

## Environmental and Ethical Hazards: A Case Study on Mitigation Framework for Oil fields

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### ABSTRACT

Environmental and ethical hazards may incur huge cost on oil explorations in developing countries. The main source of illicit business was the long distribution system, where pipeline vandalisms and crude oil thefts were widespread. This prevailing situation destroyed the ecological system, increased the operational cost, and shattered the image and economy of local community. This case highlights the ethical, environmental, economical and social issues around Oil fields. Mitigation Framework suggests remedial aspects including uplifting of socio-economical fabric, healthy corporate culture, community services and good governance. The motivation of this case study is to bring good governance and transparency for Nigeria's Oil fields.

**KEYWORDS:** ecological disasters, oil thefts, workplace ethics, onshore rigs security

### 1. INTRODUCTION

While leaning to her office chair, Halima Tayo Alao thinking about how to cope up with the prevailing illegal business practices at Oloibiri onshore oilfield of *PetroCon* located 75 kilometre east of Port Harcourt in the Niger Delta [1]. This field covers 13.75 square kilometer of land as a division of a larger oilfield designated OML 29. The members belong to various walks of the life and they had the passion to bring a change in society. Halima, in her late 30's, is a single mother with four —children. She has a Bachelor of Art degree in Education. She is a symbol of courage and hope in a notorious regime. At the age of 14, she was abducted near her secondary school and remained captive for over eight months. Later, she was rescued in a fierce military operation. Even after the ordeal and trauma she composed herself. Her father was the only source of comfort, who brought tranquility in her life. With his support she continued her passion for learning. Currently she is serving as an Assistant Director at Council of Anti-Corruption and Ethical Practice (CAEP), a nonprofit organization to combat corruption and unethical business practices in Nigeria.

It is a grim reality of the changing world that most of the African nations are under the spell of corruption. With the political instability in the region, foreign interests coupled with self centered political and bureaucratic figures lead to a regime with spectrum of unethical business practices [2][3][4][5][6][7].

#### CAEP organization profile

Council of Anti-Corruption and Ethical Practice (CAEP) is a nonprofit organization established in 1999, by a group citizen of Abuja, Nigeria. CAEP had consortiums with government organizations and foreign institutions. The council had run various programs to bring awareness and educate citizens about the malaise of corruption. Crimes such as bribery, extortion, embezzlement, cyber scams were also considered as an important subject of the council. The volunteers belonged to an array of professionals including teachers, lawyers, environmentalists, financial professionals and local elders. The council was primarily funded by donations. Through diverse training program this organization combated malaise of corruption in a very short span of time.

Following are the few success stories of CAEP:

1. Series of workshops conducted to address anticorruption endeavors at Small and Medium size Enterprises.
2. Incorporated Professional Ethics in the Curriculum of various academic levels.
3. Established a liaison Office for donor agencies, beneficiaries, governmental organizations and accountability bureaus.
4. Instrumented social and electronic media to wipe out corruption.
5. Conducted awareness programs at grass root levels such as school, colleges and factories.
6. Conducted seminars for the effective detection, investigation and prosecution of corruption cases.

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## 2. BRIEF GLANCE AT COUNTRY PROFILE

In a country with population over 180 million, numerous projects were introduced every year for infrastructural, health care and human resources development. The prevailing environment of feudalism, nepotism and corruption led the country to dismal economic conditions. Despite the fact that the country was rich in vast natural resources like fossil fuels, agricultural lands, forests, minerals and water resources, majority of the inhabitants were deprived of basic needs such as food, shelter, basic medical facilities and employment opportunities. Major reasons behind this gloomy picture of Nigeria's socio-economic condition included poor governance, lack of basic education and corruption. Let alone poor socio-economic conditions, Nigeria was infamous for various scams and frauds at global level [1][2][3].

### Nigeria's Oil industry: A historical and financial perspective

Nigeria is Africa's biggest oil producer and has world's ninth largest gas reserves. Oil was discovered in 1950s at Oloibiri onshore exploration facility after 50 years of exploration. The discovery was made by *PetroCon*. In 1980s the exploration rights were granted to foreign companies as well. Efforts to eradicate corruption in Nigeria's oil industry have always proved to be unsuccessful. Oil and gas exports of Nigeria make up around 85 percent of Nigeria's revenue. Funds have always been misused by the state owned companies [1][2]. An independent investigation in 1996 discovered that Nigeria faced a \$15 billion deficit in oil revenue due to the alleged involvement of government officials and oil sector in embezzlement and corruption. The government stated that about 4 million barrels of oil a day were stolen in just June 1996. In this oil theft, major contributor was *PetroCon*. According to sources, around 60 percent of the total oil theft in Nigeria's oil exploration companies was reported from *PetroCon*. Oil was stolen at a record rate from *PetroCon* and figures showed that the Nigerian government suffered heavy losses in foreign exchange earned whose major part depends on oil exports. Absence of regulatory authorities and lack of implementation on policies had brought the economy of Nigeria at standstill. The government had not done licensing since 5 years. The oil and gas industry bill, aimed at overhauling the industry, increasing transparency, improving regulatory bodies and introducing new fiscal reforms, had been pending in parliament for 15 years.

It was this time that the NGOs and anti corruption cells became active in a bid to eliminate evil of corruption especially in oil sector.

## 3. BRIEF REVIEW OF PETROCON

The *PetroCon* was a giant in oil exploration in Nigeria, established in August 1951. After 1995 when the organization was restructured under political pressure and foreign involvement, the production started to fall exponentially casting doubts on the company's stature and reputation. Ultimately it affected the economy of Nigeria. After the restructuring in 1995 on political basis, it became prone to corrupt practices and graph of company started to fall downwards. It was the backbone of Nigeria's oil industry. It was a major oil producer among other oil exploration companies in Nigeria. There was no accountability system in the organization. Hiring was done on the basis of nepotism of political leaders and govt. officials. Merit wasn't the criteria now for selection. There was lack of coordination among several departments of organization. Work place ethics was not taken care of [7]. The exploration and production time was increased than it was in past. Following the safety and environmental standards had now become uncommon. Corruption had become common in the organization from staff level to manager and director level. Illegal business practices were being carried out in the company. The politicians and officials started minting money out of the organization illegally. The company's profits started to decline and consequently converted into losses. It had become a liability for Nigerian govt.

### Halima's Concern

Halima was concerned over the alleged involvement of Hato Adele Managing Director of State-owned companies in illegal selling of various crude oil products. The local warlords had nexus with various key personnels, worst not to mention that government officials were also involved in the messy dealing.

### Illegal Business Practices and Corruption

The following corrupt and illegal business practices were being carried out in *PetroCon* after the 1995 restructuring:

#### 1. Conflicts of Interest

Conflicts of interest arise when employee's benefits collide with the organization's benefits. In *PetroCon*, employees started giving priority to personal benefits over company's benefits. They engaged in outside work and used to take bribes and gifts from vendors, distributors and contractors etc. Employees engaged in activities which gave birth to conflicts of interests in following ways.

- i. Outside work**  
Employees involved in business with competitors of their company due to which their own company's losses started to increase as shown in company's financial statements.
  - ii. Gifts and bribes**  
They started accepting bribes and gifts from external agents and government officials against the benefits of the organization for illegal activities.
- 2. Issuance of illicit oil rig permits**  
Employees used to issue illegal work permits for oil rigs which seriously damaged the profits and reputation of the company. It resulted in increase of oil thefts from the state owned storage facilities. It further damaged the reputation of the company. Foreign investors were reluctant to invest in *PetroCon*.
- 3. Oil bunkering**  
Employees were engaged in facilitation to govt. officials and politicians for oil bunkering activities. They used to take their commission out of it. Thieves used to drill into oil pipelines transported the crude oil and processed it domestically in make-shift refineries.
- 4. Illegitimate use of Company Records**  
Employees used their company's information, funds, machinery and other assets for illegitimate and illegal purposes on behalf of the company.
  - i. Confidential Information**  
Employees leaked out and disclosed confidential information of their company like business projections, oil reserve information and proposed business plans and acquisitions to outside personnel which resulted in damage to the company's benefits.
  - ii. Tampering company's books and records**  
Account books and records of the company were not kept intact and in original form. Rather the Managing Director used to twist and change all the records to legalize all the wrong doings. They used to make records appear in such a way that the illegal payment transactions were recorded in account books as if they were legal. They established illegal funds and expenses that did not originally reflect true figures.
- 5. Personal use of company's assets and services**  
Employees had started using company's assets like telephones, fax machines, plant machinery and services of lower staff for their own use and benefits. They exchanged the company's licensed software with the competitors free of cost and accepted bribes.
- 6. Non-compliance to Workplace ethics**  
The conduct of employees in work place was not according to company's values and ethics. They did not treat their colleagues with respect and dignity. Sexual harassment and violence at work place was also common. *PetroCon* did not enjoy intimidation and discrimination free environment. This ultimately resulted in a hostile and non-friendly work environment and affected the effectiveness of work force.
- 7. Absence of merit and equal employment opportunity**  
Recruitment was carried influentially on political basis. Company started to hire those people who were either relatives of politicians or govt. officials and neglected the policy of merit while selection. Policy of equal employment opportunity also was not taken into consideration [7].

#### **Causes of Illegal Business Practices**

Main causes of corruption and other illegal business practices include;

1. Lack of educational activities for youth
2. Weak infrastructure for local employment
3. Weak environmental regulatory policies and laws
4. Virtually no secure mechanism to combat oil theft

#### **4. PLAN OF ACTION**

In the morning of July 15, 2002, Halima entered the office of CAEP CEO Akim Chukwu with her immediate plan of action. She discussed the draft of official complaint to Chief Justice Supreme Court of the country about the prevailing corruption scenarios in the country. Akim Chukwu called a special meeting to address the issue with members of CAEP. On July 22, 2002 all 7 CAEP members gathered in the Akim Chukwu office. Halima brought initial findings about the illegal business practices. During the discussion with the members, she highlighted her research findings that how local warlords together with some of the high officials of were involved in drilling of thousands of Barrels of crude oil from various offshoots of reservoir. Due to the lack of basic educational, socio-economic, health care and human resources development facilities, illegal drilling became one of the lucrative professions by local dwellers. Local Villagers were hired for illegal logistic

supports. The officials even used state owned facilities for the storage and processing of the products. After presenting the dire situation to other members, she asked them to discuss the future strategy in order to get rid of the menace of illegal practices and corruption. Adili Essien was in favor of filing a formal petition in Supreme Court against the various agencies allegedly involved in heinous crimes including; state owned Accountability Bureau as an immediate action plan. Golu Oji shared her concerns over the influence of Crude oil Mafia on the governmental instruments. She further added that a long term strategy should be in place to mitigate such illegal practices. Yar'Adua, a former key accounts officer, chartered accountant by profession, in an onshore petroleum company, offered his services to initiate the financial analysis of the situation. George Madueke, with a degree in environmental sciences from Aboja University expressed her concerns over the environmental hazards which were a result of such activities. The illegal practice was not only affecting the governance of oil drilling but was also contributing to the various ecological mishandlings. The drilling violated the safe practices guided by national and international regulatory bodies.

The meeting ended by giving assignments to the individual members by CEO. Akim Chukwu assigned Halima to coordinate with other members and bring a detailed plan of action for August 04, 2002 meeting. On August 04, 2002, all members gathered in the CAEP conference room to discuss their mechanism. The meeting started with the vote of thanks by CEO Akim Chukwu. He reiterated the mission and vision statement of CAEP.

After brief discussion Akim Chukwu presented his action plan. After thanks, he expounded on filing a legal case against the higher officials of *PetroCon*. He presented a draft copy of the letter to the Chief Justice Nigerian Supreme Court, Mr Bako Ferry. The house was advised to consult with advisory team of CAEP. Golu Oji shed light on a long term strategy that should be in place to significantly reduce such unlawful practices. In her discussion, she highlighted the causes of prevailing corruption in the region. She further elaborated how to combat the crisis.

### **Causes of Corruption**

There are various reasons behind prevailing corruption in Nigeria including:

1. Foreign Interests  
Oil producing regions in the world have always been the focal point of interest for super powers of world. The foreign super powers do not want Nigeria to be stable and independent therefore they try to de-stabilize the country to take control of oil fields.
2. Poor Governmental Control  
Government machinery is poor in Nigeria as far as the implementations of regulatory policies are concerned. Like many poor African nations, the writ of government has been challenged on various aspects of governance.
3. Political Instability  
Lack of coordination among the various political parties and lack of consensus building on key issues of Nigeria as brought political instability in the country.
4. Religious and ethnic disharmony  
There was no religious and ethnical tolerance in Nigeria. Religious extremism was on its peak. Various ethnical groups were intolerant of each other and sometimes even resulted into violence.
5. Poverty
6. Warlords
7. Personal Interest Groups
8. Lack of Education
9. Lack of Transparency Tools

### **Combating of Corruption and Unethical Practices**

Corruption and Unethical Practices can be combated by following measures:

1. Energizing the Civil Societies
2. Tightening Governmental Control
3. Transparency Tools
4. Media Campaign
5. Bring Political Stability
6. Vitalizing Religious and Ethnical Groups for Interfaith Harmony
7. Poverty Reduction
8. Educational Reforms
9. International Embargos

Yar'Adua, a former chartered accountant by profession, offered his services to initiate the financial analysis of the situations. The initial working of Yar'Adua showed the public documents containing annual financial

reports showing various malpractices. He recommended getting help from accountability bureau for full investigations.

George Madueke, an environmentalist by profession, shed light on the grimy situation at the onshore facilities, storage and transport of the illegal products. He further added that if these conditions prevail for long, it will result in ecological disaster.

During the discussions members also expounded on the parameters that make certain the autonomy of anti corruption bodies (police, prosecutors and judges). Members also emphasized the need to empower civil societies to eradicate the menace of corruption from the country.

After the four hour meeting, the team decided to write official complaints to various concerned authorities including the President, Prime Minister, Chief Justice of Supreme and Chief of Accountability Bureau (Exhibit II).

In the response, CJ Bako Ferry took suo moto notice of complaint by CAEP regarding alleged corruption by Mr. Hato Adele and ordered the Secretary of Oil & Gas Regulatory Council (OGRC) to present report in 14 days. Bako Ferry also directed Secretary OGRC to constitute joint investigation committee, which was to look into this matter. He further directed the complainant to submit supporting documents with a formal application in the Supreme Court.

## 5. JOINT INVESTIGATION TEAM (JIT) FINDINGS

JIT findings contained that some higher officials of *PetroCon* including Mr. Hato Adele engaged in illegal business practices. Recommendations were made in the report that the formal case should be filed for corruption related offences. The report also canvassed the importance of corruption control at lower level.

On October 10, 2002 JIT declared Mr. Hato Adele as an offender in the crude-oil theft case. The Supreme Court issued orders to the authorities to present Hato and other defendants of the case before the court by November 30.

The Supreme Court ordered the authorities to collect and to seize accounts of *PetroCon* and its subsidiaries. It was also highlighted to trace and to integrate assets for further investigation.

Subsequently by the investigation by special unit of police anti corruption branch, the officers arrested Mr. Hato Adele. Later, he was bailed to appear at the Aboja Magistrates Court on December 22, 2002.

### **JIT recommendations to curb oil theft**

The committee also presented recommendations to curb oil theft and devised future strategies for it.

- A standing committee in national assembly should be formed to oversee the oil theft in oil industry of Nigeria
- An oil theft response agency should be formed which will be accountable to national assembly standing committee for oil theft.
- A joint force comprising of security forces and local residents of areas where oil pipelines are located, should be formed for monitoring dedicated areas from which oil pipelines are passing by.
- A campaign should be launched in order to bring awareness among the people about how to prevent and tackle the issue of oil theft.
- The govt. shall launch military operation in areas suspected of militants who found involved in oil theft.
- Effective communication system to be developed which will promptly inform concerned authorities about any oil spillage or oil theft.
- Govt. should strictly monitor the transportation of arms to militants involved in oil theft and should take all possible measures to stop it.
- Govt. should address the grievances of local communities and remove youth's alienation and reservations in oil-bearing regions.
- Govt. should play active role in development of communities and building infrastructure and schools in oil bearing zones.
- Oil companies should fix a particular quota for recruitment of local workforce in their industry.
- Barbed wires, fences and walls to be built around the oil-pipeline areas.
- Proper lights and CCTV cameras to be installed in desired areas.

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