‘Riders on the Storm’

Analyzing Political Risk to Oil Operations in Areas of Internal Armed Conflict

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In Memory of Anab Ismail Osman

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List of Abbreviations

AD	Action for Democracy
bpd	barrels per day
CLO	Community Liaison Officers
COMA	Coalition for Militant Action in the Niger Delta
CsecR	Corporate Security Responsibility
CSR	Corporate Social Responsibility
DDR	Disarmament, Demobilization and Reintegration
DPA	Distributive Pool Account
DPR	Department of Petroleum Resources
E&P	Exploration and Production
ECA	Excess Crude Account
EI	Energy infrastructure
EITI	Extractive Industries Transparency Initiative
FDI	Foreign Direct Investment
FNDIC	Federated Niger-Delta Ijaw Communities
GDP	Gross Domestic Product
GMoU	Global Memorandum of Understanding
NDVS	Niger Delta Vigilante Service
INC	Ijaw National Congress
IYC	Ijaw Youth Council
JRC	Joint Revolutionary Council
JTF	Joint Task Force
LGA	Local Government Area
LUA-79	Land Use Act of 1979
MEND	Movement for the Emancipation of the Niger Delta
MOSOP	Movement for the Survival of Ogoni People
MoU	Memorandum of Understanding
NA	National Assembly
NCA	Nigerian Content Act
NDDC	Niger Delta Development Commission
NDLF	Niger Delta Liberation Force
NDSF	Niger Delta Strike Force
NDPVF	Niger Delta People's Volunteer Force
NDVS	Niger Delta Vigilante Service
NEITI	Nigerian Extractive Industries Transparency Initiative
NGO	Non Governmental Organization
NNPC	Nigerian National Petroleum Company
OMPADEC	Oil Mineral Producing Areas Development Commission
OPC	O'dua People's Congress
PDP	People's Democratic Party
PIB	Petroleum Industry Bill
PRA	Political Risk Analysis
PRM	Political Risk Management
PSC	Private Security Company
SNEPCo	Shell Nigeria Exploration and Production Company Limited
SPDC	Shell Petroleum Development Company
VPSHR	Voluntary Principles on Security and Human-rights

Table of Content

1 Introduction

This paper will explore the political risk to oil operations in areas of internal armed conflict (hereafter referred to as 'armed conflict') and propose an approach for conducting an operational analysis of political risk in such areas. The exploration and analysis will be based on a case-study of Shell's oil operations in the Niger-Delta.

As oil reserves are becoming increasingly scarce in an international economy where demands are becoming ever higher, the companies responsible for extracting the oil are ever more forced into an environment of armed conflict. However, the way they understand this environment will essentially determine their ability to continue operations.

Oil is used to make a range of different products, but the bulk is utilized to make motor-gasoline and distillate fuels (diesel, heating oil etc.), which comprises about 26% and 27% of the global output (Downey, 2009: 143-163). Oil is considered the most viable source of energy available, and is fundamental to industrial production, transportation, heating, power generation, and military power. The global economy is completely dependent on petroleum and access to oil has subsequently become a matter of national security for the industrialized world (Shelley, 2005: 1-2).

The oil industry is a multibillion dollar industry, made up of three general sectors. The 'upstream' or exploration and production (E&P) sector involves finding and extracting crude oil. The 'midstream' sector involves storing and transporting oil. Finally, the 'downstream' sector involves refining oil into the finished product, which is then distributed and retailed (Downey, 2009: 62, 74). Within the oil industry, the E&P sector is by far the most profitable, with Shell achieving a return on investments of 28% and Exxon 26.8% in 2002 (Shelly, 2005: 18). However, it is also the sector most exposed to political risk (Downey, 2009: 83).

E&P companies naturally must operate where reserves are found, which are often in politically unstable countries (Bray, 2003: 289; Jakobsen, 2007: 109). According to Ross (2008: 2) there has been a general decline in civil wars and internal armed conflicts in the last two decades, however an increasing part of these take place in oil producing countries. This trend is likely to continue as increasing oil prices push more developing countries into oil

production. Nevertheless, by going into areas where conflict is inherent, less risk-averse E&P companies consider it an opportunity to get ahead of competition (Bray, 2003: 289).

Operating in such environments necessitates effective tools for understanding the risk; however the political risk literature is characterized by an overemphasis on general country risk combined with an inability to recognize the importance of risk specific to the particular company, industry or operation (Frynas and Mellahi, 2003: 541-542). This study will therefore explore how we can best analyse political risk to E&P operations in areas of armed conflict. In this effort we will conduct a single case-study constructing a political risk analysis of Shell's E&P operations in the Niger-Delta.

The study will first explore how political risk can be analysed. This involves explaining the concept 'political risk', examining how it can be analysed, and exploring the methods of analysis. By constructing a causal model of political risk to E&P operations, we will identify the variables involved with political risk and make it operational through a 'step-based' political risk analysis method.

Using the step-based method we found that providing an initial 'self-analysis' made the political risk analysis optimal for analyzing risk specific to a particular industry (such as the E&P sector), and gave the necessary parameters for identifying the particular risks. Then by identifying these risks, our analysis was provided with a clearly defined dependent variable which enabled examination of the other variables involved. This allowed us to identify the actors that generate risk and provided our analysis with a fundamental intervening variable linking the cause to the effect.

When analyzing the causes of risk we attempted to assign explanation to the choices of the actors and the structural environment in which they operate. Then by including risk management strategies, the analysis was provided with an exogenous variable of how risk-affected companies can influence the political risk they are exposed to. Finally, on the basis of the analysis we will develope causal sequences of how risk materializes, before constructing indicators that provide us with data on the exposure to risk. On this basis we will be able to conduct a forecast on future risks.

By being very visible, having thousands of personnel and extensive infrastructure Shell is particularly exposed to risk in the Niger-Delta. Operating in this environment it has been faced with a range of conflict risks generated by several armed (and unarmed) groups. The causes of risk are largely linked to the tactics and strategies these actors use, by targeting energy-infrastructure and personnel. Their objectives are formed by the social and economic structures they are operating within, where the massive Nigerian oil industry has produced rent-seeking incentives. Shell initially attempted to manage these risks by relying exclusively on government and community protection, but as such strategies tended to be counterproductive they have increasingly aimed at engaging stakeholders more fruitfully.

Our political risk analysis found that that government elections, oil prices, and ethnic patronage provide us with the most appropriate indicators for monitoring the exposure to these risks Shell has experienced in the Niger-Delta. We forecasted that the conflict risk to Shell's E&P operations in the Niger-Delta will largely be limited to high-levels of oil-theft and piracy, until the years 2014/2015 when there is an increased risk of attacks on infrastructure, armed conflict etc.

1.1 Study Outline

In this chapter we will construct a research question and explain the approach we will apply to attempt to answer it. The objective of this study is to analyse the political risk to E&P operations in areas of armed conflict. In serving this purpose we present the following research question:

"How can we best analyse political risk to E&P operations in areas of armed conflict?"

In answering this, the study will take the form of a case-study. A 'case-study' is an intensive study of a single unit to (at least partly) explicate on a larger class of similar units. It may be qualitative or quantitative (or a combination) in method (Gerring, 2007: 10-11, 20). According to Gerring (2007: 19) a 'case' is a "spatial delimited phenomenon (a unit) observed at a single point of time or over some period of time." This study will use Shell's E&P operations in the Niger-Delta as case to explicate on the political risk to E&P operations in areas of armed conflict.

However, there are certain trade-offs to exploring many variables on one unit of analysis rather than a few variables on many units. As the sample is so small but under intense scrutiny, case-studies should be employed to generate rather than test hypotheses; to give insight into causal mechanisms rather than magnitude of effects; to offer in-depth rather than general inferences; and to prioritizes 'internal' (certainty of hypothesis) over 'external' validity (generalizability of hypothesis) (Gerring, 2007: 37-44). The consequence is a study that may offer a well-scrutinized analysis of that particular case (i.e. risk to Shell's E&P operations in the Niger-Delta), but is less able to draw general and scientifically sound inferences on a larger class of units (i.e. political risk to E&P operations in areas of armed conflict).

In order to strengthen our analysis and make the inferences more generalizable, our study will base large parts of the analytical premises on statistical data. First, data on political risk will largely be based on Jakobsen's (2007: 12) study of 322 reported incidents of political risk. Second, data on risk to E&P operations in areas of conflict will largely be based on Lia and Kjøk's (2004: 103) study of 262 incidents of 'petroleum terrorism' between 1968 and 1999 across 62 countries. Finally, data on incidents of armed conflict in the Niger-Delta will largely be based on the Global Terrorism Database (START, 2011) of over 98,000 terrorist attacks between 1970 and 2010, off course limited to incidents in Nigeria by armed groups operating in the Niger-Delta. Although, this accounts only for 78 incidents, it seems relatively representative when compared to the qualitative data.

2 Analyzing Political Risk

In this chapter we will explain the concept of political risk and how to analyse it. The scale of investment needed in the oil industry is immense, particularly in the E&P sector (Shelly, 2005: 15-16). When a company builds or purchases the necessary infrastructure in a foreign country, it ties its financial assets up in a 'foreign direct investment' (FDI) (Oatley, 2008: 169). There are vast amounts of money at stake and the major oil companies are among the world's largest multinational corporations. In 2003, BP had over 141 billion US$ tied up in FDI, followed by Exxon with over 116 billion US$, and Shell with over 112 billion US$ (Oatley, 2008: 171).

As withdrawing would incur intolerable financial losses, once assets have been sunk into foreign ground they become 'hostages' to the political environment of the host country (Bray, 2003: 292; Jakobsen, 2007: 23). Although domestic investments also involve political risk, FDI is considered much more risky as executives tend to be more familiar with domestic than foreign investments (Lax, 1983: 4-5). As plenty of time and money can be lost by ignoring or misinterpreting the risk associated with foreign socio-political environments, companies with FDI are in strong need of analyses on the political risk of the host-country (Brink, 2004: 7).

Although there is a whole industry providing political risk analysis to corporations, the final product they deliver have often been criticized for being inherently subjective, theoretically and empirically uninformed, and for having questionable validity and accuracy. Many of the risk-ratings might in fact be counterproductive to their corporate customers. This is partly due to the complex and multifaceted nature of political risk, which has prevented political risk analysis from developing into a coherent discipline. (Jakobsen, 2007: 13-14).

2.1 Defining 'Political Risk'

The study of political risk has been prevented from developing into an academic principle, largely due to the disparity between literary contributions to the subject, which even diverge on what the concept of 'political risk' involves (Jakobsen, 2007: 19). As Alon et al. (2006: 624) states "If there is one agreement in the literature, it is that a consensus has not been reached regarding the definition of the term." However, as a thorough specification of key concepts is fundamental to any analysis (Hellevik, 2002: 78), we attempt to find a suitable definition.

'Political risk' partly overlaps with 'strategic risk' (regarding companies' strategic decisions; Cortez, 2010: 64) and 'operational risk' (regarding companies' internal operations; Cortez, 2010: 69). As many variables are interrelated, it can also be difficult to distinguish from 'country risk' (regarding the general risk in the host-country) (Jakobsen, 2007: 23). Nevertheless, 'political risk' focuses solely on the risk related to the political environment. Other types of risk may only be considered political risk if they stem from political actions or processes rather than from other dynamics (Lax, 1983: 9).

Bremmer and Keat (2009: 5) define 'political risk' as "the probability that a particular political action will produce changes in economic outcomes." They include risks such as global warming and demographic changes (Bremmer and Keat, 2009: 10). However, this necessitates an immense stretching of the concept of 'political'. Jakobsen (2007: 24) therefore argues in favour of restricting political risks to encompass only those events that result from inherently socio-political circumstances.

Brink (2004: 18) defines 'political risk' as "the probability that business will either earn less money, or suffer losses in profit as a result of stakeholders within a political system's (in)actions or reactions to events, decisions and policies." However, the definition is excessively restricted as political risk may stem from stakeholders both within and outside the political system (Bremmer and Keat, 2009: 9).

Furthermore, as these definitions define 'political risk' exclusively in terms of profitability, they overlook companies' less tangible (but equally important) assets and the range of possible goals they may pursue (Lax, 1983: 9; McKellar, 2010: 4). Jakobsen (2007: 3-4) defines 'political risk' as "those events, actions, processes, or characteristics of a socio-political nature that have the potential to - directly or indirectly - significantly and negatively affect the goals of foreign direct investors." As it overcomes the preceding shortcomings, this study will apply Jakobsen's definition of 'political risk'.

2.1.1 Macro-Risk vs. Micro-Risk

Although political risk will largely be similar for all companies operating in the host-country, it will affect companies differently across different industries. Political risk can therefore be dichotomized into macro-risk and micro-risk (Alon et al, 2006: 625). Macro-risk is the political risk affecting all foreign companies across all industries in the host-country, whereas micro-risk is the political risk specific to a company, industry or project commonly involving their reciprocal effects (Alon and Herbert, 2009: 127-128).

Although micro-risk generally predominates in a company's operating environment, literature has tended to give macro-risk primary attention (Alon et al, 2006: 626). However, an excessive focus on macro-risk at the expense of micro-risk may obscure the analysis by providing superfluous information. In fact, political risk as a dependent variable should transmit only the essential contingencies (Frei and Ruloff, 1988: 4). Furthermore, as it is the company or project in question that is affected, political risk cannot be analysed separately from it. Subsequently, political risk should be analysed as 'firm-specific' (Frynas and Mellahi, 2003: 546) – in our case as 'E&P-specific'.

2.2 Political Risk Analysis

Political risk analysis (PRA) is employed as a decision-making tool that helps facilitate corporate planning (Lax, 1983: 12). PRA entails an attempt to envision how the company's actions (or inactions) will affect future outcomes (Kaplan and Garrick, 1981: 12). It therefore involves analyzing the data in order to forecast on future risk and develop strategies to manage them (Howell, 2001: 5). As companies operate in a dynamic socio-political environment, often influenced by the company's presence, the analytical process should be undertaken on a continual basis (Brink, 2004: 10). As a result, political risk should be identified, analysed, managed, and monitored for change, before the cycle is repeated (Cortez, 2010: 50).

2.2.1 The Causal Chain of Risk

'Risk' can be defined as "potential harm, or hazard (McKellar, 2010: 3)." 'Risk' is the general potential harm involved with an activity (such as skydiving or investing in Somalia), whereas the singular noun 'a risk' refers to a specific potential harmful event (such as the parachute not opening or employees being kidnapped by Al-Shabaab) (McKellar, 2010: 4). 'A political risk' should therefore be understood as a consequent effect of certain socio-political causes (Lax, 1983: 10). This causal sequence can be described as a 'causal chain' of risk (Jakobsen, 2007: 25-26).

The effect ('a risk') is often referred to as a 'political risk-event', defined as "any outcome in the host-country which, if it occurs, would have a negative impact on the success of the venture (Bunn and Mustafaoglu, 1978: 1558)." However, in order to gain systematic understanding of the risk-event, one needs to evaluate its causes (Frynas and Mellahi, 2003: 546). The cause of a risk-event is often referred to as a 'political risk-factor', defined as "any set of circumstances which influences the occurrence of a Political Risk Event (Bunn and Mustafaoglu, 1978: 1559)." In fact, a 'cause' is characterized as the circumstances which raise the probability of an event occurring (Gerring, 2005:169). Political risk-factors are therefore the circumstances which raise the probability of a political risk-event materializing.

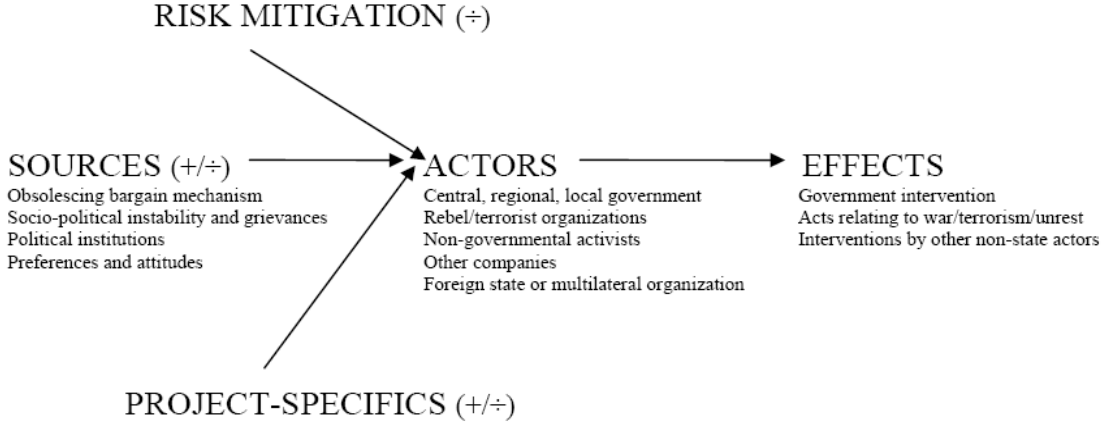
A ‘risk indicator’ (or ‘Key Risk Indicator’) is a metric or proxy that provides data on the exposure to risk and the potential of future risk. The indicator is causally linked to the risk it represents (IOR, 2010: 1). It functions as an operational variable indicating the presence of a political risk-factor with the potential of causing a political risk-event to materialize. Indicators help distinguish significance from insignificance when analyzing the data (Brink, 2004: 77-81; Lax, 1983: 126).

2.2.2 Explaining the Causes

PRA involves distinguishing the symptoms of risk (risk-events) from the causes (risk-factors) (Cortez, 2010: 140). However, the challenge is to decide on which variables and combinations that are likely to produce particular risk-events (Howell, 2001: 6). Such causal relationships consist of causal variables affecting a dependent variable, often through intervening variables. The hypothesized causal relationships can be explicated through a causal model (Hellevik, 1988: 10-11). Such a model help organize variables and the relationships between them, as well as indicating the path of influence (Lax, 1983: 117). It will also provide direction to the collection of data (Brink, 2004: 36).

In an effort to explicate the causal relationships involved, Jakobsen (2007: 25-27) presents a causal model of political risk (figure 1). In the model the dependent variable is represented by the political risk-event (*effect*), the causal variable is represented by the *sources* of political risk. The *actors* through which political risk is generated functions as an intervening variable. Integrated into the model as exogenous variables are the effect of the industry or operation (*project-specific*) and the risk management strategies employed (*risk mitigation*).

Figure 1: Jakobsen’s causal model of political risk



(Source: Jakobsen, 2007: 27)

PRA essentially involves generating hypothesis on how the causal relationships between the analytical variables produce risk. On the basis of the hypothesis we can develop a causal sequence of risk, construct indicators showing the presence of risk, and forecast on the plausibility the risk materializing (McKellar, 2010: 102-103). However, hypothesis is dependent on theory as "No causal argument of any sort… could be made without assuming a good deal about how the world works (Gerring, 2005: 179)". Therefore, the key to PRA is to theoretically link the risk-events to the risk-factors and their indicators (Howell and Chaddick, 1994: 73).

2.2.3 Forecasting the Effects

A risk-event describes a future contingency and is far from certain to emerge (Lax, 1983: 13). Therefore, risk involves *potential* rather than certain of emerging risk-events (McKellar, 2010: 3). The existence of more than one potential outcome (may/may not occur) is known as *uncertainty*; risk can therefore be described as a state of uncertainty where some of the potential outcomes involve harm (Hubbard, 2007: 46). In fact, according to Kaplan and Garrick (1981: 12) risk is the very product of harm and uncertainty (risk = uncertainty + harm).

Nevertheless, Hubbard (2007: 46) argues that uncertainty can become measurable by assigning a set of probabilities to a set of possible events. However, as odds are not mathematically defined, assigning probabilities to certain contingencies is not applicable to real-life events (Taleb, 2007: 127-128). Any probability estimate is therefore subject to the analyst's perception of that reality. Two analysts could equally rationally and on the basis of the same data, assign completely different probabilities to the same outcome (Taleb, 2007: 343-346).

On the other hand, such subjective probabilities can be expressed through calibration (Kaplan and Garrick, 1981: 17-18). Calibrated estimates allow uncertainty to be expressed within the bounds of a probability-range. Instead of expressing a probability at 75%, it could be expressed as 60%-90%. Such a probability-range can be set at a standard 90% confidence-interval allowing a 10% room for uncertainty (margin-of-error) (Hubbard, 2007: 53-55).

Furthermore, as the prospect of an event materializing exists independently of being recognized, it is also subject to the analyst's perception. Subsequently, a risk-event may be possible regardless of whether or not it is considered a possibility (Holton, 2004: 22). Such unanticipated events are known as 'Black Swans', and are according to Taleb (2007: 149) impossible to forecast. However, unlike other types of risks, political risks are generated by more or less rational actors operating within certain constraints and driven by certain underlying incentives. Therefore, a political event does not emerge completely unanticipated (Bremmer and Keat, 2009: 21-22).

2.3 Methods of Analysis

Instead of leaving the analytical model as an abstract concept, it must be made operational through a method of political risk analysis. Although there is a range of different methods relevant to political risk analysis, a distinction can be made between quantitative and qualitative methods (Lax, 1983: 120-124). *Quantitative* methods are based on numerical measurements in order to attain scientific objectivity. It aims to generate general conclusions or test hypotheses (King et al., 1996: 3). *Qualitative* methods reconcile with an inability to attain objectivity and acknowledge the subjectivity within the method. However, it is ultimately the objective and purpose of the analysis that determines the choice of method (Devine, 2002: 205-207).

2.3.1 Qualitative Political Risk Analysis Methods

As an *unstructured qualitative method*, the political risk analysis is presented as a traditional report based on the conclusions of company managers' meetings with host-country officials ('grand tour'-method), or on the conclusions of country-experts with 'insiders-contacts' ('old hands'-method) (Frei and Ruloff, 1988: 6; Mortanges and Allers, 1996: 306-307). However, as these methods lack any systematic form of evaluation and are based on the intuition of managers/experts, they tend to be selective, subjective, and biased (Frei and Ruloff, 1988: 6; Mortanges and Allers, 1996: 306-307).

Among the *structured qualitative methods* are the 'expert-generated' PRA (Frei and Ruloff, 1988: 6). In the 'Delphi Technique' a group of experts individually offer probability estimates on particular risks. After evaluating the other contribution the estimates are revised, before an

average estimate is finally presented (Mortanges and Allers, 1996: 307). In a 'checklist', risk-factors are systematically reviewed before being combined into a single risk-score (Lax, 1983: 127; Mortanges and Allers, 1996: 307). Nevertheless, 'experts' have a tendency to underestimate their own uncertainty, often making overambitious forecasts (Taleb, 2007: 146-147).

In 'scenario-building', risk-events are forecasted as logical outcomes of particular risk-factors (Brink, 2004: 49-50). In the 'event-tree' model possible risk-events are identified before backtracking to their risk-factors and probable causal patterns (Di Nicola and McCallister, 2006: 182-183). However, as risk-factors are selected intuitively and not based on a theoretical model, causal-variables may be overlooked or overemphasized (Lax, 1983: 140).

2.3.2 Quantitative Political Risk Analysis Methods

Quantitative methods seek to measure probabilities of risk by quantifying risk-factors and indicators (Mortanges and Allers, 1996: 308). The general riskiness of the operating environment can be measured, by assigning numerically measurable indicators to risk-factors representing certain socio-political issues relating to the host-country or industry (Brink, 2004: 81-83; Lax, 1983: 129). Each aggregate factor-score can be calculated into probabilities of risk or combined into country risk-rating (Brink, 2004: 118-119). Such 'indicator-based' methods can be 'company-specific' like Shell's ASPRO-SPAIR (Mortanges and Allers, 1996: 308), or 'consultancy-specific' like BERI, EIU, Euromoney, Moody's etc (Brink, 2004: 57).

Despite aspirations for objectivity, Lax (1983: 126-127) argues "The quantification of opinions can be no more objective than the opinions it represents." Furthermore, Lax (1983: 128 -129) argues that in 'indicator-based' PRA methods "The dependent variable is left unspecified, except as an undifferentiated notion of political risk". Therefore quantitative methods are unable to relate risk-factors to the particular risk-events companies may be facing. Furthermore by making in-depth analysis, qualitative methods provide a higher degree of specificity (Frei and Ruloff, 1988: 6), making them better equipped to provide company-specific/micro-risk political risk analyses.

2.3.3 The Step-Based Political Risk Analysis Methods

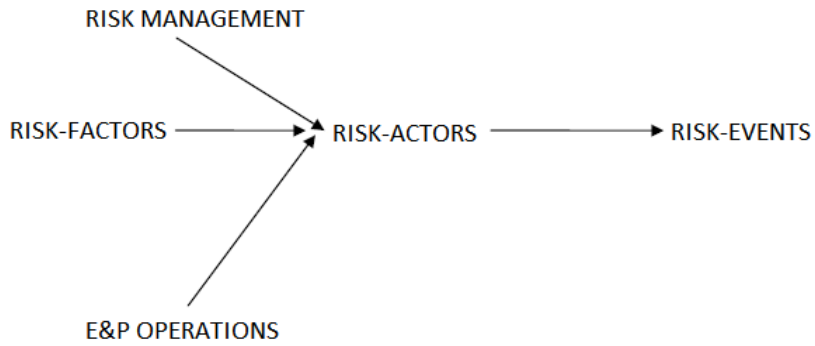
In the 'step-based' method risk is analysed through steps; each step building on the preceding one. The number of steps varies, but these steps are normally included: The first step is a self-analysis of *what* is at risk. On this basis, the potential risk-events can be identified as the second step. The third step involves qualitatively/quantitatively estimating their probabilities and the fourth estimating their impacts. The final step involves comparing and prioritizing the risk-events in terms of probability and impact. An estimation of uncertainty involved with the study may also be included (Di Nicola and McCallister, 2006: 183-184).

Although 'indicator-based' methods may provide appropriate risk-rating for macro-risk, the 'step-based' method provides a more applicable method for analyzing company-specific/micro-risk. First, as the self-analysis provides certain parameters for which risk-events are to be anticipated, the method allows a higher degree of specificity and objectivity. Second, identifying specific risk-events provides the analysis with a clearly defined dependent variable that allows analysis of the causal relationships between the variables. However, the step-based method as described above lacks a theoretical model. Unless causal relationships are theoretically acknowledged, certain risk-factors may be overlooked or overemphasized. McKellar (2010: 86-97) overcomes this in his method by adding a step for analyzing the choices of the risk-actors and the political environment in which they operate.

2.4 Analyzing Political Risk E&P Operations in Areas of Armed Conflict

Exploring how we can best analyse political risk to E&P operations in areas of armed conflict, we have found that we must hypothesise on how the causal relationships between the analytical variables produce risk. These causal relationships can be explicated through a causal model. In this effort we have constructed a causal model of political risk to E&P operations inspired by Jakobsen's (2007: 25-27) framework. In our causal model of risk to E&P operations (figure 2) *risk-events* function as the dependent variable and are caused by *risk-factors* which functions as the causal variable. The causal effect is transmitted through *risk-actors* which functions as an intervening variable and is influenced by *risk management* as an exogenous variable.

Figure 2: Causal model of risk to E&P operations



The next stage is making this causal model operational through a political risk analysis method. As we are concerned with political risk specific to E&P operations in areas of armed conflict (by focusing on Shell in the Niger-Delta) rather than a general risk-rating of a host-country, our analysis is completely dependent on a high degree of operational specificity. Furthermore, as our case-study aims to draw more general inferences of the broader category of risk to E&P operations in areas of armed conflict, the analysis needs to meet certain standards of objectivity.

The best suited method for our purpose is therefore the 'step-based' method. The first step will involve a self-analysis of the company's assets exposed to risk. The second step will involve identifying the most relevant risk-events. The third step involves identifying the risk-actors. The fourth step involves analyzing the risk factors. The fifth step involves analyzing the effect of risk management by the affected company. Finally, on the basis of the relationships between the variables in our analysis, we will develop causal sequences linking the particular risk-events to specific risk-actors and risk-factors, in addition to the risk management that has been utilized in response. Then we will construct risk indicators that offer data on the exposure to risk, before forecasting future risks by creating particular contingencies and assess their plausibility of materializing.

3 Risk-Exposures

This chapter will provide the analysis with the parameters necessary for identifying the relevant risk-events to E&P operations in areas of armed conflict. To be able to identify and analyse political risk, it is fundamental to understand *what* is at risk. 'Risk-exposures' are the key assets exposed to harm by risk-events (McKellar, 2010: 77, 83). Any business sector will naturally have its own unique range of critical assets, but McKellar (2010: 56-57) defines three types of assets general to all sectors: reputation, personnel, and performance.

The primary asset is the company's *performance*. A company's performance depends on continuity and control. 'Control' involves a company's ability to retain tenure and influence over its operations. A company will often face attempts by actors seeking to force their will on the relevant operation. 'Continuity' refers to the company's ability to preserve the agenda of their operations. Continuity of operations is susceptible to disruptions or even lasting cessations (McKellar, 2010: 62-64).

The company's *personnel* are a critical asset as they are the product of a great deal of training and investment. As the personnel are the ones operating the company, the company's overall completely performance depend on them. Furthermore, a company's legitimacy among stakeholders also largely depends on how they provide for their employees (McKellar, 2010: 57-59). Naturally it is only personnel stationed in the host-country that are exposed to risk and the more personnel the higher the exposure. Expatriate personnel tend to be more exposed than local personnel (McKellar, 2010: 83).

Another key asset is the company's *reputation*. The reputation is the perceived character of the company in the opinion of stakeholders such as staff, shareholders, investors, partners, NGOs, the media and the societies in which the company operates. Reputation provides legitimacy and credibility, and can constitute a great source of influence when in search of support for operations (McKellar, 2010: 59). Harm to the reputation is usually a result of the conduct by the company, its employees, or other associates of the company (Cortez, 2010: 64).

3.1 Risk-Exposures in the E&P Sector

The performance of E&P operations is completely dependent on technical infrastructure and highly specialized personnel. At the exploration stage, geologists are needed to locate the reservoirs through seismic surveys. When drilling, there is a need for various types of engineers and a collection of specialists to operate the rigs. Oil wells need to be manned by skilled labour and supervised by engineers. Offshore oil extraction is dependent on platforms of different sizes and reaches and the specialized personnel to operate them (Downey, 2009: 98-123).

The extracted oil is received at well-heads and flow-stations before being transported through pipelines to delivery-points like mainland 'hubs' or marine terminals, from where it is transported to the place of refinement by ship, truck, rail, aircraft, or transnational pipelines (Downey, 2009: 242-272). Such physical assets like infrastructure and personnel can be incorporated under the term 'energy-infrastructure' (EI), defined as "offshore and onshore physical, technical, and human assets (e.g., refining stations, pipelines, tankers, energy sector employees, etc.) in the oil and gas sector (Giroux, 2010: 36)."

The E&P sector also tends to be increasingly exposed to reputational risk, particularly in regards to corruption and human-rights abuses, due to their relationships with particular stakeholders. Developments in communication (Internet in particular) have made NGOs much more efficient in both detecting incriminating incidents involving companies, and be able to mobilize political and legal campaigns in response (Bray, 2003: 294-296).

E&P companies are often dependent on financial institutions for finances and insurance for operations. Such financial institutions also affect investors/shareholders and play a quasi-regulatory role in world oil markets (like NYMEX and ICE or financial derivatives like 'Oil Futures'). Furthermore, companies depend on outsourcing services to subcontractors in upstream-support (Frynas, 2009: 49-57). Such financial institutions, and lesser so contractors, tend to be under heavy pressure from NGOs, and reputational harm can prevent a company from obtaining the necessary finances or services for their E&P operations (Shankleman, 2006: 27).

3.2 Risk-Exposures to Shell's Operations in the Niger-Delta

Nigeria (map 1) is one of the world's tenth largest oil producing countries and Africa's largest in times of full production (Peel, 2009: 6). Nigeria produces 2.3 million barrels per day (bpd), most of which is high quality 'Bonny Light' or 'Sweet Crude'. The main importer is the US, but Germany, France and Italy are also substantial buyers of Nigerian oil (Omeje, 2006a: 35). Nigeria's 34 billion barrels of proven onshore and offshore reserves are largely situated in the Niger-Delta (Omeje, 2006a: 31).

Map 1: Nigeria

(Source: Iledare and Suberu, 2010: 7)

The Niger-Delta (map 2) is about 112,000 square kilometres of wetland consisting of several ecological zones of sandy coastal ridge barriers, mangroves, permanent and seasonal freshwater swamp forests, and lowland rain forests (Shell, 2012b). The Niger-Delta consists of nine states: Akwa-Ibom, Bayelsa, Cross-River, Delta, Edo, and Rivers, and from 2007 also included Abia, Imo, and Ondo (Ibaba, 2011a: 72-73). Rivers State contributes about 40% to Nigeria's oil production and Bayelsa and Delta States contribute about 15% each (Stratfor, 2009b).

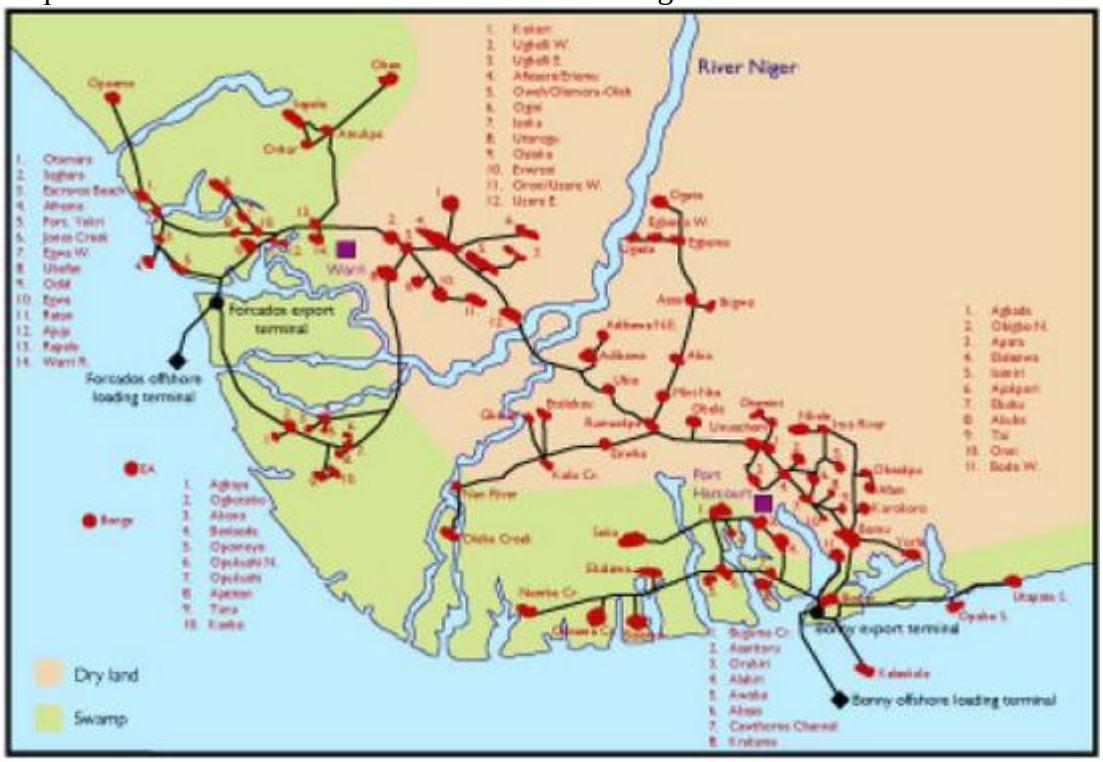
Map 2: The Niger-Delta

(Source: Francis et al., 2011: xvi)

Shell has been exploring in Nigeria since 1903 and producing since 1957, making substantial discoveries throughout the 1960s (Omeje, 2006a: 73-74). Today Shell's operations in Nigeria are carried out through four subsidiaries of which the Shell Petroleum Development Company (SPDC) is Nigeria's largest E&P company. SPDC's operate onshore and in shallow waters with operations stretching over 30,000 square kilometres. SPDC is operated by Shell but is a joint venture where the Nigerian government holds 55% through the Nigerian National Petroleum Company (NNPC), Shell holds 30%, Total holds 10% and Nigerian Agip holds 5%. Shell operates offshore in deepwater through Shell Nigeria Exploration and Production Company Limited (SNEPCo) which is 100% Shell owned (Shell 2012a).

SPDC had an average production of 974,000 bpd in 2011 and has a production capacity of one million bpd. SPDC's infrastructure includes 6,000 kilometres of flow- and pipelines, 71 operative oilfields, 1,000 operative oil wells, 87 flow-stations, 9 gas plants, and two large oil terminals at Forcados and Bonny (map 3). SNEPCo's largest field is Bonga, producing more than 200,000 bpd of oil and 150 million standard cubic feet of gas per day (Shell, 2012a). SPDC and SNEPCo employ about 6,000 oil personnel, about 90% of them Nigerian (Shell, 2012d). SPDC operates onshore in Abia, Akwa-Ibom, Bayelsa Delta, Edo, Imo and Rivers States (Francis et al., 2011: 84).

Map 3: Shell's oilfields and infrastructure in the Niger-Delta



(Source: Global Oil Insight, May 2007)

As Shell is responsible for producing almost half of Nigeria's total oil production and is by far the biggest company operating in the Niger-Delta, it has a much higher public profile than any other company. Shell is such a big actor that the Niger-Delta is often referred to as the 'Republic of Shell' (Peel, 2009:158-159). Shell's reputational assets can be witnessed in its stakeholder reporting and corporate reputational emphasis. Shell has since 1997 annually reported to key stakeholders including local communities, NGOs, shareholders, investors, governments, employees, media, contractors, suppliers etc. They also regularly report to stock exchanges like 'Dow Jones Sustainability Indexes', the 'Carbon Disclosure Project', FTSE4Good etc (Shell, 2010a: 36).

3.3 Risk-Exposures to E&P Operations in Areas of Armed Conflict

Exploring how we can best analyse political risk to E&P operations in areas of armed conflict we have found that a self-analysis of the company's assets at risk, not only allows us to make the political risk analysis more industry-specific, but also provides us with parameters necessary to identify relevant risk-events. This makes the analysis more objective than if we had identified the risk-events on an intuitive basis.

Companies are exposed to risk through their key assets. Generally these are identified as reputation, personnel, and performance. However, as the E&P sector is extraordinary dependent on infrastructure, *performance* translates directly into energy-infrastructure, identifying key assets to E&P companies as reputation, personnel, and *energy-infrastructure*.

In the Niger-Delta, Shell Nigeria (SPDC) is particularly exposed to risk as they operate with a high public profile, several thousand personnel, and a large quantity of energy-infrastructure like pipelines, flow-stations etc. On the basis of the parameters given, we will go on to identify what type of *risk-events* these assets are exposed to in areas of armed conflict.

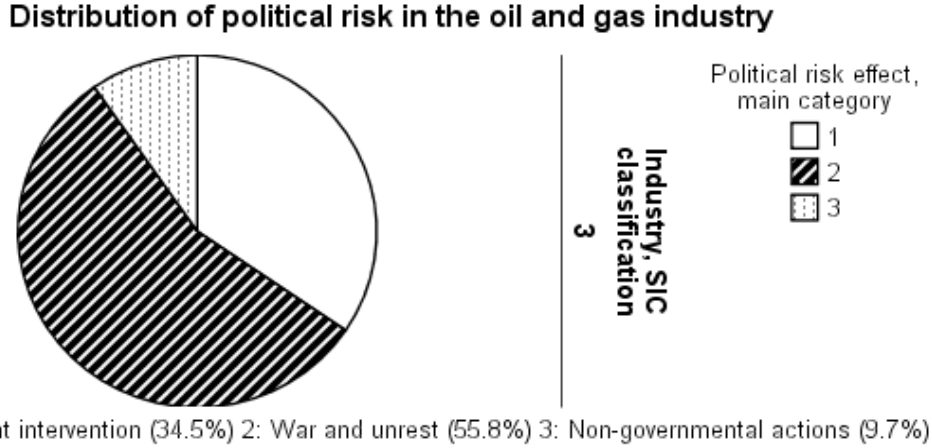
4 Risk-Events

This chapter provide our analysis with the classification of what types of risk-events E&P operations in areas of armed conflict are exposed, contributing with a dependent variable. It is essential for any political risk analysis to develop categories which include the types of possible risk-events a company might face in their business operations (Cortez, 2010: 51). Consequently, political risk has evolved into a concept with a range of sub-classifications (Alon et al, 2006: 624).

In his study Jakobsen (2007: 89-91) classified 27 different types of risk-events into three exclusive categories: government interventions/regulations; acts relating to war/terrorism/social unrest; and other acts committed by non-governmental actors, like NGO activism, lawsuits related to political activism, disputes with other companies, and corruption (Jakobsen, 2007: 103-104). Government intervention made up 48% of the risks included in the study, whereas war and unrest made up 39%, and non-governmental actions 13% (Jakobsen, 2007: 97-105). The oil and gas industry made up 34% of the political risk-affected industries examined – by far the most risk affected industry in the study (Jakobsen, 2007: 107-109).

By statistically analyzing Jakobsen's (2007: 206-214) dataset, we found that of the political risk faced by the oil and gas industry, 'war and unrest' constitutes the far largest category with 55.8% of the risk, followed by 'government intervention' with 34.5%, and 'non-governmental actions' with only 9.7% (figure 3; see appendix).

Figure 3.



(Source: Jakobsen, 2007)

4.1 Conflict Risk to E&P Operations

As the E&P sector is generally more exposed to war and unrest than other sectors in the oil industry (Bray, 2003: 293), this analysis will limit itself to the study of the category of political risk known as 'conflict risk'. 'Conflict-risk' can be defined as "the risk that a project's development, construction or operations may be adversely affected by the outbreak of violent conflict (Crossin and Banfield, 2006: 1)". The concept to an extent overlaps with security risk (a subclass of operational risk), which concern itself with risks to a company's premises, people and physical assets (Cortez, 2010: 70).

Conflict risk-events may come in the form of "Demonstrations and blockades by local communities; sabotage of project installations or facilities; kidnapping or assault to staff; outbreak of violent clashes between armed groups; demanding of payments by armed groups to project sponsors…including reputational and even legal challenges arising from the proximity to these factors (Crossin and Banfield, 2006: 1)."

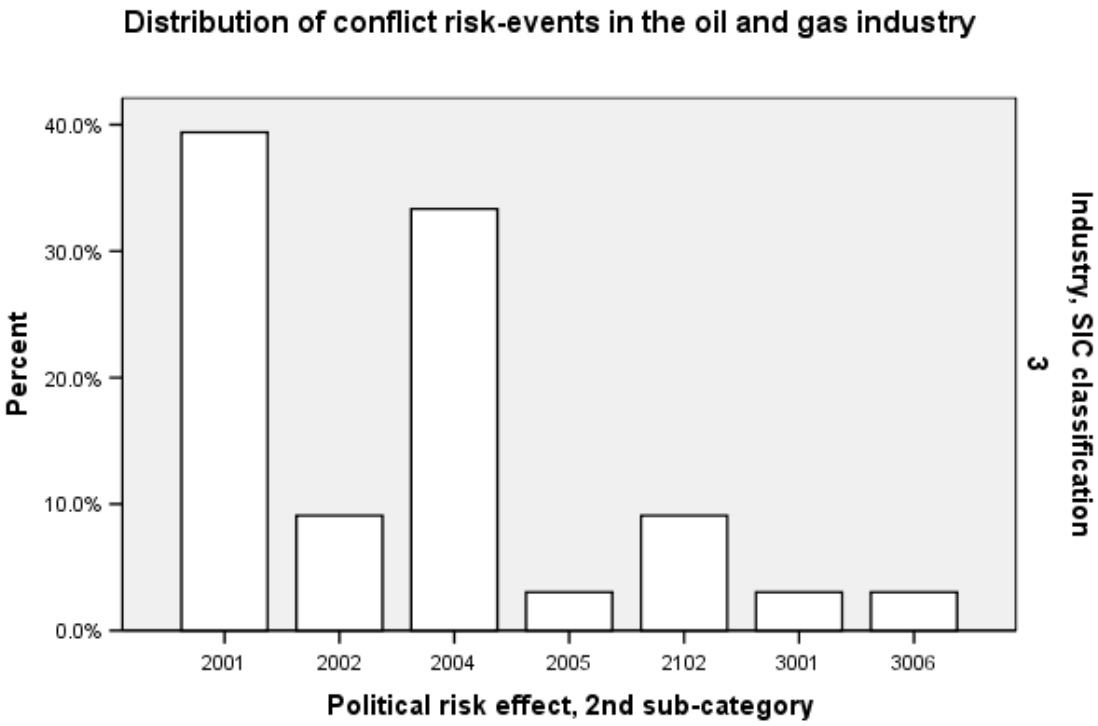
Of the political risks related to war and unrest faced by all sectors, Jakobsen (2007: 102-103) identified five major risk-event categories which occurred disproportionately: the threat of war or severe instability and threat to physical safety made up 14.5% of the risk-events in his study; severe social unrest made up 8.4%; and protests/demonstrations/blockades against the company represented only 3.8%, whereas kidnapping or hostage-taking made up 32.1% of the risk-events and sabotage and terrorism/armed attack (massive bomb attacks, small-scale attacks on physical targets, and armed assaults on company employees) made up 41.2%.

By statistically analyzing Jakobsen's (2007: 206-214) dataset, we found that the conflict risks faced by the *oil and gas industry* (figure 4; see appendix), sabotage and terrorism/armed attacks made up 39.4% of the risk-events; the threat posed by armed conflict/severe instability and threat to physical safety made up 9.1%; kidnapping/hostage-taking made up 33.3%; military intervention (or threat of) by foreign state made up 3% of the risk-events; and protests/blockades against company made up 9.1%.

For analytical purposes Jakobsen (2007: 90-91) has not included reputational harm and legal repercussions under the risk-event category 'acts relating to war and unrest', but in order to reflect the definition of conflict risk above, this study will include risk-events of reputational

and legal harm *directly linked* to armed conflict in the operating environment. The result is that NGO activism made up 3% of the risk-events and detrimental legal repercussions made up another 3%.

Figure 4.



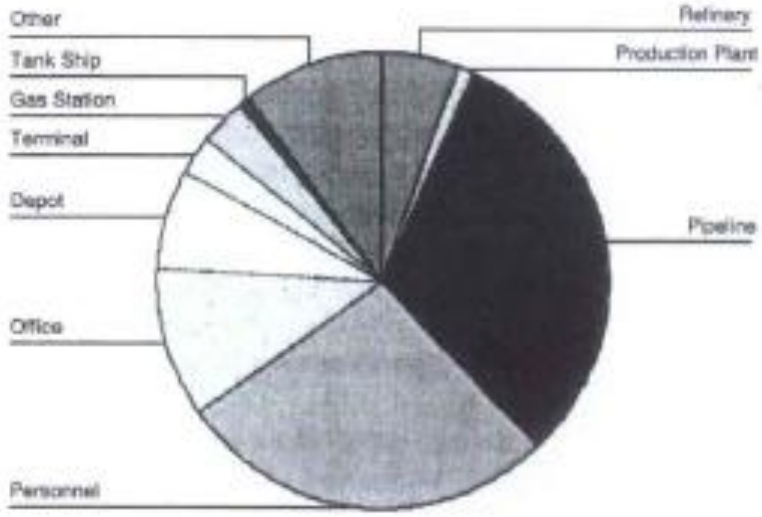
(Source: Jakobsen, 2007)

Lia and Kjøk's (2004: 103-106) study of terrorism targeting the oil industry (figure 5) showed that *blasting of oil pipelines* was the most common type of attack of armed attack on energy-infrastructure, and involved by far the most disruptions in the production process causing nearly 60% of all closedowns. Other types of *sabotage against pipelines* have been less common, but have also involved substantial disruptions and considerable economic losses. Such interruptions often lead to prolonged shut-downs, as production may depend on a single-source pipeline and start-up procedures are complex (Adams, 2003: 102). Giroux (2010: 19) points out that a more recent form of sabotage involves 'bunkering', where oil is stolen by tapping it off pipelines.

Although confined to just a few countries (Yemen, Nigeria and Colombia in particular), the second largest category was *kidnapping of oil personnel*. Kidnappings tended not to result in casualties as captives were usually freed quickly and unharmed. In contrast, *armed assaults on personnel* often resulted in casualties. Although such attacks became increasingly more popular in the 1990s, they were still relative rare. However, in high-intensity armed conflicts armed assaults on personnel tended to be both more common and more lethal (Lia and Kjøk, 2004: 106-107, 118-119).

The third most frequent type of attack was *armed attacks on company premises*. The most common target was company offices, followed by oil-depots, refineries, and distribution-centres. However, despite the potential for massive impact, such attacks have been much less common and caused less harm. The most common form of attack was through bombings, but armed seizures of energy-infrastructure were also recorded. Such armed seizures resulted in more substantial disruptions, with Nigeria, Yemen and Colombia again accounting for most of the incidents (Lia and Kjøk, 2004: 107-110).

Figure 5: Distribution of energy-infrastructure targets of attack



(Source: Lia and Kjøk, 2004: 104)

Actors are becoming nautically more sophisticated, and the year 2007 witnessed an increase in attacks on *offshore* energy-infrastructure. Furthermore, as two-thirds of oil trade is transported by sea, tankers have increasingly been targeted for *armed attacks* and *piracy* (including petty theft, cargo-theft, kidnapping, holding ship at ransom etc.). Although only

comprising 3% of the world's international fleet, oil vessels represented 30% of the total of piracy attacks in 2007 (Nincic, 2009a: 31, 37-41).

Consideration should also be given to potential 'Black Swans'. Although extremely difficult to conduct and highly improbable, a direct attack on an oil reservoir could cripple future production and in some cases significantly harm the producer-state's entire economy. Nevertheless, such attacks could much more easily be conducted indirectly by massive attacks on wellheads and oil-platforms. The harm would depend on reservoir pressure as higher reservoir pressure would induce more severe harm (Adams, 2003: 102-103).

On this basis we can construct a list of potential conflict risk-events to E&P operations:

1. Targeting of energy-infrastructure (EI) (incl. kidnapping of oil personnel)
2. Bunkering/kidnappings/piracy
3. Armed conflict
4. Protests/demonstrations/blockades
5. Political and legal campaigning
6. (Unforeseen events)

4.2 Conflict Risk-Events in the Niger-Delta

Over the last decade SPDC's operations in the Niger-Delta has faced the whole range of conflict risk-events identified above. SPDC and other oil companies were hardly exposed to any conflict-risks and security threats before the mid/late 1990s. With the increased conflict level, they were suddenly faced with risk-events such as kidnappings, attacks on energy-infrastructure, seizures of facilities, and armed attacks. This caused a number of wells and flow-stations to be shut down, pushing production below normal capacity and increasing operational costs in regards to security and contingency budgets (Omeje, 2006a: 76-77).

Threats of attacks on infrastructure in late 2004 helped push oil prices up to $50 bpd, forced SPDC to evacuate 235 personnel, and cut production by over 30,000 bpd (Nodland og Hjellestad, 2007: 11). Between May and July 2009 militants launched a campaign of attacks that shut down 124 oil fields in the Niger-Delta. Damage on SPDC wellheads and pipelines between Escarvos and Cawthorne channel in Delta State, inflicted a loss of $20 million per day in deferred production. By 2009 SPDC had completely shut down its operations in western Niger-Delta while eastern operations were barely producing 100,000 bpd (Courson, 2011: 22).

SPDC have also been increasingly faced with bunkering activities. In 2009/2010 there were reported 187 incidents of 'bunkering' of SPDC pipelines, in 2010/2011 there were reported 237 such incidents (Shell, 2012b). SPDC is currently loosing an estimated 43,000 bpd to bunkering. Particularly to from the Nembe Creek Trunkline (NCTL) and Trans Niger Pipeline (TNP) in the Eastern Niger-Delta (Shell, 14/05/2012)

Kidnappings of oil personnel have also been common, however rarely involving harm to the captives. In 2001, SPDC experienced 45 incidents of kidnappings of personnel; compared to 24 in 2002 and 20 in 2003 (Omeje, 2006a: 76). In 2010, 26 SPDC personnel were kidnapped and one SPDC contractor was killed in an armed assault. In 2011, only 19 SPDC personnel were kidnapped (Shell, 2012b).

Between 2001 and 2008 Nigeria (tête-à-tête with Somalia) stood out as the most pirated country in Africa with 213 reported piracies. By 2007, Nigeria accounted for 29% of the recorded piracy attacks on oil vessels and in 2009 Shell's oil tanker 'Sichem Peace' was pirated outside the coast of Nigeria (Nincic, 2009b: 3; 2009c).

SPDC's operations in the Niger-Delta have regularly also faced armed conflicts. In 2000, such conflicts caused SPDC a loss of 45 million barrels of oil, in 2001 a loss of 35 million barrels (Omeje, 2006a: 61), in 2002 a loss of 31 million barrels, and in 2003 inter-community armed conflict cost SPDC a loss of 45 million barrels of oil (Omeje, 2006a: 77). The inter-ethnic armed conflict in Warri in 2003 resulted in the destruction of several SPDC flow-stations (Francis et al., 2011: 26).

SPDC has regularly faced protests, demonstrations, and blockades by local communities. In 1998 local youths outside Warri launched a 24-day protest where they seized several SPDC oil facilities (Francis et al., 2011: 26). More recently, in April 2012 hundreds of protesters from the Nembe Island community blocked waterways in order to prevent SPDC oil personnel from reaching oil rigs (BBC, 2012b).

SPDC has also has been faced with conflict-related political and legal campaigning in the Niger-Delta. In 2009, Shell paid $ 15,5 million in settlement under the US Alien Tort Statute for the complicity in the execution of Niger-Delta activist Ken Saro-Wiwa in 1995 (Sherman, 2012).

4.3 Risk-Events to E&P Operations in Areas of Armed Conflict

Exploring how we can best analyse political risk to E&P operations in areas of armed conflict we have found that classifying the relevant types of risk-events into sub-categories of political risk, provides our political risk analysis with a clearly defined dependent variable that allows us to analyse the causal relationships between the analytical variables.

Although most companies in other sectors are particularly faced with political risk related to host-government intervention, E&P companies are particularly exposed to political risk

related to armed conflict. Having identified this as the sub-category known as conflict risk, we found that in the E&P sector this materializes in the form of risk-events such as armed attacks on infrastructure, kidnappings of personnel etc. Conflict risk also involves the secondary non-violent risk-events related to the armed conflict, such as reputational and legal risk.

The conflict risk-events to Shell's E&P operations in the Niger-Delta have taken the form of attacks on infrastructure, kidnappings, bunkering, piracy, armed conflict between communities, blockades, and reputational and legal risks related to the government's management of the armed conflict (specifically in terms of human-rights abuses). Basing the analysis on our causal model, the study will go on to identify what type of *risk-actors* that generate these types of risk-events.

5 Risk-Actors

This chapter will provide our analysis with a classification of what types of risk-actors that generate risk to E&P operations in areas of armed conflict, contributing with a crucial intervening variable. Identifying risk-actors can be done, by distinguishing the actors with significant interest in and influence over the company's operations. These fall into broad categories according to influence or activity in the operational environment. Delineating the categories can be done on the basis of past experiences in similar political environments (McKellar, 2010: 88-90). Of the political risks presented in his study, Jakobsen (2007: 106-107) shows that the host-government generated 35.5%, militants generated 24.7%, local communities 15.4%, NGOs 12%, foreign states 10.5%, and regional/local government 6.3% etc. (the actors add up to more than 100%, as some risk was generated by several actors).

In analyzing conflict risk, risk-actors are identified as the "individuals, groups or institutions who contribute to conflict; and/or are affected by conflict (in a positive or negative manner); and/or are engaged in dealing with conflict (Crossin and Banfield, 2006: 3)." By statistically analyzing Jakobsen's (2007: 206-214) dataset, we found that the risk-actors generating conflict risk to the oil and gas industry, we can see that militants are behind 65.1% of the conflict risks, followed by local communities which generated 20.6%, criminals and labour unions/workers caused 3.2% each, and terrorists only 1.6%. Foreign states were the only registered states generating 6.3% of the conflict risks to the oil and gas industry (figure 6; see appendix).

Figure 6.

(Source: Jakobsen, 2007)

5.1 Conflict Risk-Actors of in the Niger-Delta

Of the risk-actors generating conflict risk to the oil and gas industry, the four predominant types of in the Niger-Delta are NGOs/activists, local communities, militants, and criminals.

NGOs/activists actors: Nearly all of the ethnic-groups in the Niger-Delta have formed *ethnic advocacy groups* to politically promote their collective interests. They agitate for ethnic/communal demands using non-violent methods like protests, petitions, seminars, conferences, position papers, attracting media attention, lobbying etc. However, some of these have militant arms (Francis et al., 2011: 123).

Movement for the Survival of Ogoni People (MOSOP) is a Port-Harcourt based human-rights group that was established in 1990 and is lead by Ledum Mitee. They represent the Ogoni ethnic-group and operate mainly in Rivers State. They largely use peaceful means, but have also been known to resort to violence (Nodland and Hjellestad, 2007: 12). In 1993 MOSOP formed its militant youth wing the National Youth Council of Ogoni People, which would

attack energy-infrastructure, partake in inter-community armed conflict, and persecute dissidents within the Ogoni community (Omeje, 2006a: 142).

Ijaw Youth Council (IYC) was established in 1998 by Oronto Douglas, Asume Osuoka, and Alhaji Mujahid Dokubo-Asari among others, and the current leader is Chris Ekiyor. The group advocates ethnic Ijaw interests through dialogue with the Nigerian government and private industries, as well as negotiating employment and security contracts for Ijaw youth. It had a military wing called the 'Egbesu-Boys' which is no longer active (Francis et al., 2011: 124).

Ijaw National Congress (INC) was established in 1991. INC promotes ethnic Ijaw interests, and conflict resolution and peace-building in the Niger-Delta. Their methods have largely been peaceful. Between 2000 and 2008 the president of INC was Professor Kimse Okoko (Ibaba, 2011a: 76-78).

Local community actors: Nearly all *local communities* in the Niger-Delta have become militant (Allen, 2009: 43). Local communities will mobilize community-militias ('vigilante groups' or 'vigilantes') to promote and protect their interests. These will provide their local community with security, economic opportunities, and law and order. They operate very locally, but often in cooperation with police and will receive government support (Hazen and Horner, 2007: 73-75).

The Bush-Boys is a community-militia organized to promote and protect the Okirika community (Rivers), mostly versus the Eleme community and other neighbouring communities. They do not independently tend to participate in criminal or anti-government activities. The group is lead by Sunny Opuembe. In 2004 they claimed to have 3,000 combatants, but have since been reduced due to internal crisis and conflict with the NDVS/Icelanders. They have close ties to NDPVF and regularly collaborate with the Greenlanders (Hazen and Horner, 2007: 109-111).

Militant actors: *Ethnic-militias* are armed groups which mobilize across the grassroots of their particular ethnic-group in order to promote and protect their socio-political interests. They largely adopt violent tactics like political protest, attacks on energy-infrastructure,

kidnappings, bunkering etc. They operate across their ethnic homelands, and are well trained, well organized, and armed with sophisticate weaponry (Hazen and Horner, 2007: 73-75). Ethnic-militias are financed through providing security contracts for public or private sector actors, political-enforcement, piracy, bunkering, kidnappings, and the sales of drugs and weapons (Francis et al., 2011: 128).

Federated Niger-Delta Ijaw Communities (FNDIC) is an ethnic-militia largely representing the Ijaw ethnic-group in Warri, Delta State. They fight for Ijaw self-determination, but are also involved in bunkering. In 2005 the militia had a force of 3,000 militants. Oboko Bello is FNDIC's president and spokesperson, and Chief Ekpemupolo (aka. Tompolo) is its military leader (Asuni, 2009a: 17). Other prominent members include George Timinimi, Kingsley Otuaro, and Dan Ekpebide (Ukiwo, 2007: 604).

Niger Delta People's Volunteer Force (NDPVF or 'Akuma Fiete') is an ethnic-militia representing the Ijaw ethnic-group, but also draws support and members from other ethnic-groups. NDPVF was established by Colombus Epibade and the current leader Dokubo-Asari in 2003. The group has its headquarters and is most active in Rivers State, but it also operates in Bayelsa and Delta States. NDPVF is loosely organized with sub-commanders in Delta and Bayelsa, and claims around 5.000 members. The organization has its political wing in the unregistered political party Niger Delta People's Salvation Front. In 2007 a more militant faction called the 'Reformed'/'Creeks' NDPVF, splintered off from the core. NDPVF has collaborated with many other armed groups including Deebam, Greenlanders, and the Bush-Boys (Hazen and Horner, 2007: 127-128).

The Niger Delta Strike Force (NDSF) is a small multi-ethnic militia which splintered off from NDPVF. The militia was founded and is led by Farah Dagogo. NDSF is primarily active in Degema, Asari-Toru, and Akuku-Toru in Rivers. The militia only has about 60 members, but can mobilize about 600 when conducting operations with other armed groups under the NDSF banner. The militia often collaborates with MEND, Outlaws, and Deebam (Hazen and Horner, 2007: 130-132).

Movement for the Emancipation of the Niger Delta (MEND) is due to its attacks on energy-infrastructure and abductions of oil personnel the most visible armed group operating in the

Niger-Delta. MEND is primarily an ethnic-militia representing the Ijaw community, though it also includes non-Ijaw members. Its power base lies with the Ijaws in Rivers, Bayelsa, and Delta States. It operates mainly in Rivers, Bayelsa, and Delta State (Hazen and Horner, 2007: 123-124). MEND, together with NDPVF and 'Martyrs Brigade' sometimes conducts operations under the pseudonym of Joint Revolutionary Council (JRC) (Allen, 2009: 35).

Criminal actors: *Cults* are groups of individuals dedicated to providing each other and their community with security and economic opportunities. Members subscribe to an oath of allegiance and secrecy, proscribing a lifetime membership. Cults are hierarchically organized and can consist of everything from 20 to 3,000 members. Some cults have no political objectives, while others are pro- or anti-government. Cults are involved in criminal activities like drug dealing and bunkering, political-enforcement, insurgent activities, providing security contracts etc (Osaghae et al., 2011: 21-22).

Cults have their roots in university confraternities, like 'Pyrates', 'Buccaneers' (Sealords), 'Klansmen Konfraternity' (KKK), and the 'Supreme Vikings Confraternity' (Vikings). Many in the Niger-Delta political elite are members of such cults. In particular are many politicians in Rivers and Bayelsa members of the Vikings. However, fighting between the Vikings and KKK led he confraternities to delegate the violence to lower-level street-wings (Asuni, 2009a: 8-9).

As a result of the conflict with Vikings, KKK formed Deebam in 1991. Although, Deebam claims to be fighting injustice and oppression, it has no political agenda and simply strives for control over territories. It operates primarily in Rivers, but also in Delta States. The cult claims to have 3,000 members in Tombia, 2,500 in Bukuma, and 6,000 in Port Harcourt. Deebam often collaborates with smaller cults, and has a strong alliance with NDPVF which supplies it with weapons. Deebam's arch-enemy is NDVS and Dewell. It is not opposed to the state, but its rivalry with Deewell has led it to armed conflict with government forces (Hazen and Horner, 2007: 113-116).

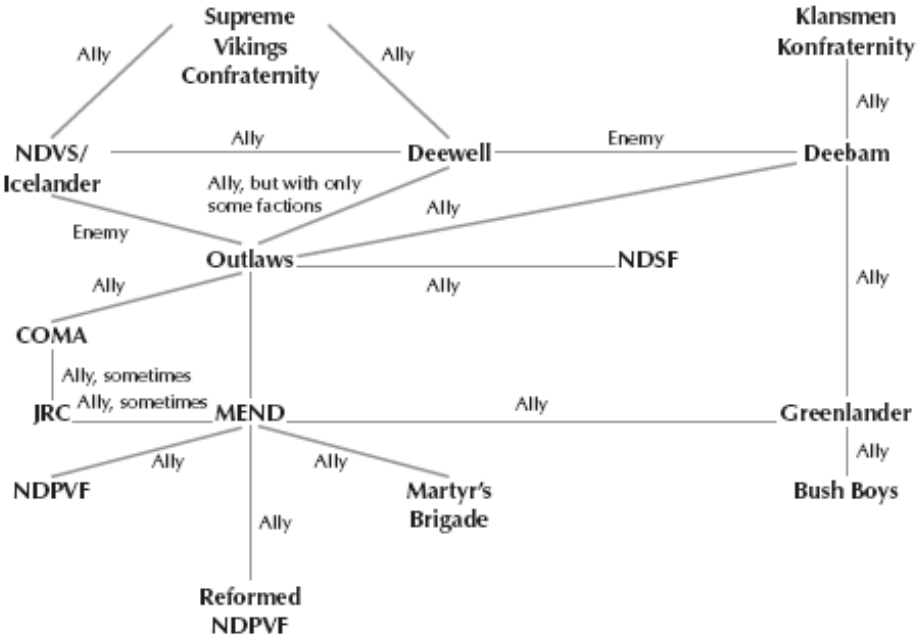
In response, the Vikings formed the 'Icelanders' which later changed its name to Niger Delta Vigilante Service (NDVS/NDV or 'Germans'). The cult is lead by Ateke Tom from Okirika (Rivers). The leadership is all Ijaw, but ethnic Ikwerre, Ekpeye, and Ogoni are also prominent

members. The NDVS have between 6,000 and 10,000 members in Rivers and Bayelsa. It is organized in cells ('suicide squads') lead by senior officers ('Germans'). It has little political agenda, but is a self-proclaimed government proxy with 90% of its members belonging to the ruling PDP political party. It traditionally has close ties to Vikings and Deewell (Hazen and Horner, 2007: 119-122).

In Port-Harcourt, the Vikings also formed another street-wing in 1999 called Deewell. The cult has claimed to have 4,000 members operating primarily in Rivers and Bayelsa. It is less organized than other cults with no central leadership, but bosses ('Scull executioners') head the various cells and coordinate activities. A key cell is led by Gabriel Pidosom Jr. Deewell collaborates with Vikings, NDVS and Outlaws, and is in conflict with Deebam (Hazen and Horner, 2007: 117-118).

The Outlaws splintered off from NDVS in 2004. The cult was founded by Ijaws, but also have members of Ogoni, Ibibo, and Ogba ethnicity. Outlaws are primarily active in Asari-Toru, Akuku-Toru and the area of Port Harcourt (Rivers), but have also been trying to establish cells in Delta and Bayelsa. They claim to have 4,000 members in Rivers. The Outlaws collaborates with MEND and Coalition for Militant Action in the Niger Delta (COMA), but has enmities with NDVS (Hazen and Horner, 2007: 133-135).

Figure 7: Configuration of armed groups in the Delta, 2007



(Source: Hazen and Horner, 2007: 80)

5.2 Identifying Risk-Actors Generating Conflict Risk to E&P Operations

Exploring how we can best analyse political risk to E&P operations in areas of armed conflict we found that by classifying the relevant types of risk-actor into categories we have provided our political risk analysis with an intervening variable crucial to understanding the causal relationship between the effect/dependent variable and the causal variables. Risk-actors therefore provided the link between risk-events and risk-factors, and any analysis without this variable would be unable to link the specific risk-event to a particular risk-factor.

In most other sectors companies are primarily faced with political risks generated by the host-government, followed not far behind by militants, local communities, and NGOs. However, the vast majority of conflict risk in the oil industry was generated by militants. Although to a lesser extent, local communities also generated a substantial share of the risks, but other actors were behind far fewer political risks.

We found that in the Niger-Delta there are four prominent types of risk-actors generating conflict risks. These were ethnic advocacy groups, ethnic-militias, local communities, and cults. Basing the analysis on our causal model, the study will go on to examine the risk-factors causing the conflict risk to E&P operations.

6 Risk-Factors

This chapter will provide our analysis with an exploration of the risk-factors that cause risk to E&P operations in areas of armed conflict, contributing with the causal variables. As we have seen, the analysis of causal variables of risk has to have some sort of theoretical foundation. Such theories tend to attribute causality either to the structural characteristics of the operating environment or to the choices of the risk-actors involved (Howell, 2001: 9).

This reflects the 'Structure vs. Agency' debate in the social sciences, which is about whether socio-political outcomes derive from the actors involved or the context in which they operate. 'Agency' theories (such as Rational-Choice) assign explanation to rational actions of individuals or groups of people involved in the socio-political process. 'Structuralist' theories however, assign explanation to the socio-political structures of human societies. These structures are not visible and exist only in the mental world, but essentially determine how we act as individuals and groups (McAnulla, 2002: 271-278).

Despite their differences, there is little reason why such theories should not be combined in the same causal model (Howell, 2001: 9). This analysis will therefore examine both the choices of the risk-actors (risk-factor 1) and the structural characteristics of the operating environment (risk-factor 2). As the structural characteristics of the operating environment in the Niger-Delta (risk-factor 2) are extraordinarily complex and dynamic, a schematic presentation focusing on the headlines of theses characteristics would not do justice to the local dynamics. We have therefore chosen to offer quite a comprehensive and detailed description in order to provide a more complete depiction of the issues a political risk analysis would need to deal with in practice.

6.1 Risk-Factor 1: The Choices of Risk-Actors

The conflict-risk to E&P operations can partly be explained by the strategic choices of the risk-actors. Tactically[1], attacks on energy-infrastructure can be considered what John Robb (2007a: 94-95) calls 'systems-disruptions'. Systems-disruptions are a form of sabotage on critical systems with the aim of inflicting economic harm. Systems-disruptions are easy and safe to conduct and allow militants to carry on in a sustainable way without losing men. They also tend to be cheap and will cause an economic impact many times over the insurgent's initial investment. High-value targets (like oil refineries) may be difficult to attack directly, but by creating cascades they can be attacked *indirectly* (Robb, 2007a: 98-100). Kidnappings of oil personnel and other supporting 'infrastructures', can therefore also be considered systems-disruptions.

Strategically, such attacks can be considered 'fourth-generation warfare' (4GW). Hammes (2006: 2) defines 4GW as a strategy that "uses all available networks – political, economic, social, and military – to convince the enemy's political decision makers that their strategic goals are either unachievable or too costly for the perceived benefit." 4GW aims not to win by military prowess on the battlefield, but by defeating the political will of the enemy. This is done by sending particular 'messages' through all available networks to decision-makers or those that can influence them. These 'messages' are tailored for the specific audience, but are fundamentally aimed at convincing decision-makers that their objectives are unachievable or too costly to attain (Hammes, 2006: 208-209).

Operationally, actions are structured into campaigns aimed at defeating the enemy's political will. This involves determining what 'message' to send, which network that would get the 'message' across, what actions that will cause the network to send the 'message', and what indicates the 'message' is received (Hammes, 2006: 215-216). This can be done through non-violent action like protests, media interviews, websites etc. or through 'violent' action like terrorist attacks or systems-disruptions – whatever gets the 'message' most efficiently across

[1] Hammes (2006: 215) distinguish between tactical, operational, and the strategic level. Whereas the strategic level involves a general plan to attain certain objectives, the operational level involves the campaigns designed to attain these objectives, and the tactical level involves the techniques and methods by which these objectives are practically put into action.

(Hammes, 2006: 219-220). Campaigns of systems-disruptions aimed at partially disrupting the critical systems are operationally more effective than completely disrupting them. Partial disruption causes more overall economic harm, delegitimize the government, and avoid pushing the government into a total war that would be detrimental to the insurgents (Robb, 2005).

A sustained campaign of partial systems-disruptions can have global implications. The market-price on oil seems less driven by supply/demand-mechanics of the NYMEX stock-market than by *speculators* buying oil through off-exchange 'over-the-counter' (OTC) trading like 'oil futures'. Systems-disruptions on energy-infrastructure has caused fears among speculators of diminishing supplies and tighter markets, consequently driving up the oil-price as much as 10%. This has added a 'risk premium' of between $4 and $25 per barrel on the price of oil. Events since 2003 indicate that insurgents are beginning to realize their global influence. However, it is not the few complete disruptions that causes fear among speculators, but the collective partial disruptions (Giroux and Hilpert, 2009).

Robb (2007a: 116-127) explains that many modern insurgencies are organized in an 'open-source warfare' (OSW). OSW is a decentralized and loose type of organization, like a 'Wikipedia of insurgency', where any group willing is allowed to contribute and participate. Tactics and strategies are up for anyone to modify and improve through trial and error. By 'swarming' on a single type of target (such as energy-infrastructure) militants indirectly transmit novel tactics and strategies to other militants, which will look for signs of success in the media, public space, and the security response it provokes. The struggle is organized like a 'bazaar of violence', where favours and missions are outsourced. Although the insurgency lacks a central command, the OSW is extremely flexible, permits a high turnover of recruits, and allows innovation in tactics and strategy.

6.1.1 Systems-disruptions and 4GW

Armed groups in the Niger-Delta have over the past few years conducted successful campaigns of systems-disruptions on energy-infrastructure (Osaghae et al., 2011: 21-22), that has frequently caused moves on oil markets such as 'oil futures' (Shelley, 2005: 69). This has largely taken the form of pipeline sabotage and kidnappings, but also attacks on offshore energy-infrastructure and piracy. Most armed groups in the Niger-Delta participate in such tactics with a varying degree of competence (Hazen and Horner, 2007: 116-134).

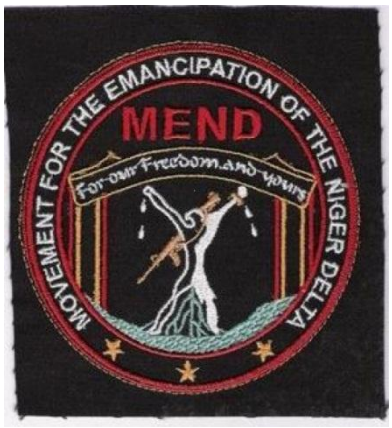
Although MOSOP has largely adopted a peaceful approach, it can be perceived as utilizing a 4GW strategy in its struggle. Basing their campaign on Saro-Wiwa's understanding of the importance of global discourse and transnational networking, MOSOP framed their struggle in the context of the environmental degradation caused by SPDC and linked up with a massive network of international NGOs such as Greenpeace, Amnesty, and Friends of the Earth, as well as companies like the Body Shop. By linking SPDC with human rights abuses perpetrated by the Nigerian government, MOSOP managed to inflict the company with serious reputational harm (Soremkun, 2011: 107), and effectively and completely disrupt SPDC's E&P operations in Ogoniland (Courson, 2011: 26).

Learning from MOSOP's success, FNDIC managed to combine military operations with media operations as part of a 4GW strategy. They were able to convey their message through their own newspapers and internet publication, tailoring their messages to different audiences to gain sympathy across the Nigerian and international community, and politically mobilize the Ijaw community (Ukiwo, 2007: 603-604).

Until the emergence of MEND in 2006, NDPVF was the most visible armed group in the Niger-Delta conducting seizures of oil facilities, kidnappings, and assaults on security forces (Hazen and Horner, 2007: 127). Dokubo-Asari also soon discovered the value of attacking more vulnerable energy-infrastructure as a way of harming the national economy, rather than attacking military targets in its struggle against the Nigerian government (Courson, 2011: 29). When NDPVF in 2004 threatened to attack energy-infrastructure in an 'Operation Locust Feast', Shell evacuated 235 personnel which cut production by 30,000 bpd and pushed the oil

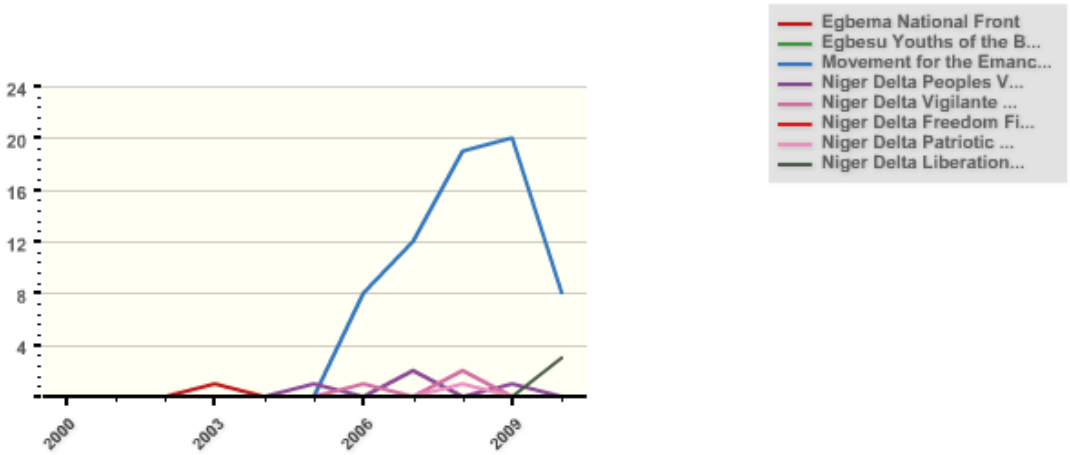
price to a record high of above $50 per barrel (Nodland and Hjellestad, 2007: 11; Omeje, 2006a: 60).

The Era of MEND



MEND has since its inception in 2006 become the most important risk-actor operating in the Niger-Delta (graph 1) with advanced capacity for systems-disruptions on energy-infrastructure, and ability to structure attacks into 4GW campaigns aimed at changing the political will of the Nigerian government by effectively selecting energy-infrastructure targets has caused extensive harm to the Nigerian economy. They have adopted tactical 'swarm-based manoeuvres' by using light speedboats to quickly attack in succession and overwhelm any ability to protect infrastructure targets, showing an impressive ability of overpowering security forces (Robb, 2007a: 82).

Graph 1: Activity of MEND compared with other armed groups in the Niger-Delta



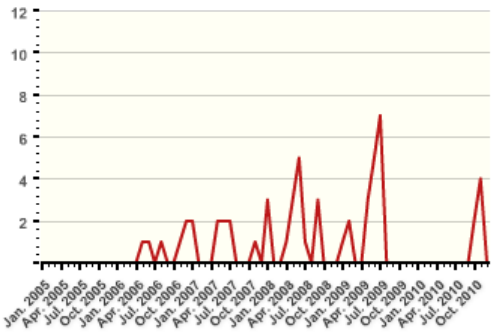
(Source: START, 2011)

Kidnapping oil personnel is at the centre of MEND's tactics and they have largely targeted expatriates for their ability to draw media attention. In their first year of existence, MEND kidnapped about 128 expatriate oil personnel (Nodland and Hjellestad, 2007: 16). Kidnappings are not only meant to draw attention to their 'message', but also disrupt oil

production by creating cascades by forcing companies to withdraw personnel causing operational intermissions (Ibaba, 2011b: 26-27). MEND has so far released all hostages unharmed (Obi, 2010: 231), and its armed assaults have almost exclusively targeted military rather than oil personnel (Zelinka, 2008: 70).

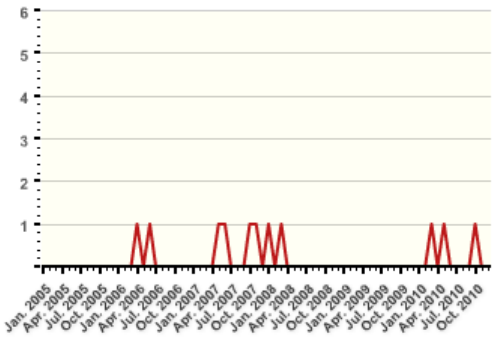
Systems-disruptions on energy-infrastructure are meant to force the Nigerian government and the oil companies to respond to their demands by disrupting oil production (Ibaba, 2011b: 27). Rather than targeting the military, attacks on energy-infrastructure harms the economy (graph 2 and 3); as MEND commander Boyloaf explains "*I believe the economy is the power…I don't believe in fighting human beings, I believe in crumbling the economy* (sited in Courson, 2011: 30)." According to MEND spokesperson 'Jomo Gbomo', the logic "*is to totally destroy the capacity of the Nigerian government to export oil.*" MEND had within their first year managed to reduce the Nigerian oil production by 25% equivalent to $4,4 billion in oil revenues (Nodland and Hjellestad, 2007: 14). In 2007 the Managing Director of Shell Nigeria reported that MEND attacks caused losses to Shell of $61 million per day (Giroux, 2008: 17).

Graph 2: MEND targeting energy-infrastructure and personnel



(Source: START, 2011)

Graph 3: MEND targeting government/police/military



(Source: START, 2011)

MEND also proved an ability to conduct attacks on offshore energy-infrastructure with the attack on Shell's offshore Bonga platform (Giroux, 2010: 48) On July 12th 2009 MEND launched a daring attack on Atlas Cove Jetty near Lagos, an oil terminal of great economic importance to the Nigerian economy (Courson, 2011: 22). They have also conducted successful piracies offshore the Nigerian coast, such as the attack on MT Meredith carrying 4,000 tons of diesel on January 21st 2009 (Nincic, 2009c).

By linking their attacks to specific political demands through public statements to the local and international media, MEND has successfully conveyed its message to the targeted audience (Nodland and Hjellestad, 2007: 14; Ukiwo, 2007: 607). Following an attack on a SPDC facility, where a pipeline was damaged and about 17 people were killed, MEND warned that "…*the Nigerian government cannot protect your workers or assets. Leave our land while you can or die in it* (Giroux, 2008: 15-16)." The fundamental message MEND is trying to convey to the oil companies is that "*We alone, your hosts, can guarantee your security* (Giroux, 2008:18)."

Not only has MEND managed to dramatically affect the national oil production, systems-disruptions in the Niger-Delta has also affected the international price of oil, something they seem fully aware of by stating that: "*The fact that we have influenced the price of world oil, no matter how little, and caught the attention of the foreign media indicates we are on the right track.*" In February 2006 a campaign of attacks cut production by 455,000 bpd – the result was a rise in the oil price of US $1.57 (2.6%) (Giroux and Hilpert, 2009).

However, a radical faction within MEND has found systems-disruptions ineffective and in 2007 Jomo Gbomo stated that "*They* [the faction] *appear to be correct because the Nigerian government and oil companies are still not taking us seriously. We have the capacity to be as ruthless and callous as attacks witnessed in Iraq. We are capable of setting off as many car bombs as we wish and pack them full of shrapnel to maximize casualty. Our fighters can set rigs on fire with all the occupants onboard* (Nodland and Hjellestad, 2007: 17)." This indicates a willingness to tactically target non-oil civilian targets, and can be witnessed by an incident in March 2010 when MEND detonated two car-bombs in Warri and another in October when it detonated a car bomb in Abuja (Ibaba, 2011b: 28).

6.1.2 Open-Source Warfare

MEND is often perceived as an umbrella organization for several of the Niger-Delta militias (Allen, 2009: 44; Hazen and Horner, 2007: 81). However, more than an 'umbrella-organization', MEND can be considered an 'umbrella-term' (like 'Al-Qaida') (Zelinka, 2008: 72) – a franchise of insurgency. MEND is a fluid and dynamic constellation of militias coming together for particular operations before disbanding (Asuni, 2009a: 19). Militias also conduct operations independently under the 'MEND' banner. However, despite its fluidity MEND centres around certain key militias (Hazen and Horner, 2007: 123-125).

MEND has no clear leadership structure and communicates public messages through anonymous spokespeople or the pseudonym 'Jomo Gbomo' (often written from a permanent email account) (Courson, 2011: 31). Any leadership-structure is constructed primarily of commanders from its constituent militias. Militant commanders such as Soboma George were simultaneously the leader of Outlaws and a commander in MEND, Tompolo is simultaneously a commander in FNDIC and MEND (Hazen and Horner, 2007: 124). These leaders funnel arms, cash, and provide training to the ad-hoc groups they assemble, as well as manage the publicity involved with their operations (Robb, 2007b).

John Robb (sited in Shachtman, 2007) explains that MEND also outsource services on the 'bazaar of violence' by "…[hiring] experts and fighters mostly from criminal gangs and tribal warrior cults to do their operations." Individual insurgents can therefore take on multiple roles, have multiple loyalties, and conduct a range of different activities (Bøås, 2011: 122-123; Robb, 2007b). Briggs (sited in Robb, 2007b) explains that "'Mike' from Gbaramatu can fight for MEND one day, rig an election for his local government chief the next, kidnap a foreigner for ransom and get in a cult clash on Saturday."

6.2 Risk-Factor 2: Structural Characteristics of the Operating Environment

The conflict risk to E&P operations can also partly be explained by the structural characteristics of the operating environment. Although there are many theories on the causes of internal armed conflicts, they can be dichotomized into two baseline arguments. *Grievance* arguments ascribe explanation to belligerents' intrinsic sentiments of injustice, belonging, or identity. *Greed* arguments on the other hand, ascribe explanation to economic opportunism where armed conflict is the result of belligerents' pursuit of profit. Nevertheless, many armed conflicts may best be explained by a combination (Jakobsen, 2007: 59-60).

Referred to in the literature as 'internal conflict', 'civil war' or 'low-intensity conflict', the post-Cold War era witnessed a new type of armed conflict – the 'New Wars' (Mary Kaldor, 2006: 1-2). Disintegration of state authority has undermined the state's ability to maintain a monopoly on violence. Subsequently, a privatization of violence has emerged where both state and non-state actors participate, as regular armed forces, paramilitaries, self-defence groups, foreign mercenaries, and foreign armed forces all contribute to the belligerency (Kaldor, 2006: 97). This disintegration has also allowed the emergence of identity politics based on 'primordial loyalties', where political mobilization revolves around underlying pre-modern social structures like religion, ethnicity, tribe, clan etc (Kaldor, 2006: 80-82).

Testing such 'grievance' arguments statistically, Paul Collier (2000: 95-101) found that they had little empirical support as causal variables. Religious/ethnic division and political repression actually tended to reduce the risk of armed conflict. He argued that mobilizing around 'grievances' requires individual action for 'public good' and does not cater to the individual recruit's personal incentives. Subsequently, it encourages 'free-riding' and is unlikely to result in a collective insurgency. However, insurgencies occur when armed groups can profit from violent conflict and address the individual insurgent's personal incentives.

When states become unable to regulate markets and enforce law and order, civil war creates opportunities for profit where armed groups will violently compete over market-share (Collier, 2000: 101-103). Armed groups can profit through taking economic rents off trade

and primary commodity exports by taxing or looting enterprises. In the extractive industry insurgents will extort extractive companies by threatening to harm infrastructure or collect ransom by kidnapping industry personnel. As a way to mobilize local support, militants will tend to employ rhetoric of grievances based on primordial identities and exaggerate communal gains from controlling resources (Bannon and Collier, 2003: 4-6).

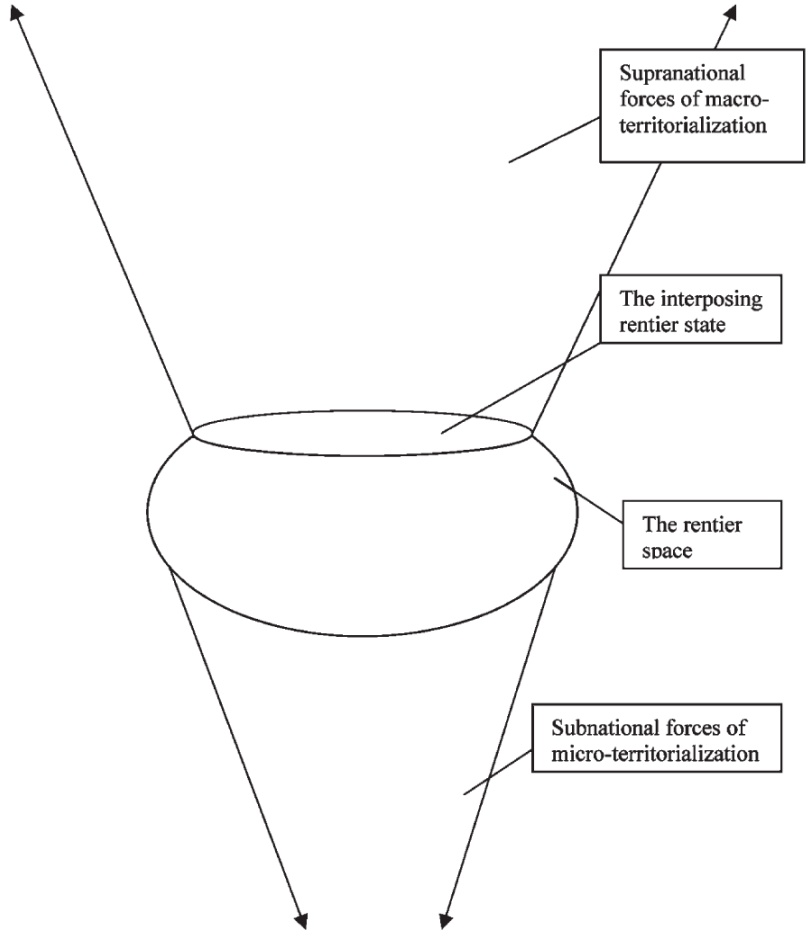
Collier's argument may explain how conflicts are financed; it is however less able to explain their complex causes (Kaldor et al, 2007: 21). Kenneth Omeje (2008: 1) argues that in extractive economies, armed conflict tends to be caused by 'rentier-politics'. In such economies the 'rentier-state' will be completely dependent on the revenues made off the extractive industry (Omeje, 2008: 5). But instead of making long-term investments rentier-states will tend to make short-term utilization of revenues, which in the absence of well-functioning state institutions tends to foster corruption (Omeje, 2006a: 3).

The state is controlled by 'rentier-elites' institutionally responsible with the management of 'extractive revenues' (Omeje, 2006a: 3). In doing so, the rentier-elites will dominate the 'rentier-space', which involves the direct and indirect access to extractive rents. 'Extractive rents' such as *oil rents*, refers to extractive revenues and the related benefits (any value directly or indirectly generated form the extractive industry) (Omeje, 2008: 10). The rentier-state is characterized by neo-patrimonialism, where the public/private distinction becomes permeable and public positions becomes a platform from which the office-holder can distribute rents to himself and his patronage-network (Omeje, 2006a: 3). As a result, a range of state policies, institutional practices, and judicial statutes is actually constructed to allow the rentier-elites access to 'extractive rents' (Omeje, 2008: 8).

As the distribution of rents follow along paths of patronage, the population will be divided along lines of primordial loyalties (like ethnicity, religion, tribe, clan etc.) (Bøås, 2011: 116-117). Consequently, disaffected groups will often experience grievances based on primordial identity and challenge the legitimacy of the rentier-state (Omeje, 2008: 6). The rentier-space becomes a 'political chessboard' where various actors contend for access. This competition resembles a 'tug-of-war' where the rentier-state and international stakeholders pull the rentier-space towards nationalization and internationalization, and sub-national forces pull it down

towards localization (figure 8). Insurgency can therefore be explained by the sub-national challenge against the rentier-elites' dominance of the rentier-space (Omeje, 2008: 9-13).

Figure 8: The competition for the rentier-space



(Source: Omeje, 2008: 12)

Although Omeje is able to explain the grievance-based insurgencies against rentier-states, he is unable to explain how the competition becomes violent, the presence of armed conflict between non-state actors, or the occurrence of bunkering, piracy and kidnapping for ransom. Nevertheless, neither Collier's nor Omeje's argument is essentially wrong Kaldor et al. (2007: 24-26) argues, but merely explains '*rent-seeking*' at different levels and phases. Rather than political competition over public revenue management policies, 'rent-seeking' is the intense political competition for private access to oil rents. The 'greed' argument explains rent-seeking at the local level, and the 'rentier-politics' argument explains rent-seeking in state and society.

The argument is that certain characteristics of an oil economy makes it particularly predisposed to causing armed conflict. As the oil industry is non-labour intensive and national income is based primarily on oil revenues, wealth accumulation is delinked from labour and creates an economy of consumers rather than producers (Kaldor et al, 2007: 12). Furthermore, the oil industry has the potential to create a 'resource curse' as inflation, caused by the influx of revenues directly into the economy, makes domestic producers uncompetitive versus cheaper imports. As a result other economic sectors are suffocated and economic development is suppressed (Arthur, 2006: 354).

The oil industry does not create much employment and has little positive spill-over effects on other economic sectors. As revenues are transmitted almost exclusively through government, it creates incentives for rent-seeking by tapping public resources. It is an enclave industry where wealth is highly concentrated, attracting the attention of various actors seeking to claim their stake. Furthermore, volatile oil prices leads to frequent economic shocks that has negative influences on budgetary discipline, public finance-control, and state planning, resulting in political instability and inadequate economic development (Kaldor et al, 2007: 13-14).

The consequence is rent-seeking competition at all levels of society, which undermines the integrity of the state and tends to pull the country into a 'rent-seeking cycle' (table 1). When oil production is still nascent, some states will introduce appropriate revenue management policies. However, in weak states oil rents will be claimed by a number of actors. At this point, the state will be able to provide relative political stability and economic development by restraining rent-seeking through repression and patronage. Nevertheless, as volatile oil prices make this impossible to sustain, the state will increasingly be challenged by non-state actors particularly in the areas of oil production (Kaldor et al, 2007: 25-28).

Faced with unrestrained rent-seeking by non-state actors the governing elite will abandon aspirations for economic development and will retain power simply for self-enrichment. Any sort of unifying national idea will be replaced by primordial loyalties. Intensive rent-seeking by a range of state and non-state actors will lead to violent rent-seeking competition. Unable to sustain a monopoly of violence the competition becomes dominated by militant non-state

actors. However, as oil extraction is dependent on state infrastructures, militants have vested interests in preventing complete state collapse (Kaldor et al, 2007: 29-31).

Table 1: The rent-seeking cycle

Phase	Actors	Type of state revenue	Policies	Form of politics	Type of conflict
State building	Great Powers	Non-oil taxation	Oil funds construc-tion of state infra-structure	Nationalist and ideological (left/right)	'Old oil wars'
Stabilisa-tion	Oil-producing state	Oil and non-oil taxation	Develop-ment and public goods, repressive apparatus	Nationalist and ideological	Frozen or offshore conflicts
Predation	Oil-producing state and non-state actors	Mainly oil revenues and 'forced donations'	Oil extraction and repression	Identity politics (ethnic, religious, tribal)	'New oil wars'
State failure	Mainly non-state actors	Very low	Terrorism and corruption	As above	As above

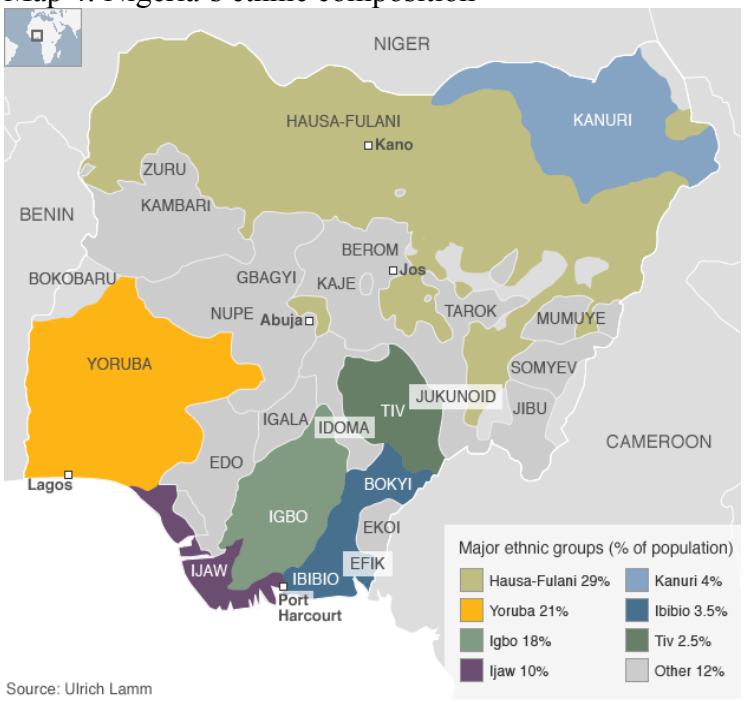
(Source: Kaldor et al, 2007: 26)

Kaldor et al. (2007: 24) suggests that declining oil prices reduce the state's capacity for patronage, leading to an increase in the conflict level. However, a quantitative study from Colombia showed that oil prices were positively correlated with armed conflict: when oil prices increased, militant attacks would also increase (Dube and Vargas, 2008: 24). The conclusion was that rises in oil prices would increase oil revenues to local administrative units, encouraging armed rent-seeking competition between militant non-state actors resulting in armed conflict (Dube and Vargas, 2008: 26-27).

6.2.1 Primordial Loyalties in the Niger-Delta

In the Niger-Delta, political mobilization has largely revolved around social structures based on primordial loyalties, such as ethnic-group, clan, and community. Nigeria has a population of about 160 million people divided into a number of ethnic-groups (map 4) of which Hausa-Fulani comprise 29%, Yoroba 21%, Igbo 18% and Ijaw 10%. The Hausa-Fulani are largely based in Northern Nigeria, the Yorobas are based in the South-West of Nigeria and the Igbos in the South-East Nigeria. The Ijaws are based in the South-South region where the Niger-Delta is located (BBC, 2012a).

Map 4: Nigeria's ethnic composition



(Source: BBC, 2012a)

In the Niger-Delta, communal identity is based on religious identity, ethnic kinship, clan structures, and extended families (communities). There are about 20 ethnic-groups, of which the Ijaw ethnic-group is the dominant followed by Itsekiri, Eteche, Urhobo, Efik, Ibibio, Ikwerre, Ogoni, Abua, and Ndokwa. Ethnic-groups are further sub-divided into clan-structures, with a number of different clans in the Niger-Delta (Ibaba, 2011a: 73; Orogun, 2010: 466).

The Niger-Delta is home to about 30 million people, divided into about 3,000 communities (Shell, 2012b). In SPDC's area of operation are about 1,200 communities (Francis et al., 2011 84). Each community is headed by a traditional chief responsible for managing communal assets like farm-land and fishing-grounds. The community will collectively protect political rights and physical security, often by employing community-militias (Francis et al., 2011 29, 31).

6.2.1.1 The Ethnic-groups

The Ogoni is a small ethnic-group of about 500,000 inhabiting a land of 404 square miles east of Port Harcourt in Rivers State (Okonta and Douglas, 2001: 75-76). In the early 1990s Ogoniland hosted 3% of SPDC's oil production, but currently hosts no such production (Amunwa and Mikio, 2011: 16). The very raison d'être of MOSOP is to serve the interests of the Ogoni ethnic-group (Nodland and Hjellestad, 2007: 12).

The Ijaw (alt. Ijo or Izon) is the largest ethnic-group in the Niger-Delta with over 15 million people spread over six States (Akwa-Ibom, Bayelsa, Delta, Rivers and Ondo) (Ibaba, 2011a: 73). The Ijaws are minorities in every State except Bayelsa. Ijawland account for 75% of Nigeria's onshore oil production and 90% of the offshore production (Ibaba, 2011a: 73).

Advocacy groups like INC and IYC, as well as militias like the Bush-Boys, Egbesu-Boys, NDPVF, FNDIC, and MEND all have a strong agenda of Ijaw ethnic nationalism (Hazen and Horner, 2007: 109, 123, 127; Ukiwo, 2007: 599-602). In order to gain legitimacy in Ijaw communities, MEND has tapped into Ijaw traditional beliefs and the sense of collective grievances (Obi, 2010: 230). Many of the MEND militants believe in the Ijaw riverine-deity Egbesu, which is believed to be able to protect militants from physical harm (Nodland and Hjellestad, 2007: 17). Ijaw militants will often front the symbol of Egbesu through white for peace and red for the fighting spirit (Peel, 2009: 183). Although MEND often fronts Ijaw rhetoric, it does not seem to be fostering an Ijaw-identity in its propaganda operations or promote Ijaw interests versus other ethnic-groups (Zelinka, 2008: 72-73).

6.2.1.2 The Clans

The Gbaramatu clan (ethnic Ijaw) is composed of 65,000 people organized into about 50 communities, situated along the Escravos River and adjoining creeks in Delta State with Oporoza as its capital. Chieftaincy rotates between eight ruling communities where a grand-chief (Pere) is elected by representatives of the Okerenkoko community (Courson, 2007: 3-5). Gbaramatu hosts SPDC and Chevron energy-infrastructure, producing about 400,000 bpd (Courson, 2007: 14). The Gbaramatu clan has been essential to many of the Ijaw ethnic-militias like Egbesu-Boys, FNDIC and a number of smaller militias (Courson, 2007: 25-28), as well as having a central place in MEND (Hazen and Horner, 2007: 123). MEND-commander Tompolo, is a Gbaramatu from the Okerenkoko community (BBC, 2009).

The Kalabari clan (ethnic Ijaw) is composed of about 400,000 people living in Rivers State. They are renowned for their entrepreneurship and aptitude. Traditionally the Kalabari clan is organized into a hierarchy of semi-autonomous corporative units under a grand-chief (Amayanabo) (Wariboko, 1999: 19-20). The units run on profit-based incentives and hierarchical mobilization is based on productiveness (Wariboko, 1999: 27-28). The Kalabari land stretches across Degema, Asari-Torlu, and Akuku-Torlu LGAs in Rivers State (Hazen and Horner, 2007: 131).

Both NDPVF and NDSF have their support-base in the Kalabari clan (Hazen and Horner, 2007: 128, 131). Dokubo-Asari is from the Kalabari clan, claiming to have gained chieftaincy and admitted to the highest Kalabari cult – the ‘Kalabari Ekini Society’ (Onoyume, 2007). Soboma George was also a Kalabari, with his Outlaws operating mainly in Kalabari territory (Hazen and Horner, 2007: 134).

The Nembe clan (ethnic Ijaw) is composed of about 100,000 people in Bayelsa State. Traditionally the Nembe have a rigid power hierarchy where a grand-chief (Amayanabo) rule over several communities headed by sub-chiefs, which are responsible for electing a grand-chief from the Mingi community. SPDC and Agip operate and produce about 150,000 bpd on Nembe land. Nembe also hosts Bonny and Brass oil terminals (Kemedi, 2005: 2-4).

6.2.2 Rent-Seeking in Nigeria

In Nigeria, certain characteristics of the oil economy encourages rent-seeking at all levels of society. Before oil production fully commenced, Nigeria was among Africa's top producers of peanuts, palm oil and cocoa, but by the 1970s oil production had nearly suffocated the agricultural sector (Arthur, 2006: 357). Today the oil industry makes up most of the Nigerian economy. The sector contributed 0.3% to Nigeria's GDP in 1960, by 1975 it contributed 19.3%, and in 2008 39% of the GDP. In 1960 oil exports contributed to 2.3% of Nigeria's total export, by 1975 it contributed to 92.6% and in 2008 99% of the total export (table 2) (Luqman and Lawal, 2011: 64-65).

Table 2: Oil and gas contributions to Nigeria's GDP and total export (million Naira)

Years	Total GDP	Oil and Gas contribution to GDP	% contribution of Oil and Gas to GDP	**Total Export**	**Oil and Gas Export**	**Oil & Gas Export as % of Total Export**
1960	2,233.0	7.0	0.3	339.4	8.8	2.3
1965	3,110.0	106.8	3.4	536.8	136.2	25.3
1970	5,281.1	489.6	9.2	885.7	509.6	57.5
1975	21,475.2	4,165.5	19.3	4,925.5	4,563.1	92.6
1980	49,632.3	14,137.4	28.4	14,186.7	13,632.3	96.0
1985	67,908.6	11,375.2	16.7	11,720.8	11,223.7	95.7
1990	267,550.0	100,223.4	37.4	109,886.1	106,626.5	97.0
1995	1,933,211.6	766,518.0	39.6	950,661.4	927,565.3	97.5
2000	4,582,127.3	2,186,682.5	47.7	1,945,723.3	1,920,900.4	98.7
2005	14,572,239.1	5,664,883.2	38.8	7,246,534.8	7,140,578.9	98.5
2006	18,564,594.7	6,982,935.4	37.6	7,324,680.5	7,191,085.6	98.1
2007	20,657,317.7	7,533,042.6	36.4	8,120,147.9	7,950438.3	97.9
2008	23,842,170.7	9,299,524.8	39.0	9,774,610.9	9,680,194.2	99.0

(Source: Luqman and Lawal, 2011: 64-65)

The Nigerian state is an archetypical 'rentier-state' as it is completely dependent on oil revenues. Oil revenues contributed nothing to the national revenue in 1961 and only 26.1% in 1970, however due to rises in oil price and the Nigerian government's ability in negotiating favourable tax regimes, oil revenues became a massive source of income and contributed 77.4% to the national revenue in 1975 and increased to 82.9% by 2008 (table 3) (Luqman and Lawal, 2011: 66-67). We have found that this has led to rent-seeking both within state institutions (including the oil sector) and outside these institutions.

Table 3: The contribution of oil revenues to Nigeria's national revenue (million Naira)

Year	Total Federally Collected Revenue	Oil Revenue	Non-Oil Revenue	% of Oil Revenue in Total Revenue
1961	223.65	0.00	223.65	0
1965	654.34	0.00	654.34	0
1970	634.00	166.00	467.40	26.1
1975	5,514.70	4,271.50	1,243.20	77.4
1980	15,223.50	12,353.30	2,880.20	81.1
1985	15,050.40	10,923.70	4,126.70	72.5
1990	98,102.40	71,887.10	26,215.30	73.2
1995	459,987.30	324,547.60	135,439.70	70.5
2000	1,906,159.70	1,591,675.80	314,483.90	83.5
2005	5,547,500.00	4,762,400.00	785,100.00	85.8
2006	5,965,101.90	5,287,566.90	677,535.00	88.6
2007	5,715,600.00	4,462,910.00	1,200,800.00	78.0
2008	7,868,590.10	6,530,630.10	1,335,960.00	82.9

(Source: Luqman and Lawal, 2011: 66-67)

6.2.2.1 Institutional Rent-Seeking

In Nigeria, access to state institutions encourages *institutional rent-seeking*. As primordial loyalties weigh heavier than the responsibilities of public office, neo-patrimonialism tends to determine the behaviour of public officials more than their institutional roles. Once an individual reaches key public position, ethnic/community kinsmen will put immense pressures on him to provide them with patronage through a range of services and benefits (Agbiboa, 2011).

The Nigerian political-elite has therefore developed into a constellation of ethnic/community-patrons that compete for a slice of the 'national cake' (i.e. public resources) for themselves, for clients in their patronage-networks, and for their ethnic/community kinsmen. During political positioning and elections, these patrons will rely on patronage-networks for ethnic/community mobilization in their support. Subsequently, as elected officials will form policies that channels the bulk of public resources to clients and ethnic/community kinsmen, democratic elections at all administrative levels play out as zero-sum games where the winner takes it all (Francis et al., 2011: 37; Ikpe, 2009: 682-683).

Rent-Seeking in Oil Revenue Management

Oil revenue management is the process by which *oil revenues* are collected, politically administered, shared among different administrative divisions, and utilized through public expenditures (McPherson, 2005: 469-471). The 1999 Nigerian Constitution, section 44 (3)

grants Federal-government ownership and control over all oil and gas resources in Nigeria, and the authority to manage revenues as prescribed by the legislative National Assembly (NA) (Iledare and Suberu, 2010: 2). Given the state's legislative and executive roles, laws and policies will tend to facilitate rent-seeking by the political-elites (Omeje, 2006a: 49).

The federal political system primarily functions as a device for the allocation of centrally collected oil revenues (Francis et al., 2011: 27). Since 2004, revenues have been deposited into a 'Distributive Pool Account' (DPA) on the basis of estimated oil prices. The balance from actual oil prices, are deposited into an 'Excess Crude Account' (ECA). From the DPA 13% is set aside as derivation for oil producing States, while the remainder is allocated between Federal-government (48.5%), State Governments (26.72%), Local Governments (LGAs) (20.6%), and centrally controlled special funds (4.18%), before being distributed according to certain parameters (Iledare and Suberu, 2010: 2-5).

The NA is largely an arena for ethnic competition between party factions. Politics resembles a bazaar where services and favours are exchanged in a bid for oil rents in the form of budget items, development allocations, official appointments etc. It is composed of patronage structures where politicians are incorporated into patronage-networks surrounding key patrons. Federal government has tended to manipulate these networks in order to wield influence in the NA (Lewis, 2010: 2-4).

In fact, the Nigerian state comprises a vast patronage-network, where the President holds a key position with substantial capacity for patronage (Stratfor, 2011e). As public office is obtained by bargaining with a network of patrons, State and LGA officials owe loyalty to regional political patrons, which in turn owe loyalty to patrons at the national-level. Any client that come into conflict with a patron, risks losing patronage and could be ousted from position (Stratfor, 2009d). Political patrons will often act as political 'godfathers' by sponsoring candidates during elections in return for favours and access to oil rents (Ikpe, 2009: 692).

Federal public expenditure budgets and public procurement is authorized and monitored by NA, though quite ineffectively. State public budgets are authorized and monitored by the 'State House of Assembly', but as Governors finance party colleagues in State Assembly, the

Governor holds a lot of sway. Budgeting in LGAs follow similar system, but with even less oversight (Gboyega et al, 2011: 32-33). As a result, the administrative divisions are all characterized by extensive rent-seeking, patronage, and misappropriation by political-elites (Otite, 2009: 163). Furthermore, budgets are supplemented by disbursements from the ECA, but due to lack of oversight and transparency the ECA functions largely as a 'slush fund' for misappropriation by government officials (Stratfor, 2012a).

As government officials are under tremendous pressure to reward clients and kinsmen, public expenditures tends to be dictated by patronage rather than policy (Francis et al., 2011: 31). It is therefore commonly perceived that having an ethnic kinsman in government is crucial to the provision of public utilities (like electricity, water, education, healthcare etc.) and benefits like procurement contracts (Ikpe, 2009: 648). In the 1980s, 'structural adjustment programmes' led to the privatization of public utilities providers, allowing the rentier-elites to access oil revenues by obtaining procurement contracts through front-companies. Such front-companies also facilitate patronage by awarding contracts to clients and employment opportunities to kinsmen (Anugwom, 2011: 212-213).

Financed by the special fund, the Oil Mineral Producing Areas Development Commission (OMPADEC) was established in 1992 to address the development issues of the Niger-Delta. However, OMPADEC seemed just another avenue for rent-seeking as officials were taking kickbacks on contracts and funnelling money through ghost companies and projects (Okonta and Douglas, 2001: 32-35). With the 1999 Constitution, OMPADEC was replaced with the Niger Delta Development Commission (NDDC) mandated to provide the Niger-Delta with public utilities. However, NDDC officials were being accused of misappropriation and giving procurement contracts to kinsmen (Francis et al., 2011: 74-76, 79).

Rent-Seeking in the Oil Industry

Laws and policies relating to the oil industry are among the most politicized in Nigeria's legal system (Omeje, 2006b: 212). Rent-seeking by the rentier-elites has largely been facilitated by economic nationalization and Nigerianization policies (Ukiwo, 2008: 79). The Nigerian Content Act (NCA) of 2010 is just one of the latest of a range of legislations facilitating rent-seeking through Nigerianization (Ovadia, 2011: 30-32).

NNPC was established in 1971 in response to calls by OPEC for members to acquire 51% stake in their oil sector. The Indigenization of Foreign Enterprises Decree in 1972 obliged foreign companies to conduct E&P operations in joint venture with NNPC (sharing operational costs), where NNPC were to hold majority shares (Omeje, 2006b: 218). This was meant to increase the state control of the oil industry and maximise revenues to the Nigerian government (Ibeanu and Luckham, 2007: 57). As a result the government currently takes 77.5% of the revenues generated by the oil industry (among the world's highest) (Ukiwo, 2008: 77).

Furthermore, Indigenization allowed political patrons to award key positions in the oil industry to their clients (Ikpe, 2009: 687). Subsequently, the NNCP has become infiltrated by a vast patronage-network (Stratfor, 2011e). NNPC officials will channel oil rents by embezzling funds from the Joint Venture Cash Call Account which covers operational costs; by misappropriating incoming revenues into foreign shadow-accounts; and by unauthorized production and sales ('topping-off') of oil in excess of the OPEC quota. Topping-off has also been conducted by 'Department of Petroleum Resources' (DPR) officials when supervising oil sales at marine terminals. These are believed to get away by paying off politicians (Emewu, 2008).

Paradoxically Nigeria imports the majority of refined oil products which are sold at government subsidised price. Distributors will import oil at market price and sell at subsidised price, before collecting reimbursement for the difference by NNPC. However, importers will often buy refined products at subsidised price and 'reimport' it to again collect the subsidy reimbursement. Licenses to import are annually awarded by NNCP (Gillies, 2009). This has facilitated rent-seeking by allowing the rentier-elites to form an import-cartel (Stratfor, 2012a).

Furthermore, Indigenization required foreign oil companies to replace expatriate personnel with Nigerians. Currently about 90% of managerial and technical personnel in foreign oil companies are Nigerians. This has allowed the rentier-elites to grant prized positions to clients in their patronage-networks (Omeje, 2006b: 219). This tendency has ben further reinforced by the NCA, as it stipulates a maximum of 5% of expatriates in management positions (Ovadia, 2011: 7).

The Land Use Act of 1979 (LUA-79) allowed Governors to expropriate any private land in his State and grant it to any private party. As Section 27 of the LUA-79 prevents legal oversight, land allocation has largely facilitated patronage (Omeje, 2006b: 220-222). Since the introduction of Production Sharing Contracts (operational costs are covered by the oil company) in 1999, licenses to oil blocks have been awarded through bidding-rounds conducted by the DPR (Gillies, 2009). However, this has allowed the rentier-elites to access oil rent by being awarded licenses through front-companies (Omeje, 2006b: 219). This tendency has been reinforced by the NCA as Nigerian E&P companies are given first consideration in the bidding-rounds (Ovadia, 2011: 7).

The policy of 'national content' in the oil industry has been solidified in the NCA, as it requires foreign oil companies to outsource services to Nigerian upstream-support subcontractors. This has been justified as causing spill-over effects to other economic sectors (Ovadia, 2011: 7-8, 12). Consequently, in 2011 SPDC awarded 68% of its contracts to Nigerian companies (Shell, 2012d). However, this has facilitated rent-seeking and patronage by allowing rentier-elites with industry experience to channel funds through front companies in the upstream-support sector (Ovadia, 2011: 2-3).

6.2.2.2 Extra-Institutional Rent-Seeking

In the Niger-Delta, the absence of opportunities for traditional livelihoods or employment has encouraged *extra-institutional rent-seeking*. The oil industry has had a detrimental impact on the natural environment in the Niger-Delta. An estimation of 546 million gallons of oil has annually poured into the natural environment throughout the years of production. Oil spills and gas flaring has directly impacted the livelihoods of local communities, as 60%-100% of the income of the poorest half is generated through environmental resources like fisheries and agriculture. The adverse effects on traditional livelihoods has not been replaced by employment opportunities in the oil industry (Francis et al., 2011: 38-42)

The oil industry provides employment to less than 0.15% of the Nigerian work-force (Ovadia, 2011: 4). Lacking the required technical skills, most employment opportunities have gone to expatriates or Nigerians from outside the Niger-Delta (Idemudia, 2010: 838). As the industry is highly capital intensive, it creates little opportunity for local unskilled labour. As a result,

unemployment and underemployment rates are higher in the core oil producing States than the rest of Nigeria. Consequently, people in the local communities of the Niger-Delta have found other avenues of generating an income (Francis et al., 2011: 29-30).

Rent-Seeking through 'Host-Community' Status

Local communities in the Niger-Delta have tended to approach the oil companies directly (often quite assertively) as an avenue for rent-seeking (Ukiwo, 2008: 82). Oil companies are perceived as a major source of oil rent, as they administer the designation of 'host community' to local communities within their area of operation (Orogun, 2010: 493). 'Host-communities' are the communities which hosts energy-infrastructure or are environmentally affected by operations (Akpan, 2010: 070). This entitles communities able to lay claim to land on which E&P operations are conducted, to certain provisions like contracts, employment and compensation (Francis et al., 2011: 34).

Where government has neglected responsibilities, oil companies have often been persuaded into in providing host-communities with public utilities through 'Corporate Social Responsibility' (CSR) initiatives or part of 'Memoranda of Understanding' (MoU) (Francis et al., 2011: 83-86). However, this has encouraged rent-seeking by community leaders by misappropriating development funds. For example, local leaders from the Ugborodo-community misappropriated funds given by Chevron for community development (Otite, 2009: 166). Furthermore, giving host-communities reparations for environmental damage has encouraged rent-seeking through enlarging oil spills, preventing clean-up for remediation contracts, or cash compensation (Francis et al., 2011: 41).

Companies have also signed 'security/surveillance' contracts with host communities (or armed groups) for the provision of security in exchange for oil rent. However, as community youth often began disrupting operations as a way of extorting oil rent, companies were induced to offer 'stay-at-home' payments (Omeje, 2006a: 90-91). Rather than giving them employment opportunities, companies began giving 'ghost-contracts' and 'standby-employment' to pacify community youth (Ikelegbe, 2005: 225).

Rent-Seeking through Criminal Activity

Systems-disruptions like kidnapping, piracy and bunkering has not only provided armed groups with tactical leverage for political objectives, it has also facilitated rent-seeking by looting and extorting the oil industry in a politico-criminal symbiosis (Giroux, 2010: 48-50). As the oil industry has largely crippled the fishing-economy through pollution, but also induced abundant shipping traffic and a range of offshore energy-infrastructure, it has essentially encouraged piracy as ships and offshore energy-infrastructure will be robbed or seized for ransom by unemployed fishermen (Whiteneck, 2011: 31-33). Pirates will also siphon off oil from tankers. Initially piracy was a subsistence trade but has over the past year become a growing industry, involving the facilitation by oil industry insiders and political elites (Hansen and Stefen, 2011).

The presence of oil personnel and a concentration of wealthy people in an otherwise impoverished Niger-Delta have encouraged kidnappings for ransom. Initially kidnappings were almost exclusively a militant tactic to publicize political objectives, but ransom became introduced to finance the militancy. Around 2007 kidnapping had become a profitable industry involving the facilitation of political elites. These would also hire cults to kidnap political opponents. The kidnapping industry have also had spill-over effects to lower levels of society, as unemployed youths will target anybody able to muster a ransom (Akpan, 2010a: 38-40).

Nevertheless, the largest criminal industry involves bunkering. Unemployment combined with the presence of a myriad of pipelines and well-heads, in addition to an oil hungry black-market, has encouraged bunkering by tapping into pipeline or well-head to draw oil. This is transported to refineries and sold at the black-market (Asuni, 2009b: 4-5). The bunkering industry has become a multibillion dollar industry involving local communities and armed groups, as well as the facilitation of military officers, political elites, oil company insiders, and international syndicates (Asuni, 2009b: 5-6). Initially armed groups were limited to provide security for bunkering operations, but later became primary stakeholders in the industry (Ibaba and Ikelegbe, 2010: 230). Bunkering is currently the main source of funding for armed groups (Osaghae et al, 2011: 26). By conducting systems-disruptions they have managed to increase oil-prices to maximise returns on black-market oil (Robb, 2007a: 128).

6.2.3 Rent-Seeking Conflict in the Niger-Delta

These enormous rent-seeking opportunities make oil economies like the Nigerian, exceedingly prone to conflict as actors compete to control the access to oil rents (Ikelegbe, 2005: 216). The proliferation of arms has often led such rent-seeking competitions to be contested violently (Francis et al., 2011 49).

Such violent rent-seeking competitions have materialized at both the local and national levels. The local level involves dynamics confined to the area of operation and will to a large extent encompass the operations influence and interactions with its host environment. At the national level this interaction is less important (McKellar, 2010: 72-73), as it largely involves dynamics related to the political system and internal conflict in the country as whole (Brink, 2004: 38).

6.2.3.1 Rent-Seeking Conflict at the Local Level

At the local level, conflict risk-events to SPDC's E&P operations in the Niger-Delta are the product of competition for control over access to oil rents between local communities and the oil companies; within communities; between communities; between local ethnic-groups; and between armed groups.

Conflict between communities and oil companies

Since the 1980s many local communities have been quite assertive in the pursuit of benefits related to 'host-community' status. These have used strategies like community protest and occupying or sabotaging energy-infrastructures, as a way of levying oil rent off companies in the form of employment, reparations, security and procurement contracts, and MoUs or CSR initiatives giving public utilities and scholarships etc (Ikelegbe, 2005: 217). As can be seen in the table below (table 4), SPDC regularly experience such conflicts. Most recently, in April 2012 the Nembe Island community blocked SPDC personnel from reaching oil rigs in demand for electricity, water and schools (BBC, 2012b).

Table 4: Selected incidents of community action to levy oil rents form companies (2002-2003)

S/N	Incidents/ Time	MNC	Community/ Youth Group/ Ethnic Group/State	Demands
1	Invasion of Qua Iboe Terminal, Seizure of 3 Vessels, Production Disruption/April 2000	Exxon Mobil	Community Youths/Ibeno Community/Aqua Ibom State	Electricity
2	Occupation of Shell Rigs at Tunu & Opukulli, 165 staff held hostage/July–August 2000	Shell	Militant Youths of Egbema, Agalabiri & Agbichiama Communities/ Bayelsa State	Jobs
3	Stoppage of work on Gas Project, Shut down of 5 flow stations/ January 2001	Shell	Youths of Odidi/ Delta State	Facilities, registration of indigenous contractors
4	Seizure of Shell Housing Estate, Kolo Creek Camp/February 2001	Shell	Youths of Otuasega/ Bayelsa State	Employment, scholarships and environmental compensation
5	Sealing off of Off shore Oil rig, Hostage of 88 workers/April 2002	Chevron/ Texaco	Ilaje Youths/ Ondo State	Employment
6	Occupation of Etobele Flow stations/ May 2002	Shell	Ogboloma Youth Federation, Ijaw/ Bayelsa State	Employment, scholarships
7	Abduction of staff/ July 2003	Chevron Texaco	Egbema National Front, Youth/ Delta State	Development and empowerment
8	Invasion of premises/ August 2003	Oil Servicing co.	Itsekiri Community Youths/Delta State	Employment

(Source: Ikelegbe, 2005: 218)

However, as local communities became increasingly militant, community-militias were mobilized to threaten or systems-disrupt E&P operations in extortion for cash and conduct kidnappings of oil personnel for ransom (Ikelegbe, 2005: 217-218). Such actions have often been taken in collusion with oil company Community Liaison Officers (CLO), but most of the winnings will be retained by the CLOs and community chiefs often leaving little for the community at large (Kemedi, 2005: 14). In the 1990s an engineer with Elf, Nimi Barigha-Amage colluded with a chief in the Nembe clan to extort SPDC to make payments to the local (Kemedi, 2005: 6).

Conflict within communities

Such community rent-seeking has often produced armed intra-community conflict, as community leaders have misappropriated oil rents intended for the community at large or used it for patronage as means of gaining local power (Francis et al., 2011: 35). Furthermore, the implementation of 'security contracts' has tended to produce armed conflicts, as it alters

the internal balance of power. This has often caused factions within the community (such as local youths) to challenge the traditional leadership-structures. When such intra-communal conflicts have occurred, disaffected parties have often conducted systems-disruptions to undermine the adversary's arrangement with the oil companies (Omeje, 2006a: 92).

Acting under the guise of an advocacy group, Lionel Jonathan used oil rent provided by SPDC for the Nembe community to build himself up as a local patron in charge of the 'Isongo-foru' community-militia. SPDC would employ the Isongo-foru to provide security for their local operations. When the community-militia became excessively powerful, the antagonised traditional leadership formed the 'Agbara-foru', resulting in armed conflict between the two community-militias in late 1995. In response to SPDC favouring the Isongo-foru, the traditional leadership ordered systems-disruptions of SPDC energy-infrastructure in Nembe Creek (Kemedi, 2005: 6-9).

Conflict between communities

At the core of inter-community conflicts in the Niger-Delta is the issue of which communities should be considered 'host-community' and entitled to benefits. As land ownership is the decisive factor of 'host-community' status, competition between communities has tended to produce armed conflict over territorial disputes and the location of energy-infrastructure (Francis et al., 2011: 34-35). Ownership over land hosting E&P operations has also produced inter-community conflict over ownership over and access to bunkering-spots (Francis et al., 2011: 36; Shelley, 2005: 68-69).

Such inter-community territorial conflicts were further exacerbated by the LUA-79, as land expropriation would qualify communities to compensations, reparations for environmental degradation, and 'host-community' status (Omeje, 2006a: 42-43, 54, 61). As a result when OMPADEC was created, several communities clashed in armed conflicts in a scramble for oil rich land that would entitle them to compensations, reparations, 'host community' status, and development projects (Omeje, 2006a: 142).

In such rent-seeking competitions communities have mobilized community-militias, often financed by diverted development funds (Asuni, 2009a: 12). Oil companies will often employ community-militias for the protection of E&P operations through 'security contracts'.

However, as different communities will compete over 'security contracts' with oil companies it has a tendency to produce armed inter-community conflicts or systems-disruptions as communities will attempt undermine their rival community's 'security contract' by proving them unworthy (Watts, 2007: 651).

Given the state's function as a device for revenue allocation where political representation equals access to oil revenues, democratization created a political space where communities have been pitted against each other in rent-seeking competition often resulting in armed conflict (Hazen and Horner, 2007: 10). The distribution formula that exists at a Federal-level is non-existent at State-level, where State-government controls how revenues are allocated between the LGAs. The core issue therefore becomes which community should to be considered 'oil producing communities' and entitled to additional revenue allocations through their LGA (Akpan, 2010: 071).

A longstanding armed conflict was caused by conflicting claims by the Soku and Elem-Sangama communities of the Kalabari clan, and the Oluasiri community of the Nembe clan, over territory and subsequent designation of 'host community' to SPDC's 'Soku Gas Plant' (and subsequent bunkering 'rights') (Francis et al., 2011: 36). When Bayelsa State was created in 1996 it drew a boundary between the Kalabari and he Nembe clans, however this did not remove the cause of the conflict which was amplified by conflicting territorial claims by Bayelsa and Rivers State-governments (Zalik, 2011: 194). It is therefore not unthinkable that these State-governments have fought the conflict out in proxy through the Kalabari and Nembe clans.

Conflict between ethnic-groups

At the core of inter-ethnic armed conflicts in the Niger-Delta is the issue of perceived political domination and marginalization of different ethnic-groups (Ibaba and Ikelegbe, 2010: 232). In the late 1990s inter-ethnic conflicts attracted Ijaws from across the Niger-Delta in support of marginalized kinsmen, resulting in the creation of ethnic-militias like FNDIC, NDPVF and the Egbesu-Boys (Ukiwo, 2007: 601-602). Warri has been particularly subject to such inter-ethnic conflicts as it hosts a substantial part of Nigeria's oil production, but is also home to competing ethnic-groups such as Ijaws, Urhobos and Itsekiris. As LGAs in Warri have

traditionally been politically dominated by Itsekiris, Ijaws have felt a sense of marginalization (Courson, 2007: 7-8).

As positions in the oil industry are among the best paid jobs in Nigeria (a single employee will be able to support ten to fifteen family members) (Idemudia, 2010: 837), ethnic-groups have come into conflict over employment opportunities and upstream-support contracts (Asuni, 2009a: 11). A contributing factor to the Ijaw-Itsekiri conflicts in Warri was that as the traditional Itsekiri chief (Olu) of Warri owned the company that recruited for Chevron, he was perceived by Ijaws as using his official position to secure employment and contracts in the oil industry for his own kinsmen (Ukiwo, 2007: 596).

As LGAs are entitled to revenue allocations, inter-ethnic competition over the creation of LGAs has tended to produce inter-ethnic armed conflict. The location of LGA headquarters have been a particularly contentious issue, as it involves infrastructure, amenities, and employment opportunities (Ibaba and Ikelegbe, 2010: 232). In 1997 armed conflict between Ijaws and Itsekiris erupted in Warri, as the headquarters of an Ijaw LGA was to be located in an Itsekiri town. This resulted in the blockades of several SPDC energy-infrastructures (Francis et al., 2011: 26).

As political positions functions as platforms for rent-seeking and patronage, where officeholders will channel oil revenues to his own ethnic-group, elections for Federal-, State-, and Local Government (which are held simultaneously) have been characterized by zero-sum inter-ethnic competitions often erupting in armed conflict (Hazen and Horner, 2007: 7). In 1999, ethnic conflict between Ijaws and Itsekiris was triggered by the election of James Ibori as Governor of Delta State, as he supported a bill that would grant Ijaws of Warri their own LGA (Courson, 2007: 18).

Conflict between Armed Groups

With authority over massive revenues, Governorships in oil producing States give abundant opportunity for rent-seeking and patronage (Francis et al., 2011: 45). However, given the zero-sum disposition of government elections, political candidates has tended to employ armed groups as political-enforcers for the electoral competition, for candidatures within the political parties (Hazen and Horner, 2007: 7), and by ‘political godfathers’ to penalize

candidates for breaches of agreement (Ikpe, 2009: 692). As a consequence, (pre/post) election periods have become occurrences of electoral violence, as armed groups conduct kidnappings, assassinations, and clash in support of their political patron (Hazen and Horner, 2007: 59).

Governors will allegedly finance political-enforcement through a budget item called the 'security vote'. This item is intended for maintaining security and constitutes one of the largest revenue allocations in the national budget, but State-governments are not obliged to report on how it is utilized (Hazen and Horner, 2007: 89). Political-enforcement will also be financed by bunkering profits and kidnapping ransoms (Stratfor, 2009g).

During the 2003 election, incumbent Governor Peter Odili employed both the NDVS and NDPVF to enforce his re-election in Rivers State (Hazen and Horner, 2007: 77). Competing for the Rivers Governorship in 2007, Celestine Omehia employed the Outlaws against Rotimi Amaechi who in response employed Deebam (Stratfor, 2009c). In 2005 armed conflict erupted in Ogoniland, as two contesting candidates, Kenneth Bie Kobani and Pidomson, employed Deebam and Deewell as political-enforcers during the PDP primaries (AC, 2011a).

Extra-institutional rent-seeking competition for the control of bunkering territory and transportation routes, has also resulted in such armed conflicts (Osaghae et al., 2011: 26). Furthermore, armed groups have helped communities into forming community-militias and manipulating inter-community conflicts in order to create an environment of insecurity in which they can conduct bunkering activities unhindered (Asuni, 2009a: 11-12).

Between 2003 and 2004 the NDPVF and the NDVS supported by their respective allies, clashed in armed conflict over stakes in the bunkering industry. The conflict zone was in and around Okirika, the site of extensive SPDC energy-infrastructures (Osaghae et al., 2011: 26). Okirika has been characterized as the 'epicenter of bunkering' (Hazen and Horner, 2007: 121), and has consequently been host to a widespread armed conflict between NDVS and the Bush-Boys (supported by NDPVF) (Hazen and Horner, 2007: 111).

6.2.3.2 Rent-Seeking Conflict at the National Level

Despite widespread armed conflict in the at the local level, it is the competition for control over access to oil rents between ethno-religious groups at the national level that has produced the most damaging conflict risk-events for SPDC's E&P operations in the Niger-Delta.

Ethno-religious competition for oil revenues

As the control over central government is characterized by an intense ethnic competition, ethnic-patrons will mobilize kinsmen through patronage-networks (Ikpe, 2009: 694). They will employ ethnic advocacy groups and militias outside mainstream political channels, utilizing the media to their advantage by playing on traditional beliefs and collective grievances (Obi, 2010: 227). Such ethno-religious competitions have occurred both during civilian and military regimes, and has increased the potential for armed conflict often expressed in the form of military coups, ethno-religious conflict, agitation for new States/LGAs, secessionist movements etc (Ikpe, 2009: 694).

A prevalent fault line in Nigeria is between the North and the South; but the cleavage conceals more complex ethno-religious divisions that are extremely contentious due to the repercussions for political representation and allotment of public resources (Hazen and Horner, 2007: 18-21). The North is dominated by Muslims predominantly from the Hausa-Fulani ethnic-group, whereas the South is dominated by Christians predominantly from the Igbo ethnic-group in the South-East and the religiously mixed Yoroba ethnic-group in the South-West. In between the North and the South is a 'Middle-Belt Zone' mixed between Christians and Muslims (map 5) (Lewis, 2010: 5).

Map 5: Religious composition of Nigeria

(Source: Stratfor, 2010c)

The North/South fault line exists within most Nigerian state institutions (including the military) and involves an intense competition over public positions, power and national revenues (Bøås, 2012: 3). The ethno-religious allegiance of government officials is of crucial importance as, during both civilian and military government, these are perceived as patrons and representatives of their ethnic-group (Ikpe, 2009: 691). The distribution of political power along regional lines has reinforced the politization of ethnicity in the competition for oil revenues. In this competition the smaller ethnic minorities have tended to lose out against the ethnic majorities, dominating at regional and national levels (Obi, 2007: 114).

Given the state's principal function as a device for revenue allocation basic for public utilities, politics in Nigeria largely involves securing control over oil revenues (Francis et al., 2011: 1). As a result, under civilian rule the ethno-religious allegiance of political representatives has caused elections to play out as zero-sum games (Francis et al., 2011: 37; Ikpe, 2009: 682-683). Similarly, military coups in Nigeria have also played out as zero-sum games, where successful coups gives instant access to oil revenues and futile coups leads to execution (Okonta and Douglas, 2003: 37). The result has been five democratic elections and six military coups in a sort of Nigerian 'Game of Thrones' (table 5).

Table 5: Nigeria's Presidents

Years of rule	Name	Type of government	Ethnicity	Religion	Place of birth	Departure from government
1963–66	Nnamdi Azikiwe*	Civilian	Igbo	Christian	North-west (Niger)	Coup
1966	Johnson Aguiyi-Ironsi	Military	Igbo	Christian	South-east Abia)	Coup (killed)
1966–75	Yakubu Gowon	Military	Ngas	Christian	North central (Plateau)	Coup
1975–76	Murtala Muhammed	Military	Hausa	Muslim	North (Kano)	Attempted coup (killed)
1976–79	Olusegun Obasanjo	Military	Yoruba	Christian	South-west (Ogun)	Election
1979–83	Shehu Shagari	Civilian	Hausa-Fulani	Muslim	North (Sokoto)	Elected again in 1983, but elections considered fraudulent; coup
1984–85	Muhammadu Buhari	Military	Hausa-Fulani	Muslim	North (Katsina)	Coup
1985–93	Ibrahim Babangida	Military	Gwari	Muslim	North-west (Niger)	Forced to step down after nullifying democratic elections
1993	Ernest Adegunle Oladeinde Shonekan	Civilian	Yoruba	Christian	South-west (Lagos)	Coup
1993–98	Sani Abacha	Military	Kanuri	Muslim	North (Kano)	Died (heart attack)
1998–99	Abdulsalami Abubakar	Military	Gwari	Muslim	North-west (Niger)	Election
1999–2007	Olusegun Obasanjo	Civilian	Yoruba	Christian	South-west (Ogun)	Election
2007–	Umaru Yar'Adua	Civilian	Hausa-Fulani	Muslim	North (Katsina)	

* Nnamdi Azikiwe served as governor general from 1960 to 1963 before becoming president in 1963.
Sources: Based on BBC and Reuters news articles, and *Encyclopaedia Britannica Online* (2007)

(Source: Hazen and Horner, 2007: 8)

The British colonial administration established a decentralized state structure, resulting in a Northern Region dominated by Hausa-Fulanis; a Western Region dominated by Yorobas; and an Eastern Region dominated by the Igbos. At the national level, competition for government representation contributed to ethno-religious conflict between the majorities. At the Regional level competition over public resources contributed ethnic conflict between the majority and the minorities (Ikpe, 2009: 686).

In government Hausa-Fulani dominated Northern Peoples Congress had by the early 1960s begun distributing a disproportionate share of revenues to Northern Nigeria. In 1966 this triggered a military coup and General Aguiyi-Ironsi (Southern/Igbo) was installed as head of state (Lewis, 2010: 5; Omeje, 2006b: 217; Okonta and Douglas, 2003: 17). Fearing the Igbos might seize the Niger-Delta oil fields, Adaka-Boro and his Niger Delta People's Volunteer Force instigated an Ijaw armed insurgency for a local autonomous 'Niger-Delta Republic', but was quashed after only 12 days (Obi, 2007: 118).

In July 1966 a counter-coup was conducted and General Yakubu Gowon (Northern/Ngas) was installed as President. Although a Christian, he fervently believed in Northern primacy (Ikpe, 2009: 688-689). As Nigeria's four Regions were replaced with 12 States in 1967, the Niger-

Delta parted Igbo domination Eastern Region. At least partly in a claim to the oil fields, the Igbos led an armed secession for an independent Biafra (Obi, 2007: 115).

In 1975 General Murtala Muhammed (Northern/Hausa) deposed Gowon and reintroduced the disproportionate distribution of oil revenues to the North, and moved the capital from Lagos in the South to Abuja in the North. With his assassination, General Olusegun Obasanjo (Southern/Yoroba) stepped in as President. As oil revenues became increasingly centralized, the rent-seeking competition became elevated from State/LGA to Federal-government. With democratic transition ethnic competition became increasingly intense as Hausa-Fulani dominated National Party of Nigeria and Sehu Shagari took control (Ikpe, 2009: 687-689).

However, another military coup in 1983 instated General Muhammadu Buhari (Northern/Hausa-Fulani), but in 1985 he was ousted by General Ibrahim Babangida (Northern/Gwari) (Okonta and Douglas, 2003: 27-30). During Babangida's reign, his home state Niger experienced immense infrastructural development. He also neutralized political dissidence through a 'policy of settlement', where political opponents were paid-off and incorporated into his patronage-network (Ikpe, 2009: 690).

As democratizing forces became overwhelming, Babangida initiated a handover to civilian rule (Okonta and Douglas, 2003: 37). Nevertheless, when the 1993 election result showed that M.K.O Abiola (Southern/Yoroba) had won Babangida annulled the result (Ikpe, 2009: 690). Further pressure forced Babangida to form an interim national government and install Ernest Shonekan (Southern/Yoroba) as President, but soon General Sani Abacha (Northern/Kanuri) was installed after yet another military coup (Okonta and Douglas, 2003: 37).

As Abacha installed only members of the military junta into key public positions, a sense of political marginalization and resentment among the other ethnic-groups began to emerge. The removal of Admiral Madueke (Southern/Igbo) from the military government therefore triggered widespread ethnic agitation among the Igbos (Ikpe, 2009: 690-691). Similarly, the murder of Abiola by the Abacha-regime in 1998 led to the creation of the Yoroba ethnic-militia 'O'dua People's Congress' (OPC) and triggered ethno-religious conflict across Nigeria between Yoroba and Hausa-Fulanis (Ikpe, 2009: 694).

After Abacha's death, General Abdusalami Abubakar (Northern/Gwari) was installed. Abubakar initiated a transition to civilian rule and elections were held in May 1999 (Lewis, 2010: 9). Three major parties ran in the 1999 election: All Nigeria People's Party, Alliance for Democracy (AD) and People's Democratic Party (PDP). Breaking with past ethnic structures, these parties were multi-ethnic. In the 1999 election, PDP won 57% of the seats in NA, followed by 62% in 2003, and 73% in 2007 (table 6). As PDP gained political hegemony it transformed into a platform for rent-seeking competition between party factions (Lewis, 2010: 10-11), essentially aligned along the North/South fault line (Bøås, 2012: 3).

Table 6: Party representation in the National Assemblies

Assembly/Parties	Senate (109 Seats)	House of Representatives (360 Seats)
1999		
People's Democratic Party (PDP)	59	206
All People's Party (APP/ANPP)	29	74
Alliance for Democracy (AD)	20	68
Other	1	12
2003		
People's Democratic Party (PDP)	76	223
All Nigeria People's Party (ANPP)	27	96
Alliance for Democracy (AD)	6	34
Other	-	6
2007		
People's Democratic Party (PDP)	87	263
All Nigeria People's Party (ANPP)	14	63
Action Congress (AC)	6	30
Other	2	4

(Source: Lewis, 2010: 24)

The PDP elected Obasanjo as Presidential candidate, which was under his Presidency able to manipulate the patronage-structures to gain a hold of the PDP and Federal-government (Ikpe, 2009: 691). As this marked a power-shift to the South, political competition between North/South factions within the PDP intensified (Lewis, 2010: 14-15). Outside NA ethno-religious competition erupted in communal conflict between Hausas and Yorobas in Lagos in 2002, escalating with Hausa reprisals in the North and the involvement of OPC (Ikpe, 2009: 693-694).

North/South competition between PDP factions intensified as the Northern faction feared the 2007 election would completely deprive them of political power (Lewis, 2010: 15-16). A compromise was made with a 'rotation-system' (zoning) where the Presidency rotates two terms between the North and the South (and between the regions). As a result PDP nominated

Umaru Yar'Adua (Northern/Hausa-Fulani) as candidate. Despite fears, inter-communal conflict was restricted to contested areas (Hazen and Horner, 2007: 9).

Local Agitations for 'Resource Control'

Oil producing States have received a decreasing derivation as political elites continuously have centralized oil revenues with Federal-government to maximise their own share (Orogun, 2010: 486-487). Initially, these States received 100% of the oil revenues, but was reduced to 50% after independence, before gradually declining until the 1999 Constitution guaranteed them a 13% derivation (table 7) (Akpan, 2010b: 071). Policies like Indigenization, LUA-79, and the creation of NNPC, further centralized oil revenues (Omeje, 2006b: 218-222). Although this reduced tensions between ethnic majorities, it exacerbated tensions between majorities and the minorities, particularly in the Niger-Delta (Francis et al., 2011: 13).

Table 7: Revenue derivation to oil producing States

Period	Share of derivation
1960–1970	50 per cent
1970–1975	45 per cent
1975–1980	20 per cent
1980–1983	2 per cent
1984–1992	1,5 per cent
1992–2000	3 per cent
2000 to date	13 per cent

(Source: Ibaba and Ikelegbe, 2010: 236)

In the Niger-Delta, rent-seeking competition has been expressed through agitations for 'resource control' (Francis et al., 2011: 1). 'Resource control' refers to the local control of oil revenues; from increased derivation and participation in revenue management, to the complete local autonomy and control over the entire oil revenue management process (Ako, 2011: 42-44). However, 'resource control' has often been used to justify bunkering, as Dokubo-Asari has argued that "*…the oil belongs to us, we're not stealing it. It's the Nigerian state stealing our oil from us* (sited in Gboyega et al, 2011: 19).

Vastly expanding oil production combined with the 'Oil Boom' in the 1970s greatly increased oil revenues and raised the stakes of the rent-seeking competition. Consequently, by the late

1970s ethnic minorities in the Niger-Delta had begun to mobilize peaceful protest (Obi, 2009: 119). By the 1980s the fall in oil prices combined with the adverse socio-economic effects of structural adjustment policies, had led to demands for greater political representation in government and the creation of new States in the Niger-Delta (Obi, 2010: 226).

In 1990, MOSOP was established by Ken Saro-Wiwa and other Ogoni elites. The ethnic advocacy group made demands for 'resource control' in the 'Ogoni Bill Rights', stating that "*the right to the control and use of a fair proportion of Ogoni economic resources for Ogoni development* (Obi, 2010: 227)." Saro-Wiwa popularized the struggle and mobilized nearly the entire Ogoni ehnic-group. Furthermore, he internationalized the Ogoni plight by presenting the Bill to the UN (Omeje, 2006a: 141). By framing the struggle for 'resource control' in the context of environmental degradation, MOSOP linked up with transnational environmental advocacy networks (Soremkun, 2011: 107).

In 1992, MOSOP demanded that oil companies pay back $10 billion in royalties and compensation to the Ogonis. Demands were backed by enormous demonstrations and protests disrupting SPDC operations. As the Ogonis came increasingly under attack security forces protecting energy-infrastructure, SPDC was accused of providing security forces with arms, vessels, and finances causing massive reputational harm (Shelley, 2005: 66). As a result, MOSOP had managed to permanently stop SPDC's operations in Ogoniland (Courson, 2007: 12). However, this triggered extensive military repression of civilian Ogonis, culminating in the execution of Saro-Wiwa and eight other Ogoni leaders in November 1995 (Soremkun, 2011: 107-108).

In the Niger-Delta, the creation of States and LGAs is perceived as the only legal way to gain access to oil revenues (Courson, 2007: 26). Although being a major ethnic-group, the Ijaws were minorities across six States. In 1991, several Ijaw advocacy groups came together under the umbrella of INC in demands for Ijaw States, resulting in the creation of Bayelsa in 1996 (Courson, 2007: 21-22). Agitations for the creation of LGAs also led to armed conflict in Warri. Such agitations resulted in the creation of a range of clan-based ethnic-militias in the late 1990s, such as FNDIC and Egbesu-Boys (Courson, 2007: 27-28).

In 1998, the IYC in agitations for 'resource control' mobilized Ijaw youth from over 500 communities, 40 clans, and 25 different organizations at Kaiama (Bayelsa). Here they communally produced the 'Kaiama Declaration' stating that "*all land and natural resources (including mineral resources) within the Ijaw territory belong to Ijaw communities* (Courson, 2007: 23-24)". This was followed by 'Operation Climate Change', a non-violent protest aimed at shutting down energy-infrastructure. The government responded with military repression (with logistical support from Chevron), killing 50 activists on January 4th 1999 (Nodland and Hjellestad, 2007: 10).

Soon after transition to democracy Obasanjo deployed further troops, culminating with the attack on Odi town (Bayelsa) where over 2.000 civilians were killed in an effort to protect energy-infrastructure. This led to growing sentiments that Ijaw political objectives could not be met through democratic channels, and agitations for 'resource control' shifted from non-violence to violence as a number of militias emerged (Courson, 2011: 27-28). Nevertheless, the dialectical relationship between the government and the militants conceals complex forces, where alliances are built, destroyed, and reconstituted (Obi, 2009: 121).

From 'Resource Control' to Political-Enforcement

In the Niger-Delta, ethnic-militias in opposition to government have entered into practical patron-client relationships with ethnic-kin factions of the political elites, which are often allied to the very elites they are in conflict with (Obi, 2010: 227). National and local political patrons will employ ethnic-militants to demonstrate that they and their kinsmen warrant political representation in government. Militants will not only coerce voters and intimidate political rival, but will use systems-disruptions to coerce top-level political patrons in government into granting positions to their ethnic-patrons. Political campaigns will be financed by politico-criminal (Stratfor, 2009g).

In the run-up for the 1999 election, PDP functioned basically as a vehicle for gaining public position. INC-leader and local 'political godfather' Chief Edwin Kiagbodo Clark used this opportunity to influence the selection of political candidates. Clark had been a part of the patronage-networks of the national political elites since the mid-1970s and was a close ally to Obasanjo. In order to secure PDP the election, Clark employed the IYC as political-enforcers and financed the endeavour through bunkering. Subsequently, PDP swept the election and

installed governors such as James Ibori in Delta, Alamieyeseigha in Bayelsa, and Odili in Rivers (Stratfor, 2009a).

By 2001, rivalry had emerged between Clark (ethnic Ijaw) and Odili (ethnic Igbo). As Governor of Niger-Delta's richest State, Odili was able to use oil rent to finance extensive patronage which allowed him to remain in the political game by providing PDP-patrons with a 'cut of the action'. Odili also used the NDVS as political-enforcers to preserve his control of Rivers, and in return gave them free rein in the Rivers bunkering industry. In order to contain Odili and expand Ijaw control of Rivers, Clark employed Dokubo-Asari which formed the NDPVF as an ethnic-militia promoting Ijaw interests. The result was an armed conflict between NDPVF and NDVS in and around Port Harcourt in 2003 (Stratfor, 2009a).

By 2004 the situation had become so precarious, that Odili deployed State contingents of the military to join NDVS in the fight against the NDPVF. Unable to break the NDPVF, Odili pleaded with Federal-government for assistance (Stratfor, 2009a). The conflict polarized the armed groups and created fault-lines along inter-cult, inter-ethnic, and inter-community conflicts. The result was two blocs, where armed groups were allied either with NDPVF or NDVS (Hazen and Horner, 2007: 77-79).

In Warri, peaceful women's protests against Chevron were met by a military response, pushing Gbaramatu youths to occupy local energy-infrastructures. But as they were met with further military aggression they decided to turn to arms (Courson, 2007: 19). After four naval officers got killed, the military attacked Okerenkoko but was thwarted by community-militias. In response, the military allied with Itsekiri community-militas to attack Ijaw communities around Warri (Courson, 2007: 29-30). FNDIC claimed the military was deployed to perpetuate Itsekiri political dominance and declared war on the Federal-government and the oil companies (Ukiwo, 2007: 603).

Faced with threats to energy-infrastructure across the Niger-Delta, Federal-government drafted the three arms of the military in a combined 'joint task force' (JTF) and initiated campaign 'Operation Restore Hope' (Courson, 2011: 28). Faced with massive military front, Dokubo-Asari tuned to a strategy of attacking the Nigerian economy through systems-disruptions of energy-infrastructure (Courson, 2011: 29). Threats of all-out war on the oil

industry, Obasanjo decided to arrange a peace-meeting between Dokubo-Asari and Tom by giving compensations for amnesty and disarmament (Courson, 2007: 32-33).

Nevertheless, after the peace agreement NDPVF and NDVS began to fractionalize. Under government pressure Tom handed over his second-in-command Soboma George, but he managed to escape and went on to form the Outlaws. Furthermore, as Dokubo-Asari neglected to sufficiently share compensations, many of the antagonised militants split out of the NDPVF to form NDSF under Farah Dagogo. They argued that the reward should also go to rehabilitate the militias that had fought alongside NDPVF like Bush-Boys, Greenlander, and Deebam (Hazen and Horner, 2007: 130-133).

Political-Enforcement for the 2007 Election

In the Niger-Delta, the struggle for 'resource control' has largely been a collective effort involving not only advocacy groups and armed groups, but also regional political elites with Governors Alamieyeseigha and Ibori in the vanguard (Ako, 2011: 47). Under the National Constitutional Reform Conference Niger-Delta delegates demanded an increase in derivation to 50% within five years. Naturally, the offer of 17% was denied (Obi, 2009: 117).

In preparation for the 2007 election, fractional competition within the PDP intensified (Courson, 2011: 29-30). When Alamieyeseigha decided to ally with the Northern-faction, he was arrested on corruption claims and replaced by Goodluck Jonathan in late 2005 (Stratfor, 2009b). This was followed with the arrest of Ijaw banking magnate Chief Ebitimi Banigo and Dokubo-Asari within a few weeks. These arrests were largely perceived as an attack by Federal-government on the entire Ijaw ethnic-group (Courson, 2007: 33-34).

In this political environment Odili reckoned he could make a crack at the 2007 Vice-Presidency. However, as this would give Odili and the Igbos more power than the Ijaws could accept, Clark was forced to take action (Stratfor, 2009b). Although Clark no longer had Dokubo-Asari, he had his network. In the Tombia-axis were Dagogo and NDSF; in the Bayelsa-axis were bunkerer Ebikabowei Victor (aka. 'Boyloaf'); in the Warri area were Tompolo and FNDIC; in Rivers were George and the Outlaws; and providing the weapons was arms-dealer Henry Okah. Even though Odili had Tom and the NDVS; Clark now had MEND (Stratfor, 2009c).

Chief Clark had long had aspirations for a kinsman in the Presidency (Stratfor, 2009b). This is reflected in MEND's strategy of long-term institutional rent-seeking through ethnic representation in Federal-government, rather than short-term payoffs (Stratfor, 2009c). In order to show the Ijaws as a force to be reckoned with and undermine Obasanjo's bid for re-election, MEND initiated an intensive campaign of systems-disruptions intended to demonstrate the cost of having Obasanjo in power (Stratfor, 10/05/2007). Obasanjo reacted by calling for a total crackdown on militants and instructed JTF to use extreme force in protecting energy-infrastructure. In response MEND allied with NDPVF and COMA to form the JRC (Courson, 2007: 37-38).

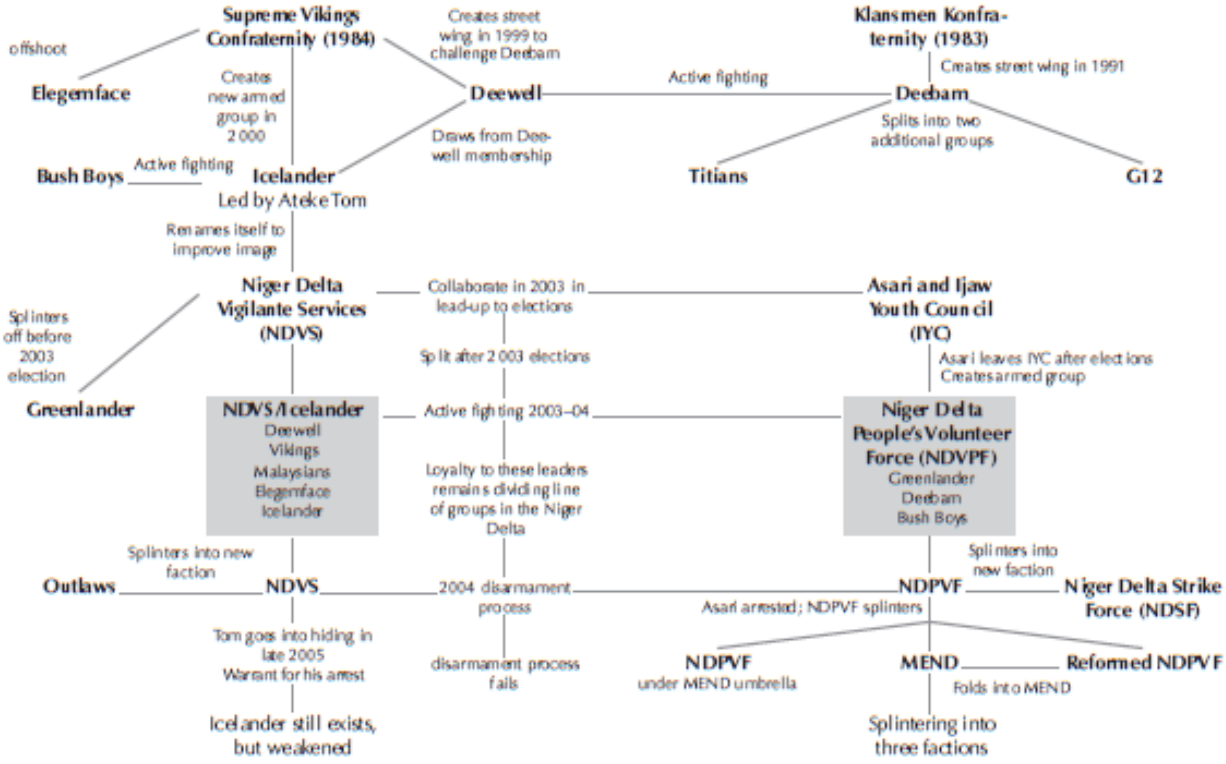
Despite Odili's financial flow to PDP-patrons, the harm inflicted by MEND on the Nigerian economy forced PDP to select Clark's 'Godson' Goodluck Jonathan as Vice-Presidential candidate. As Yar'Adua and Jonathan won the 2007 election, Ijaws finally had their man in Federal-government with direct influence over oil revenue management and access to significant patronage (Stratfor, 2009c). However, as a way to remind Jonathan who he owed his loyalty, MEND initiated a week of attacks after inauguration. MEND publicly exposed him as their political patron and warned that attacks would continue should he not provide them with sufficient income (Stratfor, 10/05/2007).

The 2007 election involved rotations in the hierarchy of power in Nigerian and Niger-Deltan politics: Obasanjo entered the role of supreme 'political godfather' as the PDP National Chairman; Ibori's cousin and also part of Clark's patronage-network Emmanuel Uduaghan stepped in as Governor of Delta; and under pressure from central PDP patrons Timipre Sylva stepped in as Governor of Bayelsa. Rivers Governorship had initially gone to Celestine Omehia, but after his political rival Rotimi Amaechi had filed an appeal, the Nigerian Supreme Court annulled Omehia's victory and emplaced Amaechi as Governor. Amaechi swore his loyalty to Clark which presumably had a hand in the belated victory (Stratfor, 2009c).

MEND had since March 2006 begun to show cracks and soon three factions emerged: Dagogo and the NDSF joined with George and the Outlaws to form 'Eastern-MEND' operating in Rivers; Boyloaf joined with Okah forming 'Central-MEND' operating in

Bayelsa; and managing to retain large parts of the original core, Tompolo and FNDIC formed 'Western-MEND' operating in Delta. Whereas the two former factions were operating largely for politico-criminal objectives, 'Western-MEND' remained relatively more devoted to the struggle for 'resource control' and the release of Dokubo-Asari and Alamieyeseigha (Asuni, 2009a: 19-20).

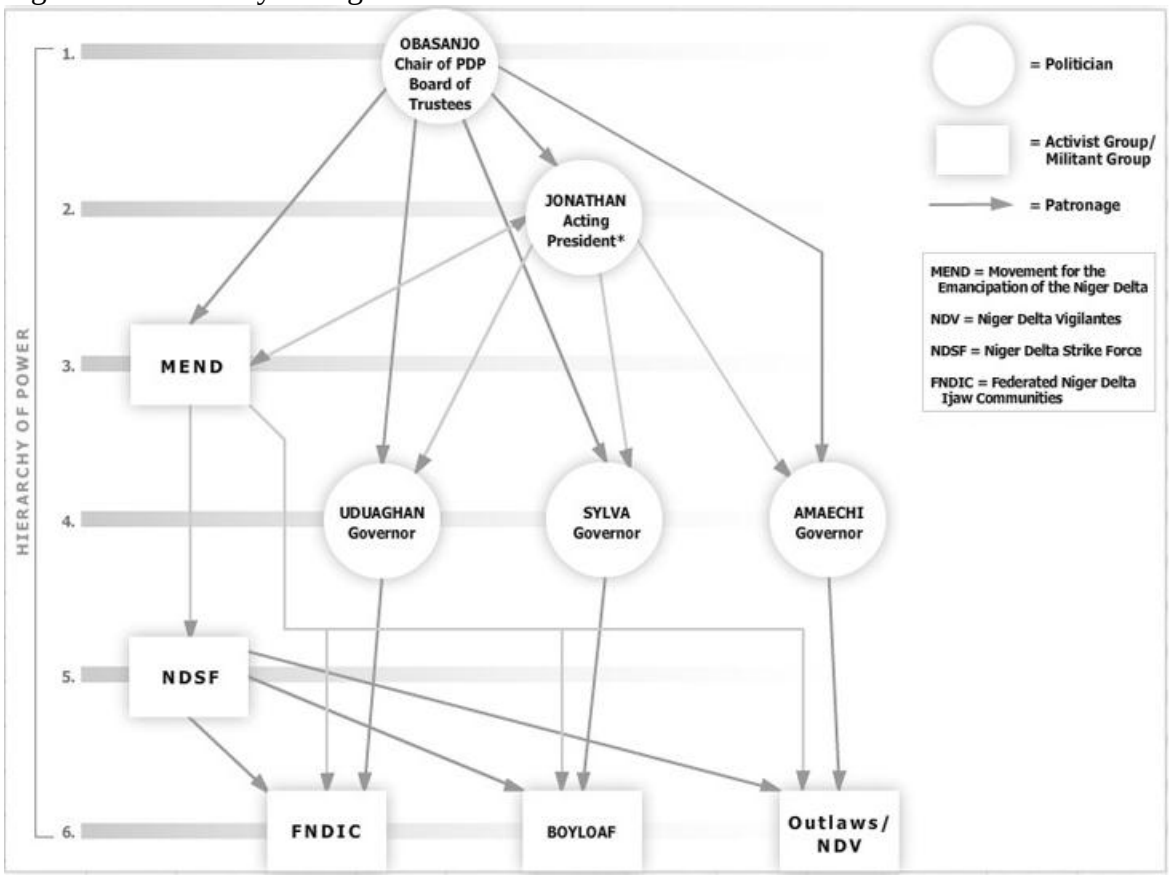
Figure 9: Evolution of armed groups in the Niger-Delta, 1983-2007



(Source: Hazen and Horner, 2007: 78)

After the 2007 election the armed groups in the Niger-Delta soon became incorporated into the patronage-networks of national and local PDP-patrons (figure 10), and employed as political-enforcers (Stratfor, 2010a). After inauguration Yar'Adua had released Dokubo-Asari, presumably to serve as a government proxy (Stratfor, 2009c). Udughan had set himself up as a political patron of 'Western-MEND' (FNDIC), paying Tompolo about N100 million per month (AC, 2009). In Bayelsa, Governor Sylva incorporated selected 'Central-MEND'-commanders into his patronage-network such as Boyloaf, Eris Paul and Africanus Ukparasia Tuwonwei (aka. 'General Africa') (AC, 2010a; Hansen and Steffen, 2011). Rivers Governor Amaechi incorporated 'Eastern-MEND' (Outlaws) and NDVS into his patronage-network (Stratfor, 22/04/2011).

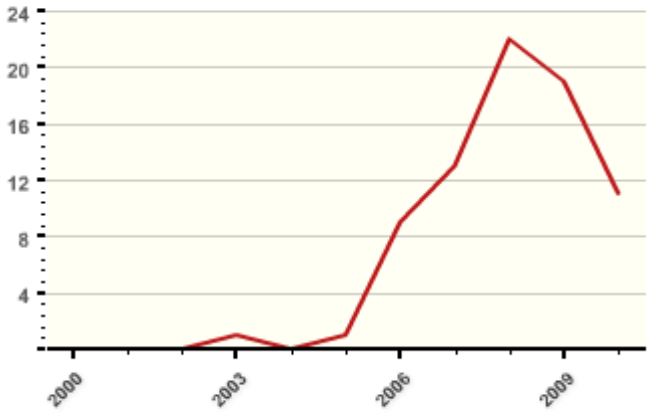
Figure 10: Hierarchy of Niger-Delta Politics after the 2007 Elections



(Source: Stratfor, 2010b)

Nevertheless, after Federal-government arrested Henry Okah in 2007, MEND initiated campaign 'Hurricane Barbarosa' and 'Hurricane Obama' by conducting systems-disruptions across the Niger-Delta (Courson, 2011: 34-35). The escalation of attacks (graph 4) cut Nigerian oil production by about 900,000 bpd (nearly 25% of total production) in 2008, helping to push oil prices above $145 bpd. Attacks at SPDC's infrastructure at Forcados cut production by 164,000 bpd and at EA field by 115,000 bpd. On June 19th MEND made an escalation of violence through the first significant attack on offshore infrastructure by attacking SPDC's Bonga platform, shutting production by 225,000 bpd (Daly, 2008).

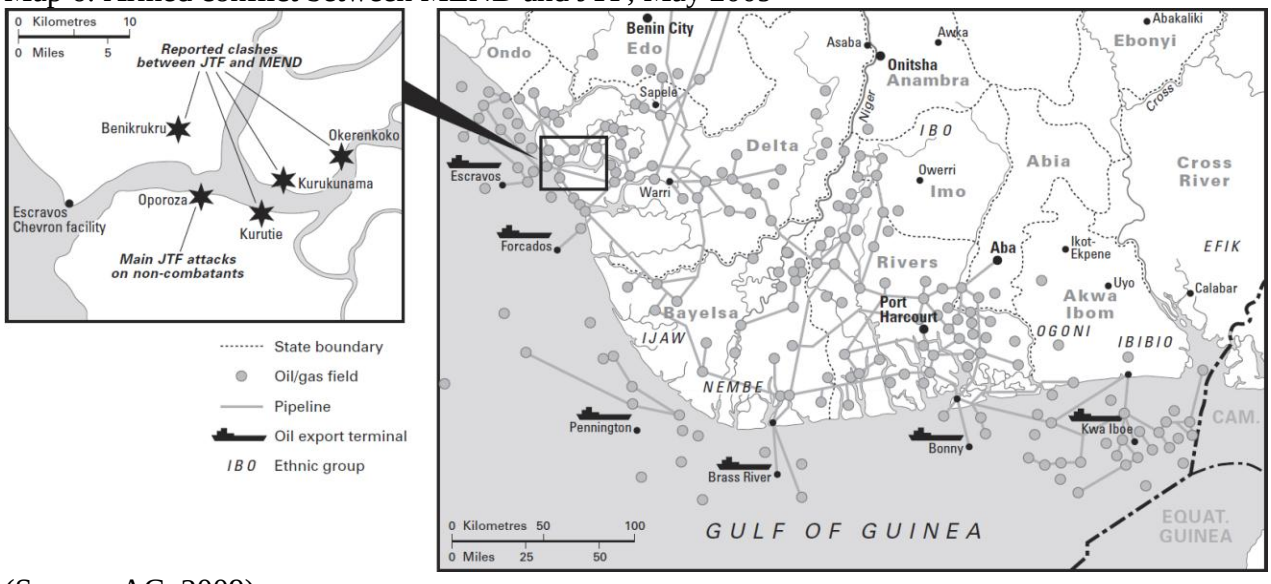
Graph 4: Militancy in the Niger-Delta 2000-2010



(START, 2011)

By early 2009 ‘Western-MEND’ remained the only highly active MEND faction with at least five bases in Gbaramatu territory, including the renowned ‘Camp 5’. After weeks of attacks on both military and energy-infrastructure targets, the government responded with a massive military mobilization in a hunt for Tompolo and ‘Western-MEND’ (map 6). MEND retaliated by considerable campaigns of systems-disruptions, cutting Nigeria’s oil production by 0.8 million bpd (AC, 2009; Courson, 2011: 35-36). It has been suggested that the real incentives behind the military attack was to was to subdue Udughan and ‘Western-MEND’ which were becoming too independent and powerful (Stratfor, 2009d).

Map 6: Armed conflict between MEND and JTF, May 2009



(Source: AC, 2009)

Amnesty and its Discontents

The increased level of violence forced Federal-government to initiate the Amnesty program in June 2009, where unconditional pardon was given in exchange for disarmament, demobilization and reintegration (DDR). The program came after negotiations between local political elites and militia leaders. It was accepted by some MEND-factions, but refused by others until the release of incarcerated militants such as Okah (Obi and Rustad, 2011: 203-204). The underlying agenda of the program was presumably to incorporate militants into the PDP patronage-network (Stratfor, 2009f), much like Babangida's 'policy of settlement'.

As of 2011, the program have been joined by 26,358 militants (Francis et al., 2011: 17), including Ateke Tom, Tompolo, Dagogo, and Boyloaf among others (Stratfor, 2009f). This freed up hundreds of thousands of barrels shut-in by systems-disruptions and allowed a resumption of oil production at 2 million bpd (Stratfor, 2010e). However, as most of the patronage accumulated with militia-commanders, disgruntled foot-soldiers abandoned camps or rioted (Obi and Rustad, 2011: 205). Henry Okah warned that no matter how many commanders accepted the Amnesty, there were others to take their place (Stratfor, 2010e). On March 15th 2010, 'Central-MEND' therefore conducted a bomb attack on the Amnesty talks in Warri (Stratfor, 2010d).

Disgruntled commanders in 'Western-MEND' went on to establish the 'Niger-Delta Liberation Force' (NDLF) in late 2010 (Stratfor, 2011a). NDLF was composed of anti-Amnesty militants under the leadership of John Togo, and based in the Ayakoromo community in Delta State. They became involved in bunkering and systems-disruptions, issuing threats under the name 'Mark Anthony' (Francis et al., 2011: 130). However, as JTF were ordered to attack any militia outside the patronage-networks of the political patrons in government, NDLF came under heavy military attack (Stratfor, 2010e).

The strategy largely incapacitated anti-Amnesty militia-commander, as Sobama George was killed in August 2010, Henry Okah was jailed in South-African in October (Stratfor, 2011c; Stratfor, 2011d), and John Togo was killed in May 2011 (Francis et al., 2011: 130). Despite the sporadic violence that continued into 2010 and 2011, it was nowhere near the levels between 2006 and 2009 (McNamee, 2012). However, by late 2010 many militants had

become disgruntled with Amnesty and turned to piracy to cut their financial losses (Hansen and Steffen, 2011).

Political Enforcement for the 2011 Elections

Although MEND has its origins in the agitations for Ijaw 'resource control', by 2010 most MEND-factions owed loyalty to a hierarchical patronage-network reaching PDP-factions at the national level. Despite their relative autonomy, they would be expected to operate as political-enforcers for top-level PDP-patrons (Stratfor, 2010a). As Lagos since 1999 have been firmly under AD control, with an annual GDP of about $34 billion and a State budget of about $2.7 billion, it is the most affluent State outside PDP control. When MEND on July 12th 2009 conducted a damaging attack on 'Atlas Cove' oil jetty in Lagos, it could be perceived as a PDP attempt to discourage AD before the 2011 State election through systems-disruptions (Stratfor, 2009e).

Given PDP's political predominance, government elections are basically determined in the PDP primaries. As Jonathan stepped in as President after Yar'Adua death, he had the 2011 Presidential election less than a year ahead (Stratfor, 2011b). The 2011 primaries were to be another competition between Southern and Northern PDP-factions, with Jonathan and Babangida as opposing candidates. When MEND claimed responsibility for a bomb-attack in Abuja during the Independence Day celebrations on October 1st, Henry Okah was re-arrested along with Raymond Dokpesi, Babangida's campaign manager. This is an indication that the attack was perpetrated by 'Central-MEND' as political-enforcement for the Northern PDP-faction (Stratfor, 2010d). The Northern-faction has also been suspected of engaging NDLF as a way of undermining Jonathan's Presidency (AC, 2010b).

In January 2011, Jonathan won an overwhelming victory in the PDP primaries (Stratfor, 2011b). However, as this disregarded the rotation-system, the Presidential election triggered ethno-religious communal conflict in Northern Nigeria (Francis et al., 2011: 60-61). Subsequently, since late 2011 Northern Nigeria has experienced increased violence by Muslim militia 'Boko-Haram', suggested to be acting as political-enforcers for Northern political patrons (Bøås, 2012: 2-4). 'Boko-Haram' is believed to have links with senior security officers associated with the Abacha-regime, such as Zakari Biu and Hamza al-Mustapha among others (AC, 2012a).

A New Rentier-Elite?

After becoming President, Jonathan has made efforts to further extend and reinforce his patronage-network in anticipation of the 2015 election. In 2012 Jonathan halved the popular fuel subsidy and freed up oil revenues to be spent on public utilities. This allows him to award public procurement contracts to his patronage-network, as a way of channeling oil rent away from the traditional rentier-elite to a new rentier-elite (Stratfor, 2012a). Logically it would also increase fuel demands and raise the price on bunkered oil, further contributing to the coffers of the Niger-Delta elite. The presence of ethnic-patronage became evident in the 2011 public expenditure budget, as the Niger-Delta was home to 86% of the public investment projects (Abdallah, 2011).

Jonathan has also made moves to reform the oil revenue management process by proposing a 'Petroleum Industry Bill' (PIB) that would free NNPC from public budgeting by privatizing it. However, this would give Jonathan the opportunity to award licenses and key positions in the industry to his patronage-network and shift the power base of the traditional rentier-elite (Stratfor, 2011e). Furthermore, the proposed replacement of the ECA with a 'Sovereign Wealth Fund' under Presidential control, would give Jonathan increased capacity for patronage and allow him to extend his control over States/LGAs (Stratfor, 2012a).

Jonathan has also made moves to reinforce his patronage-network by emplacing more loyal clients. By backing him in the PDP Bayelsa State primaries, Jonathan was able to replace Governor Sylva with more loyal Henry Seriake Dickson. Furthermore, Jonathan also used his influence to get his client Alhaji Bamanga Tukur elected as PDP National Chairman (AC, 2012b). Being a Northern Muslim, it has been suggested that the selection of Tukur was not only an effort to extend his control within the PDP, but also to neutralize Northern claims to the rotation-system for the 2015 election (Egburonu and Akowe, 2012).

Jonathan also seems to be bringing militants directly into his patronage-network and utilizing them as political-enforcers. Jonathan has sidestepped Governor Udughan by integrating Tompolo directly into his patronage-network through awarding him procurement contracts (AC, 2011b). Tompolo's company 'Messrs Global West Vessel Specialist Nigeria Limited' was recently awarded a N15 billion government contract (Yemoja News, 2012). Furthermore,

when popular protests broke out against the fuel-subsidy cut, Dokubo-Asari was employed to harass and threaten the labour-unions (SaharaReporters, 2012).

A Shift in Conflict Risk-Events?

Despite extending his control in the Niger-Delta, Jonathan still faces political and militant opposition. As the first attack since November 2010, anti-Amnesty MEND-factions resumed systems-disruptions by targeting a Bayelsa trunk-line. 'Jomo Gbomo' announced that "*rather than address serious issues facing the nation and its citizens, Goodluck Jonathan squanders public funds on tribalistic sycophants and thugs calling themselves ex-militants*". Nevertheless, as key commanders have been pacified by Amnesty, remaining MEND-factions are unable to conduct any well-organized campaigns (McNamee, 2012).

MEND also claimed responsibility for other attacks. In February 2012 a ship anchored outside Port-Harcourt was attacked and the crew kidnapped, and in March seaborne militants attacked a JTF convoy killing four soldiers outside Brass. Same day, four policemen were killed in Nembe, and two Eni pipelines blew up in Brass. However, these attacks were presumably conducted by a faction associated with pirate warlord Shedrack Itokofuwei (aka. 'Mammy Water') on orders from deposed Governor Sylva, which is determined to retain a role in Niger-Delta politics (AC, 2012a).

After being approached by militant clients frustrated with inadequacies of Amnesty, Clark reportedly felt that Jonathan had neglected the Ijaw cause resulting in a 'Cold War' between them (Ibrahim, 2012). Nevertheless on May 25th 2012, Clark declared his support for Jonathan in the 2015 Presidential elections, which could mean a reconstitution of MEND as political-enforcers in a campaign of systems-disruptions to coerce the PDP into re-electing Jonathan (Stratfor, 2012b).

Although the militancy in the Niger-Delta has dramatically reduced, Northern- and Middle-Nigeria is facing increasing ethno-religious conflict. This has not spread to the Niger-Delta, which is currently experiencing renewed stability. However, both piracy and bunkering is on the rise. A Shell official recently stated that "*Shell is probably losing more oil now than during the Delta insurgency* (sited in Giroux, 07/05/2012)." An estimated 43,000 bpd is being bunkered from SPDC operations (Shell, 14/05/2012).

6.3 Risk-Factors Causing Conflict Risk to E&P Operations

Exploring how we can best analyse political risk to E&P operations in areas of armed conflict we have found that basing the analysis on a causal variable representing the actors' choices and a causal variable representing the structural environment they're operating within, we were able to examine the conflict risk-events both as the outcome of the actors' strategies and as the product of the structural characteristics of the environment the actors are operating within.

Analyzing conflict risk-events as the outcome of the risk-actors' strategic choices we found that ethnic-militias and local communities target the national economy through systems-disruptions as part of a 4GW strategy. In the Niger-Delta, attacks on energy-infrastructure can be explained as a way of harming the national economy as a way of transmitting a 'message' to the oil companies and the Nigerian government that it is the locals that hosts the E&P operations in the Niger-Delta, and not the Federal-government.

Analyzing conflict risk-events as the product of the structural environment risk-actors are operating within, we found that economic structures combined with pre-modern social structures produced rent-seeking competition between social groups resulting in armed conflict. In Nigeria, the oil industry has created a 'resource curse' where the misappropriation of public resources, handouts from oil companies, and criminal activities has become primary ways of generating wealth. This has resulted in an intense competition for oil rent between communities, clans, and ethnic-groups at both the local and national level.

At the local level, risk-actors violently clash over access to oil rent or extort it off oil companies. At the national level, militants will coerce Federal-government to allow into kinsmen public positions as a way of securing the allocation of public resources. Basing the analysis on our causal model, the study will go on to examine the risk management strategies E&P companies use in order to manage conflict risk.

7 Risk Management

This chapter provides our analysis with an exploration of the effect of the strategies companies use to manage risk to E&P operations in areas of armed conflict, contributing with an influential exogenous variable. The last variable under analysis is the effect of risk management strategies. Political risk management (PRM) is the sum of the possible actions companies can take in order to keep the political risks involved with operations at a tolerable level (Brink, 2004: 149). PRM strategies are meant to translate the intelligence provided by the political risk analysis into action (McKellar, 2010: 118-119), and should therefore be tailored to the particularities surrounding the operation (Lax, 1981: 177).

7.1 Managing Political Risk

There are four broad categories of risk management strategies, which should be selected or combined on the basis of costs, benefits, effectiveness, and other relevant criteria. The first is to simply *avoid* the risk (Cortez, 2010: 140-141). Although, companies will often avoid or withdraw from the operating environment when faced with armed conflicts, E&P companies do not have the luxury of relocating as they are bound to operate where there are oil reserves and their assets are located (Maresca, 2004: 123-124).

The second is to *transfer* the risk to another company by using derivatives, outsourcing, or insuring, (Cortez, 2010: 142-143). By sharing financial losses with other stakeholders, risk is kept at a tolerable level. Derivatives are made by involving operation financiers or entering cost sharing contracts with the host-government, like a 'Production Sharing Contracts' (McKellar, 2010: 141-143). More common is obtaining political risk insurance like OPIC or MIGA (Brink, 2004: 163). However, most conflict risk insurance has very high premiums or very restrictive coverage (often not covering risk-events generated by non-state actors) (Crossin and Banfield, 2006: 15).

The third is to *reduce the impact* of risk by focusing on the consequences of potential risk-events (Cortez, 2010: 144). This can be done by developing contingency- and business continuity plans (Bremmer and Keat, 2009: 194). These are preparation plans contingent on particular risk-events materializing, such as 'Hazardous Environment Awareness Training'

(HEAT) (McKellar, 2010: 120, 131). However, such strategies are *reactive* emphasizing damage-control. Political risks tend to be much easier to handle before they materialize. In risk management "…an ounce of prevention is certainly worth a pound of cure (Zonis and Wilkin, 2001: 178)."

Finally, one may *reduce the probability* of risk by identifying the possible risk-events and attempting to reduce their potential of occurring (Cortez, 2010: 140-144). By focusing efforts on the risk-factors causing them, one can reduce the probability of the risk-events materializing (Kytle and Ruggie, 2005: 5). Key to such *proactive* PRM strategies is a comprehensive and systematic analysis of the risk-factors involved (Zonis and Wilkin, 2001: 178). As this is the only category of risk management that has any influence on the risk-events, it is the only management strategy that will be included in our analysis as an exogenous variable.

7.2 Proactive Risk Management Strategies

Political risk management (PRM) strategies tend to be drafted into an independent policy which guides the company through the political risk by applying suitable organizational principles and techniques (Brink, 2004: 164-165). PRM strategies can be dichotomized into protective and integrative management strategies. *Protective* strategies are meant to protect the company's assets from the risk-events. *Integrative* strategies are meant to allow the company to influence relations with stakeholders (Brink, 2004: 156).

7.2.1 Protective Risk Management Strategies

Companies must maintain a basic degree of physical security in order to protect assets like personnel and infrastructure. The security provisions should be tailored to meet the requirements of the particular operating environment (McKellar, 2010: 125-126). Protection of oil personnel, onshore/offshore infrastructure, tankers and pipelines can be provided by the host-state's security forces or 'private security companies' (PSC) (Maresca, 2004: 125). Oil companies have also turned to the host-communities for protection in the provision of 'community-based security'. This has been done by Shell, Mobil and Chevron in the Niger-Delta (Allen, 2009: 47), and by BP in Tangguh, Indonesia (Shelley, 2005: 61).

However, an excessive reliance on security measures can in fact increase the risk as it often incurs animosity towards the company from local communities. It may also harm a company's international reputation for being unwilling to engage constructively with local communities (McKellar, 2010: 127). Companies will also suffer reputational harm if security forces and PSCs become involved in human-rights abuses. As PSCs are service providers companies may simply stop doing business with them, but this becomes much more complicated when it is the host-state that is behind such abuses (Maresca, 2004: 125-126).

7.2.2 Integrative Risk Management Strategies

An often overlooked, yet vital risk management strategy is building relationships with key actors (McKellar, 2010: 132). However, relationship-building should be carefully balanced with protective strategies, so as not to exacerbate the physical risk yet avoiding potential reputational harm (McKellar, 2010: 128). Relationship-building should be done by gaining acceptance from key stakeholders by trying to engage them through communication and consultation (McKellar, 2010: 134-135). This is done by involving stakeholders to a varying degree into the decision making process; from informing or consulting them on decisions, to letting them influence the decision-making (Kytle and Ruggie, 2005: 10).

As the host-government is responsible for the overall political, legal, and to a degree the social environments in which oil companies operate, the most important stakeholder is the host-government. Antagonizing the host-government could mean an expiration of their operating license. Nevertheless, excessively close affiliations may involve reputational harm as companies become associated with government corruption, human-rights abuses, and oil revenue mismanagement. The same is true for engagement with local administrative units (Bray, 2003: 314-317).

As they often hold the de-facto power in areas of operation, local communities are also crucially important stakeholders. In E&P operation it is essential to obtain approval ('social license') from and maintain good relations ('community-relations') with host-communities. An inability to constructively engage host-communities have often led to a violent response. Subsequently, companies will have to take all local communities with genuine entitlements into concern. However, it can be difficult to distinguish which communities have rights to the land on which E&P companies operate. Customary land rights may not be registered and

informal ownership will often be held by the community/clan as a whole (Bray, 2003: 317-318).

As a way of gaining acceptance from stakeholders within civil society and the international community, companies should the very least comply with laws and regulations as well as try to uphold certain global ethical standards. Beyond this, companies should also maintain consultation with civil society actors like NGOs, development agencies, international institutions etc, without allowing them to excessively dominate corporate decisions (McKellar, 2010: 134-136).

Efforts of relationship-building can be incorporated into a strategy of Corporate Social Responsibility (CSR) (Kytle and Ruggie, 2005: 9-15; McKellar, 2010: 136-137). CSR involves an extra-legal corporate responsibility for their operations and subcontractors, as well as a responsibility to manage relations with the host-society (Frynas, 2009: 6). The oil industry have commonly approached CSR through impact assessments and consultations; participating in 'tri-sectoral' partnerships with governments and NGOs on specific issues; and participating in initiatives aimed at preventing the 'oil curse' by for example encouraging revenue management programs and development-orientated investment programs (Shankleman, 2006: 60-62).

The oil sector, in particular Shell and BP, has taken a leading role in championing CSR. Nevertheless, it was largely in response to international media attention and political pressures due to the visible adverse impact of the industry, such as the 'Exxon Valdez' oil spill, human-rights abuses in Colombia, and anti-Shell protests in Nigeria (Frynas, 2009: 6), For Shell this reached a culmination point with the execution of Ken Saro-Wiva (Shankleman, 2006: 58-59). CSR initiatives in the oil industry can therefore largely be perceived as a strategy of managing reputational risk by providing immunization against public criticism and insulation against public scrutiny (Levenstein and Wooding, 2005: 6-11).

Despite the need, most corporations operating in areas of armed conflict seem hesitant in engaging in CSR initiatives addressing peace and security (Deitelhoff and Wolf, 2010: 6). In the oil industry there has been a relatively greater interest in conflict prevention and peace-building, but largely in a strictly operationally relevant manner (Shankleman, 2006: 68).

Nevertheless, much like CSR initiatives on environmental, health, educational and human-rights issues, corporate initiatives on peace and security can be incorporated into a strategy of Corporate Security Responsibility (CSecR) (Deitelhoff and Wolf, 2010: 9).

CSecR initiatives "directly or indirectly address the level of violence in an environment characterized by imminent, ongoing, or only very recently terminated interactions of physical violence (Deitelhoff and Wolf, 2010: 13)." Direct initiatives address immediate causes of conflict through contributions to DDR, peace negotiations, and management of security forces or PSC. Indirect initiatives address root causes of conflict through contributions on socio-economic, political, and socio-cultural issues etc (Deitelhoff and Wolf, 2010: 13-15).

7.3 SPDC's Conflict Risk Management Strategies in the Niger-Delta

Although not making official reference to risk management (PRM), Shell operates with a policy framework that involves a range of social issues, including business ethics, health, environment, human-rights, sustainable development, community participation, and security (Omeje, 2006a: 77). These initiatives will however be analysed as risk management strategies, as they fall inn under the PRM strategies listed above and directly or indirectly address the conflict risk Shell is facing in the Niger-Delta

7.3.1 Managing Security

Oil companies operating in joint venture with NNPC are provided security by the Nigerian government, however security forces are often inefficient, underpaid, poorly trained, and underequipped (Francis et al., 2011: 62). SPDC's involvement in security governance has therefore developed parallel with the Nigerian government's inability in providing sufficient security to their operations (Zimmer, 2010: 74). Faced with increased conflict risk to operations in 18 countries, Shell in 2001 formalized explicit guidelines for the provision of private or public security for the specific purpose of protecting personnel and energy-infrastructure (Omeje, 2006a: 77-78).

As the Nigerian legal framework initially disallowed the use of armed PSCs, SPDC employed the semi-private 'Supernumerary Police' (or 'Spy Police') to provide protection in

conjunction with security forces. These are police forces provided by the Nigerian government, but funded by SPDC. In 2006 SPDC employed about 700 Spy officers with responsibilities largely restricted to internal security, like access-control to facilities (Omeje, 2006a: 79). The 'Spy Police' is by law prohibited from carrying arms, but has tended to do so on 'escort duty'. SPDC has also operated with a network of plainclothes informants (Amunwa and Mikio, 2011: 12). SPDC's informant network is so vast it has been revealed to have infiltrated every key Nigerian ministry (Reuters, 2010).

For the protection of energy-infrastructure and personnel, SPDC largely depends on government security forces like JTF. Although these are provided by the Nigerian government, SPDC is expected to provide logistics, transportation, and allowances for officers assigned to their protection (Omeje, 2006a: 80). Also assigned to the protection of SPDC assets is the paramilitary arm of the Nigerian police, known as the 'Mobile Police' (or 'MoPol'; 'kill-and-go') (Amunwa and Mikio, 2011: 12). However, from 2010 the NCA has allowed foreign companies to outsource security provision contracts to Nigerian PSCs (Francis et al., 2011: 63).

During the non-violent struggles in the 1990s, SPDC provided financial and other types of support to key politicians and Nigerian security forces to quell protests (Allen, 2009: 50; Ibeanu and Luckham, 2007: 70-71; Zimmer, 2010: 65). In Ogoniland, SPDC provided assistance and encouraged military attacks on protesting communities (Amunwa and Mikio, 2011: 12). Not only did the massive human-rights abuses end up militarizing the protest movement (Allen, 2009: 50-51), it also (particularly the execution of Saro-Wiwa) caused SPDC massive reputational harm which forced Shell into transforming its security policy (Ibeanu and Luckham, 2007: 71).

In partnership with US and UK governments, as well as several other oil companies, Shell participated in developing the 'Voluntary Principles on Security and Human-rights' (VPSHR) (Zimmer, 2010: 65). The VPSHR sets guidelines on preventing company complicity with human-rights abuses by host-governments or PSCs providing security (McKellar, 2010: 128; Maresca, 2004: 126). The VPSHR safeguards human-rights by shaping security management in accordance with international law, by excluding individuals previously implicated in

abuses, by explicating restrictions on rules of engagement, and by providing transparency and public consultations on security arrangements (Shankleman, 2006: 64).

By including the VPSHR into its security policy and making efforts to implement it in Nigeria, SPDC has shown a dedication to CSecR (Zimmer, 2010: 65-66). Since 2007, SPDC has provided training on conflict resolution and human-rights for security contractors and 'Spy-officers'. In 2011, SPDC also provided 67 VPSHR briefings to security forces and PSCs (Shell, 2012b). However, although VPSHR has been discussed with Federal-government, it has yet to be systematically implemented into the Nigerian security forces (Zimmer, 2010: 65-66). In fact, there has been reports of human-rights abuses by security forces in protection of SPDC energy-infrastructure as recently as in 2010 (Amunwa and Mikio, 2011: 52).

Less officially, SPDC has also relied on community-based security for the protection of energy-infrastructure and personnel through 'security contracts' (known as 'Surveillance contracts') with armed groups and community-militias (Allen, 2009: 47; Amunwa and Mikio, 2011: 27; Omeje, 2006a: 90-91). As of 2011, SPDC reportedly employed about 9.000 militants under temporary 'security contracts' (Amunwa and Mikio, 2011: 27). Contracts have been semi-formal and wages have often depended on performance. SPDC has also paid 'stay-at-home' money to pacify potentially militant youth (Omeje, 2006a: 91).

Such community-based security is implicitly permitted by the VPSHR (Amunwa and Mikio, 2011: 27; Zalik, 2011: 189), and has allowed oil companies to become less reliant on government protection. SPDC has relied on community-based security for operations in Nembe (Bayelsa), Edagberi (Rivers), and other sites in Bayelsa, Rivers and Delta States. Paradoxically though, security has often been provided by the very armed groups belonging to MEND (Allen 2009: 45). Furthermore, the strategy has created a backlash as it incentivises attacks on assets in extortion for contracts (Allen, 2009: 47), induces armed conflict in the inter-community competition for contracts (Watts, 2007: 651), and induces armed conflict and attacks by altering the internal power-balance within communities (Omeje, 2006a: 92).

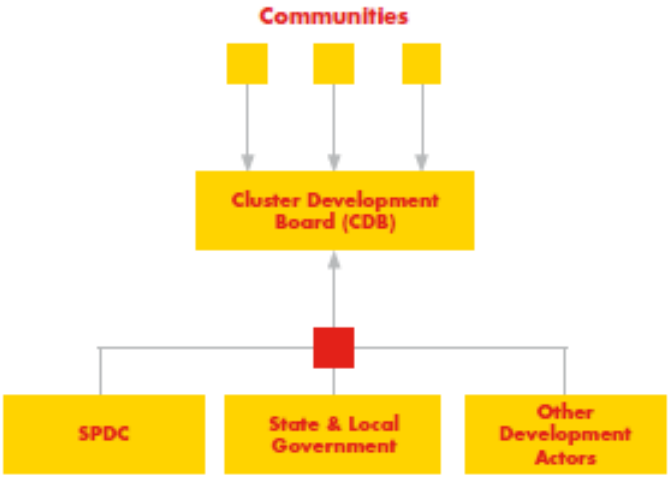
7.3.2 Managing Host-Communities

When operations began in 1956, SPDC's community-relations strategy was the 'community-assistance' approach where one-time contributions would be given to host-communities in order to keep them compliant (Idemudia, 2011: 169). SPDC would enter a 'Memoranda of Understanding' (MoU) with the host-community, were community compliance was rewarded with some sort of benefit. This strategy managed to pacify initially hostile communities, but it also incentivized hostility in extortion for MoUs and instigated intra/inter-community conflict over the competition of oil rents (Omeje, 2006a: 83-84).

The reputational harm involved with the execution of Saro-Wiwa and the subsequent increase in community protest in the mid-1990s, pushed SPDC to completely transform their community-relations strategy and CSR was recognized as a vital risk management strategy for continued oil operations in the Niger-Delta (Frynas, 2009: 21-23; Idemudia, 2011: 169-170). In 1997, this resulted in a 'community-development' approach were SPDC would enter a MoU with the host-community, but also involve a number of NGOs in a 'tri-sectoral' partnership. This involved a higher degree of engagement as stakeholders trilaterally (SPDC-community-NGO) would construct comprehensive development programmes (Omeje, 2006a: 84-85). However, the community-development strategy was unable to dis-incentivise systems-disruptions (Omeje, 2006a: 90), or discourage intra/inter-community conflict (Idemudia, 2011: 170).

In 2003, SPDC introduced the 'sustainable community-development' approach by further involving the Nigerian government and by transferring cost intensive projects to NDDC. However, the conflict environment did not alter much (Omeje, 2006a: 87). Nevertheless in 2006, SPDC introduced 'Global Memorandum of Understanding' (GMoU) approach (Zalik, 2011: 189). Instead of several bilateral MoUs, the GMoU employed a multilateral agreement between SPDC and a cluster of several host-communities (figure 11) (Shell, 2012c). As the cluster-members enter an intra- and inter-community contract, where benefits are contingent on their ability of ensuring a 'non-conflictual' operating environment, it is effective in de-incentivizing systems-disruptions and discouraging intra/inter-community conflict (Zalik, 2011: 190-191). The GMoU approach can be considered a CSecR as it both directly and indirectly address the armed conflict.

Figure 11: SPDC's GMoU



(Source: Shell, 2012c)

Each cluster involves the SPDC, host-communities, NGOs, LGAs, and State Governments into the decision-making process under the Cluster Development Board. The cluster joins communities along clan affiliations or LGAs (Shell, 2012c). However, in many circumstances large parts of the relevant clan has been left out of the cluster (Zalik, 2011: 191). In Rivers State, a disagreement erupted between SPDC and the Rumuokwurusi community of the Obio-Akpor LGA, as the community felt that three-quarters of their clan was not being represented in the cluster (Onah, 2011).

Although SPDC by 2010 had entered GMoUs with 27 clusters covering 290 communities consisting of about 30% of their host-communities (Shell, 2012c), they seem to have overlooked clans and communities key to the armed conflict in the Niger-Delta. As of 2007, none of the communities in the Gbaramatu clan had been included into a MoU/GMoU with SPDC, despite hosting several SPDC infrastructures such the Jones Creek flow-station and the Egwa I and Ewa II flow-stations (Courson, 2007: 13-14).

As "*any disruption*" to operations is considered a breach of contract, the GMoU system criminalizes both violent and non-violent community protest (Zalik, 2011: 198). However, it seems as if local communities have managed to bypass this by mobilizing the entire cluster when protesting the SPDC. In 2011, the 'Association of Basan West, Iduwini, Kou and Mein Cluster Development Boards and Foundations' threatened SPDC to shut down the E.A. Field (Bayelsa) in reaction to breaches of the GMoU-contract (Oyadongha, 2011a). More recently, the 'Kolo Creek Cluster' (Bayelsa) collectively disrupted operations at SPDC's 'Kolo Creek

Logistics Base' and threatened to seize it if not demands for electricity supply was met (Oyadongha, 2011b).

7.3.3 Managing Oil Revenues

By employing indirect CSecR initiatives, SPDC has made efforts of addressing one of the major causes of conflict through initiatives aimed at the revenue management process. Shell has developed effective anti-corruption policies and their operations in Nigeria has by 'Transparency International' been ranked as "*very high above country average scores*" in terms of corporate transparency. Shell is also a supporter of the 'Extractive Industries Transparency Initiative' (EITI) (Zimmer, 2010: 67-68). EITI is a voluntary 'tri-sectoral' initiative aimed at increasing transparency of the entire oil revenue management process. Increasing transparency is intended to allow civil-society to hold governments accountable as a way of discouraging revenue misappropriation (Shankleman, 2006: 64). Supporting EITI is an easy and inexpensive CSecR initiative (Zimmer, 2010: 68).

In 2003 Nigeria was the first country to implement EITI, in the form of the 'Nigerian Extractive Industries Transparency Initiative' (NEITI). The initiative is governed and supervised by the 'National Stakeholder Working Group', co-chaired by SPDC (Zimmer, 2010: 67). NEITI has commissioned several comprehensive audits of the oil industry, and made remediation plans based on the conclusions. However, remediation has so far been largely ineffective. Nevertheless, by passing the NEITI Act in 2007, Nigeria was the first country to create a legal framework for the implementation of EITI's principles (Gboyega et al, 2011: 37). This has increased the transparency of Federal-government's budgeting and revenue allocations (Francis et al., 2011: 46). However, not only has it failed to extend the initiative to States/LGAs, it has been restricted revenue collection rather than revenue utilization (Idemudia, 2011: 180; Zimmer, 2010: 68).

7.4 Managing Conflict Risk to E&P Operations

Exploring how we can best analyse political risk to E&P operations in areas of armed conflict we have found that analyzing risk management provides our causal analysis with an exogenous variable, allowing us to analyse how the risk affected companies can reciprocally influence the risk-events they're exposed to. Adding this variable allows any political risk analyst to evaluate the influence of a company's PRM strategies and adjust them accordingly.

We found that the two primary strategies of political risk management used by companies are either meant to protect their assets from the risk-events, or meant to influence their relationship with the risk-actors by integrating them into the host-society. E&P companies are completely dependent on the protection of energy-infrastructure, normally provided by the host-government but also by private security companies or local communities. The problem with extensive reliance on protection is that it may incur animosity and reputational harm to the company, if the security providers conduct human-rights abuses in their mission. In the Niger-Delta, Shell has not only incurred massive reputational harm due to human-rights abuses, but also conflict risk-events directly related to the provision of community-based security.

In addition to relying on protection, E&P companies are increasingly turning to PRM strategies of relationship-building with stakeholders such as government, local communities, and NGOs. This can be incorporated into CSR initiatives aimed at addressing the adverse impacts of E&P operations. For companies operating in areas of armed conflict, such initiatives can be tailored at addressing the causes of conflict through CSecR initiatives. In the Niger-Delta, SPDC has as a strategy of managing the conflict risk, made efforts of addressing the armed conflict through CSecR initiatives such as GMoU (aimed at managing relationships with the host-communities), NEITI (aimed at oil revenue management), and VPSHR (aimed at curtailing human-rights abuses by security providers).

On the basis of the relationships between the variables in our analysis we will develop causal sequences linking the risk-events to the risk-actors, risk factors, and risk management. We

will also construct risk indicators, and forecast future risk to Shell's E&P operations in the Niger-Delta.

8 Forecasting

In this chapter we will on the basis of our analysis of conflict risk to Shell's E&P operations in the Niger-Delta, we will develop causal sequences linking the particular risk-events to specific risk-actors, risk-factors, and risk management strategies. Next we will construct risk indicators that offer data on the exposure to risk and the potential of future conflict risk. Finally, we will forecast future conflict risk to Shell's E&P operations in the Niger-Delta by creating particular contingencies and assess their plausibility of emerging accordingly.

8.1 The Causal Sequences of Conflict Risk

On the basis of the relationships between the variables in the analysis of conflict risk to Shell's E&P operations in the Niger-Delta, we will develop causal sequences (table 8) where specific risk-events (dependent variable) is the causal product of the particular risk-factors (causal variables) with the causal effect being transmitted through particular risk-actors (intervening variable), and the risk management (PRM) employed by the affected company in response (exogenous variable).

1) Targeting of energy-infrastructure (EI) (incl. kidnappings of oil personnel):
From our analysis we can conclude that high-level targeting of energy-infrastructure has been part of a 4GW strategy by ethnic-militias to coerce Federal-government into paying greater revenue allocations or assigning ethnic-kinsmen to public posts, i.e. institutional rent-seeking. Examples include NDPVF's campaign of systems-disruptions in 2004 and MEND's campaign between 2006 to 2009. SPDC has managed such conflict risks by relying on protection by security forces and by CSecR initiatives such as NEITI addressing oil revenue management as a cause of conflict. It is unsure if support of EITI was a conscious move to manage the political risks, or if it has had any effect on the level of violence.

However, low-level targeting has been conducted by local communities for the purpose of extorting rent off E&P companies, i.e. extra-institutional rent-seeking. Examples include the sabotage of SPDC's energy-infrastructure by Nembe communities in Bayelsa to extort oil rent. SPDC has managed such conflict risks by relying on protection and CSecR initiatives

like GMoU addressing the root causes of economic development and creating disincentives for systems-disruptions.

2) Bunkering/kidnappings/piracy:

Bunkering, piracy and kidnapping has been conducted by local communities, ethnic-militias and cults for criminal objectives, i.e. extra-institutional rent-seeking. This has been managed solely by relying on protection. It is currently the most widespread conflict type of risk-event, but little has been done to address it in terms of risk management.

3) Armed conflict:

Armed conflict is a result of rent-seeking competition between and within local communities, ethnic-militias, and cults over political representation, host-community status, employment, bunkering territory etc., i.e. both institutional rent-seeking and extra-institutional rent-seeking. Examples include the armed conflict between the Soku/Elem-Sangama and the Oluasiri communities in Bayelsa, and between Ijaws and Itsekiris in Warri. Armed conflict is often a side-effect of risk management, such as giving 'host-community' status, 'security-contracts' etc. Not only has SPDC relied on protection strategies, but also CSecR initiatives such as GMoU which creates disincentives for armed conflict between communities.

4) Protests/demonstrations/blockades:

Protests, demonstrations and blockades were conducted by local communities to pressure or extort oil companies for host-community status, i.e. extra-institutional rent-seeking. As risk management strategy, SPDC has relied on protection and CSesR. By relying disproportionately on protection strategies, SPDC contributed to militarize protests in the 1990s, consequently escalating the conflict risk to targeting of energy-infrastructure and political/legal campaigning. However, GMoUs has created disincentives for community protests, demonstrations and blockades.

5) Political and legal campaigning:

Political and legal campaigning were conducted by ethnic advocacy groups for oil company pay-outs and increased revenue allocations, i.e. both institutional rent-seeking and extra-institutional rent-seeking. Only political and legal campaigning directly linked to the armed conflict are considered, such as campaigning in response to human-rights abuses but not in

response to pollution. MOSOP has so far been the most prominent risk-actor generating such risk. As PRM strategy SPDC has through CSecR initiatives, such as the VPSHR, attempted to insulate themselves from the reputational/legal harm caused by political/legal campaigning.

Table 8: The causal sequence of conflict risk to Shell's E&P operations in the Niger-Delta

RISK-EVENT	RISK-ACTOR	RISK-FACTOR	PRM
High-level targeting of energy infrastructure (EI)	Ethnic-militias	Institutional rent-seeking	Protection CSecR (NEITI)
Low-level targeting of energy infrastructure (EI)	Local communities	Extra-institutional rent-seeking	Protection CSecR (GMoU)
Bunkering Kidnappings Piracy	Ethnic-militias Local communities Cults	Extra-institutional rent-seeking	Protection
Armed conflict	Ethnic-militias Local communities Cults	Institutional and Extra-institutional rent-seeking	Protection CSecR (GMoU)
Protests Demonstrations Blockades	Local communities	Extra-institutional rent-seeking	Protection CSecR (GMoU)
Political and legal campaigning	Ethnic advocacy groups	Institutional and Extra-institutional rent-seeking	CSecR (VPSHR)

8.2 The Risk Indicators

Based on our causal analysis we will construct risk indicators that provide data on the exposure to conflict risk to E&P operations. Risk indicators should be able to indicate the presence of risk; be capable of being measured; be able to be monitored by conveying the actual risk; and able to forecast the risk (IOR, 2010: 5-7). We believe that the risk indicators presented here all meet these criteria.

Indicator 1: Elections

Due to the high stakes involved with institutional rent-seeking, Federal-government/State/LGA elections become zero-sum games where election run-ups are characterized by political-enforcement by armed groups (Hazen and Horner, 2007: 6-7). Looking at Shell's oil spill record caused by sabotage between 2002 and 2011, it seems that sabotage incidents has a tendency to spike during the run-up and the election years (2002/2003, 2006/2007, and 2010/2011) (table 9), this is also reflected in the Nigerian oil industry as a whole by the volume of oil shut-in, with spikes in the run-up and election years 2002/2003 and 2006/2007 (table 10).

Table 9: Shell oil spills caused by sabotage 2002-2011 (almost exclusively in Nigeria)

ENVIRONMENTAL DATA

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Spills and discharges [I] [J]										
Sabotage spills – volume (thousand tonnes) [K]	1.6	3.0	14.0	6.5	3.4	1.9	1.5	1.1	0.9	2.5
Sabotage spills – number [K]	118	112	93	115	197	123	111	101	105	128

[I] All spill volumes and numbers are for spills over 100 kilograms.

[J] As of the end of March 2012, there were two spills under investigation in Nigeria that may result in adjustments to the 2011 data.

[K] All sabotage and theft related spills have occurred in Nigeria except in 2007 (0.7 thousand tonnes outside Nigeria) and 2006 (0.6 thousand tonnes outside Nigeria).

(Source: Shell, 2011: 32)

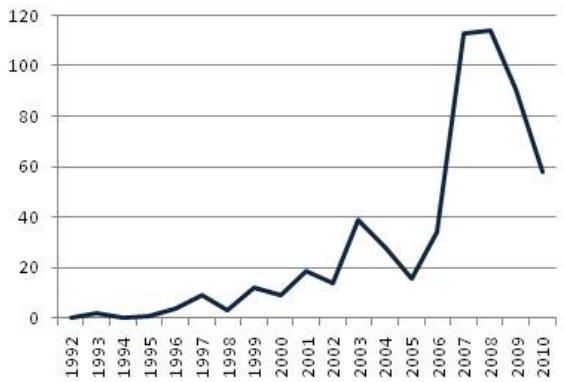
Table 10: Amount of shut-in oil 2000 - 2008

Year	Volume of oil shut-in per day (in barrels)	Value of oil shut-in per annum (in USD)	Total value of oil stolen or shut-in per annum (in USD)
2000	250,000	2.6 billion	4.1 billion
2001	200,000	1.8 billion	8.3 billion
2002	370,000	3.4 billion	9.9 billion
2003	350,000	3.7 billion	6.9 billion
2004	230,000	3.2 billion	6.4 billion
2005	180,000	3.7 billion	8.8 billion
2006	600,000	14.6 billion	17.0 billion
2007	600,000	16.5 billion	19.2 billion
2008	650,000	27.5 billion	33.8 billion

(Source: Asuni, 2009b: 6)

Hansen and Steffen (2011) suggest that government elections also functions as a good indicator for piracy in the Niger-Delta. The number of piracy incidents seemed to dip the years before the 2003 and 2007 elections, only to rebound beyond previous levels (graph 5). The explanation is that armed groups will be busy with political-enforcement in the election run-up, and after the elections piracy as rent-seeking activity resumes. This tendency is reflected in the amount of oil stolen from the Nigerian oil industry, with dips in amount of stolen oil the run-up and election years 2002/2003 and 2006/2007 (graph 6).

Graph 5: Maritime security incidents in Nigerian waters 1992-2010



Graph 6: Amount of oil stolen 2002 - 2008

Year	Average price of Bonny Light per barrel (in USD)	Volume of oil stolen per day (in barrels)	Value of oil stolen per annum (in USD)
2000	28.49	140,000	1.5 billion
2001	24.50	724,171	6.5 billion
2002	25.15	699,763	6.5 billion
2003	28.76	300,000	3.2 billion
2004	38.27	300,000	4.2 billion
2005	55.67	250,000	5.1 billion
2006	66.84	100,000	2.4 billion
2007	75.14	100,000	2.7 billion
2008	115.81	150,000	6.3 billion

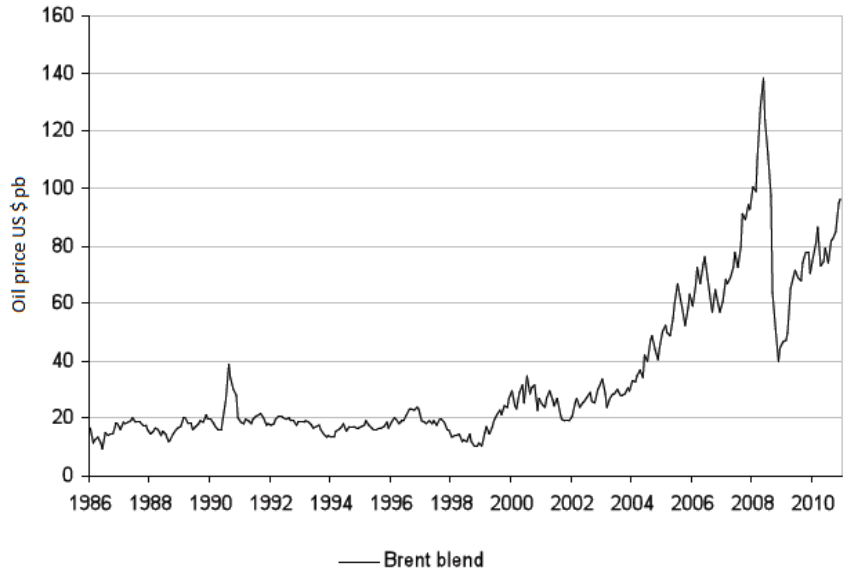
(Source: Hansen and Steffen, 2011) (Source: Asuni, 2009b: 6)

Indicator 2: Oil Prices

Graph 5 also correlates with another indicator – oil prices (graph 7). Although piracy seems to correlate with oil prices, bunkering (graph 6) seems uncorrelated to oil prices. It has been argued that oil prices will reduce the conflict level due increased government capacity for patronage (Kaldor et al, 2007: 24). It has also been argued that oil prices will increase the conflict level due to the increased stakes of rent-seeking competition between militants (Dube and Vargas, 2008: 26-27).

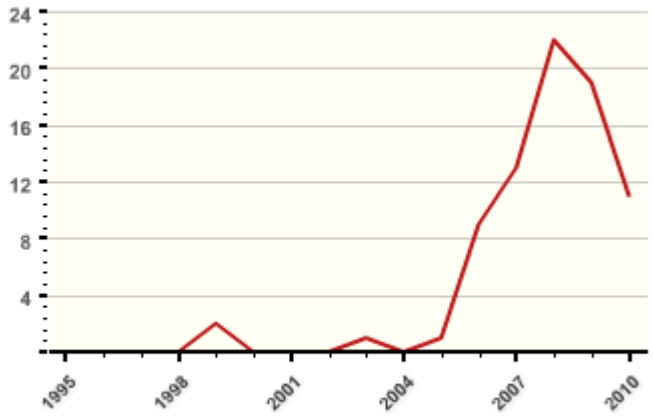
On the basis of our analysis we will propose that both arguments are right. Oil prices indicate conflict risk contingent on whether the militants' ethnic -patrons ('godfathers') are in position or in opposition to government. On the basis of our analysis we can infer that when ethnic -patrons are in *opposition,* high oil prices will give them financial capacity to employ militants as political-enforcers to coerce government into giving positions to them or their clients. This was witnessed when Clark utilized MEND to get his client Goodluck Jonathan into the Vice-Presidency. This tendency is reflected in the correlation between oil prices (graph 7) and the conflict level in the Niger-Delta (graph 8).

Graph 7: Oil prices 1986-2010 (the prices of Nigerian oil tends to be slightly higher than Brent, but follows much the same developments)



(Source: Urstad, 2011: 21)

Graph 8: The conflict level in the Niger-Delta 1995-2010



(START, 2011)

Indicator 3: Ethnic patronage

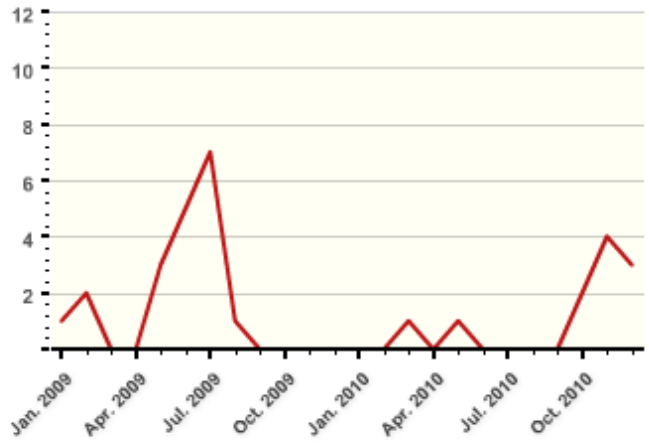
Although oil prices may increase the conflict level when ethnic-patrons are in opposition; when these patrons are in government *position*, high oil prices will lower the conflict level as they are compelled to finance extensive patronage of militants in order to prevent disrupting the flows of oil revenues to government. This was witnessed in Nigeria through Yar'Adua and Jonathan's Amnesty program. Looking at the spot price for Bonny Light over the past five years (graph 9) we can see that oil prices have been increasing, despite the remarkably low conflict levels between November 2010 and February 2012 that was largely a result of the provision of government patronage through the Amnesty program (McNamee, 2012). Jonathan's recent ability to extend and reinforce his patronage-network, shows that high oil prices has allowed him to finance extensive patronage.

Graph 9: Spot prices for Bonny Light Sept. 2008 – May 2012

(Source: Bloomberg L.P., 2012)

In fact, when looking at the conflict level in the Niger-Delta between 2009 and 2010 (graph 10), we see a vast reduction after the Amnesty program was introduced in June 2009. The increase in conflict in late 2010 was conducted by anti-Amnesty militias like 'Central-MEND' and NDLF that were not incorporated into Jonathan's network or belonged to rival patronage-networks. However, it has been suggested that ethnic patronage could be used to reconstitute MEND as political-enforcers for the 2015 election (Stratfor, 2012b), which means an interaction with indicator 1 (elections) to indicate an escalation of violence in the years 2014/2015.

Graph 10: The conflict level in the Niger-Delta 2009-2010



(START, 2011)

8.3 Future Contingencies

Shell (2011) writes in its Sustainability Report 2011 that after the upsurge of militancy between 2006 and 2009, in 2011 SPDC was for the second year able to increase production by reactivating oil wells and infrastructure. They are however exposed to increased bunkering activities and subsequent spillage. The question remains, how are these conflict risks going to pan out in a five year perspective?

Risk is often expressed as the product of probability times impact (risk = probability x impact) (Bremmer and Keat, 2009: 4, 16). 'Impact' refers to the immediate harm and the reverberating effects of a risk-event (McKellar, 2010: 98-99), and 'probability' refers to the likelihood of it occurring (Cortez, 2010: 105). The probability and impact of risk-events is often plotted into a two-dimensional 'risk-matrix' where the probability is presented on the x-axis, and impact is presented on the y-axis. This facilitates forecasting as it allows risk to be prioritized according to 'riskiness' (Bremmer and Keat, 2009: 210; Cortez, 2010: 104-105).

Based on the causal sequence of risk and the risk indicators we will estimate the conflict risk to SPDC's operations in the Niger-Delta by the type of conflict risk-event. These will be estimated by the accumulated impact of the risk-events and not in terms of expected cost to SPDC's operations (as it would be too difficult without extensive analysis of SPDC data). These types of risk-events will be estimated in terms of probability using calibrated probability estimates with a 10% margin-of-error consequently having a total probability range of 6% - 95% probabilities.

Each type of risk-event will be placed into the risk-matrix of the conflict risk to SPDC's operations in the Niger-Delta of the years 2012/2013 and 2014/2015. As oil prices are difficult to forecast we will make forecast in terms of 'higher' vs. 'lower' oil prices when relevant.

1) Targeting of energy-infrastructure (EI) (incl. kidnappings of oil personnel):
President Jonathan's actions of strengthening his patronage-network indicate that he is likely to re-run for Presidency in the 2015 elections. In the short run this is not likely to result in any well-organized campaigns of systems-disruptions by ethnic-militias and MEND. However, in the run-up and election years 2014/2015 there is likelihood that MEND will be reconstituted

in support for Jonathan's re-election. But it is unlikely to reach the extent of the campaign between 2006 and 2009 as this reduced oil revenues as much as 25% and would translate into dramatically cutting the oil rent accessible to Jonathan's patronage-network.

Local political patrons contesting Jonathan (such as Sylva) and the Northern-faction of PDP (if the link is taken into account), could mobilize 'Central-MEND' or other anti-Amnesty militants like NDLF to conduct systems-disruptions before the election. Furthermore, as only about 30% of SPDC's host-communities are integrated into the GMoU, community-militias could conduct systems-disruption against SPDC to extort oil rent. However, neither scenario is likely to result in any well-organized campaigns; especially id oil prices are low.

As a result for the years 2012/2013 we estimate a probability of on/offshore energy-infrastructure (EI) (incl. personnel) at 66%-95% causing a low impact harm. In year 2014/2015 we estimate a shift to a probability at 36%-65% causing medium impact harm. However, the macro risk for Nigeria is likely to increase as Boko Haram is expected to escalate the violence, but is unlikely to affect the micro risk to SPDC's operations in the Niger-Delta.

2) Bunkering/kidnappings/piracy:
Although kidnappings, at least for SPDC's part have reduced over the past few years, bunkering and piracy has drastically been on the increase. As long as it remains such a massive industry with stakes held by local rentier-elites, it is unlikely that the Nigerian government is going to do much to manage it. So far there has been little SPDC can do but continue repairing damages on their infrastructure. Furthermore, Jonathan's cut of fuel-subsidies is likely to increase the market share of bunkered oil, and piracies are likely to fluctuate in correlation with oil prices. However, in the run-up and election years 2014/2015 it is unlikely that bunkering and piracies will remain this widespread as militias will be busy with political-enforcement.

As a result for the years 2012/2013 we estimate a probability of bunkering/kidnappings/piracy at 66%-95% causing high impact. In year 2014/2015 we estimate a shift to a probability at 6%-35% causing high impact harm.

3) Armed conflict:

Inter/intra-community and ethnic conflict is likely to reduce as an increasing number of host-communities are incorporated into a GMoU. Nevertheless, as only about 30% of the host-communities in SPDC's areas of operations are incorporated there is some likelihood of armed conflict, particularly with increased oil prices. Furthermore, in 2014/2015 there is also an increased likelihood of conflict between armed groups acting as enforcers for incumbent Governors and rival candidates. However, as Jonathan is managing to solidify his patronage-network in the Niger-Delta, his Governor clients are less likely to be faced by any serious challengers and the levels of conflict is unlikely to reach the levels of past elections.

As a result for the years 2012/2013 we estimate a probability of armed conflict at 66%-95% causing low impact. In year 2014/2015 we estimate a shift to a probability at 36%-65% (with much higher oil prices we estimate a probability at 66%-95%) causing medium impact harm.

4) Protests/demonstrations/blockades:

Although the GMoU may at face value have managed to quell community agitation, SPDC have been targeted by host-communities within the GMoU when not complying with contract obligations, often by entire clusters. With Ijaws in government such protests are likely to be tacitly tolerated by government as it would shift the costs of public utilities from government to the oil companies. Furthermore, the reopening of SPDC's operations in Ogoniland has the potential of sparking protest. Nevertheless, such protests are unlikely to be as extensive as they have in the past unless there is a dramatic increase in oil prices raising the stakes.

As a result for the next five years we estimate a probability of protests/demonstrations/blockades at 66%-95% causing medium impact, but may somewhat increase in impact with particularly high oil prices.

5) Political and legal campaigning:

With Ijaws in government position, major human-rights abuses against Ijaw communities with potential to defame SPDC are unlikely. However, the reactivation of SPDC operations in Ogoniland is likely to spark Ogoni protest, but Jonathan is likely to make efforts to avoid unwanted media attention and do his best to curtail military/police aggression. Even if

security forces would react violently, SPDC efforts at implementing the VPSHR is likely to insulate them from reputational/legal harmful criticism.

As a result for the next five years we estimate a probability of harmful political and legal campaigning at 66%-95% causing low impact harm.

Figure 12: Conflict risk-matrix of SPDC's operations in the Niger-Delta 2012 – 2013

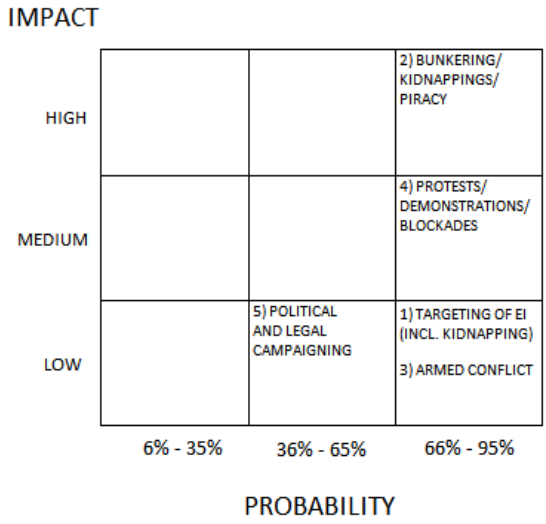
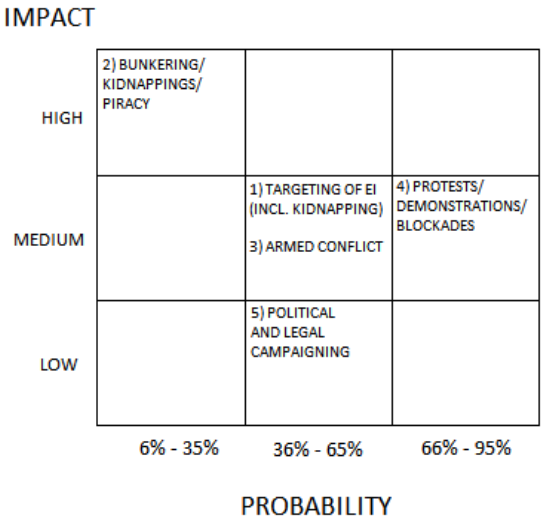


Figure 13: Conflict risk-matrix of SPDC's operations in the Niger-Delta 2014 – 2015



8.4 Forecasting Conflict Risk to E&P Operations

Exploring how we can best analyse political risk to E&P operations in areas of armed conflict we have found that by developing causal sequences we were able to link specific risk-events to their related risk-actors and risk-factors, and what risk management strategy the affected company have used.

We also found that on the basis of our causal analysis we were able to construct three risk indicators that provide data on the exposure to risk. We found that elections, oil prices, and ethnic patronage are pertinent risk indicators of conflict risk to E&P operations, as they correlate and are causally linked to the risk-events.

Finally, we were able to conduct a forecast on the future conflict risk to Shell's E&P operations in the Niger-Delta. We found that until the pre-election and election years 2014/2015, the most likely significant risk-event is from bunkering and piracy. However, the

years 2014/2015 will experience a shift in conflict risk as there will be a higher likelihood of risk-events such as targeting of energy-infrastructure and armed conflict, but a lower likelihood of bunkering and piracy.

9 Conclusion

The purpose of this study was to examine how we can best analyse political risk to E&P operations in areas of armed conflict. In this effort we used a case-study of the conflict risk to Shell's E&P operations in the Niger-Delta to explicate on the larger class of political risk to E&P operations in areas of armed conflict.

Analyzing political risk involves hypothesising on how the causal relationships between the analytical variables produce risk. To help organize our analytical variables and their relationships we created a causal model of political risk to E&P operations where the causal variables (risk-factors) influence the dependent variable (risk-events) through an intermediate variable (risk-actors) under the influence of an exogenous variable (risk management). The causal model was made operational by a political risk analysis (PRA) method.

After exploring the different methods for analyzing political risk, we found that the 'step-based' method best served our purpose doing an industry-specific micro-risk analysis of E&P operations. As the 'step-based' method provides individual steps for identifying and exploring each variable, it is well suited for making the causal model operational and facilitates analysis of the causal relationships between the variables.

By providing an initial analysis of the assets at risk, we were able to tailor the political risk analysis to our particular focus on the E&P sector. It also provided us with the parameters necessary to be able to identify the particular risk-events. By limiting the analysis to conflict risk as a sub-category of political risk, we were able to identify and maintain focus on the most relevant risk-events to E&P operations in areas of armed conflict. By identifying this set of risk-events we were able to clearly define a dependent variable which allowed for further analysis of the variables in the causal model.

This facilitated the identification of relevant risk-actors, which provided our analysis with the intermediate variable between the causal and the dependent variables, and allowed us to interlink particular risk-events to the risk-factors. By analyzing the risk-factors in terms of a causal variable representing the actors' choices and a causal variable representing the structural environment they're operating within, we were able to examine the conflict risk-

events both as the outcome of the actors' strategies and as the product of the structural characteristics of their environment. By integrating risk management into the analysis as an exogenous variable, we could analyse how the risk affected companies can reciprocally influence the risk-events they are exposed to.

On the basis of the analysis we were able to develop causal sequences on the relationships between the analytical variables. This allowed us to explain particular risk-events (dependent variable) as the causal product of specific risk-factors (causal variables) with the causal effect being transmitted through specific risk-actors (intervening variable), which resulted in particular risk management (PRM) strategies (exogenous variable) being utilized by the risk affected company. On the basis of our causal analysis we were also able to construct three risk indicators that provide data on the exposure of conflict risk to E&P operations. Finally, on the basis of the complete political risk analysis we were able to forecast future conflict risk by creating particular contingencies and assess their plausibility of emerging accordingly.

Applying the method to our case of Shell's E&P operations in the Niger-Delta, we found that Shell is particularly exposed due to its high visibility, thousands of personnel, and extensive infrastructure. They have been exposed to a range of conflict risk-events genrated by ethnic-militias, ethnic-advocacy groups, cults, local communities/community-militias. These have targeted Shell and other oil companies as a way of gaining access to oil revenues and related benefits. Shell initially attempted to manage these risks by relying exclusively on government and community protection, but as such strategies were often counterproductive they have increasingly aimed at engaging stakeholders more productively.

On the basis of our political risk analysis we developed causal sequences linking the risk-events, to the risk-actors, risk-factors, and risk management of Shell's operations in the Niger-Delta. The analysis also allowed us to construct risk indicators, finding that government elections, oil prices, and ethnic patronage provide us with the most appropriate indicators for monitoring the exposure to conflict risk for E&P operations. On this basis we forecasted future conflict risk-events to Shell's E&P operations in the Niger-Delta, finding that until 2014/2015 the most likely significant risk-event is from bunkering and piracy, but will in the election years shift to a higher likelihood of risk-events such as the targeting of energy-infrastructure and armed conflict, and a lower likelihood of bunkering and piracy.

In essence, we have used a case-study of Shell's E&P operations in the Niger-Delta to explore how we best can analyse political risk to E&P operations in areas of armed conflict. In doing so, we have offered a methodological framework which has allowed us to analyse the variables involved in such political risk. As a result, we were able to offer hypothesis with a high degree of internal validity (certainty) and an in-depth analysis on causal mechanisms on conflict risk to Shell's E&P operations in the Niger-Delta. However, our analysis is less able to offer any general conclusions and magnitude of causal effects for the larger class of similar units (i.e. conflict risk to E&P operations). Nevertheless, as we have based our premises on statistical data and theories specifically relating to the oil industry, we presume that our conclusions on the causal relationships between the variables are transferable to this larger class of units, but this remains to be tested.

However, our study is able offer a political risk analysis (PRA) method well suited for analyzing the political risk to E&P operations in areas of armed conflict. This would prove beneficial to E&P companies operating in conflict areas, such as Shell and ExxonMobile in Iraq, Eni in Libya, Petronas in Sudan, 'Chinese National Oil Company' in Ethiopia, 'Africa Oil' in northern Somalia, BP in Colombia etc. As new oil reserves are increasingly discovered in countries in (or with the potential for) armed conflict, this study would accordingly provide a productive approach for E&P companies pursuing such operations. Although the causal variables may interact differently from our case of Shell in the Niger-Delta, our method enables the identification of variables that inevitably must be present (risk-events will not materialize without risk-actors and risk-factors), and provide a method for analyzing theses variables. Academically, our causal analysis of the armed conflict in the Niger-Delta could prove a fruitful basis for further research on the relationships between oil production and armed conflict, as well as on management strategies for E&P companies operating in such areas.

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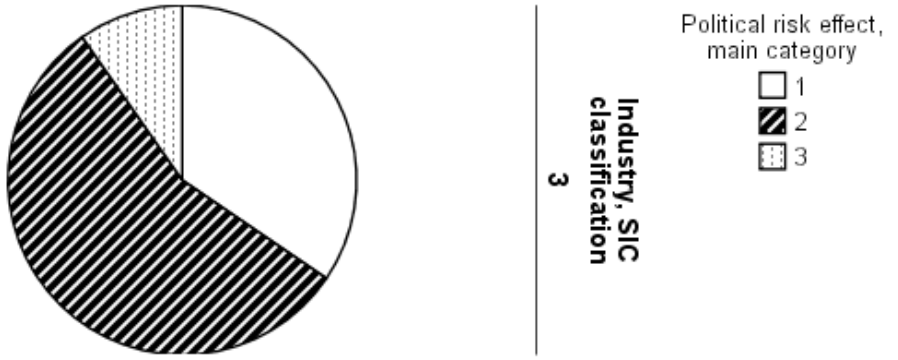
Appendix

Figure 3.

eff Political risk effect, main category

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	39	11.7	34.5	34.5
	2	63	19.0	55.8	90.3
	3	11	3.3	9.7	100.0
	Total	113	34.0	100.0	
Missing	System	219	66.0		
Total		332	100.0		

Distribution of political risk in the oil and gas industry

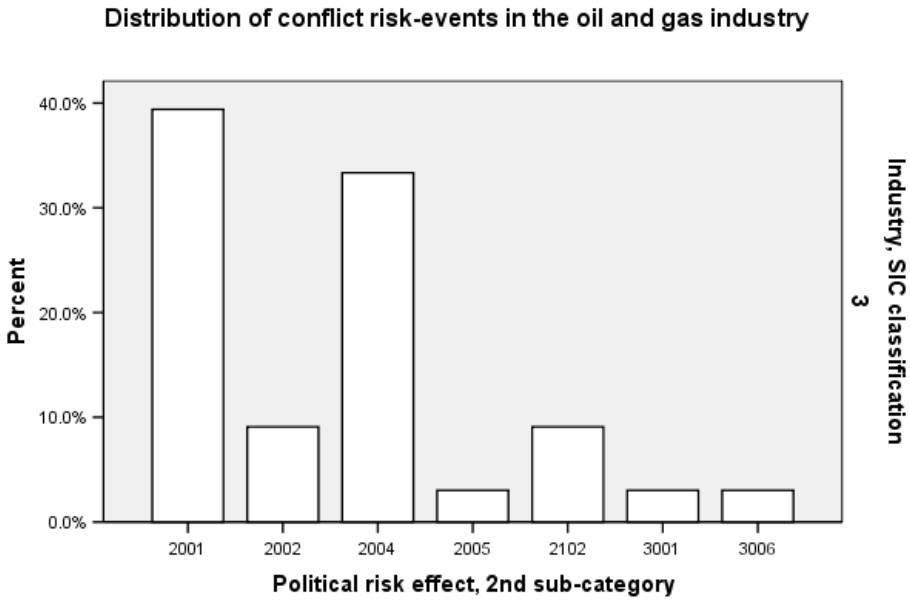


1: Government intervention (34.5%) 2: War and unrest (55.8%) 3: Non-governmental actions (9.7%)

Figure 4.

sseff Political risk effect, 2nd sub-category

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2001	26	7.9	39.4	39.4
	2002	6	1.8	9.1	48.5
	2004	22	6.7	33.3	81.8
	2005	2	.6	3.0	84.8
	2102	6	1.8	9.1	93.9
	3001	2	.6	3.0	97.0
	3006	2	.6	3.0	100.0
	Total	66	20.1	100.0	
Missing	System	263	79.9		
Total		329	100.0		



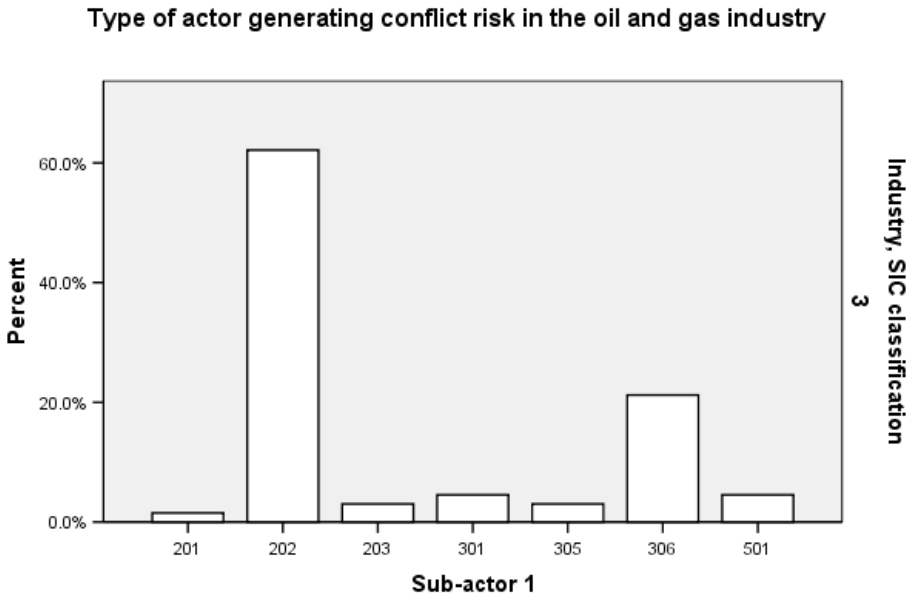
2001: Sabotage/terrorism/armed attacks (39.4%) 2002: Insecurity (9.1%) 2004: Kidnapping (33.3%)

2005: Intervention (3.0%) 2102: Protests (9.1%) 3001: NGO act. (3.0%) 3006: Legal reps. (3.0%)

Figure 6.

subact_1 Sub-actor 1

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	201	1	.3	1.5	1.5
	202	41	12.5	62.1	63.6
	203	2	.6	3.0	66.7
	301	3	.9	4.5	71.2
	305	2	.6	3.0	74.2
	306	14	4.3	21.2	95.5
	501	3	.9	4.5	100.0
	Total	66	20.1	100.0	
Missing	System	263	79.9		
Total		329	100.0		



201: Terrorists (1.5%) 202: Militants (62.1%) 203: Criminals (3.0%) 305: Unions/workers (3.0%)

301: NGOs/activists (4.5%) 306: Local communities (21.2%) 501: Foreign states (4.5%)