

TWELVE

‘MAKING HOLES IN THE GROUND’

The Extractive Industries

APPLIED CASE STUDY

As *Global Shift* makes clear, resource-extracting companies have no choice in where they find their raw materials. However, companies do have a choice in terms of what they do while extracting them. The case of Shell indicates that taking materials out of the ground is not a neutral activity, but one which can be undertaken in more or less ethical ways.

Royal Dutch Shell (usually referred to simply as Shell) is an Anglo-Dutch petroleum company formed in the early twentieth century by a merger between two existing companies. During the early to mid-twentieth century, although an independent company, it was strongly allied with the colonial interests of its parent governments. Today, it is one of the seven largest oil MNCs in the world, and one of the two largest in Europe (the other being BP). It has also been at the centre of many of the industry’s main controversies of recent years. Shell is slightly unusual among the major oil corporations in being a group of companies with the ability to act more or less independently rather than a single unit answerable to an overall company board.

The best-known controversy in the case of Shell is its role in humanitarian issues. Prior to the Second World War, Shell benefited strongly from the colonial connections of its parent country governments (hence the company’s focus on former colonies of the UK and the Netherlands even to this day; Shell’s involve-

ment in Nigeria stems from its having been given the oil monopoly in this region by the pre-war British government). During the 1930s, Royal Dutch came under scrutiny for the pro-Nazi sympathies of its chief executive, and, in the 1970s and 1980s, was accused of breaking economic sanctions against Rhodesia and of supporting the pro-Apartheid South African government. Less controversially, but no less insidiously, Shell, like most other oil MNCs, is a strong political lobbyist both in its parent countries and abroad, adding complexity to its international political relations.

More recently, Shell's political involvement in developing world oil producing nations, particularly its support for political regimes of questionable legitimacy in Nigeria and Myanmar, has led at certain times to international criticism and consumer boycotts. In particular, the Nigerian civil war of the 1960s started over the issue of to whom the Shell-BP joint venture operating in the area at the time should be paying its royalties, and the seceding region, Biafra, contains most of the oil producing land of Nigeria. Some of the more pessimistic commentators lay the blame for the civil war squarely at the door of the oil companies.

In the 1990s, Shell came under fire again when an indigenous Nigerian group, the Ogoni, engaged in protests against its Nigerian operations, which they claimed were environmentally destructive but provided no financial benefit to offset these effects. Shell enjoyed the full support of the Nigerian government in opposing these protests, and, when the Nigerian government executed prominent Ogoni leader Ken Saro-Wiwa following what was widely regarded as a show trial, Shell came under fire from human rights organizations for its support for this action. In addition, the British and Dutch governments vetoed an EU motion for sanctions against Nigeria in 1995, fearful of damaging Shell's interests in the region. The publicity which the incident attracted led to the exposure of the extent of Shell's influence within the Nigerian government, and questions as to whether this was in any way ethical or fair.

Shell has subsequently attempted to remedy its poor human rights record. In 1996, Shell initiated a process of dialogue with the company's stakeholders, including Amnesty International, and set up a Social Responsibility Committee in 1997 to review policies and practices. It has also subscribed to the Global Compact, a UN initiative involving subscribing to certain basic principles in, among other areas, human rights and labour rights. Shell has also been active in funding, supporting and promoting sustainable development projects, with a particular focus on Nigeria, where it has also been active in sponsoring community development. However, questions continue to be raised about Shell's level of commitment to such initiatives: whether it is truly sincere, or simply trying to combat a negative

international image. In particular, its involvement in Nigeria continues to attract criticism from NGOs claiming that little has changed in practice since the execution of Ken Saro-Wiwa.

Although human rights issues tend to attract less public attention in the extractive industries than environmental ones, they are nonetheless crucial aspects of resource extraction. Although a common argument in favour of such companies is that they are not able to choose where the resources are located, it is not true that companies are completely helpless in this regard. Companies can choose where to locate and when (Shell has, for instance, been excluded from the Ogoni region of Nigeria since the events of the mid-1990s), and also which sort of research to fund and from which areas. One particular problem, though, is that companies often will not act until they receive negative publicity from their activities, rather than taking ethical considerations into account of their own accord, leading some to question whether more attention is needed to the development of codes of practice and systems of ethics in business if the extractive industries, among others, are to survive over the next few decades.

The case of Shell thus clearly demonstrates that the extractive industries are far from ethically neutral, with human rights as well as environmental issues coming into play in terms of their decisions where to locate and who to deal with in doing so. Although companies are capable of making decisions which mitigate or offset the negative effects of their activities, the question remains of how to induce them to do so, and of why they will not do so on their own.

QUESTIONS

1. Is it theoretically possible for a resource-extracting company to be 'ethics-neutral', or does every international business venture involve ethical dilemmas?
2. To what extent is Shell's postcolonial relationship with the Nigerian government affected by former colonial relations, and to what extent is it based on contemporary politics?
3. Propose an ethical policy for an oil company (using Shell as a model) which will balance the company's interest in locating optimal resources with the issue of respecting human rights across the globe.
4. How similar are the ethical issues faced by the resource extractive industries to those faced by companies from other industries discussed elsewhere in *Global Shift*? Discuss the implications of your answer.

FURTHER READING

- Frynas, J. George (2000) Shell in Nigeria: a further contribution. *Third World Quarterly*, 21 (1): 157–164.
- Frynas, J. George (2003) Global monitor: Royal Dutch/Shell. *New Political Economy*, 8 (2): 275–285.
- Martinez, Esther Ortiz and Crowther, David (2008) Is disclosure the right way to comply with stakeholders? The Shell case. *Business Ethics: a European Review*, 17 (1): 13–22.
- Turner, Louis (1976) The oil majors in world politics. *International Affairs*, 52 (3): 368–380.