Oil theft and artisanal (illegal) refining in Nigeria – scale, impacts and the need for a multi-dimensional response


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Tony Attah is Vice President HSE & Corporate Affairs, Shell Sub-Saharan Africa. He is responsible for company relationships with regional and municipal governments in the Niger Delta, as well as with more than a thousand local communities. His responsibilities also include sustainable development, social performance and reputation management in the sub-Saharan region. Previously he was the General Manager, Sustainable Development and Community Relations for the Shell Petroleum Development Company of Nigeria Limited overseeing relations with the nine Niger Delta state governments, local governments and over 1,000 communities to ensure positive relationships, balanced reputation management, sustainable development partnerships and stakeholder management. Tony had also worked as regional Operations Readiness and Assurance manager in Shell International Exploration and Production in the Netherlands looking after the Africa projects portfolio and Sakhalin projects (including Liquefied Natural Gas) commissioning and start up assurance.

Having worked in the production front line and in direct contact with communities and other stakeholders, Tony has extensive experience of the Niger Delta operations, the socio-political situation and the issues in relation to social and business performance in the oil and gas industry.

Tony is married and has two children. Outside of work, his main interests are soccer and listening to music while trying to develop his golfing skills.
Ladies and gentlemen, distinguished guests. Good morning.

I’d like to thank Chatham House, Alex Vines, Elizabeth Donnelly and Prof. Baker for this opportunity to address you on a matter of such importance: very crucial for the future of my country and crucial for the industry which drives its economy.

Oil theft and illegal ‘artisanal’ refining in the Niger Delta are massive and growing problems. They cause unimaginable environmental and economic devastation. These activities aren’t new, but since the end of the militant crisis in 2009, their scale has grown beyond recognition.

That year, the UN estimated thieves stole around 150,000 barrels of oil a day. Since then, thousands of demobilized militant fighters have put down their weapons and many are believed to have joined the frenzy of crude oil theft.

It may appear chaotic, but there is structure and strategy to this menace. Some of those involved are working for local markets, inefficiently refining products for communities desperate for fuel and power. Some – far larger in scale, organization and significance – are managing an international export business with tentacles across the globe.

By mid 2012, the Nigerian government estimated as many as 400,000 barrels were being stolen each day, costing the nation up to $1 billion per month in lost revenues. This escalation is unprecedented. But how worried should we be? A recent headline in a Nigerian newspaper stopped me in my tracks. Here’s what it said:

“Niger Delta: Oil thieves build roads, hospitals, schools for communities. As Navy deploys warships, gunboats, aircraft in N/Delta.”

This headline succinctly captures the looming threat: that in addition to the hard security challenge, oil theft has grown into a cancer that undermines the role of government and competes for the loyalty of citizens. When I learn that oil thieves have launched social welfare programs in the delta, it reminds me of drug cartels in Mexico, of militant jihadists in Pakistan and warlords in Somalia. In addition to the use and threat of violence, criminals win over parts of society by offering schools, security, food and education where government is unable or unwilling to deliver these services. Is this the future of Nigeria? I sincerely hope not.

Today I’ve been asked to share Shell’s perspective on the issue. So what’s the view from the ground? This is a well-financed and highly organized criminal phenomenon – a parallel industry with a developed supply chain and growing sophistication.

It includes trained engineers who weld valves to high pressure pipelines, returning each night to siphon oil. Boat yards help construct and supply barges to the thieves to transport crude oil around the creeks.

Some of the oil – perhaps as much as a fifth, though we don’t really know – is delivered to small scale rudimentary refineries in the creeks and mangroves. Here it is boiled to produce low grade diesel fuel. These so-called ‘bush’ refineries are so inefficient that it’s likely as much as 80% of the heavy end of crude cannot be refined and are just dumped into the environment. The diesel fuel is used locally to run the small generators that have become ubiquitous across Nigeria because the national power grid can’t meet demand for electricity.

The majority of the crude is taken to large ocean-going tankers waiting offshore, which export the oil to refineries outside the country prepared to ask few questions or who may be duped into believing they are receiving legitimate deliveries. Some of these tankers reportedly meet in mid-ocean to share and blend stolen oil, thus making it more difficult to identify.
So, who is behind these activities? What we see on a daily basis are young men just trying to earn a living, driven by the widespread poverty and unemployment that afflicts the Niger Delta. Although not very lucrative for the foot soldiers, it is attractive enough for some, despite the very high risks: fatal fires at such bush refineries are very common.

But perhaps the more important question is who is really behind this local criminality? Given its scale, we know others are involved – both in Nigeria and outside – orchestrating this business worth billions of dollars using influence, corruption and violence to protect their interests. And the revenue flows likely end up in the global financial system and quite possibly fund other criminal structures, including terrorism and drugs around the world.

While the precise contours of the international networks may be difficult to discern, the environmental impact it causes is clearly visible.

It’s impossible to know how much of the stolen oil is spilled – thieves don’t publish performance data. But imagine that only one percent of these enormous daily stolen volumes are spilled, this would add up to hundreds of thousands of barrels a year.

SPDC does publish such data for its own facilities however. Over the last five years sabotage and oil theft accounted for around three-quarters of the oil spilled from SPDC facilities. So far in 2012 they have accounted for over 95% of the volume - about 23,500 barrels. That’s a large volume, but it is still a fraction of the estimated amount we suspect oil thieves spill overall.

The scale of the problem puts enormous strain on our staff and operations, diverting time and resources to battle the consequences of this criminality. They face very real security challenges: just a few months ago two of our contractors were killed in reprisal attacks for the military clampdown on the criminals.

Before looking at what needs to be done, I’d like to say a few words here about Shell’s operational performance. Some NGOs have claimed that by voicing our concern about oil theft and bush refining, Shell is seeking to distract from its own failings.

Nothing is further from the truth. SPDC – the company I work for – is clear in its commitment about the need to end all operational oil spills – those caused by human error or equipment failure. So far in 2012 unfortunately about 5% of spills from SPDC facilities have been operational. I’m not proud of that.

But the company is taking clear action to address these problems. We’ve invested more in replacing aging pipelines and our capacity to respond to spills. We are learning how to work in an environment where we don’t always have the free access to our facilities because communities often refuse entry. We’ve started working with Bureau Veritas - an independent standards verification agency - this year to review our practices and recommend possible improvements. And we’ve invited the International Union for the Conservation of Nature (IUCN) to set up an independent scientific panel to advise us on conservation and spill site restoration, especially around new technologies and methodology.

These efforts are delivering results: operational spills are declining year on year. Our goal of course must be zero operational spills.

And as we continue on this journey, we’ve introduced unparalleled levels of transparency so that stakeholders can follow our progress. We’ve set up a website where we post details of every spill, irrespective of the cause, from SPDC facilities, investigation reports, geographic co-ordinates and photos of spills sites before and after clean up. This is a demonstration of transparency that goes way beyond legal
compliance. We had to convince our
government partners to embark on it and I
can assure you it took a lot of effort to
convince them. But we believe it’s the right
ting to do in the unique environment of the
Niger Delta where trust is in short supply.

Now – let’s turn to solutions and actions.

First let me make clear, SPDC, the oil
industry and indeed Nigeria need urgent
assistance. As I hope I’ve made clear, the
scale and complexity of this problem is
beyond the control of any one company or
even country.

It requires coordinated action, both at
national and local level inside Nigeria, and
at a regional and international level outside
Nigeria. It requires detection and the
collection of evidence, military or police
intervention, arrests and effective judicial
action. It also needs transparency and
publicity of punishment to act as a deterrent.

For our part, SPDC has already taken
a number of steps where it can. On one
hand, we’re stepping up our technical
response, finding ways to make it more
difficult for thieves to tap into our pipelines.
For example, we’ve innovated pipe-in-pipe
technology, running condensate pipelines
inside gas pipelines, or high pressure water
lines, rendering them more difficult to
access. We’re securing well heads to make
them more tamper proof. And we’re shutting
in production to make repairs, remove
illegal taps and clamp damaged sections.

But the thieves are also becoming more
innovative too. When we shut in lines for
repairs then they take the opportunity of the
depressurization to attach more valves
further along the network. And in much the
same way as squeezing a balloon, no
sooner do we focus attention on one area,
than the thieves pop up in another. With
6000km of pipeline and flow-line, it is
simply not possible to secure our entire
network against these criminals.

In response we’ve stepped up surveillance
flights along major known theft routes as
well, in addition to the contracts we have
with communities to report damaged lines.
But even when we identify and report
blatant theft to the Joint Task Force – the
combined force command structure
deployed by the government in the Delta –
they are often unable to take immediate
action – allowing thieves to operate without
much hindrance.

So alongside our technical responses,
we took the decision earlier this year to
initiate a public campaign to raise
awareness among politicians, the media
and other stakeholders about the urgent
need to address the problem. Since then the
government has amended the operational
mandate of the JTF to include preventing oil
theft. There has since been a noticeable
increase in effective interventions. The JTF
and Navy have now stepped up efforts
which are beginning to show results – we
only hope it will be sustainable. Over 1000
illegal bush refineries have been reported
destroyed. And a number of tankers full of
stolen crude have been seized in high
profile raids.

But despite the increased focus, to date
we are not aware of a single oil thief
being convicted. It appears that no
significant players have been brought
to trial and the big barons still walk freely.
Would a dedicated national anti-oil theft
task force help? I’m not sure, but it’s worth
considering in order to help improve
coordination across the various national
bodies who currently tackle the problem.

Alongside these domestic responses, it
appears little is being done to tackle the
international dimension to this trade. We
need help and we need it now.

What are the priorities? Shell is an
engineering company and
we’re not experts in this field. But as a
minimum we believe regional security
structures and international governments
need to start tracking and intercepting the
illicit cargoes of stolen oil to and from the
Gulf of Guinea. Satellite technology is
available to do so and indeed Shell is exploring partnerships to help fund acquisition of satellite imagery for onshore detection. We are also working on implementing a tracer trial whereby we will be injecting unique synthetic tracers in our crudes enabling us to identify which crude is stolen and which is legally purchased.

Next, the international financial flows and networks which profit from these activities need to be traced, understood and targeted. Legislation targeting organized crime and terrorism appears to provide ample legal instruments to do the job.

And while these direct measures are essential, it will be equally important to adopt soft tools of economic development to address some of the root causes in the Delta itself that allow this international trade to flourish. That means development aid to boost economic growth in the delta and create alternative and sustainable livelihoods to tackle poverty and unemployment. SPDC and its partners spend tens of millions of dollars each year on a range of social investment and development projects. They help improve lives, but far, far more is needed.

It also requires substantial investment in the power and refining sectors to ensure there’s enough electricity and fuel to knock out demand for the illegally refined fuel for power generators. In turn, that requires legislative reform in Nigeria to create attractive investment conditions and commercial returns to encourage the private sector to invest the tens of billions of dollars needed.

That’s a long list of priorities and actions. Given the broad nature of the various moving parts, it’s clear that there’s a role to play here for many, many partners and organizations. Some of you are here in the room today. Others need to be brought into the mix urgently.

SPDC has made great efforts to raise awareness of the issue with the government of Nigeria, international bodies like the UN, the media and civil society. We will continue to be at the forefront of discussions with other bodies to find these solutions.

Thank you.