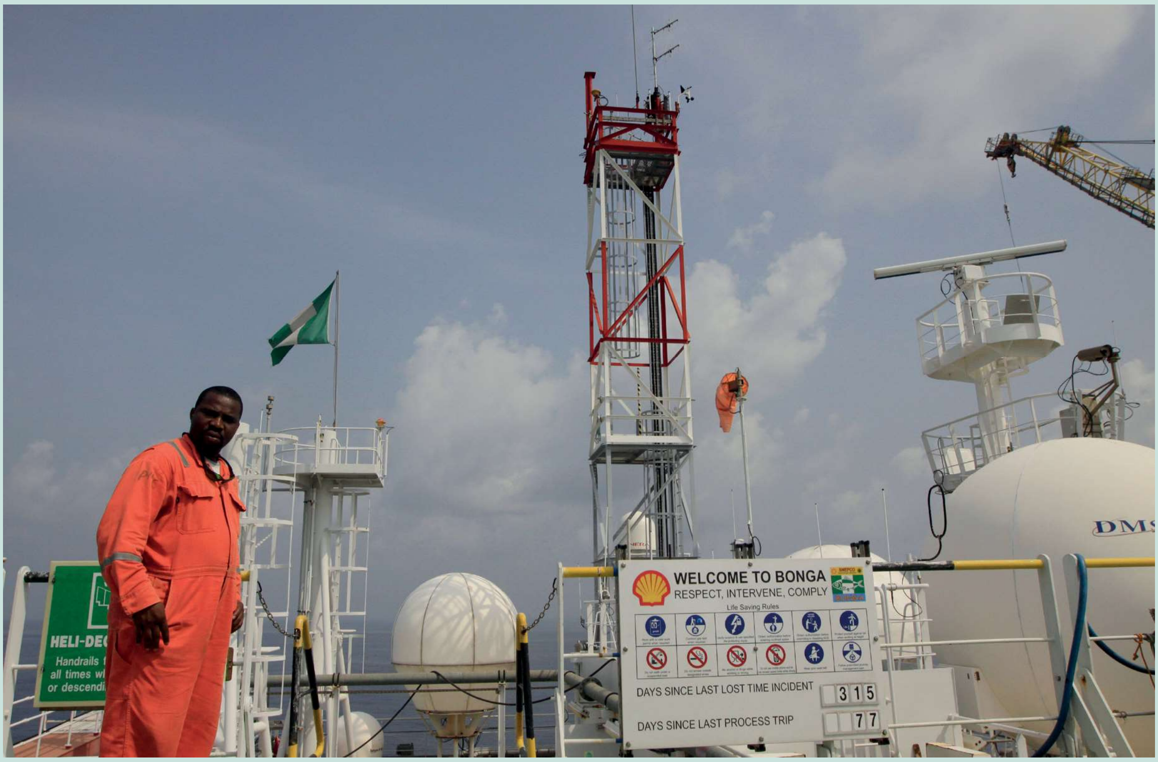
Global society 6.2 Big oil, Nigeria and the OPL 245 deal

Two of the world's largest oil companies, Dutch Royal Shell and the Italian firm ENI, are accused of entering into a deal with Nigerian government officials that would mean the people of Nigeria – a country with some of the highest levels of extreme poverty in the world – losing out on billions of dollars in oil revenues (Global Witness 2018). Since December 2018, a Milan court has been assessing charges of corruption against the two companies.

The scandal centres on a deal between Shell/Eni and Nigerian government ministers for a licence to develop a deepwater oilfield – OPL 245 – that is estimated to have 9 billion barrels of oil. The deal dates back to 2011, when Shell/Eni agreed to pay Nigeria US$1.3 billion for OPL 245. Rather than going to the Nigerian people, that payment actually went to a former Nigerian oil minister, Dan Etete, who effectively handed himself the oilfield in 1998 though his own company, Malabu Oil and Gas. The campaigning organization Global Witness has sought to show that Shell/Eni knew that their payment would go into private hands and to pay bribes, including to the then Nigerian president, Jonathan Goodluck, but continued to pursue it. Global Witness believes that the deal should be cancelled (Padmore 2018).

The OPL 245 deal was presented by Shell/Eni as a standard 'production sharing contract', in which a share of the profits from developing the field would go to the Nigerian government. Yet the agreement actually removed the state's profit share altogether, thereby potentially costing the country almost US$5 billion in profits that could have been used for public services and infrastructure projects. Global Witness (2018)



Dependency theory holds that Western transnational corporations moving into Africa and elsewhere in search of expanding profits are part of the active process of underdevelopment, which prevents developing countries competing on equal terms.

argues that this amount 'is equivalent to twice the country's annual health and education budget, or enough to train six million teachers.' For their part, the companies maintain that this was simply a legitimate business deal.

In 2019, Nigerian President Buhari was seeking damages of at least US$1 billion from Shell, Eni and Malabu Oil and Gas and looking to a commercial court in London to declare the deal invalid due to corruption. Nigeria is also suing the investment bank JP Morgan for financial negligence in mishandling state funds (Turner 2019). In March 2019, the Dutch Public Prosecutor's Office told Shell that it was preparing to prosecute the company on criminal charges that were either directly or indirectly linked to the OPL 245 deal (Holmes 2019). In 2020, prosecution lawyers sought a jail term of eight years for Eni's chief executive, Claudio Descalzi, the same for the former CEO, Paulo Scaroni, just over seven years for Shell's head of exploration and production, Malcolm Brinded, and ten years for Dan Etete (Munshi and Raval 2020).

Global Witness notes that the OECD has described the extractives industry as 'the most corrupt on the planet' on account of the secretive way that deals are done between companies and states. They suggest that, depending on the outcome, the Milan trial could lead to major changes in the oil and gas sector.

THINKING CRITICALLY

If corruption and fraud have taken place, is this a simple case of Western transnational corporations exploiting poor developing countries? What other factors are at play – individual, structural and global – that create the conditions in which corruption can thrive?

State-centred theories

Some of the more recent explanations of successful economic development emphasize the role of state policy in promoting economic growth. Differing sharply from market-oriented theories, state-centred theories argue that appropriate government policies do not interfere negatively with economic development but, rather, can play a key role in bringing it about. A large body of research now suggests that, in some regions of the world, such as East Asia, successful economic development has been state-led. Even the World Bank, long a strong proponent of free-market theories of development, has changed its thinking about the role of the state. In its 1997 report *The State in a Changing World*, the World Bank concluded that, without an effective state, 'sustainable development, both economic and social, is impossible.'

Strong governments contributed in various ways to economic growth in the East Asian NICs during the 1980s and 1990s (Appelbaum and Henderson 1992; Amsden et al. 1994; World Bank 1997). For example, some East Asian governments acted aggressively to ensure political stability while keeping their labour costs low. This was achieved by acts of repression, such as outlawing trade unions, banning strikes, jailing labour leaders and, in general, silencing the voices of workers. The governments of Taiwan, South Korea and Singapore in particular have engaged in such practices as a way of encouraging inward investment.

Similarly, East Asian governments have frequently sought to steer economic development in their desired directions. State agencies provided cheap loans and tax breaks to businesses that invested in favoured industries. Sometimes this strategy backfired, resulting in bad loans held by the government – one cause of the region's economic problems in the late 1990s. Some governments prevented businesses from investing their profits in other countries, forcing them to invest in economic growth at home. In some cases, governments have owned and controlled key industries. The Japanese government has owned railways, the steel industry and banks, South Korea has owned banks, and the government of Singapore has