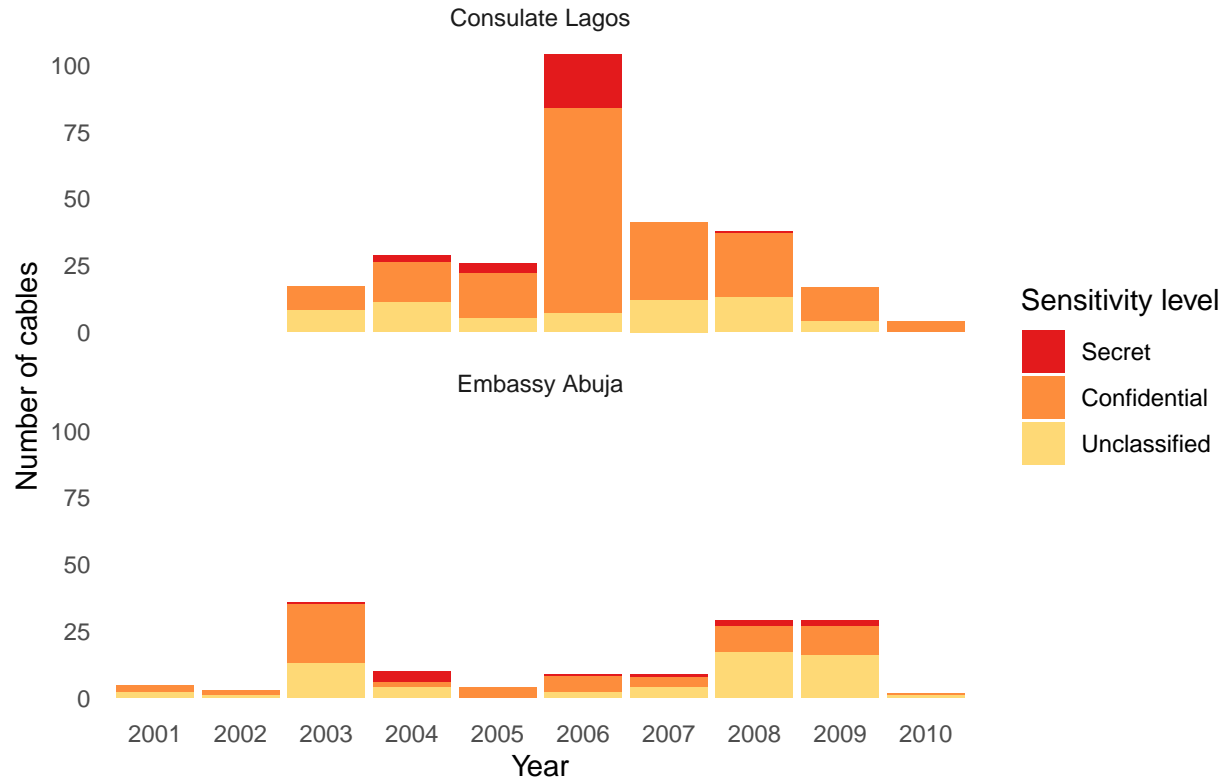
By scanning through the Wikileaks files of communications between American diplomats and the US government, we filtered the documents down to those mentioning “Shell”. Subsequently, by cleaning the document names, it was possible to extract the locations from which the cables were sent. With this information we could find that the two most frequent cities, respectively Lagos, with 276 cables, and Abuja, with 136, are located in Nigeria, as demonstrated by Figure 1. Therefore, our analysis will focus only on Shell’s operations in these cities.

Figure 1: Distribution of cables mentioning Shell across the world



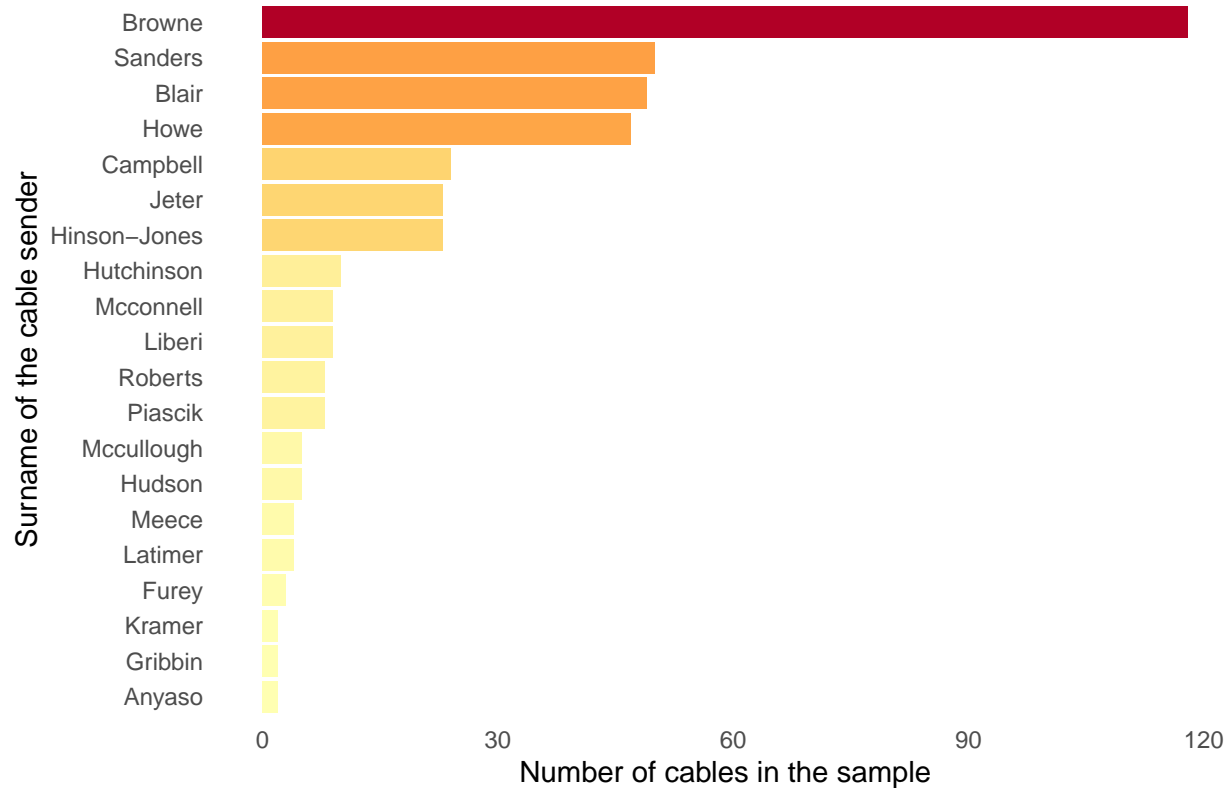
Our analysis proceeded with exploring the data. In this step we considered how the available cables are distributed over time, sensitivity level and the two previously found cities. Figure 2 shows the distribution. In particular, the connection through cables was instantiated in 2001 for the Embassy of Abuja and 2003 for Lagos. Cables are available until 2010, which is the year before they were officially leaked in Wikileaks. From the plot above it is possible to notice that a wide amount of cables were sent from Lagos in 2006. The reason behind this information can be found within the explosion of an elevated pipeline carrying petroleum products in the heavily populated neighbourhood of Abule Egba in Lagos, which took place in December 2006. This event resulted in more than 200 deaths. Moreover, most of the cables classified as “Secret”, which is the highest grade of sensitivity level, seem to be related to this event. Therefore, cables are related to this specific event and are not directly linked to the goal of our research, which is unethical behaviors.

Figure 2: Cables distribution by type and location



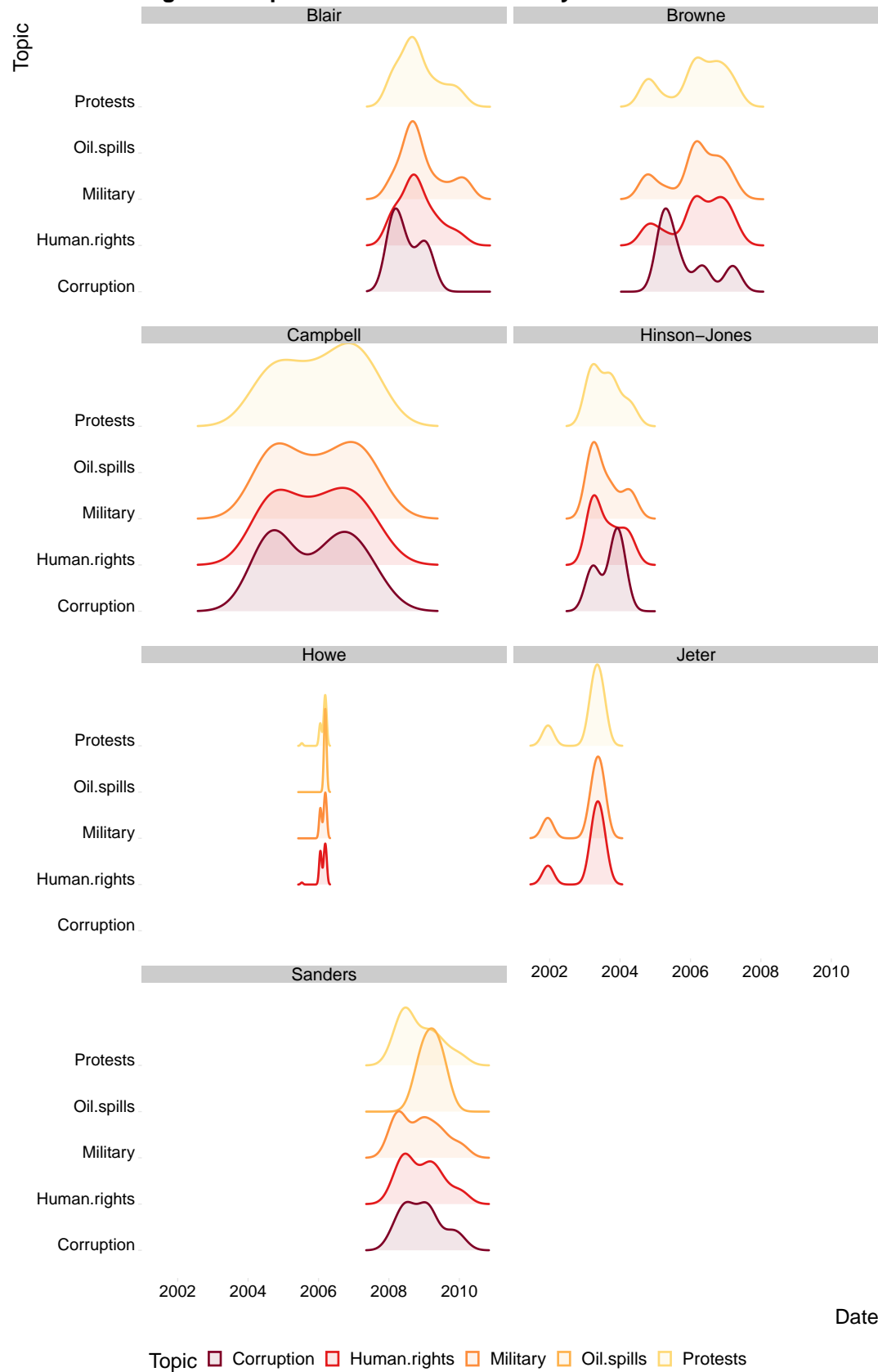
It would be practical to keep in our analysis only cables sent by ambassadors or consuls whose mandate in this region lasted long enough to have a clear view of the situation. For this reason, in Figure 3, it is possible to view the total number of cables that mention Shell, sent by each ambassador or consul. Browne is the most active, with a total of 116 cables, followed by Sanders, Blair and Howe. For the purposes of our analysis, we drop senders with less than 20 cables, leaving us a total of 7 diplomatic figures.

Figure 3: Cable distribution by sender



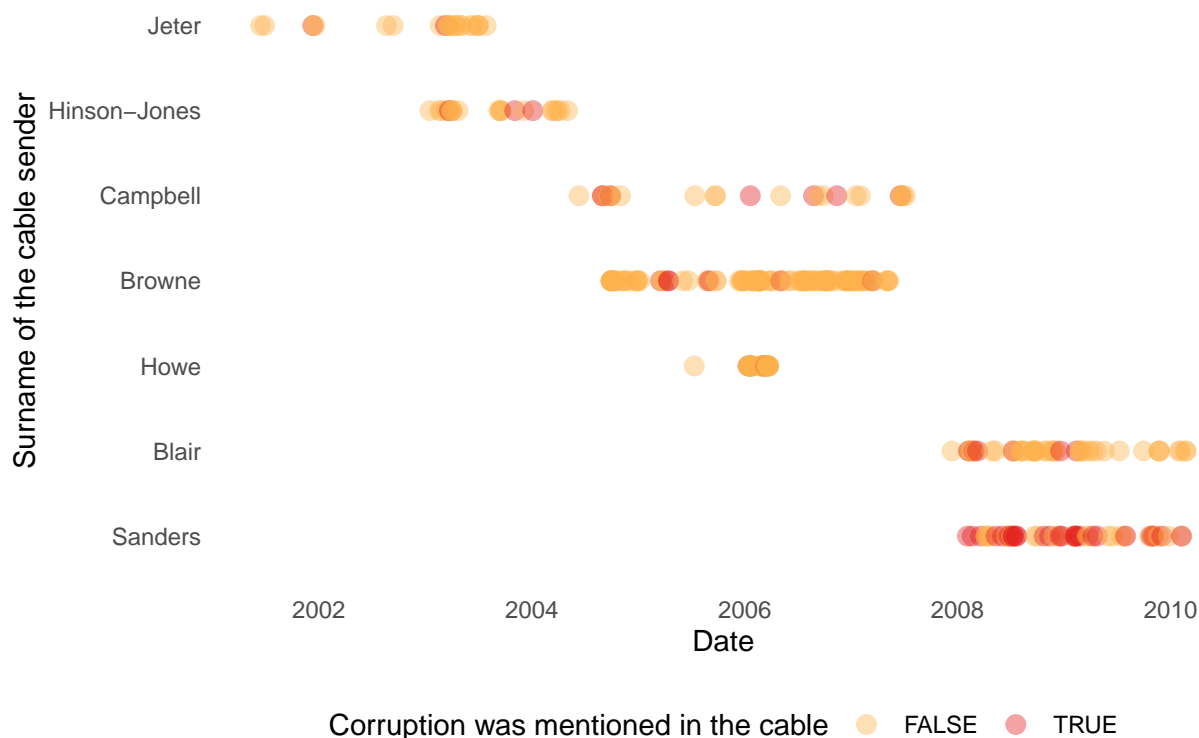
Our analysis focuses on finding evidence of unethical behavior within Shell. For this reason, we identified probable topics that could be related to wider problems. In particular, we decided to focus on five topics: protests, oil spills, military, human rights and corruption. A topic can include several words, for example “Human rights” topic includes some key words: attack, violence, hostage, kidnap, human rights and violation. The analysis explored the relation each topic has with each of the seven diplomats. Figure 4 shows the number of times each topic has been mentioned in cables sent from that specific diplomat. One particularly noticeable result in the plot is that the topic of oil spills is only mentioned significantly by Sanders and only in a strict time span. This might mean that the topic is too specific and it is not worth investigating deeper. Moreover, based on the density shape of each topic, all these topics’ mentions seem to be correlated within each diplomat’s cables since the shape trend is similar. Therefore, by looking deeper for just one topic there are high chances that we can find relevant information concerning all of the behavior we classified as unethical.

Figure 4: Topic mentions distribution by date



Although the previous analysis seemed to be insightful on the relation between topics and senders, it is worth looking deeper into it. In fact, by plotting the total number of cables containing Shell with one color and the amount of those which also mention words related to corruption with a darker color (Figure 5), we can observe some patterns. In detail, the cables sent from Browne, even though they are the largest amount, seemed to be more vague and business related compared to the ones sent from Sanders. In fact, in the plot it is possible to see that cables sent from Sanders have a higher correlation between Shell and specific unethical words. We calculated this by checking how many cables words like corruption appear in. For this reason, we decided to continue our analysis only taking into account Sanders' cables as they are more likely to be specific and insightful.

Figure 5: Corruption mentions distribution by date



Identifying passages of interest

In order to minimize the amount of text to analyze, we filter the passages to find where key terms are mentioned within 40 characters before or after “Pickard” to check for correlations. This allows us to filter out cases where the words are only remotely associated in the cable. The fact alone that a person’s or company’s name and some entity appears in the same document, doesn’t by itself mean that there is an actual connection between them.

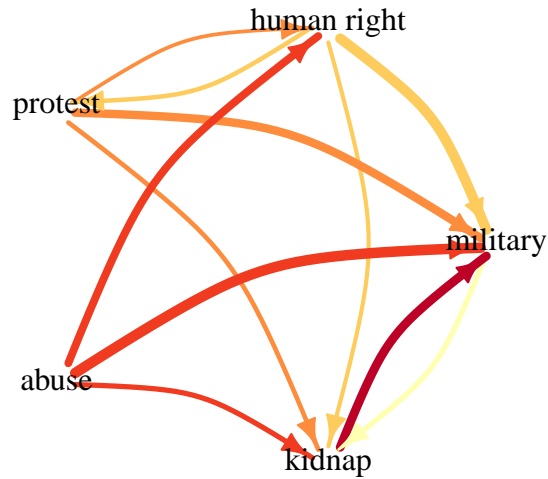
Correlation doesn’t equal causation, and this is particularly the case when the correlation is based on dubious inputs. Accordingly, we reduce the number of matches to only record connections when the keywords appear relatively close based on the word distance. For passages with relevant information identified from the sample, we can then expand the range of characters if necessary to obtain more context about the situation.

Results

Through an analysis of the cables mentioning particular words, we identify their correlations with other keywords. We especially focus on the correlations between keywords like “human right”, “oil spills”, “military”,

“protest”, and “kidnap”. We find a strong connection between abuse/human rights and the military, as well as between military and hostage, as demonstrated by Figure 6. The results present the picture of human rights abuses by the military and them taking protesters and others as hostages.

Figure 6: General keywords network



Furthermore, we explored the connections between the government and the military, as well as their association with key terms like “bribe” and “corruption” (Figure 7). In order to provide further insights of the corruption in the Nigerian government, we identified the 5 most mentioned politicians in the cables, and plotted their associations with each other and key terms like “corruption”, “bribe”, and “military” (Figure 8).

Figure 7: Government corruption network

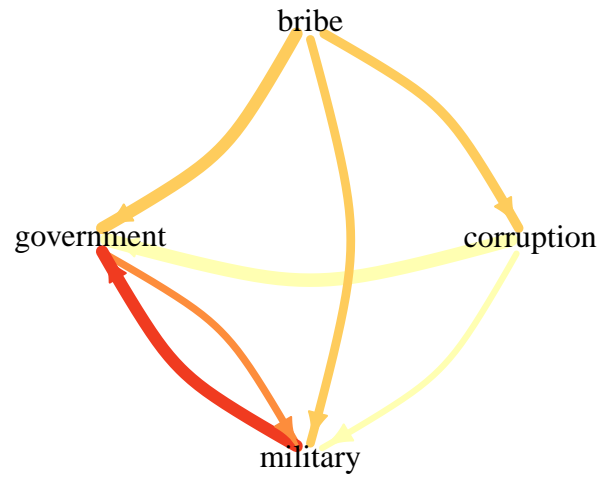
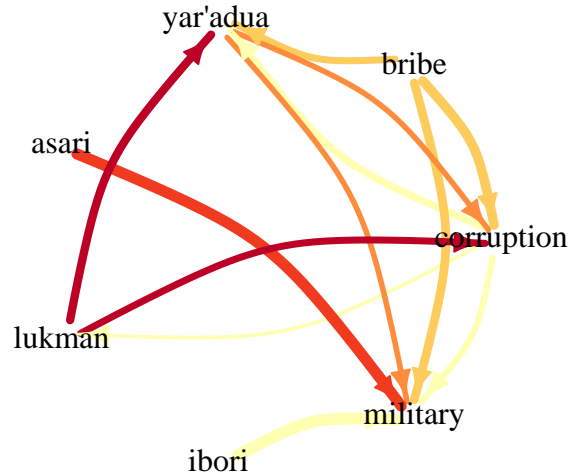


Figure 8: Politician corruption network



The results from the network plots show a relatively strong association between bribe/corruption and the government, indicating a high level of corruption in the Nigerian government. It also shows a close connection between the government and the military. Among the most corrupt politicians, we find a particularly strong correlation for bribes in relation to Yar'Adua, as well as corruption in relation to Lukman. Additionally, we find a strong association between Lukman and Yar'Adua. This indicates that it might be worth exploring Yar'Adua's and Lukman's links to corruption, as well as that of the military in general.

Deeper into the source material, we discover more concrete details about the context of these connections. By extracting passages where the Executive Vice President of Shell in Africa Ann Pickard is mentioned in close vicinity to key words like "corruption", "bribe", "hostage", and so on, we could identify her awareness of and attitude towards widespread problems in the country like corruption, political instability, and kidnapping. Particularly noteworthy is her comment in a cable dated February 10, 2009, that "Oil buyers would pay NNPC GMD Yar'Adua, Chief Economic Advisor Yakubu and the First Lady Turai Yar'Adua large bribes to lift oil," showing heavy participation in corruption in the petroleum industry in the region. Shell's incentives to engage in such corruption too are compounded by the assertion in 2006 that "For Shell to succeed, much will have to go right within the constellation of Niger Delta politicians and militants, and very little wrong."

Also other issues of interest were identified by analyzing the extracted passages. One such issue is the political influence of key representatives to negotiations on climate change. In 2009, Pickard described Mohammad Barkindo, the leader of Nigeria's technical delegation to climate change negotiations leading to the United Nations Framework Convention on Climate Change (UNFCCC), to be a person who "could be steered in the right direction on the petroleum sector." This indicates intent to politically motivate and engage in corruption to make Barkindo argue more in favor of oil companies in the negotiations.

The overall results from the analysis is that Nigeria is a deeply corrupt and unstable country, and that oil companies doing business in the region accordingly participate in the corruption. It is confirmed in the documentation that the officials particularly involved in accepting bribes from oil companies are Umaru Yar'Adua, Tanimu Yakubu and Turai Yar'Adua. For Shell specifically, Pickard demonstrates intent to influ-

ence a key Nigerian representative to climate negotiations with the United Nations towards a more positive perspective of the petroleum industry. Additionally, strong incentives and pressures in their operations in the Niger Delta presents a high probability of engagement in corruption for Shell to succeed.

Our recommendation is to discuss Shell's involvement with local politicians and persons of influence in the region in regards to possible corrupt behavior with ambassador Robin Sanders. Sanders wrote most commonly on the topic of corruption, and had active communication with Pickard. Especially of interest is how they handled the political barriers to their operation in the Niger Delta, as well as other issues related to the political instability such as local militias and the widespread kidnapping problem in the region. In the table below, we present the three cables we consider the most relevant to review and discuss in further investigation.

Table 1: Cables containing the most important information

Sender	Subject	Origin	Created	Classification	Reference ID
Browne	Corruption incentives	Consulate Lagos	2006-07-26	Confidential	06LAGOS1030
Sanders	Bribe details	Embassy Abuja	2009-02-10	Secret	09ABUJA259
Sanders	Corruption awareness	Embassy Abuja	2009-10-20	Confidential	09ABUJA1907

Suggested interview questions with Pickard:

- Which challenges did Shell face when doing business in Nigeria?
- Some of your competitors such as ExxonMobile bribed Nigerian politicians to help their operations in the area. How did Shell deal with their unethically obtained competitive advantage?

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Niger Delta negligence. Amnesty International. (2021, June 6). Retrieved November 11, 2022, from <https://www.amnesty.org/en/latest/news/2018/03/niger-delta-oil-spills-decoders/>

Who we are. Shell. (2021). Retrieved November 11, 2022, from <https://www.shell.com/about-us/who-we-are.html>

Appendix 1: 06LAGOS1030 (Corruption Incentives)

SUBJECT: SHELL AIMS FOR A YEAR-END PRODUCTION START FOR FORCADOS, WESTERN DELTA

REF: A. LAGOS 1020 ¶B. LAGOS 1001 ¶C. ABUJA 971 ¶D. LAGOS 430 ¶E. LAGOS 249

Classified By: Consul General Brian L. Browne for Reasons 1.4 (D & E)

Summary

¶1. (C) In a recent meeting with the Consul General, Shell Exploration and Production Executive Vice-President Ann Pickard, Shell's ranking executive in Nigeria, said Shell was negotiating re-entry and new global Memorandums of Understanding (MOUs) with communities in the Forcados area, which was shut down by militant activity in February. Shell hoped to re-start operations and exports from these areas by the end of the year, but Pickard admitted this was "very ambitious". Meanwhile, Pickard has launched both a comprehensive re-organization of the Shell Petroleum Development Company (SPDC) and Shell's security apparatus. Among the changes, Pickard wants to make sure that her staff in Lagos was fed more security information from their people on the ground in the Delta. Shell security will now report directly to her staff. Finally, Pickard complained that different departments within the USG had different perspectives regarding training and assistance for the Nigerian military and police in the Delta. Although buffeted and feeling the heat of incessant Nigerian demands for military assistance, neither Shell nor other oil companies could afford to "get out in front of the USG" on these very delicate assistance issues, she contended.

Shell Hopes to Re-Start Western Operations by End of the Year, but Grants Target is Ambitious

¶2. (SBU) In a recent meeting with the Consul General, Shell's Ann Pickard said Shell was moving to re-enter its western operations region, vacated in the wake of the February attacks by the Movement for the Emancipation of the Niger Delta (MEND) (reftels D and E). Shell's first task was to conduct environmental assessments, followed by full technical assessments of damaged facilities. To date, Shell has conducted limited day trips and unmanned overflights, but has made no complete estimate of the damage. Shell would then develop a rehabilitation plan, but joint venture partner and national oil company Nigerian National Petroleum Corporation would have to fund its majority stake in rehabilitating the facilities. Pickard noted Shell hoped to re-start operations in the west by the end of the year, but granted this schedule was "very ambitious." Repair of the Forcados Export Terminal's Crude Loading Platform (CLP) was key to recouping approximately 500,00 barrel/day of the Forcados Light blend exports, but other facilities would also need extensive repair and servicing after sitting idle and unguarded for months.

Anecdotes Suggest Extensive Environmental Damage

¶3. (SBU) Anecdotal evidence from industry personnel suggests environmental damage from the early 2006 attacks may well be extensive, as Shell was forced to hurriedly abandon facilities under violent attack. In conversations with industry executives who have flown over the Forcados and nearby rivers, they note huge visible oil slicks. If history proves any guide, oil bunkers have likely penetrated abandoned Shell facilities to tap wellheads and pipelines, leading to additional environmental damage. Extensive environmental damage could delay Shell's plans to re-start production and complicate relations with local communities. LAGOS 00001030 002 OF 003

Shell Negotiating Re-entry and Global Memorandum of Understanding with Western Region Communities

¶4. (C) Pickard noted Shell was carefully negotiating with local communities about restarting its operations around Forcados. She reported they were close to agreement and had not heard rumblings from the militants (reftel A). She observed that Shell was now compelled to re-negotiate re-entry with "MEND characters". She described these interlocutors as a small group of ideologues joined in a marriage of convenience with militant and criminal elements operating in the creeks. Pickard stated Shell would only re-enter an area once the local community invited them back, but communities were hurting economically after Shell's abrupt departure and many were eager for its return.

¶5. (C) Taking a cue from Chevron, Shell was moving to a ““global Memorandum of Understanding (MOU),”” negotiating standardized agreements with communities in increasing concentric circles around key Shell facilities. In the past, it executed ad hoc, vastly different agreements with different communities, depending on the importance of the community and the avarice or sagacity of its leaders. The Global MOUs would emphasize a consistent approach and package of benefits for communities in a region, rather than allowing one host community significant benefits, to the exclusion of others. Pickard asserted Shell faced a more difficult task negotiating agreements than other companies, because of the sheer breadth of its operations. Where Chevron negotiated with two major ethnic groups, Shell negotiated with literally dozens, she added. Nonetheless, Pickard appeared committed to the new global MOU approach.

SPDC, Shell Security Due for Overhaul; Shell Security to Report Directly to Pickard

¶6. (C) Discussing Shell Nigeria’s internal operation, Pickard outlined two serious re-organization efforts. First, she planned a large-scale re-organization of the Shell Petroleum Development Company (SPDC), Shell,s flagship joint-venture company, responsible for most Shell production in Nigeria. However, SPDC has not been meeting Shell’s international performance benchmarks, and Pickard saw the deficit as being a fillip for substantial organizational reform.

¶7. (C) Pickard also discussed challenges in managing Shell,s security apparatus. She acknowledged some frustration in dealing with Shell security staff, saying the staff on the ground were well-connected, but somehow much of that valuable informative was not reaching her. Pickard pointedly said she was re-organizing Shell security for ““performance reasons,”” placing four well-trusted and direct-report expatriates in charge, to ensure that pertinent information gathered on the ground finds its way to her desk.

All Ijaw Discussions Shadow Obasanjo,s Public Delta Commission

¶8. (C) Pickard briefly discussed President Obasanjo,s social and economic development commission for the Delta headed by Chief Albert Horsfall (reftels B and C). She related Shell Country Chair Basil Omiyi is heavily involved in this process. She noted after complaints, President Obasanjo had altered the formal commission to reflect a majority Ijaw and South-South membership, but there is also LAGOS 00001030 003 OF 003 parallel track of shadow discussions with Ijaw leaders. She added Malcolm Brinded, Shell,s worldwide Executive Director of Exploration and Production, serves on an advisory council for President Obasanjo on Delta issues.

Shell Needs to Talk Over Militants, Heads Directly to Communities

¶9. (C) Pickard explained the need for Shell to talk ““over the militants’ heads”” directly to Niger Delta communities. For now, Pickard assessed the militants were successful because they operated in communities sympathetic to their cause. If a coalition of oil companies, the GON, state governments, and development partners could launch a few successful programs and build credibility, they could begin to place a wedge between the militants and the people of the Niger Delta. The coalition could then begin to strip away the militants’ public support and their comfortable operating environment.

Oil Companies need a Consistent USG Message on the Delta, Military and Police Assistance

¶10. (C) Pickard stated the USG did not yet speak with one voice regarding potential commitment to security assistance for the GON in the Delta. Pickard explained when Shell executives attend meetings for the Gulf of Guinea Security Initiative in London and Washington, they do not hear a consistent message from USG agencies regarding our willingness to assist with training and assistance for the Nigerian military and police. She added assistance from the Coast Guard would be particularly useful. Absent clearer political signals from the USG, she noted all oil companies would remain noncommittal. This was putting them in hot water with the GON, which is constantly importuning for funds to improve their military and police capabilities. Pickard expressed hope the USG and HMG might eventually cooperate on programs for development of the Nigerian military and police.

Comment

¶11. (C) Pickard knows the company faces a uphill road in its efforts to restart Forcados and associated operations. For Shell to succeed, much will have to go right within the constellation of Niger Delta politicians and militants, and very little wrong. However, given the volatility of the militant groups and the increased

excitement due to elected politicians, a betting person would not place his wager on the Delta being quiescent indefinitely. We would not count on a permanent return to international oil markets of Nigeria's missing 500,000 barrels of Forcados Light for some time to come. Despite Shell's best efforts to negotiate itself back into the area, this might not be something Shell can do alone. This could well be dependent on the need for a deal, even informal, between the GON and the militants. Such a deal would almost inherently encompass much more than is within Shell's purview to give. BROWNE

Appendix 2: 09ABUJA259 (Bribe Details)

SUBJECT: (C) NIGERIA: SHELL BRIEFS AMBASSADOR ON OIL GAS ISSUES, COMMENTS ON PRESIDENT'S HEALTH AND HIGH-LEVEL CORRUPTION REF: ABUJA 203 Classified By: Ambassador Robin R. Sanders for reasons 1.4. (b & d).

¶1. (S/NF) SUMMARY: Shell's regional executive vice president for Africa Ann Pickard and government relations representative Peter Francis met with the Ambassador on January 27 in Abuja and provided an update on problems in the oil and gas sector. Pickard said that things were going from bad to worse, especially the security situation. She said that Nigeria now had one of the highest negative ratings for maritime operations, creating problems for Shell in hiring oil tankers to load, as tanker operators will work only under highly selective conditions. Last year there were about 80 piracy attacks on land and water combined. This year already 15 have been tallied, which includes 3 for Shell and 3 for Exxon. On corruption, Pickard said that Nigerian entities control the lifting of many oil cargoes and there are some "very interesting" people lifting oil. Oil buyers would pay NNPC GMD Yar'Adua, Chief Economic Advisor Yakubu and the First Lady Turai Yar'Adua large bribes to lift oil. Pickard also reported an instance of the Attorney General Aondoakaa allegedly soliciting a \$20 million bribe to sign a document. The International Oil Companies (IOC) are quite concerned about the "very flawed" new petroleum sector energy bill. The IOCs will be asking U.S., Dutch, and U.K. COMs to convey points on the bill to GON policymakers. Pickard agreed that the President's health is a guessing game. She said that in her recent meetings with Yar'Adua he seems alert, though very drawn in the face, thin, and frail. Her information is that the President was not in danger of dying soon, but also was unlikely to ever fully recover from his ailments. (Note: see septel on oil/energy sector issues for the Ambassador's meeting with the new Minister of Petroleum Resources. End Note). END SUMMARY.

¶2. (C) Shell's regional executive vice president for Africa Ann Pickard and government relations representative Peter Francis met with the Ambassador on January 27, 2009 in Abuja and provided an update on problems in the oil and gas sector. Pickard reported that Shell's meeting with Minister of Petroleum Resources Dr. Rilwanu Lukman scheduled for earlier that day had been cancelled; the third week in a row where key appointments had fallen through, with the excuse of being summoned to the Presidential Villa. (Note: Emboffs have observed that meetings with ministers and senior staff are indeed often cancelled with the explanation that they have been summoned to the Presidential Villa, even when the President is out of town. End note). Econ Counselor and Econoff (notetaker) also attended the discussion.

From bad to worse

¶3. (C) The Ambassador took the opportunity to share with Pickard that the Mission was in the midst of completing its Strategic Plan and asked Pickard where she thought Nigeria was headed. Pickard said that things were going from bad to worse, especially in terms of security. She said that Nigeria now had the highest negative rating for maritime security, creating problems for Shell in hiring oil tankers to load; tankers will work only under highly selective conditions. She also noted that late on the evening of Saturday January 17, Nigerian militants attacked and boarded two vessels at a Shell crude oil loading platform in Bonny and took eight crew members hostage. Standard procedure on the tanker was followed: the ship went into immediate lock down; there were no injuries or fatalities from the boarding. The eight Nigerian crew members who were taken hostage were later released. The pirates who went through the sections of the boat to which they were able to gain access, smashing and stealing computers, electronics, and personal items of the crew members. The second vessel was a tug boat towing a supply vessel from Bonny to Calabar. Last year there were about 80 incidents of piracy; this year already 15 had been tallied, which includes 3 for Shell and 3 for Exxon. GON officials have told Shell to "hire more security." The price of doing business in the oil and gas sector in Nigeria continues to climb she concluded.

[Note: The International Maritime Bureau (IMB), a division of the International Chamber of Commerce - www.icc-ccs.org - reports that the waters off the Gulf of Guinea (Nigeria) remain the second worst, with 40 incidents in 2008 to the Horn of Africa (Somalia) with 42 recorded incidents. The IMB notes that in 2009 the Horn of Africa will be more intense as Spring comes due to the large number of foreign warships in the region on active patrol to ensure the safety and security of vessels. The same increased security is not

expected for Nigeria in 2009. End Note]

Shell believes coup unlikely; corruption worsening

Abuja 00000259 002 of 003 ¶4. (S/NF) The Ambassador asked what Shell's thoughts were on any potential for a coup. Pickard answered that there is little intellectual capital to plan and execute a coup and Shell sees little potential for one. Pickard then went on to say that corruption in the oil sector was worsening by the day. The Ambassador asked for a few examples. Pickard said that Nigerian entities control the lifting of many oil cargoes and there are some "very interesting" people lifting oil (People, she said that were not even in the industry). As an example she said that oil buyers would pay Nigerian National Petroleum Corporation (NNPC) General Managing Director Yar'Adua, (Note: not related to President Yar'Adua. End Note) Chief Economic Advisor Yakubu, and the First Lady Turai Yar'Adua large bribes, millions of dollars per tanker, to lift oil. The IOCs control the liquefied petroleum gas (LPG) cargos, so GON actors do not have the same opportunity for illicit gain. Pickard also said xxxxxxxxxxxx Attorney General Aondoakaa had told a visitor that he would sign a document only if the visitor paid \$2 million immediately and another \$18 million the next day.

Very bad bill

¶5. (C) Pickard reported that Shell, Exxon-Mobil and Chevron all have big license review disputes with the GON. Shell has taken its dispute to court and the court is supporting Shell's position. According to her, Shell is stepping back for the moment, however, to see how the other two majors negotiation fair, but is not taking its case out of court yet. The IOCs are quite concerned about the "very flawed" new petroleum sector energy bill. The bill is silent on what fiscal regimes would be applied. Shell says that the bill could reduce the corporation's overall value in Nigeria. GON discussions around the bill have mentioned the possibility of moving to five-year licenses and prohibiting exploring both oil and gas from the same source, which would contradict how oil and gas extraction works in practice. The bill is silent on joint ventures; it just states that NNPC will be incorporated. Pickard said the bill was "likely to sail through." The IOCs will be asking U.S., Dutch and U.K. COMs to convey points on the bill to GON policymakers. (Note: Pickard mentioned that the IOCs will not share company information directly; they will hire consultants, like McKinsey, to produce common themes so the messages from the IOCs to be shared with the relevant Ambassadors are clear and consistent. End note). Pickard lamented that the expected cycle of petroleum is at least five years for the first oil to flow, another 10 years of production to begin to break even. These numbers change when oil is \$40 per barrel instead of \$100 per barrel. Hence, a five year license would not be an incentive for investment and development.

Gas issues

¶6. (C) The Ambassador said that the Mission was looking at performance measures for the economy, i.e. the linkage between the country's electricity output and gross domestic product (GDP). The Ambassador shared that the Mission feels strongly that gas for feedstock is the key to Nigeria's power production, which is only about 2,800 average megawatts for a country of 140 million people. Pickard agreed and added that the U.S. got it wrong on its domestic natural gas policies, which it took over 20 years to sort out. So it is not surprising that Nigeria has it wrong at this point. She said there is not adequate infrastructure for gas. Gathering plants and pipelines to carry the product to the power plants still have to be financed and built. The Nigeria Independent Power Projects (NIPP) were located where there is no gas and no infrastructure. In addition, the international oil companies were coerced into building a power plant each, something they have no expertise in, and they are scrambling to deliver gas to these plants.

Yar'auda vacation is perhaps something else

¶7. (S/NF) Pickard agreed that the President's health is a guessing game. She said that in her recent meetings with Yar'Auda he seems alert but drawn in the face and frail. She reported that a xxxxxxxxxxxx contact says that the President was not in danger of dying soon but has serious ailments from which he will never fully recover. Pickard shared that Berger provides transportation including planes for the President and has reportedly flown in doctors and technicians to attend the President (reftel). She said, for instance, that xxxxxxxxxxxx confided that they flew the President from Germany to Saudi in September 2008. Additionally, the Berger contact thought the President would not return to the Villa Abuja 00000259 003 of 003 offices, as

they were moving the President's personal things out of the Villa. (Note: What we think this means is that Yar'Adua is spending most of his time in the presidential residence and not in the Villa offices. End Note).

Hopes that oil nationalism can be tempered

¶8. (C) The Ambassador asked how comfortable Shell was with the new appointment of Dr. Rilwanu Lukman as Minister of Petroleum Resources, and the appointment of Mohammad Sanusi Barkindo as the new NNPC GMD. Pickard sees the nationalism card cooling with the removal of former NNPC GMD Yar'Adua, given that new Minister of Petroleum Lukman is more "pragmatic" and will hold sway over deputy Minister Ajumogobia. (Note: Ajumogobia's technical assistant told EconOff in a meeting on January 14, 2009 that the State Minister was focusing on Gas, since before the mass cabinet change he was State Minister of Petroleum, with a separate State Minister for Gas.) End Note. She said she was also okay with NNPC chief Barkindo. She has worked with Barkindo several times over the past few decades, especially when they were both working climate change. She said Barkindo led Nigeria's technical delegation to climate change negotiations that produced the United Nations Framework Convention on Climate Change (UNFCCC) and the Kyoto protocol to UNFCCC during while he served on its Bureau at various times. She indicated that although his undergraduate studies were in political science, he obtained his MBA from Southeastern University in Washington DC and did postgraduate work in petroleum economics and management at Oxford University. Although she also said terms like nationalistic and Chavez she however said that she thought he could be steered in the right direction on the petroleum sector.

Comment

¶9. (C) Although Pickard clearly seems frustrated with the way things are going in the maritime security, oil sector legislation, and corruption which affects Shell's bottom line, it was useful to hear that she has hopes for the new Petroleum Minister and NNPC chief. Septel on the Ambassador's meeting with new Petroleum Minister Lukman will address many of these same issues. ¶10. (U) This cable was coordinated with Consulate Lagos. Sanders"

Appendix 3: 09ABUJA1907 (Corruption Awareness)

SUBJECT: (C) SHELL MD DISCUSSES THE STATUS OF THE PROPOSED PETROLEUM INDUSTRY BILL

Classified By: Deputy Chief of Mission Dundas McCullough for reasons 1.4. (b & d).

Ref: Abuja 1836

SUMMARY

¶1. (C) Shell EVP for Shell Companies in Africa met with the Ambassador on October 13 to discuss the status of the proposed Petroleum Industry Bill. She said the GON wanted the National Assembly to pass the bill by November 17 and that the international oil companies would have to move quickly if the House passed the bill in the coming weeks. She said there was “total alignment” among the IOCs and with the Nigerian oil companies. She said it would be helpful if the Embassy would continue to deliver low-level messages of concern and call on the Speaker of the House to see where he stood on the bill. She expected the situation in the Niger Delta to be “quiet” until the end of the year but would get “out-of-hand” when the election cycle starts up at the end of the year. Shell’s views of the PIB track closely with ExxonMobil’s views as reported in reftel. END SUMMARY.

CURRENT STATUS OF THE PIB

¶2. (C) Shell EVP for Shell Companies in Africa Ann Pickard met with the Ambassador at the Embassy on October 13. The DCM and Economic Counselor joined the Ambassador, and XXXXXXXXXXXXX accompanied Pickard. The Ambassador asked Pickard for her views about the status of the Petroleum Industry Bill (PIB). Pickard said the GON wanted the National Assembly to pass the bill by November 17 in order for the GON to be able to announce it at the upcoming CWC Gulf of Guinea Conference in London November 17-19. She said that if the House passes the PIB in the coming weeks, “we need to move quickly” to obtain any necessary changes before it becomes law. Fortunately, she added, “We are working with the House and the House appears to want to work with us.” She continued that if the Senate passes the PIB, “We aren’t worried.” Unfortunately, she explained, “We think the Senate will pass a bad bill” but it won’t really matter. She added that she would be at the Nigerian House and Senate later that day and would let the Embassy know if there were any unexpected developments.

¶3. (C) The Ambassador asked if Shell had had engagements with the GON outside the National Assembly, such as with the Ministry of Finance and the Central Bank of Nigeria. Pickard said, “We are meeting with them at all levels.” She noted that an IMF team headed by Charles McPherson was in Abuja to look at the PIB and that Shell would be meeting with them as well. In contrast, she said, “We are worried about the World Bank’s political agenda and it is not clear what their agenda is.” She said the World Bank was working on how to make the IJVs “bankable” so that they would be able to go to international and domestic banks for financing.

GAS FLARING AND CLIMATE CHANGE

¶4. (C) Pickard said the PIB requires an end to gas flaring by 2010. She said the industry won’t be able to do that due to the lack of QShe said the industry won’t be able to do that due to the lack of investment and security. Shell is ahead of the other IOCs and could be ready by 2011. Shell would have to spend \$4 billion to do this, but the GON would also have to fund its part and that is a risk. Shell would shut in oil production in fields where it is uneconomic to end gas flaring, and it would let others have the gas for free where it is economic to do so.

¶5. (C) Pickard continued that NNPC General Managing Director Dr. Mohammed Barkindo was interested in doing something on climate change in preparation for the climate change summit in Copenhagen December 6-18. Barkindo was spread pretty thin so Shell will ask him how they can help him prepare for the summit. She added that Shell had recently told the oil producing countries that coal will squeeze out oil as a result of the CO2 footprint issue if the oil producing ABUJA 00001907 002 OF 004 countries and IOCs do not do more to address the issue.

POTENTIAL BENEFITS

¶6. (C) Pickard summarized the PIB's potential benefits. The creation of fully integrated and independently functioning international joint ventures (IJVs) would solve the oil and gas industry's longstanding funding problems if the proposed IJVs are done right. The Nigerian National Petroleum Company (NNPC) was previously forced to reduce its ownership of some existing joint ventures to 49 percent to make them profitable enough to obtain financing. The proposed division of responsibilities between the NNPC and the Directorate of Petroleum Resources also would be good. The IOCs currently do not know if the NNPC is their partner or regulator.

COHESION WITHIN THE INDUSTRY

¶7. (C) The Ambassador asked if the industry was united in its approach to the PIB. Pickard replied that there was "total alignment with the international oil companies at every level." She acknowledged that Shell had more exposure to the loss of acreage than any other company. "We could lose 80 percent of our acreage," she said. The problem comes from the fact that the PIB will redefine how a company can hold on to its exploration and production blocks, limiting what can be kept to two kilometers around each well. "Everyone offshore loses a lot," she continued. "We will have to bring satellites on fast or we will lose the blocks." However, the problem with that is that the companies have to be able to pass things through to the blocks quickly and it takes years to get a rig in due to delays in the Nigerian approval process. (NOTE: Pickard told Econoff in Lagos that Shell "sent away" three platforms in late September. END NOTE.)

ALIGNMENT WITH NIGERIAN OIL COMPANIES

¶8. (C) The Ambassador asked about the IOCs' alignment with the Nigerian oil companies. Pickard replied that "the Nigerian companies are with us" because they will be taxed at the same rate in the current version of the PIB. The IOCs are starting to see what the Nigerian companies want to do.

THE USG'S ROLE

¶9. (C) The Ambassador asked what the Embassy could do to help with the Joint House Committee on Petroleum Upstream and Downstream and Justice that is working on the PIB. Pickard said she hoped the current level of dialogue between the GON and the IOCs continues. Unfortunately, "We have not been able to meet with President Yar'Adua for nine months," she said. "They have him protected." She said it would be helpful if the Embassy would continue to deliver low-level messages of concern. In particular, she thought it would be helpful for the Embassy to call on Speaker of the House Dimeji Bankole to see where he stood on the bill. Beyond that, she would like to keep the Embassy in reserve and use it as a "silver bullet" if the PIB passes the House. The Ambassador noted that the U.S., U.K., Dutch and Qthe House. The Ambassador noted that the U.S., U.K., Dutch and French Embassies had already made a joint call on NNPC General Managing Director Dr. Mohammed Barkindo.

CHINA'S INTEREST IN NIGERIA'S OIL BLOCKS

¶10. (C) Pickard mentioned China's recently reported interest in Nigeria's oil blocks. She said Shell had received a copy of the letter that Special Advisor to the President on Petroleum Matters Dr. Emmanuel Egbogah had sent to the Chinese which said that their offer for oil exploration blocks was not good enough. Minister of State for Petroleum Resources Odein Ajumogobia had denied that the letter ABUJA 00001907 003 OF 004 had been sent, but later conceded that the GON was only "benchmarking" to see what the IOCs should pay for shallow-water licenses. Pickard said Shell had good sources to show that their data had been sent to both China and Russia. She said the GON had forgotten that Shell had seconded people to all the relevant ministries and that Shell consequently had access to everything that was being done in those ministries.

CHANGING RESPONSIBILITIES WITHIN THE GON'S TEAM

¶11. (C) Pickard observed that there might be changes with how the GON management of the petroleum sector is organized. Minister of Petroleum Resources Rilwanu Lukman may be given the responsibility for implementing the PIB, while Minister of State for Petroleum Resources Ajumogobia may get the Directorate of Petroleum Resources and ongoing business. The problem with these changes is that the GON could still get "unempowered people" who are not able to address the issues. The question is whether Ajumogobia

would be able to step up. (NOTE: Press reports on October 17 reported that Lukman will be given overall responsibility for the formulation of policy, and oversee the implementation of the PIB, the Integrated Joint Venture negotiation and rollout, the fiscal terms transition and implementation, the new organization implementation, and stakeholder management. We will also supervise the NNPC and its subsidiaries, the Organization of Petroleum Exporting Countries, the African Petroleum Producers Association, and the University of Petroleum. Ajumogobia will be in charge of the Gas Master Plan Transition Implementation, the Gas Exporting Countries Forum, the Nigerian Liquefied Natural Gas, the alternative fuels, and the Petroleum Equalization Fund. He will also oversee the Directorate of Petroleum Resources, the Petroleum Training Institute and the Pricing Regulatory Agency. END NOTE.)

SHELL'S CURRENT PRODUCTION

¶12. (C) The Ambassador asked about the level of Shell's current operations. Pickard said Shell was producing 663,000 barrels per day as of October 13, including the Bonga field. Approximately 80,000 barrels per day had been brought back from the Forcados field on the previous day. Some 900,000 barrels per day of capacity was still shut in. Of that, Shell could bring back 600,000 barrels per day, while the remaining 300,000 barrels per day is "too unreachable."

AMNESTY IN THE NIGER DELTA

¶13. (C) The Ambassador asked Pickard what she thought about the future of the GON's amnesty offer to militants in the Niger Delta. She responded that Shell expected the situation in the Niger Delta to be "quiet" until the end of the year. It will then get "out-of-hand" when the election cycle starts up in December, January and February. She expressed particular concern about Bayelsa State, home to Shell's 500,000 barrel-per-day capacity Bonny field. Pickard also noted that Q500,000 barrel-per-day capacity Bonny field. Pickard also noted that Shell saw Israeli security experts in Bayelsa, but not in the Delta, and that there had been "a big drop in kidnapping" as a result.

Looking Ahead ¶14. (C) XXXXXXXXXXXXXXX

COMMENT ABUJA 00001907 004 OF 004

¶15. (C) Shell's views of the PIB and the alignment among the IOCs and with the Nigerian oil companies track closely with the views of ExxonMobil, as reported in reftel. The main difference is that Shell tends to minimize the different tax concerns and financial vulnerabilities of the individual IOCs. Shell is much more vulnerable than the other IOCs because its operations are concentrated in less favorable JV concessions that are located in the violence-prone Niger Delta. ExxonMobil and Chevron's operations are concentrated in more favorable production sharing contracts (PSC) in the relatively violence-free offshore areas. In the event that the PIB retains negative terms or violence returns to the Delta, Shell can be expected to hurt the most and cry the loudest.

¶16. (U) Embassy Abuja coordinated this telegram with ConGen Lagos. SANDERS"