Keeping Competitive in Turbulent Markets, 1973–2007

A History of Royal Dutch Shell, volume 3

Keetie Sluyterman

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Published under licence from Boom Publishers, Amsterdam, initiating publishers and publishers of the Dutch edition.

OXFORD
UNIVERSITY PRESS

2007

In 1976 the past came to haunt the oil industry in the form of critical questions about the handling of the boycott against Rhodesia after the government of Southern Rhodesia, representing the white settler community, had unilaterally declared its independence from Britain ten years earlier. On 11 November 1965 Prime Minister Ian Smith had signed the declaration of independence from Britain and that country had responded with a boycott against Rhodesia, expecting the Smith regime to collapse within weeks. When this did not happen, oil companies were blamed for supporting the regime by continuing to sell oil products.

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Oil supplies to Rhodesia The reputation of the oil industry was just recovering from the low level it had reached during the first oil price shock, when the question of oil supplies to Rhodesia (Zimbabwe) grabbed the headlines in 1976. This was particularly true for the press in Great Britain. For the unfolding of this story we have to go back in time to 1965, when the government of Southern Rhodesia, representing the white settler community, declared unilaterally its independence from Britain.[25] The British government did not want to bring Rhodesia back into the British Commonwealth of Nations by force, but expected to bring the regime to its knees in weeks rather than months through the sanctions weapon. On 20 November 1965, the UN Security Council called for non-mandatory selective sanctions, including an oil embargo, to end the rebellion. Britain introduced oil sanctions, making it illegal for UK-registered companies or UK citizens to supply oil to Rhodesia, or to intermediaries thought to be involved in supplying Rhodesia. Virtually all other UN members introduced similar legislation, but tellingly not South Africa or Portugal with its colony Mozambique. In response to the sanctions, the international oil companies stopped their deliveries to the Mozambique port of Beira with its pipeline to their Rhodesian refinery at Umtali. As a consequence the Umtali refinery was shut down on 15 January 1966.[26] Twelve years later, the white settlers' regime under premier Ian Smith was still in place, and the country was still being provided with oil products.

In 1976 the English economist Bernard Rivers found secret documents, which revealed that Mobil subsidiaries had been involved in a scheme to supply Rhodesia with oil. These were published in his report *The Oil Conspiracy*. At the same time the publication of the Dutch pressure group Kairos *Shell in South Africa* appeared in Britain in the English language. Both inspired the journalist Martin Bailey to dig further into the flows of oil and oil products in Southern Africa. In 1977 he published the report *Shell and BP in South Africa*, based to a large extent on the earlier Kairos report. He argued that Shell and BP, together with the three other major international petroleum companies operating in South Africa (Mobil, Caltex, and Total) had played a crucial role in helping to break the oil embargo.[27] Shell repeated its earlier statements that 'although no company in which there was a Shell interest was supplying oil to Rhodesia and although Shell companies feel they have done everything practicable to comply with the UK Second Order in Council of 1968, there can be no guarantee that products emanating from crude oil supplied to South Africa have not found, or will not find their way to Rhodesia'. The explanation Shell gave ran as follows: Shell companies operate under the laws of countries in which they exist. It happened that under South African law companies were unable to refuse to supply customers or to control the ultimate destination of products sold to their customers.[28]

Following the allegations in the various reports and articles in the press, the Zambian Attorney General commenced proceedings in Lusaka against Royal Dutch, Shell Transport, BP, Mobil, Caltex and Total and their respective subsidiaries with a number of essentially political allegations, including conspiring to install an illegal minority racist regime in Rhodesia and sustaining that regime in power, as well as cutting off oil supplies to Zambia in December 1965. The same group of oil companies were also

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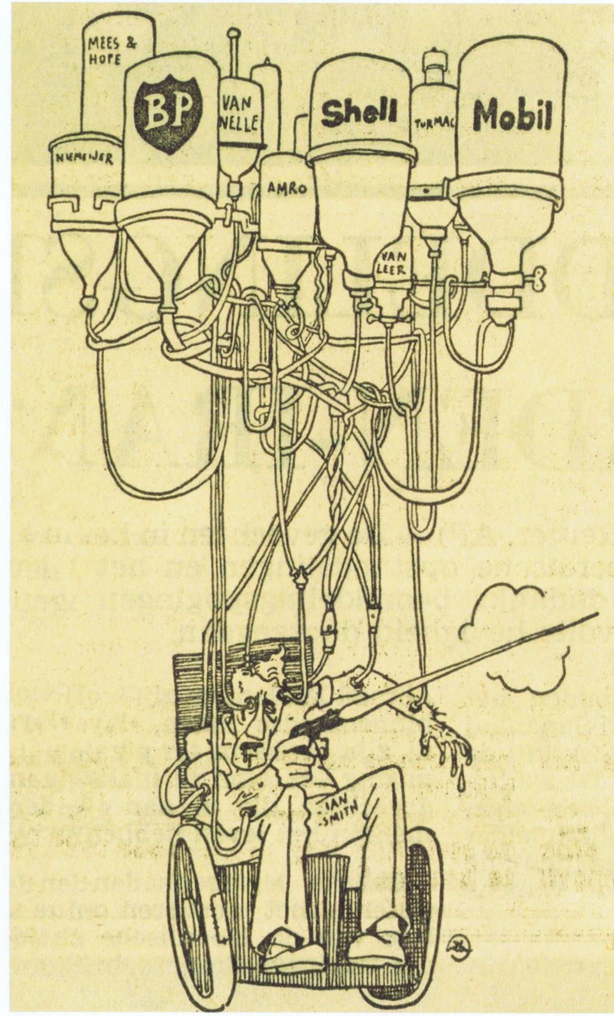
In 1979 Britain organized a conference in London to end the violence in Rhodesia and negotiate independence for that country. Protestors in London made it clear that they wanted Ian Smith to go. Key players at the conference were Robert Mugabe and Joshua Nkomo, founders of the Zimbabwe African People's Union (ZAPU). After an interim return to British responsibility, elections were held in 1980. Robert Mugabe and his Popular Front won a decisive victory and the country reverted to the name Zimbabwe.

In late 1979 the campaigners against the white settler regime in Rhodesia demanded an oil boycott against South Africa, which supported Rhodesia and clung to its own apartheid policy. In the Netherlands some people returned Shell's promotional leaflets 'Shell helpt' scornfully cut into pieces or with angry comments written upon them. Some sent in cartoons, such as the one suggesting that the regime of Ian Smith was kept alive by oil deliveries. The sales of gasoline in the Netherlands, however, were not affected.



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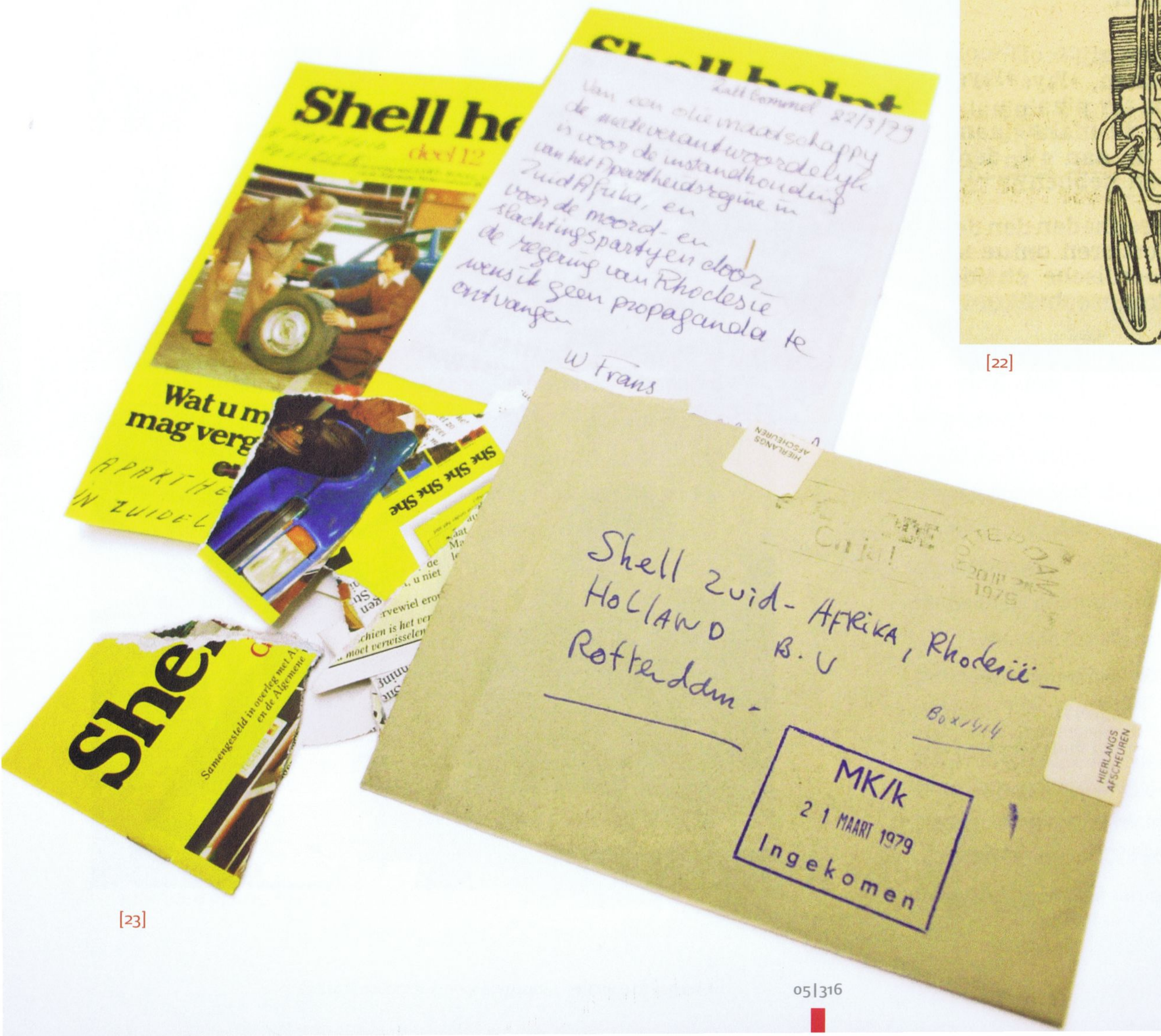

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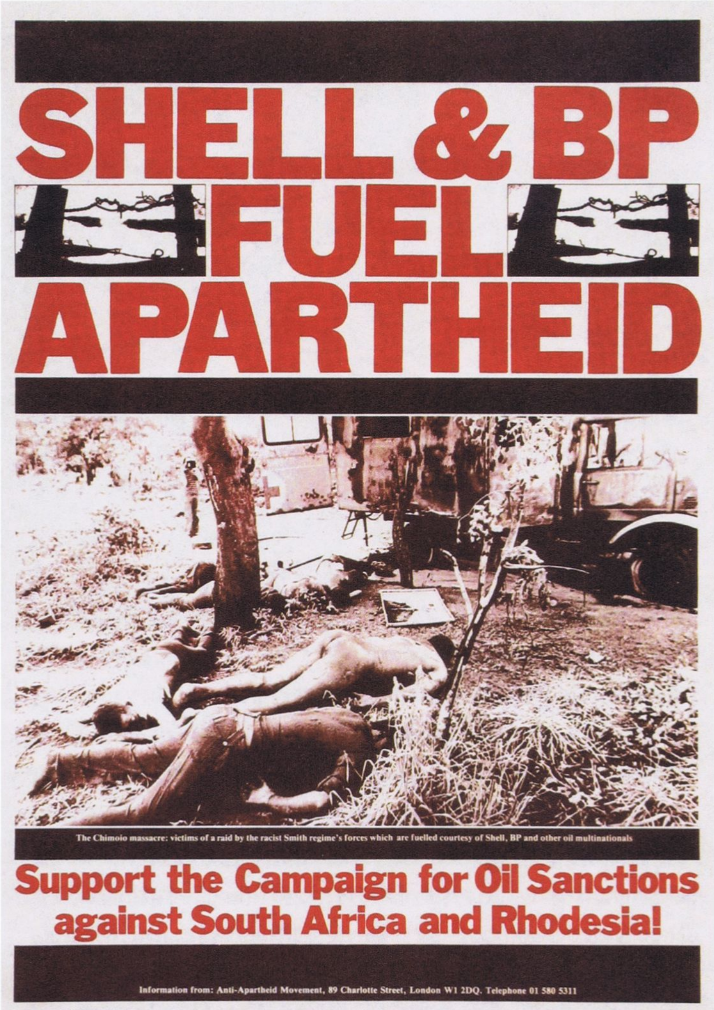

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Campaign for oil sanctions against South Africa and Rhodesia by the anti-apartheid movement, London 1977.

charged in Britain by the British-based company Lonrho, which claimed unspecified damages for itself and its associated company CPMR in their capacities as owners and operators of the Beira – Umtali crude oil pipeline.[29] The allegations that certain oil companies had been evading the UK embargo on trade with Rhodesia, led in Britain to a judicial enquiry ordered by the British Foreign Secretary and chaired by Thomas Bingham QC.[30] At the same time, Shell started its own internal enquiry.

From the Bingham inquiry, supported by internal Shell sources, the following story emerged. Shell companies had fully cooperated in stopping supplies of crude oil to Beira and made an effort to ensure that Zambia continued to obtain oil products after the closure of the Umtali refinery. At that time Shell and BP still had combined marketing operations in Southern Africa, and these had delivered oil products to Rhodesia via South African intermediaries and Shell Mozambique. In 1968 these deliveries had been discussed with the UK Foreign Office. Shell and BP representatives had explained that they could never guarantee that petroleum supplies to South Africa would not reach Rhodesia unless the UK government would boycott supplies to South Africa, because the South African government had officially directed South African companies not to withhold supplies from any South African customer or to attach conditions as to destination or re-sale. The British government, however, was not prepared to implement sanctions against South Africa. To resolve this conflict of interests, the British government went along with a swap arrangement in which the South African subsidiary of the French company Total delivered the supplies to Rhodesia via Mozambique in exchange for supplies to traders in South Africa by the local Shell and BP marketing organizations. This arrangement lasted for a few years, after which the Shell and BP marketing organizations resumed supplies through South African intermediaries, in this case the company Freight Services.

In 1974 two developments coincided. First, the regimes in Portugal and Mozambique changed, and the newly independent Mozambique immediately stopped the oil trade with Rhodesia. Second, and unrelated, Shell and BP unravelled their joint marketing organization in South Africa. During this split the two South African subsidiaries of Shell and BP discussed the division of their share in the trade with Rhodesia and copies of these papers, which started to circulate, seemed to suggest that the two subsidiaries were directly involved with deliveries to Rhodesia. Further inspection, however, revealed that after the closure of the border between Rhodesia and Mozambique the South African company SASOL had taken over the trade with Freight Services, while Shell South Africa had increased its supply to its depots in the Transvaal as a replacement for supplies from SASOL.[31]

The Bingham report, when it appeared in 1978, was equally embarrassing for the British government as for the oil companies, because it made clear that both parties had acted perhaps not against the law but certainly against the intentions of the oil sanctions against Rhodesia. The Bingham report was followed by an investigation by the Director of Public Prosecutions. However, in January 1980 the Attorney General Sir Michael Havers announced that there would be no prosecutions arising from the findings of the Bingham Enquiry.[32] By this time the sanctions against Rhodesia had lapsed in the UN, the UK, and the Netherlands, because of the regime change there. After an interim return to British responsibility elections were held in 1980. Robert Mugabe with his Popular Front won a decisive victory and the country reverted to the name Zimbabwe.[33] After the regime change, Mugabe asked the international oil companies to start up the refinery in Umtali again, which had been shut for fifteen years. Repair work would take at least eighteen months and cost $60 million. Shell, which had a 20.75 per cent share in the refinery, doubted whether the investment would make economic sense, but it was clear that the government of Zimbabwe wanted to reduce its dependence on South Africa in oil products. Church leaders in France, the Netherlands, UK, and USA wrote that there was a moral case for reparation to be made by the oil companies with regard to Zimbabwe, an opinion not shared by Shell. Nonetheless, it felt that it would be difficult not to support the rehabilitation of the refinery.[34]

The Zambian government assured Shell and BP that it had no intention of dropping its lawsuit against them because of the independence of Zimbabwe, though in practice that is what happened.[35] The case of Lonrho and CPMR, the owners and operators of the Beira – Umtali pipeline, against Shell and BP continued for another two years. Both parties had agreed to arbitration, but Lonrho had taken two preliminary issues to court. One of the two issues related to the more general question whether documents of subsidiaries in South Africa, Zimbabwe and Mozambique were in the power of the holding companies (i.e.The Shell Petroleum Company Limited and BP), so that they must be produced. The answer in court was negative. The English High Court ruled in favour of Shell and BP on all claims, and this decision was upheld in the House of Lords. The Arbitration Tribunal then dismissed the Lonrho claim in its entirety in 1981 and ordered the claimants to pay the costs of the respondent oil companies.[36] Here ended the Rhodesian saga. Gerrit Wagner remarked in the Conference that the Rhodesian issue had set Shell companies' reputation back years. In his view the weak spot had been the fact that top management had not always been fully aware of the facts, and this would have to be avoided in respect of the South African issue. Top management should be fully informed so that it could be quite open and candid with the public.[37]

To anyone thinking of quitting South Africa: why is Shell Chemicals coming in with R100-million?

Rand Daily Mail, 27 January 1976

In 1979 campaigners against race discrimination tried to convince the Dutch government to declare an oil embargo against South Africa, design by Jan Koperdraat. The Second Chamber of the Dutch Parliament passed a motion supporting an oil boycott on South Africa, but the government rejected it. This closed the subject, as the cartoon by the Dutch cartoonist Opland shows.

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Shell in South Africa While public attention on the oil supplies to Rhodesia subsided after the regime change in that country in 1979, the issue of Shell's presence in South Africa returned with renewed vigour. Shell had already been subjected to the persistent activities of a large number of pressure groups during the 1970s, in particular in the Netherlands. In 1973 Cor Groenendijk, spokesman for the Dutch pressure group Kairos, attended the annual general meeting of shareholders of the Royal Dutch Petroleum Company for the first time to ask top management and shareholders to break the ties with the apartheid regime in South Africa.[38] Kairos was a small Dutch group of Christians against apartheid, inspired by the 'Programme to Combat Racism' from the World Council of Churches. In 1972 the World Council called for actions to encourage disinvestments from South Africa. Following this appeal, Kairos decided to single out Shell by raising the more general issue that the economic ties between South Africa and the Netherlands should be severed. Why did they target Shell? Kairos considered the oil industry of strategic importance for the survival of the South African regime, and it reasoned that Shell's investments in South Africa were substantial. Furthermore the oil industry was not labour-intensive and for that reason few jobs would be lost if Shell withdrew from South Africa.[39] Wagner responded by inviting the critics for talks with Shell management. Though the talks took place in a friendly atmosphere, neither party was able to convince the other. Shell argued that it had worked in South Africa for decades. It was a consistent policy of the international Group not to be involved in local politics and to abide by the national laws in the countries in which they operated. Furthermore, its subsidiary Shell South Africa followed a progressive social policy. Leaving the country would have no positive effect for the population, because their facilities would simply be taken over by others, and those could easily follow a less progressive social policy, making the situation worse rather than better. Kairos stuck to its requests to Shell to withdraw from South Africa and stop the oil deliveries. Shell declined to meet those requests. As previously noted, in 1976 Kairos brought its campaign into the open by publishing the report *Shell in Zuid-Afrika*.[40] Other organizations joined the campaign against Shell's presence in South Africa, including Pax Christi Nederland and Komitee Zuidelijk Afrika (Holland Committee on Southern Africa). More importantly, the movement formed international alliances, which enabled them to put pressure on Shell companies in many countries.[41]

Shell was not keen on seeking publicity, because it believed in a strategy of quiet diplomacy. For instance, in 1977 eleven major American companies (including Mobil and Caltex) submitted to the South African government a document detailing the conditions on

'...Shell South Africa is unequivocally opposed to Apartheid and believes it to be morally indefensible. This viewpoint is supported by the parent companies of the Royal Dutch/Shell Group.'

(Wilson, executive chairman Shell South Africa / *Business Day*, 11 January 1986)

which these companies wished to employ their black workers. Though Shell South Africa had already implemented nearly all the improvements sought by the American companies, it was still reluctant to sign the document. It had become a leading employer of black people through quiet and diligent efforts, and it felt that the low profile but active Shell approach would continue to be more effective than a public challenge to the South African government.[42] By 1977 there was virtually no segregation left in Shell South African companies or the refinery SAPREF, and what little segregation remained, was expected to be removed quickly. Shell adhered to the EEC's Code of Conduct for companies with affiliates in South Africa.[43]

In 1978 more discussions about Shell's presence in South Africa followed, including those between Shell managers and leaders of the Netherlands' Council of Churches. Shell underlined the good social performance of Shell South Africa. According to Shell minutes of these discussions, the church leaders were of the opinion that the efforts of Shell South Africa would not bring about any significant change in the South African government's policy, and more aggressive action, including disinvestment, was needed. The church leaders expected that changes in South Africa would not be achieved by peaceful methods only. Shell managers argued that if they were to abandon their activities in South Africa, the Government would step in and run the activities itself as it was fully capable of doing. The church leaders, however, pointed out that the black leaders in South Africa were now in favour of disinvestments, and so were they.[44]

The role of South Africa and the subsidiaries of some of the oil majors in providing Rhodesia with oil during the period of the UN oil embargo, as discussed above, damaged the reputation of Shell and other oil majors involved. The pressure groups stopped their dialogue with Shell and began to demand firm action, including an oil embargo against South Africa. The Arab producers already had a boycott against South Africa in place since 1973, but this had little effect because Iran continued to deliver oil to South Africa. However, when the Shah was overthrown in 1979 and Ayatollah Khomeini took office, Iran joined the oil boycott. Suddenly an oil embargo of South Africa had a chance of being effective. Therefore pressure groups intensified their campaign for sanctions. In 1979 the General Assembly of the United Nations approved a resolution calling specifically for an oil embargo. These General Assembly resolutions, however, were recommendations only and each country still could make up its own mind.[45] In the Netherlands the second chamber of the Dutch parliament passed a motion supporting an oil boycott on South Africa in 1980, but the government rejected the motion and barely survived a motion of no confidence. It was, however, willing to seek support for the boycott from other European countries.[46] In the same year, the anti-apartheid action groups set up a research group, the Shipping Research Bureau, to monitor the movement of tankers supplying crude oil to South Africa. In 1981 Shell was attacked for delivering crude via the Netherlands Antilles and from Oman. The Netherlands Antilles government denied any involvement in supplying crude to South Africa. With regard to the deliveries of crude oil from Oman, Shell could point out that this country had no destination restrictions towards South Africa. After consultation

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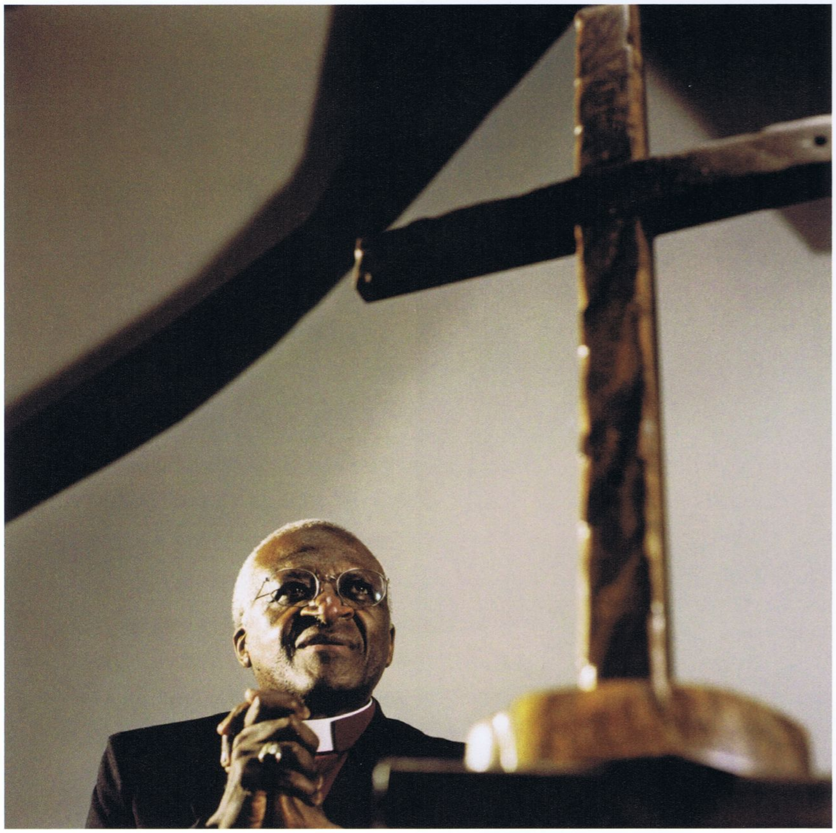
Protest in the US against apartheid in South Africa, 1985.



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Bishop (later Archbishop) Desmond Tutu, General Secretary of the South African Council of Churches, received the Nobel Peace Prize in 1984 for his actions against apartheid in South Africa. Churches worldwide played an important role in the campaigns to boycott South Africa and urge western companies to withdraw their investments from the country.

with the Omani government, however, Shell concluded that the country preferred Shell to stop supplying South Africa with Omani crude.[47] The Shipping Research Bureau continued monitoring all oil deliveries to South Africa until December 1993. After mid-1981 it did not register any Shell companies either as ship-owner or cargo-owner in the trade with South Africa.[48] Shell South Africa continued to import crude oil, but the company was not allowed by South African law to disclose its sources of oil. According to confidential South African documents from the country's energy bureaucracy, however, Shell South Africa and Total South Africa both declared in 1983 that they were able to import their necessary crude oil through the intermediation of the parent companies.[49] The figures of the Shipping Research Bureau show that from 1981 onwards independent traders such as Transworld Oil and Marc Rich became important suppliers to South Africa.[50] In 1986 Lo van Wachem, chairman of the CMD, mentioned that in recent years Shell South Africa obtained all its crude oil requirements from third parties. To this information he added: 'The obsession in some quarters with the question of where South Africa gets its oil implies that there is a "ban" on oil supplies. There is no such ban – although there are destination restrictions imposed by certain oil-exporting countries. In addition there have been resolutions by the UN General Assembly calling on its members for such a ban. However, such resolutions have no binding force, not even on those countries which have voted for them.'[51]

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The President of the American labour union the UAW (United Auto Workers) cut up a Shell credit card to announce a labour-sponsored nationwide consumer boycott against Shell products, January 1986.

During the years of economic recession in the early 1980s, the anti-apartheid movement was less active, though they continued to be present during every annual general meeting of Royal Dutch and Shell Transport. Unfortunately the situation in South Africa did not improve but worsened instead. In 1985 the then president P. W. Botha proclaimed a state of emergency. This gave a new impetus to the anti-apartheid movement. The working group 'Programme to Combat Racism' of the World Council of Churches decided in the spring of 1985 to start an international campaign against Shell.[52] In particular in the USA pressure mounted on companies to withdraw from South Africa. Shell Oil received a letter from TransAfrica, an important pressure group in the USA against apartheid in South Africa, to withdraw from the country.[53] A labour dispute at the Rietspruit coal mine, of which Shell South Africa was a 50 per cent owner though not the operator, set in motion a consumer boycott against Shell Oil in the USA by the United Mine Workers of America (UMWA). This was followed in January 1986 by a broader boycott of Shell service stations and Shell products by TransAfrica, the Free South African Movement and many other institutions, ranging from labour unions to churches and civil rights movements. During a successful media campaign consumers were encouraged to cut up their Shell credit card. Some even acquired such a card in order to cut it again as a demonstration.[54] Similar calls for action followed against Shell companies in the Netherlands, UK, Denmark, Norway, Sweden, Switzerland, and Australia. Though by mid-1986 Shell had noticed no effect on the business, management nevertheless became concerned over the onslaught of negative news.[55]

To counter the many attacks Shell reconsidered its customary policy of reticence, and decided to be more active in explaining its reasons for maintaining business activities in South Africa. Van Wachem gave an interview for two Shell publications, *Shell World* and *Shell Venster,* in which he underlined Shell's rejection of apartheid: 'Every form of discrimination is contrary to human dignity and must therefore be rejected. That is not only my personal view, but as long as I can remember – and I have been working in the Group for some thirty-two years – we have always followed a policy of equal opportunities and equal rights.' In his view, apartheid was not only morally indefensible but also economically counter-productive: 'It is an unworkable and hopeless system.' In the interview the following statement of Bishop Desmond Tutu was quoted: 'Foreign companies in South Africa must stop fooling themselves by saying that their presence is to our advantage. That is nonsense. Whether they like it or not, they are supporting a wicked system.' Asked for his comment, Van Wachem replied that underlying the request for disinvestments was the

Chapter 5

notion that if Shell withdrew from South Africa all this 'support' for the regime would evaporate. 'But the reality would be that only the Shell emblem would disappear. The business as such would carry on as usual.' Nonetheless, he expected that leaving would be a blow to the 2,500 employees of Shell South Africa, and that the company itself was convinced that a peaceful solution required changes from within. 'South Africans, white and black, will have to learn together to create a society which respects the human dignity of all', he argued. 'It would be unwise at this particular moment to reject and isolate the very companies that have a personnel policy giving living proof of how things can and should be done.' The interviewer wanted to know what would happen if the international pressure on Shell should increase. Van Wachem replied: 'We would then ultimately be faced with having to make a very unhappy choice: between our responsibilities with regard to Shell South Africa and its employees, on the one hand, and the other Group companies and their employees on the other hand. But I hope and believe that things will not get that far; I am confident that the "ordinary" man in the street, wherever he may be, our customer, will not allow himself to be taken for a ride by a completely misplaced boycott campaign.'[56]

In their discussions with the anti-apartheid movement, the Group faced one serious dilemma. On the one hand, top management wished to send out a strong message that it was against apartheid and the apartheid regime, but on the other hand it also wanted to stick to the Group philosophy of not interfering in the political system of any country. As McFadzean pointed out: 'it could be very dangerous for the future of the Group to depart from this philosophy'.[57] As a compromise, the managing director of Shell South Africa, John Wilson, became more active and outspoken in the South African business community to promote

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changes from within, because the South African business community had the best chance of influencing the policies of the South African government. The company added to the Shell Statement of General Business Principles the clause that 'Shell South Africa has resolved to promote and actively contribute to the elimination of racial intolerance, unjust laws and unacceptable human rights practices.'[58]

Shell faced another more general problem: its structure was decentralized, but suddenly operating companies in a wide range of countries were getting difficult questions to answer on the activities of another Shell operating company, in this case Shell South Africa. It was not the custom in Shell for one operating company to give information about another operating company within the Group. The question arose in the Conference whether it would be opportune to adopt a stronger central management of certain public affairs issues. Van Wachem argued that the decentralized organization had served the Group very well and that it was difficult to make exceptions for particular activities.[59]

During the second half of the 1980s actions in the USA and Europe increased. Action groups enlisted the support of municipalities, which excluded companies working in South Africa from invitations to tender. This pressure instrument was first used in the USA and then introduced in Europe, in particular in Britain, the Netherlands, and the Scandinavian countries. The Shell lawyers

During the 1980s the public pressure on Shell to leave South Africa mounted. Pressure groups used the slogans and advertisements of Shell itself to make their point clear, in this way using the familiarity of the public with the Shell images.

The Dutch advertisement for lubricating with Shell Super Plus Motorolie was used to tell Shell to move out of South Africa. The cartoon, 'You can be sure it's Shell' referred to the slogan in the famous Shell campaign from the 1930s (see volume 1), but in this case with a negative message.

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Chapter 5

P. W. Botha, South African President from 1984 to 1989, pictured in 1986. He was and remained a staunch defender of the apartheid system.

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took municipalities to court, and with some success. For instance, the decision of the city of Hilversum to exclude Shell from the supply of heating oil was annulled by the Crown, ruling that foreign policy was the exclusive domain of the Ministry of Foreign Affairs. The municipalities then devised a 'preference policy'.[60] In the UK the proposed boycott of Shell by Lewisham council was declared invalid by the English High Court.[61] In the USA the senators Dellums and Wise proposed legislation in 1988 to forbid direct or indirect investment in the petroleum industry in South Africa by United States entities or foreign companies with interests in the USA. The proposed bill sought to deny federal oil and gas leases to companies with South African connections.[62] European measures to forbid further investment in South Africa had little impact on Shell South Africa, because the company could finance itself. In 1988 Shell PA staff concluded that the morale of the employees within Shell companies, particularly in the Netherlands, was being affected by the 'slow drip process of vilification', and 'while there was little doubt in the minds of most employees that the policy of remaining in South Africa was correct, for all the best reasons, there was an increasing feeling that, in practice, it was absorbing too much energy, creating too many risks' and that ultimately Shell anyway would be forced out either commercially or by law.[63]

Anti-apartheid campaigners in Amsterdam distributed stickers in five languages, including Portuguese and French, with the message 'Stop apartheid, boycott Shell'.

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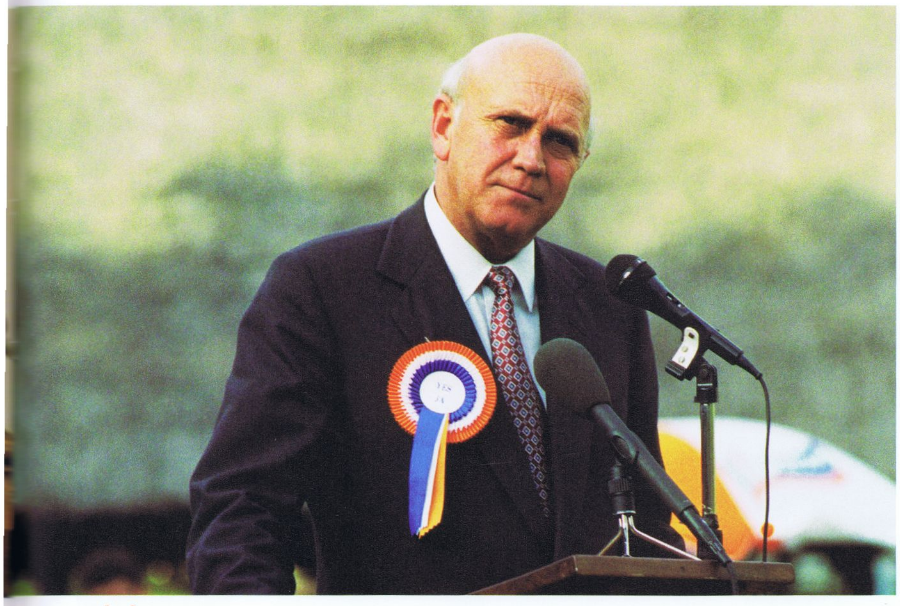

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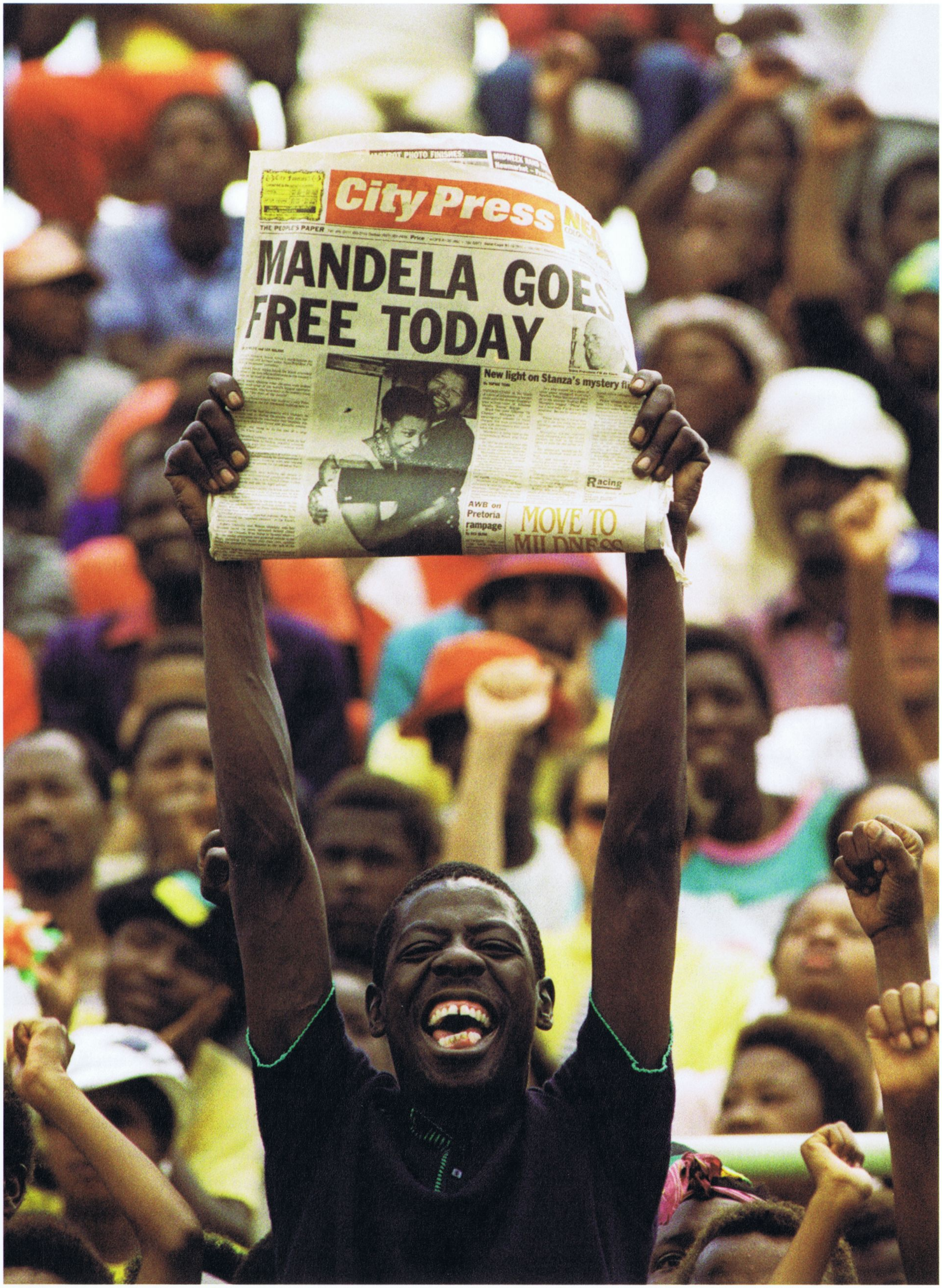
F. W. de Klerk, South African President from 1989 to 1994, pictured in 1992. Under his presidency the system of apartheid was finally abolished.

The annual general meetings of Royal Dutch and Shell Transport became the focus of demonstrations, with questions asked and freedom songs chanted. In 1980 Werkgroep Kairos and Komitee Zuidelijk Afrika published a leaflet 'Shell, smeer 'em uit Zuid-Afrika' (Shell, move out of South Africa), in which well-known Dutch writers, poets, illustrators, journalists, church leaders, and the leader of FNV trade union Wim Kok, argued for a boycott against South Africa and the withdrawal of Shell from South Africa. Three years later Werkgroep Kairos, Pax Christi-Nederland and Novib 'celebrated' ten years of protests at the annual meetings.[64] Not all shareholders were pleased with the space given to the anti-apartheid movement to make their point. In 1986 the shareholders of Royal Dutch voted to limit this to forty-five minutes, and the same amount of time was given during the next four years.[65] On the streets the campaign to oust Shell from South Africa became more violent with the rise of new and more aggressive action groups. Attacks on Shell property in Europe, in particular the Netherlands, rose from about sixty incidents in 1986 to a peak of nearly 600 in 1989. Service stations were the main targets and the incidents involved mainly the cutting of hoses, pollution of tanks, and the spraying of paint. In a number of cases buildings were set on fire.[66] The anti-apartheid movement in the USA achieved an exodus of American multinationals out of South Africa. In 1989 Mobil joined this group by selling its activities in Southern Africa to the South African company Gencor.[67] Shell, however, decided to stay the course. That same year F. W. de Klerk succeeded P. W. Botha as president, and started negotiations with the ANC (African National Congress). The South African ambassador in The Hague, Albert Nothnagel, later described how in January 1990 he advised his government that Van Wachem wanted to see 'visible results', 'so that the pressure on Shell could ease off a bit'. According to the Dutch newspaper *de Volkskrant*, Foreign Minister Pik Botha telephoned the ambassador and told him: 'Albert, just say that a big announcement is coming.'[68] In February 1990, the government lifted the state of emergency and released all political prisoners, including the most famous prisoner Nelson Mandela, who became the de facto leader of the ANC. It took another four years of negotiations and violent internal strife, before the first multi-racial elections could finally be held in 1994, ending in a resounding victory for the ANC and the presidency of Nelson Mandela.[69]

With hindsight, which party was right: the anti-apartheid movement to put so much pressure on Shell to disinvest, or Shell to hold out and stay the course? The anti-apartheid movement could point to the fact that the regime was overthrown and apartheid as a system brought to an end. No doubt the international pressure on South Africa helped to speed up this process of change. But internal

Chapter 5



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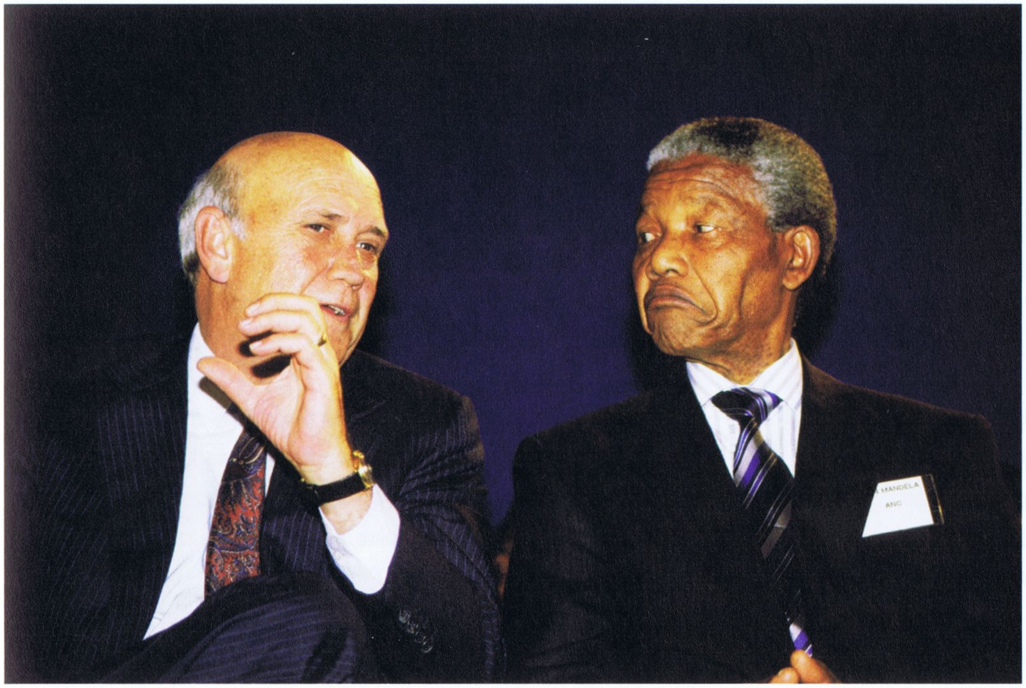
In February 1990 Nelson Mandela was released from prison. Three years later he received the Nobel Peace Prize, together with President Frederik Willem de Klerk.



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pressure by the companies that remained had been important too, if only to demonstrate that companies could function effectively without a system of apartheid within their own operations. After the regime change, their programmes of corporate social responsibility, shaped during the years of international pressure, set an example to other foreign companies re-entering the country.

Two observations to conclude: first, the American campaign for consumers to boycott Shell products was never taken up by consumers in South Africa itself. Apparently the people of South Africa had another perception of Shell than those of the United States. Second, Shell South Africa succeeded in building up a good relationship with the ANC. When the ANC bought Shell House for its headquarters, it kept the name in place. During a visit to South Africa in 1992, Van Wachem privately met and discussed matters with De Klerk and the following day with Mandela. Both men received him very amicably, and he thoroughly enjoyed those meetings. In December 1993, though no longer chairman of the Group, he was invited to attend a ceremony in Oslo, Norway, during which Mandela and De Klerk jointly received the Nobel Peace Price.[70]

Why did Shell persevere in its policy to stay in South Africa? After all, it was not an oil-producing country nor were the coal operations very profitable. For both parties important principles were at stake. The anti-apartheid movement strove to end an evil system of apartheid, institutional racism, and white minority rule. The Shell Group wanted to protect its right to have operations in many countries around the globe, in which it sought to do business as a responsible citizen. Desmond Watkins, Regional Coordinator Western Hemisphere and Africa, wrote in 1988 about this issue: 'In my own business career I have seen calls for business not to carry on trade with, amongst others, Israel, Cuba, Chile, Nicaragua, the UK, USSR, Holland, China, Libya, Iran, Vietnam, and Taiwan. International companies are called on to cease trade or supplies to dictatorships, communist countries, one-party states, offenders against human rights, countries which kill whales or ban trade unions or whatever any individual group feels passionate about'.[71] In the confrontation with the anti-apartheid movement, the vision of Shell shifted from the principle that it was enough to observe the national law in each country in which it operated, to the view that Shell companies should be able to follow Shell's own Statement of General Business Principles in their own operations.

Towards a new Public Affairs policy and environmental issues

From the controversy over its presence in South Africa, Shell learned the importance of keeping up with the issues. Never before had the enterprise experienced such vicious attacks in the press and on its properties.[72] The theory and practice of issues management began to play a role in the public affairs activities of Shell companies. Issues management was defined as 'the identification of points of conflict between Shell companies and their public, preparing the appropriate response and communicating this effectively'. The key to combat issues was for the Public Affairs Department to identify potential issues at an early stage and help management to respond in a positive and constructive way.[73] Dealing with issues was important. As Shell's Coordinator Trade Relations had concluded in 1972, 'the ability to operate' relied on Shell's reputation. What companies could do, depended on what legislation and public opinion allowed them to do. Without public acceptance, businesses would suffer and maybe fail. In a talk to staff, Richard Tookey, Coordinator Group Public Affairs, concluded that what Chandler had said in 1972 was still true for 1988, but there were also new elements to take into account. First of all, the scrutiny of business activities was more direct than in the past, and the debate had become very public. Moreover, communications had become global as well as instantaneous, illustrated by the often-used television quote: 'This report comes to you live'.[74] The high speed of communications meant that the media were frequently on to a 'Shell story' before its own Press Office knew about it, as Shell's PA department remarked ruefully.[75]

Activist groups had become very adept at attracting wide international media attention for their causes. They displayed a great ingenuity in creating media events. But it would be wrong to dismiss their message as only representing a small group of activists. Tookey warned that: 'collectively, these groups do reflect the concerns of a society which is becoming less complacent and less compliant, more demanding and more determined to set its own values'.[76] Consumers took ethical concerns into consideration when they made their choices. The young had become more vocal about the world they wished to inherit. Business may sometimes have the feeling that consumers, investors or the public at large simplified complex problems, or were unaware of the fundamental trade-offs involved in the instinctive choices they were making. Nonetheless, it was important to take their concerns seriously. Therefore, if business found that its case was misunderstood by the general public, it had no other choice than to try and bring forward its own point of view with equal sophistication and effort. To do that effectively, Shell managers first had to listen carefully to what the public concerns were.[77] Shell managers in the various operating companies were advised to start a dialogue with the public, the pressure groups, trade unions, church leaders, and university teachers, and also to keep their own staff informed, because they too were under constant pressure from family and friends to answer probing questions. After all, well-informed staff constituted the best ambassadors for the company.

To what extent was this new Public Affairs approach really new? Campaigners in the USA discovered that Shell Oil had hired Pagan International, a Washington-based consulting firm, to advise them how to tackle the boycott of Shell products in the USA. Their report, the Neptune Strategy, came into the hands of church campaigners, who discovered to their dismay that one of the recommendations in the report was for Shell to engage with church people and focus their energy on post-apartheid planning.[78] Indeed, Shell Oil had addressed the threats of the consumer boycott in a very systematic way by engaging with groups it hoped to convince of its own point of view.[79] This was certainly not new, because, as we have seen above, in the 1970s the approach through dialogue with critics was frequently used. Much of the advice given by Pagan was simply common sense anyway. What was new in Shell's PA strategy was the awareness that pressure groups had become very strong with international networks and alliances. This was also illustrated by the fact that some of the more established groups acquired observer status on some important policy-forming committees. Shell noticed, perhaps with some envy, that pressure groups were able to attract young, articulate, energetic, professional, and highly motivated and committed staff who communicated well and appealed to the young. Therefore Shell should make its own points of view more public.[80] The traditional 'low profile' approach could easily be interpreted as weakness. As Shell's PA review of 1989 concluded: 'Pressure groups should be engaged in open debate. After all, they form part of the early warning system, and constructive dialogue may help to avoid a damaging confrontation later with a wider section of the public.'[81]

Not all issues raised by the pressure groups or more generally by the public remained equally alive over time. For instance, in the discussion around the role of multinational enterprise in the Third World, attitudes changed during the 1980s. Shell's PA department had the feeling that governments in the Third World had become more pragmatic in harnessing the energy of foreign companies. As a consequence Third World activists seemed to have developed more appreciation of the market economy and private enterprise.[82] While the presence of private business in Third World countries was no longer contested, their behaviour came under closer scrutiny. Activists from the western world looked critically at the employment of children, the human rights situation, and the effects of production on the environment in Third World countries. Multinational companies were not only held to account for the activities of their own business units, but were also questioned on the behaviour of their suppliers or contractors. For instance, the Clean Clothes Campaign (Schone Kleren Campagne) pushed for better working conditions in the textile industry worldwide by putting pressure on the big chains, such as European textile company C&A, to improve the working conditions in the establishments of their suppliers, the sweatshops in Asia. Similar pressure was put on the American sports goods company Nike.[83]

The protection of the environment had been a hotly debated topic during the 1960s. After industry and governments had woken up to the problems of air and water pollution and introduced a series of measures and regulations to deal with them, the environment receded somewhat into the background. An analysis of the US trade journals showed that the attention of the chemical and oil industries to environmental matters, measured in the number of environmental articles, peaked in the years 1970-74, and then remained fairly low until the late 1980s, while the 1990s saw once again a steep rise in environmental articles, in particular with regard to the chemical industry.[84] Environmental concerns moved from directly visible damage and the long-term supply of energy to global warming and the survival of the world as we know it.[85] Direct pollution of the environment remained a recurring theme, in particular when disasters befell the oil industry, such as the *Exxon Valdez* oil spill in Alaska in 1989. Also the many small oil spills, emissions, and safety accidents continued to cause local alarm and public outcry.

Conclusion

The last quarter of the twentieth century saw the rise of non-governmental organizations (NGOs) putting pressure on companies to pay attention to specific issues they particularly cared about, and a public increasingly willing to respond as consumer to allegations of company wrongdoings. At the same time, communications became more global and much faster, enabling the media to feed the public with daily events from all over the world. In the 1970s the left-wing public in the western world was critical of companies, in particular multinationals, but still had faith in governments and international institutions to act on behalf of the general cause and keep companies in check. In the 1980s this confidence in the role of governments disappeared. Only the NGOs still seemed to have the trust of the public. The attitude of the public towards companies became contradictory. On the one hand, large parts of the public remained suspicious of big companies, on the other they expected them to find solutions for problems governments had failed to solve. Shell, as a very visible and large organization, fully experienced the pressure of these contradictory demands.

Shell companies were well aware of the importance of a good reputation for their ability to operate. They realized that ultimately a good reputation depended on good behaviour. In large international enterprises such as Shell it was inevitable that sometimes managers did not act appropriately. Therefore Shell formulated business principles to set out the standards it expected of its staff and devised internal systems to deal with those who did not comply with the rules. The public also expected higher standards from companies and governments than in the past. The handling of the boycott of Rhodesia, though undeniably complicated by different sets of national legislation in Britain and South Africa, did not show the oil companies or the British government in a very positive light.

More difficult to deal with, however, were issues where Shell companies and the public had different views or different perceptions. This was the case with Shell's presence in South Africa. While critics wanted Shell to leave the country to help undermine the apartheid regime, Shell remained convinced of the importance of political neutrality, though eventually it openly condemned the apartheid system. In the 1970s Shell expected that it could sway public opinion by providing extensive information and explaining the trade-offs that had to be made when dealing with complex issues. From the long-running dispute about South Africa, Shell learned that it also had to show emotions, making clear that it cared about the people it worked with and shared concerns about the environment. Understanding the importance of being more in tune with public expectations, however, was not the same as being able to forestall new issues coming up and making the headlines. In the dispute about the sinking of the Brent Spar, Shell experienced how action by professional NGOs combined with spectacular media coverage unleashed so much public emotion that it could upset its own careful planning founded on sound scientific evidence. It was attacked over its environmental performance in its operation and over the use of violence against local people by the Nigerian government. Many critics simply did not accept Shell's point of view that it could not interfere with the way the government ran the country or with the way the legal system functioned.

In response to rising criticism Shell decided on a very public overhaul of its reputation management in 1996. NGOs were invited to enter into a dialogue with Shell and find solutions for complex issues. In the process Shell accepted a greater responsibility for human rights issues and sustainable development. In their interaction between company and public both the pressure groups and Shell became increasingly professional and sophisticated. As a result staggering amounts of information, some of it externally certified, became available about the company, amounts that would have appalled Henri Deterding and Marcus Samuel.[158] The public, however, remained sceptical.

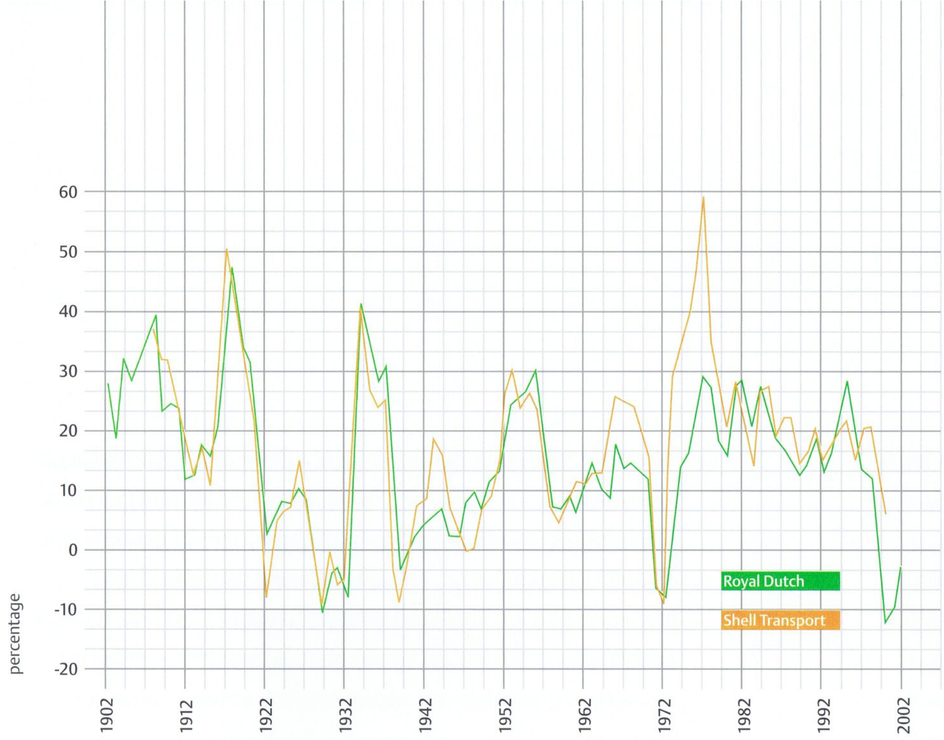

Figure 7
Return on Royal Dutch and Shell Transport shares, five year moving average, 1902-2002.

The effect of the steep rise in oil prices in 1973 did not translate into a similar rise in returns, probably because of the huge investments made to develop new oil and gas producing areas. The rest of the Group's first century was very good for investors in either of the Group parent companies, especially during the 1980s and 1990s, with low inflation and high real results. One might have expected investors to have suffered during the period of low oil prices in the 1990s, but that did not happen. Perhaps as a consequence of shareholder pressure, the Group continued to make high profits and to pay matching dividends, though, as it turned out, at the cost of future production growth.

In the very long run the shareholder results have been impressive. Despite the many ups and downs in the course of the Group's first century, the average annual return on Royal Dutch shares from the foundation of the company was 15.7 per cent, and on Shell Transport shares (over the period 1906-2000) 17.5 per cent, with the difference between the parent companies entirely due to exchange rate fluctuations. By comparison, an investment in government bonds either in Britain or the Netherlands would have yielded three to four per cent annually. It is easy to see why stockbrokers for many decades routinely advised their clients that they should 'Never sell Shell.'

The Group, governments and NGOs The 1907 merger deliberately left the parent companies Royal Dutch and Shell Transport intact as separate corporations. This enabled the Group to operate as a single organization and yet keep all the advantages gained in its two countries of origin: Royal Dutch's very close links with the Dutch colonial elite and its unchallenged position in the Dutch East Indies, the Group's main source of profits until the mid-1920s; and Shell Transport's status as a prominent British company, with access not only to markets and concessions in the British Empire, but also in countries considered to be within the British sphere of influence, such as Mexico and Venezuela. Deterding realized that creating a truly global enterprise capable of challenging Standard Oil required the protection of the British Empire, the only body that could counterbalance the growing economic and political power of the United States. By establishing himself and the Group's de facto headquarters in London, by using Shell as the main brand, and by carefully coaxing Marcus Samuel back to an active role, Deterding succeeded in positioning the Group as a British company in the public eye. At the same time he took care to keep Royal Dutch's base in the Netherlands strong, thus building an exceptional combination that drew on the joint strengths of the two countries – in fact, of the two empires. Having dual nationality also enabled the Group to move subsidiaries from one parent company to another for fiscal or political expedience.

If in creating the dual structure Deterding had showed himself to be sensitive to the importance of politics and national power, his astuteness began to fail him after the First World War. He could simply not come to terms with the political changes wrought by the war, notably the rising importance of economic nationalism which the Group first encountered when the Soviet Union nationalized its oil industry after the revolution there. As a result, he became emotionally charged and inflexible in his dealing with governments. Meanwhile other Group managing directors developed a more practical attitude towards national aspirations. Kessler, for instance, argued that it was important to look after the company's interest, but at the same time the business should also benefit the host country. This pragmatic approach was also inspired by the experience that Shell's power to force issues was closely circumscribed by the fact that governments could always find rival oil companies willing to take over, even if Shell cooperated with Standard Jersey in trying to impose a boycott. This led managers to adopt a policy of tenacious flexibility: standing firm on principles while always keeping negotiations open in the hope of finding a solution. If the policy failed in the face of governments determined to take control, such as the Hitler government, then at least it succeeded in the Group obtaining a better price for its assets, as happened following the nationalization of oil assets in Mexico in 1938.

Shell showed a similar open-minded and flexible attitude towards the rise of OPEC during the 1960s and 1970s, preferring an open dialogue over confrontation. It probably could afford to be more flexible than the other oil majors, because it had a better regional spread of oil production. Moreover, the Group's emphasis on operational decentralization and a delegation of authority to the lowest level practicable, which was enhanced after 1973, enabled the company to adjust quickly to the ambitions of governments in oil producing countries. These two tenets stimulated local managers to align Shell's interest with that of their host countries, enabling them to deploy a great political sensitivity which in turn made their operating companies into attractive partners for governments.

Such an identification with local national interests, however, sometimes landed the Group in difficulties. This happened, for instance, when Shell companies in Mozambique and South Africa used their subjection to the laws of their host country to break the oil boycott against Rhodesia. Moreover, the evolution of international relations began to impose limits on the leeway of local operating companies. With the rise of non-governmental organizations in the US and Europe, events in one country easily became a focus of attention in another, the media providing ever faster coverage from around the world. During the 1970s and 1980s the Group came under attack over political issues, in particular its presence in South Africa under the apartheid regime. Shell responded by taking a close look at its business aims and principles, first drafted in 1962 and restated in 1976 as a formal document entitled 'Statement of Business Principles'. Initially intended as guidelines for the local operating companies, these principles developed into a set of criteria to judge whether the Group could continue working in a certain country. The Group felt that, as long as an operating company could follow the Shell business principles in its own operations, it had a right to stay in that country. For that reason Shell stayed in South Africa, despite having to face, for the first time, a – not very effective – consumer boycott in the US.

NGOs also challenged the Group on its environmental policies, and here the company could get caught in the crossfire of different national viewpoints. In 1995, for instance, when Greenpeace attacked Shell over the announced sinking of the Brent Spar, Britain agreed with the sinking, but some continental European countries were against it. NGOs also accused the Group of having double standards in protecting the environment. Following national regulations was not considered enough; the Group ought to have global standards, and very much higher ones. Other NGOs supported inhabitants of the Niger delta in their protests against Shell's oil production there, and against the fact that the population suffered from the negative effects of the oil production on their environment without benefiting from the profits. The continuing serious problems in the Niger delta had a very negative impact on the Group's reputation. Under the influence of the NGOs, Shell reformulated its business principles, in 1997 for the first time including human rights.

At the beginning of the twenty-first century rising oil prices and mounting concern for energy safety combined in a tougher attitude of national governments towards the oil industry in their countries, which led to a number of nationalizations. Shell responded with the same practical and flexible approach it had used so effectively in the past.

Running a cross-border business The Group's dual nationality had political and fiscal advantages, but it also posed formidable managerial challenges. Initially, Shell's organization was held together by a fairly small team of top managers with interlocking directorships on the boards of parent companies, holding companies, and main operating companies. Around them a wider group of internationally active managers developed, running operating companies or concentrating on specific topics of vital interest to the business, such as geology in the case of Erb, or technology in the case of Pyzel. These managers moved from one subsidiary to the next, creating a close network within the Group. This simple hierarchical model worked well enough in the globalized world before 1914, with its highly integrated markets. However, the structure came under serious strain from the Group's rapid expansion and then the economic disintegration caused by the First World War. Restrictive legislation, rising taxation, tariff barriers, protectionism, and the appearance of national oil companies all worked to disrupt the Group's global strategy and challenge the organization built to execute it. Asiatic Petroleum, for instance, now had to form separate marketing subsidiaries for the countries in which it operated, creating an additional layer in the organization. Moreover, Asiatic needed managers versed in local circumstances to run them. The proliferation of operating companies altered the managerial balance within the Group, central offices finding it increasingly difficult to retain their grip. The growing number of agreements and joint ventures with other oil companies which followed in the wake of Achnacarry added further complexity.

This fundamental problem should have been addressed much earlier than it was. During the 1920s, Deterding resisted changes, wanting to keep close control over the whole enterprise.

Chapter 5

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Chapter 6

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