



The business contribution to sustainable African development

Sir Philip Watts

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SIR PHILIP WATTS has been Chairman of The "Shell" Transport and Trading Company plc and of the Committee of Managing Directors of the Royal Dutch/Shell Group since July 2001. He has been a managing director of Shell Transport and a Group managing director since 1997.

His functional and geographical responsibilities as a Group managing director are: Human Resources; Legal; International Directorate; Strategic Planning, Sustainable Development and External Affairs; the United States; Sub-Saharan Africa.

He joined Shell in 1969 and worked in Indonesia, the UK, Norway and the Netherlands. In 1991 he went to Lagos as Chairman and Managing Director of the Shell Petroleum Development Company of Nigeria, returning to The Hague as Regional Co-ordinator Europe in 1994. From the beginning of 1996 until becoming a managing director, he was director of Planning, Environment and External Affairs for Shell International in London.

Philip Watts was born in 1945 in Birstall, Leicestershire, England. He graduated from Leeds University with a BSc in Physics and an MSc in Geophysics. In between these two degrees he taught in a secondary school in Sierra Leone for two years. He is married and has a daughter, a son and three grandchildren.

He is chairman of the World Business Council for Sustainable Development and of the UK chapter of the International Chamber of Commerce. In January 2003 he was knighted for services to British business and in recognition of his role in the WBCSD.

His interests include reading and gardening.

Supporting sustainable African development is not just a moral imperative, but essential for a stable world and to maintain faith in the global market economy. It is important for safeguarding exports of secure energy to diversify supplies for the United States and other consumers. African people and their governments must shape and drive their own development. However, failures of governance have been a barrier to progress. Change is coming from within Africa but other governments and international organisations can stimulate and support this. International companies can make an essential contribution to development – primarily by undertaking their businesses efficiently, profitably and to high standards. But they will only be accepted if they are seen to contribute to the community. The Royal Dutch/Shell Group is a major investor in Africa and Shell companies use the framework of sustainable development – taking account of social and environmental considerations, as well as economic – for thinking about this contribution. They emphasise transparency and working with others. They contribute mainly through their business activities – providing modern energy, extending capabilities and safeguarding the environment. This is augmented by focused social investment.

The UNDP 2003 Human Development Report paints a stark picture of the state of African development. It records that Sub-Saharan Africa “is being left behind. Almost across the board the story is one of stagnation. Economies have not grown, half of Africans live in extreme poverty and one-third in hunger, and about one-sixth of children die before age five – the same as a decade ago. And because of population growth, the number of people suffering increased considerably in the 1990s.”

This stagnation matters – not just for the lives of 650 million Africans – but for all of us. It matters to us as human beings, and also as policy makers and business people.

It matters because leaving a tenth of humanity behind corrodes faith in our economic system based on competitive enterprise and open markets. The fairness and effectiveness of a system that allows such growing disparity is increasingly questioned – in developed as well as developing countries. Africa is truly a test case.

As someone who believes passionately in the contribution of international business as a creator of wealth and motor of progress, I am deeply concerned about those perceptions. I believe that business can only succeed if we are

trusted. And that everybody suffers – particularly those most in need – if we are not.

But Africa’s stagnation also matters for other very practical reasons.

Such disparities of fortune make our increasingly interconnected and interdependent world a more dangerous place. And they put at risk the shared benefits of trade – such as the exports of oil and gas from Africa which enhance the diversity and security of US energy supplies. West Africa provides around 15% of US oil imports – which could rise to 25% over the next decade. Liquefied natural gas imports from Africa will also become increasingly important.

Shell is deeply involved in this energy flow, particularly through our long-standing operations in Nigeria, where we have also learned much about what is required to contribute in Africa. I will come back to that.

Despite such lacklustre progress, I believe that the western image of Africa as a lost continent is changing. There is increasing recognition of the unfulfilled potential from its wealth of human talent, natural resources and biodiversity.

African people and their governments must shape and drive their own development. Good governance is an

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essential foundation. Failures of governance – and the resulting conflicts and corruption – have been a barrier to progress. I believe that change is coming from within Africa, for example through the New Partnership for Africa's Development.

I was recently in Nairobi – meeting senior Shell executives from across the continent – and saw how the Kenyan government is working to improve transparency and tackle corruption there.

But others have a vital role in supporting and stimulating this progress – as President Bush did in his recent visit.

Good governance includes establishing the stable legal and regulatory frameworks that will encourage local enterprise and foreign investors. It is a paradox that business regulation can be far more burdensome in poor countries than in rich ones. A recent World Bank study showed that it takes 215 days to start a business in the Democratic Republic of the Congo compared with just two in Australia.

And African capital markets need to be strengthened. I know that President Bush recently announced an initiative on this.

But we also need to ensure that the trade system is not weighted against poor countries. The failure to move forward at Cancún on agricultural subsidies – on which Europe and North America spend more than Africa's GDP – was disappointing.

But the question for me is how international business can contribute.

Valuing investment

I start from the premise that foreign investment offers great benefits – meeting needs, creating productive assets, building capacity and developing global links.

It is a great fallacy that countries are poor because of the presence of international companies. Rather least developed countries suffer from attracting too little investment – less than 3% of what goes to developing countries as a whole. Although investment in these countries has been rising, while

government aid falls.

Clare Short – a former British Foreign Development Secretary – shocked some by arguing that attracting private investment was the only way for developing countries to achieve the economic growth necessary to reduce poverty.

But such investment will only contribute – and deliver long-term business success – if companies are seen to meet people's needs. This matters everywhere. But it is particularly important in developing countries. Development is a process of creative destruction – replacing old ways with new. It is difficult enough to manage the inevitable tensions in rich countries. We all know the problems as mature industries decline and redundant occupations disappear. It is much more difficult to do so in poor ones.

If business activities in such countries aren't seen to meet local needs they will not be accepted. And the resulting conflicts will harm both the venture and – in our global village – the reputation of those involved with their customers, employees and shareholders elsewhere.

For extractive industries there is the added problem that the revenues go directly to governments and local people may not see any benefits. The problems that can arise from such large and volatile revenue flows – the so-called 'curse of oil' – are well documented. The important word, of course, is 'can'. Properly managed such revenues can also fund welfare and support development.

Companies help by maintaining high standards. But international institutions also have an important role in supporting governments.

Contributing as a business

Let me focus on the business contribution to sustainable African development.

Please excuse me if I do so by talking about Shell. We have learned how difficult it is to make such a contribution. We think about it a lot but we

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certainly don't claim any particular wisdom. So I hesitate to offer any general prescriptions. And we all learn from the experiences of others.

Shell has been working in Africa for a century. We have businesses in 38 African countries – supplying the modern energy required for progress and commercialising resources to support development. We have \$6 billion worth of assets in Africa and invested over \$2 billion there last year. Our businesses employ more than 10,000 people, with many more engaged in our operations. Shell companies are deeply rooted in their communities.

As for me, I have been engaged with Africa since I went to Sierra Leone as a young teacher. Twenty-five years later I had the challenging but rewarding task of leading Shell in Nigeria. Then, as a Managing Director, I was responsible for Shell businesses in Africa for some years, and have just renewed that responsibility.

In the mid 1990s Shell companies needed to respond to strong external challenges – including about our activities in South Africa and Nigeria.

We started by trying to understand how people's expectations of business around the world were changing.

This included engaging with critics about their concerns. This engagement remains a key part of our approach, together with transparency and working with others.

On the basis of that understanding we added two new commitments to our business principles – to contribute to sustainable development and to support fundamental human rights. We also put sustained effort into embedding these principles in our organisation and processes. And we developed a comprehensive assurance process to monitor compliance throughout our operations.

People without experience of management often think this is straightforward – that it happens by executive fiat and any failure can only be by design.

Of course, it's not that simple –

particularly for an organisation that does business in 145 countries, in complex and fast-moving businesses, working with many different partners and contractors.

For example, we prohibit giving or receiving bribes, including facilitation payments. But, as well as our own staff, we also need to make sure that our agents, contractors and suppliers don't do this. We work hard to make this prohibition absolutely clear and take firm action on any breaches – although we know how difficult it is to overcome cultures of corruption.

This is one of the most important things foreign investors must do to support African development. I also believe that we gain everywhere in the long term by taking this stand.

Fulfilling our commitment to support fundamental human rights starts with how we treat our own employees and our relationships with those who live near our operations. We may also need to make representations to government or, where necessary, to speak out. And, of course, this also affects our decisions on whether to go into an operation or to withdraw from one if our principles cannot be upheld.

I mentioned being transparent. We recognise that this should include revenues paid to governments. However, we think this can only be done with their agreement. So we are supporting the UK government's *Extractive Industries Transparency Initiative* which is working to convince governments to allow such disclosure.

We are making progress. For example, Shell Petroleum Development Company of Nigeria now reports the taxes and royalties we pay there ... reflecting President Obasanjo's commitment to revenue transparency.

We use the framework of sustainable development – taking account of social and environmental considerations, as well as economic – for thinking about how we contribute to the community.

Of course, we do this mainly through our business activities. But this is augmented by focused social investment.

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And, although this is very much smaller than our business investment, we aim to do it with the same professionalism.

Pursuing sustainable development is a difficult journey. It requires tough choices and continuous learning. And that means learning from our mistakes. For example, we have learned much – and changed much – in Nigeria.

Responding to challenges

We continue to invest very heavily in developing Nigeria's major oil and gas resources.

These include an important new deepwater province where we will bring the Bonga field on stream – as the first production hub – next year.

The Nigerian Liquefied Natural Gas plant has been a remarkable success. The fourth and fifth trains – which will make it one of the world's largest – are under construction.

Gas from the plant is already being delivered to US customers. And it will be supplied much more widely through the import capacity we are building up – including Shell's recently announced plans to create the 'Gulf Landing' storage and regasification terminal offshore in the Gulf of Mexico.

As well as boosting Nigeria's economy this is helping us to fulfil our commitment to end routine gas flaring there.

We have invested heavily to upgrade the environmental standard of our Nigerian facilities and greatly improved our environmental impact assessments.

On behalf of the joint venture, Shell Nigeria spends some \$60 million a year on community programmes. We are also improving how we do this. Rather than just giving people what we think is good for them, we have learned that we need to help them help themselves. And that we do this much better by working with local and international partners – and by allowing others to judge our performance.

I am very pleased that two important new partnerships – with USAID and Africare – have been announced here in Washington today.

The partnership with USAID is the largest under the agency's Global Development Alliance and will invest \$20 million in developing Nigerian capacity in such areas as agriculture, health and business enterprise.

The partnership with Africare will establish a \$4.5 million health care programme – focusing on reducing deaths from malaria.

Working with such experienced partners is important for developing the quality of our programmes.

Let me go on to look at how we are trying to raise our game across Africa, touching briefly on three areas – providing modern energy, extending capabilities and safeguarding the environment.

Delivering energy

Africa needs increasing supplies of modern fuels – and the infrastructure to distribute them – to support development, improve health and safeguard the environment.

As the largest fuels marketer, we are working in the *Partnership for Clean Fuels and Vehicles* to phase out lead and reduce sulphur in diesel – the two most important steps for reducing vehicle emissions in developing countries.

A more pressing need is to replace the traditional domestic wood stoves which are a major cause of early death from lung disease – particularly of women and children – and of environmental degradation.

We market alternatives such as kerosene, bottled gas and solar power. But if modern fuels and equipment are to get to consumers there must be a local commercial infrastructure.

The Shell Foundation is helping to develop this. The Foundation is an independent, grant-making charity which creates partnerships to achieve sustainable solutions. Although completely separate from our commercial interests, it gains strength by working with Shell companies. Over 40% of its grants have been in Africa.

In Uganda and South Africa the Foundation has helped to establish

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funds – of over \$10 million in total – to support smaller energy companies.

Extending capabilities

One of the most important contributions international companies make is by extending capabilities. Again, there is no simple ‘magic bullet’, rather a myriad of small things that continue to make a difference.

I believe that Shell companies have a good record of developing the skills of their African employees – supporting education, providing high-quality training and extending experience through overseas assignments. Some 450 of our African staff are presently developing and sharing experience by working in other Shell operations.

But we haven’t done enough to bring forward African leaders. So we are undertaking a new programme to remove barriers to progress and focus leadership development on the particular needs of our African talent pipeline.

Shell companies have been responding to the dreadful scourge of HIV/Aids for a decade. But last year we introduced more focused guidelines, including

- awareness education,
- no discrimination for those affected,
- medical treatment for employees and their dependants,
- support for health education, and
- working with others to support wider action.

For the sake of those involved we need to get this right. So we’re testing this approach first in five African countries. Next year we will implement it across Africa.

We are also working with UNAIDS to apply our experience of using planning scenarios to help thinking about how to tackle this complex catastrophe.

As well as developing the capabilities of our own people, we need to do more to help our business partners, contractors and suppliers. In Nigeria, for example, we have helped establish a \$30 million fund to provide revolving credit for our small contractors. We are also putting increasing emphasis on

empowering women there – providing training, micro-credit and infrastructure to help them develop businesses.

Another important drive is to support education. In Nigeria, educational support includes awarding some 3,500 secondary school and university scholarships. In South Africa, the focus is on developing teaching capabilities – particularly through a Shell sponsored centre for science and mathematical education at Durban University.

Shell South Africa also runs a scheme for encouraging and supporting young entrepreneurs – based on the LiveWIRE programme we have run very successfully in Britain for 20 years.

Protecting the environment

We are giving increasing attention to supporting social improvements, but we don’t forget that safeguarding Africa’s environment is at the heart of sustainable development.

I recently announced new Shell commitments on protecting biodiversity. So let me give one example, our partnership with the Smithsonian Institution in Gabon, which developed out of a previous collaboration in Peru. This is undertaking research into the impact of oil and gas development on biodiversity – to develop a methodology for assessing this and ways of minimising it.

Playing an essential part

To sum up, I believe that supporting sustainable African development is not just a moral imperative for us all, but essential for our own security – including energy supplies – and to maintain faith in the global market economy.

The most important need is to help African countries achieve good-governance – including the stable legal and regulatory frameworks that will encourage local enterprise and foreign investors.

International companies have an essential role in that development. This comes primarily from undertaking their business activities efficiently, profitably and to high standards. But they will only be accepted if they are seen to contribute

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to the community.

As well as working in ways that meet local needs – developing capabilities – this may involve direct investment in the community. Every company has to make up their own mind what is appropriate.

I said something about our approach in Shell and gave some examples of what we are doing.

They demonstrate one reality of development. There are no instant, grand solutions. By its nature development is local and long-term. It depends

on constant learning and working together. A bit like successful business really.

We can only make a contribution.

I say ‘we’ but for Shell in Africa that means our African employees who make it happen – often in very difficult circumstances – building our businesses and helping to create a better future for their own communities.

Seeing what they achieve gives me confidence that Africa can get on the road to sustained development.

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