Summary

This briefing presents an analysis of Shell's global security expenditure between 2007 and 2009. It is based on internal financial data from Shell’s security department leaked to oil watchdog, Platform. It reveals for the first time how much Shell has spent on security, who benefitted and who bore the risks. In particular, the data shows the extent of Shell’s funding for government forces and other armed groups in Nigeria during a period of intense conflict in the oil producing Niger Delta.

The briefing connects Shell’s security spending to its wider social impacts. Platform’s analysis refers to US embassy cables and other sources, many of which are available via an online timeline of oil conflict in Nigeria. The focus is on Shell, but the same issues and recommendations apply to Chevron, ExxonMobil, Eni/Agip and other oil companies operating in Nigeria.


Researched and written by Ben Amunwa, Platform.

Work in oil? Tell us what you know, in confidence.

Email: info@platformlondon.org
Phone: +44(0)207 403 3738

Platform, 7 Horselydown Lane, London, SE1 2LN, UK. Charity no. 1044485, Company no. 2658515

facebook, twitter: @platformlondon

Design by Sara Nilsson
August 2012

Cover image: Shell distribution and capping point in the Niger Delta, Nigeria. Photo by Adrian Arbib.
The scale and impact of Shell’s global security expenditure is colossal. Between 2007 and 2009, Shell spent at least $1 billion on security. Almost 40% of this, some $383 million, was spent in Nigeria.

The majority of that money went into securing Shell’s operations in the Niger Delta region, an area roughly the size of Scotland. In 2008 alone, Shell spent more on security in the Delta than in the Americas, EU and Russia combined.

The $383 million Shell spent in Nigeria is an underestimate. It does not include expenditure on the Shell-operated Liquefied Natural Gas (LNG) plant in Bonny. Nor does it include an estimated annual $200 million of ‘community development’ funds, which are frequently distributed to groups that threaten Shell’s operations, sparking serious violent conflicts.¹

The leaked data covers all four Shell companies in Nigeria. However, Shell

Figure 1. Shell Global Security Spending 2007-2009

Source: Shell 2007-2008 Comparison graph. 2009 figures from Platform interview with Shell manager, 7 October 2011
is only a minority shareholder in both of its two joint ventures in Nigeria. It holds 30% in Shell Petroleum Development Company and 25.6% in the Bonny LNG plant. The other shareholders in these joint ventures are Total, Agip and the Nigerian National Petroleum Corporation, all of which contribute towards their share of security costs. These contributions are not included here and would have more than matched Shell’s security expenditure.

Conflict in the Niger Delta has turned oil company security spending into a bottomless pit. In 2008, as regular attacks on oil infrastructure helped drive world oil prices to a historic $147 per barrel,2 Shell’s security expenditure in Nigeria rose by $53 million on 2007 levels, or 56%.

After the oil price collapsed in late 2008, Shell reportedly made budget cuts of $300 million in Nigeria, due to high security costs and political risks.3 Despite questions over the effectiveness of Shell’s security arrangements (see p. 11), Shell’s security spending only took a modest 5.5% cut of $8 million in 2009 and remained relatively high at an estimated $140 million.4 As Shell CEO Peter Voser axed thousands of jobs globally,5 he continued Shell’s regular payments to government forces in Nigeria who exacerbated the conflict and proved incapable of protecting Shell’s facilities and personnel.
International impacts
In 2008 Shell’s security spending spanned a selection of repressive and undemocratic regimes. Although the leaked data was collected from many of the countries where Shell operates, some Shell subsidiaries did not report their security costs to the parent company in this period.⁶

In the Middle East and North Africa (MENA) region, Shell had a significant presence in Syria, Egypt, Libya and Oman from 2007 to 2009. Shell’s security spending of $8 million deepened its controversial ties to dictatorships, in particular the Assad regime in Syria. Shell was the largest foreign investor in Syria until it withdrew in December 2011 after a public campaign highlighting Shell’s payments to Assad.⁷ The company is also the largest foreign investor in Oman by a wide margin, with close relationships to the Sultan’s regime.

Shell’s MENA security spending also covered Kazakhstan, where police forces shot and killed scores of oil workers protesting against state oil company, KazMunaiGas (KMG) in Zhanaozen on 17 December 2011. Thirteen oil workers were jailed for up to seven years, including a mother of four children. Shell currently maintains a close partnership with KMG on the Kashagan oil extraction project.⁸

Given that around 30% of Shell’s budget was spent on ‘Third parties’ such as government forces, there are significant concerns about the social impact of Shell’s global security spending.

---

Figure 2. Shell Global Security Spending by Region 2008

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oceania</td>
<td>2%</td>
<td>$8,500,000</td>
</tr>
<tr>
<td>Americas</td>
<td>19%</td>
<td>$64,000,000</td>
</tr>
<tr>
<td>EU &amp; Russia</td>
<td>20%</td>
<td>$69,000,000</td>
</tr>
<tr>
<td>MENA</td>
<td>2%</td>
<td>$8,000,000</td>
</tr>
<tr>
<td>Sub Saharan Africa</td>
<td>2%</td>
<td>$6,000,000</td>
</tr>
<tr>
<td>Corporate Center</td>
<td>3%</td>
<td>$10,000,000</td>
</tr>
<tr>
<td>Shell Oil Products Africa</td>
<td>1%</td>
<td>$2,000,000</td>
</tr>
<tr>
<td>Nigeria</td>
<td>43%</td>
<td>$148,000,000</td>
</tr>
</tbody>
</table>

Source: Shell 2008 Total Security Spend Region View
DIRTY WORK: SHELL’S SECURITY SPENDING IN NIGERIA AND BEYOND

Risks and benefits

Shell’s global security spend was broken down into six categories: staff costs, capital expenditure on fixed assets (for example property, vehicles or equipment), private contractors (such as G4S), third parties, severance pay and ‘Other’ costs. Below is an examination of what some of these categories meant in practice.

‘Third parties’
Approximately a third of Shell’s global security budget in 2008, or $99 million, was spent on third parties. This was double what the company spent on its own security staff. Examples of third parties include government forces in Nigeria. Shell’s vast operations in the Niger Delta are guarded by over 1,300 government forces, including 600 police and Mobile Police, known locally as the ‘kill and go’ and 700 soldiers from the Joint Task Force (JTF), a combination of the army, navy and police. Shell also maintains a 1,200-strong internal police force, called ‘supernumerary’ or SPY police, plus a network of plainclothes informants.

Shell has supplied these government forces with gunboats, helicopters, vehicles, food, accommodation, satellite phones, stipends and large-scale funding throughout years of conflict in the Delta region. US embassy cables suggest that Shell was a major funder behind the deployment of 350 JTF soldiers ‘at or near’ Shell facilities in the western Delta when the JTF was

Figure 3. Shell Global Security Spending by Category 2008

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff costs</td>
<td>14%</td>
<td>$48,500,000</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>10%</td>
<td>$32,500,000</td>
</tr>
<tr>
<td>Contractors</td>
<td>10%</td>
<td>$35,000,000</td>
</tr>
<tr>
<td>Severance</td>
<td>0.3%</td>
<td>£1,000,000</td>
</tr>
<tr>
<td>Third Parties</td>
<td>29%</td>
<td>$99,000,000</td>
</tr>
<tr>
<td>Other</td>
<td>37%</td>
<td>$127,000,000</td>
</tr>
</tbody>
</table>

Source: Shell Total Security Spend $343mm
DIRTY WORK: SHELL’S SECURITY SPENDING IN NIGERIA AND BEYOND

established in 2003. Shell is thought to have contributed approximately $7.5 - 15 million towards the JTF’s ‘Operation Restore Hope’ in and around the crisis-torn city of Warri, where thousands were displaced and an estimated 500 people killed.

A significant amount of Shell’s funding appears to have been channelled via senior military officials. A 2009 report by conflict resolution experts at Coventry Cathedral claimed that JTF General Elias Zamani, who was in command from 2003 to 2006, charged oil companies an unaudited ‘stipend’ that included “fuel, stores and [an] estimated N40 million [$258,000] per month in cash”. US cables suggest that Shell paid the JTF’s charges, providing ample opportunities for corruption.

By 2009, Shell’s total support for government forces in Nigeria reached an estimated $65 million. This is a staggering transfer of company funds and resources into the hands of soldiers and police known for routine human rights abuses.

Shell’s continual support for the JTF exposed the company to potential liability for involvement in human rights incidents. In mid-September 2004, the JTF attacked the village of Oru Sangama using helicopter gunships and speed-boats. According to writer and journalist Peter Maass, two civilians were reported killed and many houses were looted and burned to the ground. Soldiers hired and paid by Shell to guard the nearby Soku gas plant were allegedly involved in the attack.

Shell also risked involvement in systematic raids on local communities. One such raid was in Gbaramatu area in the western Delta. As several
communities gathered for an annual festival on 13 May 2009, the Nigerian military launched large-scale attacks using helicopter gunships and a land offensive. Their target was the nearby Camp Five, base of militant leader, Government Tompolo. After several weeks of attacks, the impact on local residents was severe. The US State Department reported that “tens of thousands of persons were either displaced or lost their livelihoods as a result of the attacks”. The number of casualties was unconfirmed. The JTF closed the waterways, preventing movement in and out of the area.20

Throughout these attacks and others like them, Shell provided tens of millions of dollars to the JTF and relied on JTF soldiers to guard its oil facilities. Instead of holding government forces to account by ensuring that abuses were properly investigated and appropriate punishment or disciplinary action taken, Shell rewarded the JTF with lucrative funding and support.

‘Other’
In 2008, ‘Other’ accounted for over 40% of Shell's global security spending. At $127 million, it was by far the largest category of expenditure. Figures from 2009 indicate that Shell spent $75 million on ‘Other’ security costs in Nigeria, $10 million more than it spent on ‘third parties’ that year.21

Where did the money go? Getting an accurate answer is difficult, since even staff inside Shell’s security department have been kept in the dark. A source familiar with the matter told Platform that: “There wasn't much transparency in where exactly it was being spent.”22

The internal secrecy surrounding such spending suggests that the security departments of Shell’s subsidiaries around the world are refusing to disclose the basic details of major expenditures.

In Nigeria, there is evidence that indicatess Shell used this ‘Other’ budget for a range of questionable purposes. According to US embassy cables in 2003, Shell and Chevron made direct payments to individual armed militants in the Warri area on average amounting to $300 per month.23 This was enough to sustain each militant with “quality weapons” and supplies for several weeks.24 The number of militants who benefitted from such payments is unknown, however similar oil company practices are considered to have been widespread.25 These payments have added fuel to the fire of intense conflict between rival militant groups and government forces.

Oil companies have regularly made ‘stay-at-home’ payments to armed groups to forestall actual or threatened attacks on infrastructure as well as intermittent cash payments for the release of hostages. Shell frequently uses payments and contracts to pacify armed groups and to regain access to oil facilities closed or damaged by the conflict. These corporate practices have become a central part of the conflict dynamics in the Delta, leading to “the killing and displacement of thousands of local people” in ethnic and communal conflicts.26
DIRTY WORK: SHELL’S SECURITY SPENDING IN NIGERIA AND BEYOND

A recent report by Platform found that Shell’s routine payments to armed groups exacerbated human rights abuses. In Rumuekpe town, a main artery of Shell’s eastern operations, Shell was involved in a conflict between several armed gangs from summer 2005 to November 2008. Throughout that time, the company made regular visits to the community and allegedly paid whichever faction controlled access to the area. The Rumuekpe crisis resulted in the complete destruction of the town. Community members estimate that at least 60 people were killed.27

The scale of Shell’s ‘Other’ budget highlights significant gaps in the auditing of the company’s global expenditure. Senior executives at Shell International appear to have turned a blind eye to unexplained security expenditure of $75 million in Nigeria, during violent conflict in the Delta in 2009. Contractors

Shell’s provision of $35 million for security contractors was a substantial 10% of its global security budget in 2008. This expenditure can be subdivided into local and external security contractors and consultants.

Local

There are between 1,500 to 2,000 private military and security companies (PMSCs) in Nigeria, employing over 100,000 people.28 Shell’s use of local security contractors raises similar issues to its ‘Other’ budget. Between 2003 and 2011, independent investigations by Shell consultants WAC Global,29 Amnesty International,30 the Financial Times,31 and Platform32 have all highlighted that Shell has exacerbated conflict by awarding contracts to groups responsible for or linked to human rights abuses in the Delta. A recent study by the Wilson Centre, stated that “these contracts often end up in the hands of the very groups responsible for attacks on oil facilities”.33

Speaking at an event in London in February 2012, the Managing Director of Shell Nigeria, Mutiu Sunmonu told the audience that:

“You do not know who is a militant and who is a genuine contractor. So there could be cases in the past where you have thought you were employing, you know, a genuine, bona fide contractor, and yet he is probably a militant or a warlord.”34

Shell’s responsibilities under the UN Guiding Principles on Business and Human Rights are simple. The company has a duty to avoid human rights violations regardless of how challenging the ‘external environment’. In conflict-zones like the Delta, this duty requires heightened “due diligence” and enhanced preventative measures to ensure that company payments do not worsen armed conflict and human rights abuses.35

The problem is further compounded by the Nigerian government’s implementation of local content policies that have pushed oil companies to do
more business with local community contractors. The government and the oil companies have failed to ensure that these security contractors meet basic human rights standards.

External

As security contracts dried up in Afghanistan and Iraq, western PMSCs flocked to the oil fields of the Niger Delta. Control Risks Group, Erinys, G4S, Saladin Security and Executive Outcomes are among the UK-based security companies who have benefitted from contracts in the Delta. A source in the security industry told Platform that the primary interest of these firms was “seeking their next contract in Nigeria”. Rather than helping to resolve conflicts, these PMSCs are accused of hardening military security.

Under the Nigerian Private Guard Companies Act 1986, PMSCs operating in the country are prohibited from carrying arms. However, some have been implicated in the excessive use of force. PMSCs guarding oil companies are embedded within armed JTF and Mobile Police units. In theory, this gives oil companies an extra layer of control over unreliable government forces. In practice, this has been problematic. Troops guarding oil facilities receive instructions from oil companies and PMSCs at the same time as taking orders from their commanders. It is unclear where corporate responsibility ends and government control begins. Regardless of what company guidelines say about the use of force, soldiers and police follow government orders and companies may be held responsible for abuses.
Apart from its colossal scale, what is striking about Shell’s security spending in Nigeria is its ineffectiveness. Shell spent many millions of dollars each year on government forces who failed to provide the company with adequate security.

It is no surprise the US government observed that Shell’s over-reliance on military forces created “serious internal friction” at the company. As early as 2003, Shell and Chevron dismissed the performance of the JTF as “underwhelming”. In August 2011, a current Shell manager in Nigeria told Platform that the military was “a total disappointment”. In his view:

“the amount of money we are spending on these soldiers, if we take 10 per cent of it and spend it on the communities, then when they wake up every morning, they will say ‘Shell, it will be well for you’ ”.

Shell should focus its resources on ensuring government forces are held accountable for wrongdoing, cleaning up decades of pollution and provid-
ing redress to the victims of abuses. Instead, Shell’s security spending has:

- reinforced the impunity enjoyed by human rights abusers;
- enabled indiscriminate military attacks;
- hardened the ongoing militarisation of the Delta;
- exacerbated communal conflicts and become a potent force in conflict dynamics;
- exposed the company to potential liability for aiding international crimes.

Soldiers, militants and PMSCs have benefited from Shell’s vast flows of security spending in Nigeria, while local residents have been routinely killed, tortured or displaced. Shell’s security expenditure has also supported repressive regimes across the MENA region, including Syria.

The leaked data highlights structural flaws in Shell’s global auditing. Opaque accounting and internal secrecy has kept Shell’s security spending from scrutiny. Shell should fully disclose line item reporting of all payments it makes to the Nigerian government, police and armed forces in its budget and published financial statements. As a former company manager put it:

“the only way for true transparency is to reconcile Shell’s spend in security with who was paid.”

Every payment Shell makes in Nigeria should be linked to a clearly and accurately recorded transaction. If there is a risk that cash payments and contracts could go to armed groups or worsen conflict, Shell must stop the transaction. If Shell is to avoid liability for human rights abuses and corruption, hiding such payments is not a sustainable option. Shell shareholders, home governments, company staff, NGOs, activists and local communities all play a crucial role in demanding an end to these harmful practices.

For further recommendations to a range of stakeholders visit:


11. Platform interview with Shell manager, 8 September 2011.

12. Shell holds a 30% stake in its joint venture with NNPC, which holds 55%. See: http://www.shell.com.ng/home/content/nga/aboutshell/at_a_glance/. Assuming the $50 to $100 million was split equally between the Shell and Chevron joint ventures affected by the 2003 Warri crisis, Shell’s share would be: 30 x ($50m/200) = $7.5 or 30 x ($100m/200) = $15m.


17. Platform interview with ex-Shell manager, 7 October 2011.


