

HEADLINE: Growing Unrest Posing a Threat To Nigerian Oil

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DATELINE: PORT HARCOURT, Nigeria

There are few safe places left for oil companies in the Niger Delta, the epicenter of this country's petroleum industry.

Armed rebel gangs have blown up pipelines, disabled pumping stations, and kidnapped over 150 foreign oil workers in the last year. Companies now confine employees to heavily fortified compounds, allowing them to travel only by armored car or helicopter.

One company has fitted bathrooms with steel bolts to turn them into "panic" rooms, if needed. Another has coated the pylons of a giant oil-production platform 80 miles offshore with waterproof grease to prevent attackers from climbing the rig.

The violence in the Niger Delta is likely to be one of the thorniest political problems for Nigeria's new president, to be chosen in the election April 21. Oil, after all, is the mainstay of Nigeria's economy, providing 65 percent of its revenue.

The events in Nigeria, the world's eighth-largest oil exporter, have rippled across energy markets, contributing to higher prices and tighter supplies.

[On Friday, gunmen attacked a boat carrying oil workers to an offshore rig in the delta, pushing up oil prices by more than \$1.50, to \$63.38 a barrel.]

The United States imports more than one million barrels of crude oil from Nigeria every day.

Many analysts warn that tensions here could derail plans to boost oil production in this country of 140 million people. Already, a quarter of Nigeria's oil output has been shut down, costing an estimated \$12 billion in lost sales in over the last year. Some foreign operators have abandoned oil fields, or left the country altogether.

"I can't think of anything worse right now," said Larry Johnson, a former United States Army officer who was recently hired to toughen security at a site here operated by Eni, an Italian oil producer. "Even Angola during the civil war wasn't as bad."

Violence is not new to the Niger Delta, a vast area of 40,000 square miles of swamps and creeks where the Niger River washes out into the Atlantic Ocean. The region, which produces most of the country's oil, is also one of the nation's poorest.

In the 1990s, there were occasional kidnappings. But at the time, recalled Chris Haynes, a senior Shell executive, "you could usually get them released for a few bags of rice or a cow."

Since January 2006, however, violence in the delta has surged. So far in 2007, there have been at least 18 attacks against oil facilities or bases in the delta, according to Bergen Risk Solutions, a consultancy based in Bergen, Norway.

And about 70 foreigners have been abducted in 2007, although most have been released within weeks in exchange for ransoms, typically hundreds of thousands of dollars. Oil companies find themselves in an uneasy position, stuck in a crisis that they, in a sense, helped create. For years, human rights groups accused them of turning a blind eye to the corruption of Nigeria's successive military regimes while damaging the environment in the delta.

Some companies have acknowledged these past grievances but say they changed after Nigeria returned to civilian rule in 1999.

Still, gas flaring into the atmosphere remains a serious problem despite a government deadline to end the practice by 2008; few expect that deadline will be met. Also, oil spills continue to spoil the delta's fragile environment. Energy executives blame locals for sabotaging their pipelines either to steal the oil or to gain lucrative cleanup contracts.

By all accounts, petroleum profits have brought huge benefits to this country's rulers, but few to its people. Oil companies typically keep 7 percent of the profits from oil sales; the government gets 93 percent.

Nigeria ranks as one of the most corrupt countries in the world according to Transparency International, a Berlin-based anti-corruption group; 70 percent of the country's population lives on \$1 a day or less. Life expectancy is 47 years.

Between 1960 and 1999, more than \$380 billion was stolen or wasted, according to Nuhu Ribadu, Nigeria's top anti-corruption official. In that period, the country produced over \$400 billion worth of oil.

In an effort to redistribute wealth, the government now gives 13 percent of the proceeds from oil sales to the producing states but there is little accountability of how these funds are spent. Much of it simply disappears, wasted by inefficient or corrupt local officials, according to a recent Human Rights Watch report.

The River States government, for example, had a budget of \$1.3 billion in 2006, the report said. It includes transportation fees of \$65,000 a day for the governor's office; \$10 million for catering, entertainment, gifts and souvenirs; and \$38 million for two helicopters. Health services received \$22 million.

"Oil companies are caught in an impossible situation," said Chris Albin-Lackey, a researcher with Human Rights Watch. "They cannot meet the expectations of the communities in which they operate. At the same time, you have a government unwilling to do anything about the delta."

Oil companies have all set up programs to build roads, hospitals or schools in their communities. Shell, for example, said it spends over \$100 million each year on social and health programs in the Niger Delta. Exxon, which has set aside \$21 million for similar projects in 2007, noted it had built 95 percent of the roads in the town of Eket, close to one of its operations.

But in the absence of government services, executives say their programs alone cannot buy them sustained peace.

"The government should really be the one who looks after everybody else," said Basil Omiyi, Shell's managing director in Nigeria. "I don't think the capital program of oil and gas companies can be the government in the Niger Delta."

John Chaplin, Exxon's top executive in Nigeria, said "The demands are limitless."

Critics say governments in Abuja, the country's modern capital, have neglected the delta region and blame oil companies for being complicit in a system that ignores the communities where the oil is produced.

"The situation here is deplorable," said John Owubokiri, an advocate for the rights of the delta states in Port Harcourt. "The people are being shortchanged."

That message is now being delivered in a more forceful way than the largely nonviolent militancy of the past decade. A new group, the Movement for the Emancipation of the Niger Delta, has emerged in the past year and claimed responsibility for many of the kidnappings and attacks against oil companies.

MEND wants more money for the delta states and has vowed to bring Nigeria's oil exports to a stop if its demands are not met.

"We are more than capable of escalating the violence," the MEND spokesman, Jomo Gbomo, who regularly sends e-mail messages to the media, wrote in response to e-mailed questions. The group, he said, is prepared for "a protracted military confrontation."

The violence has driven some companies away. Willbros, one of the world's largest independent contractors, left Nigeria last summer after nearly 45 years, because nine of its employees were held in the swamps for weeks. After their release, Willbros said the dangers in Nigeria "exceed our acceptable risk levels."

After one of Shell's big export sites was bombed in February 2006, the company abandoned its operations in the Western part of the delta and shut half its production, or 500,000 barrels a day. In early April, Shell outlined plans to restart production within six months. Meanwhile, the government has been unable to quell the unrest, security consultants said. "Nigeria's security forces are ill equipped, poorly led, unmotivated, and outgunned," said Ian Pilcher, the head of Nigerian operations for ArmorGroup, a British

security consultant.

But Nigerian officials say they do not want to escalate tensions by sending more troops to the region.

"It's definitely not a first option," said Edmund Daukoru, Nigeria's oil minister, referring to a more forceful military response.

The lack of security has created demand for private security firms to help oil companies make conditions safer for their workers who are adjusting to a new lifestyle. For example, Triple Canopy, an American security firm founded shortly after the Iraq invasion, opened its first office outside of the Middle East in Lagos last summer.

While the attacks against oil companies have slowed recently, replaced largely by election violence, few analysts believe the militant movement will disappear soon.

Just a few months ago, foreign employees in Port Harcourt, the center for oil operations in the delta, lived in apartments with their families and could relax at local bars, including one popular pub, Goodfellas.

But after a rash of attacks around town last year, families have packed up and gone home, while workers and executives have retreated inside fortified bases surrounded by high walls and razor wire.

On a recent evening, about a dozen men, mainly Italians, settled at the mess inside one such campus here operated by Eni to watch a live soccer game from Rome on satellite television. The 50-acre compound houses offices, dormitories, and some guest houses; there are tennis courts and manicured lawns, a swimming pool and a new gym.

There is also a large field for soccer games between the company team and local soldiers. The cook, the food and the wine come from Italy.

The Eni campus is an oasis compared with the rest of town, a chaotic cluster of five million people. But violence can visit here at any moment, as it did a few months ago when a cellphone-activated car bomb blew up just across the street.

"It's sad what is going on here," said Marco Castelli, a manager at Eni, who moved to Nigeria last June. After years living alone in far-flung places like Kazakhstan, Congo and Iran, Mr. Castelli was looking forward to a quiet family assignment in Nigeria. His wife was about to quit her job as a marketing executive for a drug company in Italy to join him.

But soon after he arrived, gunmen entered a bar in Aker Base, a slum outside of Port Harcourt, and kidnapped an Italian worker. An army sergeant was shot dead as he tried to stop the attackers. Later that day, soldiers returned to the scene and razed the village.

The hostage was released the same week, but shortly after that event Mr. Castelli's wife scrapped her plans to join him.

"The more the situation worsened," he said, "the more the restrictions became tough."

Still, many workers here say they are undeterred by the violence and few are considering leaving.

Antonio Fiore, an engineer with Eni, has been confined to the Port Harcourt base since December. In his three decades with the company, Mr. Fiore helped build a refinery in Iraq in the 1970s, worked on a petrochemical plant near the Iranian town of Isfahan in 1989, and spent time in Kuwait after the first gulf war. He has been posted in Nigeria for the last three years.

"What we're doing here is important," he said. "I have been in many critical areas. But for us, what happened last year was a nightmare."