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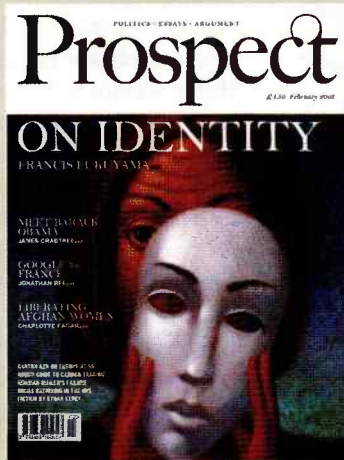
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FRANCIS FUKUYAMA

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opinions

RISE OF THE GRIPE SITE

BY DEREK BROWER

*How two men and a website
in Colchester humbled one of
the oil industry giants*

IT IS NOT the kind of place you would expect to find at the centre of a global energy war. John Donovan's office is in a modest house in a suburb of Colchester. No electronic maps of Europe adorn his walls, as they do the walls of Gazprom's Moscow control room. And nor are there any butlers bringing cups of tea and expensive biscuits, as you find at Shell's head office on the Thames. There is just Donovan's 89-year-old father, Alfred, in the room next door.

But it is the home of www.royaldutchshellplc.com, a website which can claim to have cost Shell billions of dollars—and helped Vladimir Putin score another victory over western energy interests. This is how.

At the end of December, the Kremlin's politically driven campaign to win control of a liquefied natural gas project on Sakhalin island came to its predictable climax. The deal signed in Moscow between Shell and Gazprom saw the Russian company take 50 per cent plus one share of Sakhalin Energy, the consortium developing the project.

It was an offer that Shell and its two Japanese partners on Sakhalin could not refuse. The project, on a remote island notorious for its harsh winters, is one of the largest ever attempted. Sakhalin Energy will produce 9.6m tonnes per year of liquefied natural gas and 180,000 barrels per day of oil when it comes on stream in 2008.

But Sakhalin ran into serious problems. The most important was its esca-

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lating costs. Last year, Shell reported that the price of the project had doubled to \$20bn. Insiders tell me that the figure is now closer to \$26bn.

That would not be such a big problem if it weren't for the production-sharing agreement (PSA) that governs the project. PSAs are typically offered by countries that are desperate for oil majors to invest. To entice the companies, PSAs state that the host nation will only get a share of the profits once the developer has recouped its costs.

In the mid-1990s, when Shell signed the contract, the oil price was low and Russia was on its knees financially. Moscow needed the expertise Shell offered. But by the time Shell was announcing a doubling of costs on Sakhalin, President Putin was rather less respectful of foreign energy companies. The cost increase—which post-



Part of the Sakhalin island project

poned, some said indefinitely, the moment when Russia would profit from the production of its own energy reserves—was too much for impatient officials in Moscow.

To get control of the project, the Kremlin, much to the joy of animal welfare and environmental groups outside of Russia, suddenly got green. It unleashed Rosprirodnadzor, the country's environmental watchdog, on Sakhalin. The alleged environmental abuses of the project—including deforestation, disruption of marine life, and careless infrastructure across an earthquake-prone region—are so bad that they "threaten to make Exxon Valdez look small," says one insider.

Oleg Mitvol—the deputy head of Rosprirodnadzor, who was entrusted with the job of bringing Sakhalin Energy to heel—had by last December accumulated sufficient evidence of Shell's and its partners' abuses to lay

charges against the consortium amounting to \$30bn. There were also threats that the licence to develop the project could be removed.

With the green gun at its head, Shell allowed Gazprom to take control of the project—giving Russia an immediate share of profits and oversight of costs. Taking the role of the humiliated man seriously, Shell's head Jeroen van der Veer thanked Putin for helping to resolve the conflict.

What most astonished Shell was the detailed inside knowledge Mitvol had accumulated about the company's abuses. Some in the company suspected industrial espionage. But it was actually information that the Donovans of Colchester were passing to Mitvol. The two men had received detailed material about Shell's ecological abuses on Sakhalin: a catalogue of corner-cutting, mismanagement and efforts to cover up damaging evidence. They say they got this information from Shell insiders. Mitvol clearly trusted the material, and in December he admitted for the first time publicly that his deep throat on Sakhalin was John Donovan.

The Donovan website has become an open wound for Shell. The Anglo-Dutch giant has tried to shut it down on the grounds that it uses the company name. However, as www.royaldutchshellplc.com makes no money, this hasn't worked.

"We wanted it to become a magnet for people who had a problem with the company," Donovan told me when I visited him recently. It has. The Ogoni tribe of Nigeria uses the website to spread information about Shell's activities in the Niger delta. And unhappy Shell insiders frequently post on the site's live chat facility.

"I've also heard that Athabasca Sands in Canada has some serious cost problems developing," wrote one anonymous contributor in December. "Anyone know if that is true or not? If so, Shell is really on the ropes, with Canada & Sakhalin over-budget, reserves shrinking & Nigeria production being lost by the day."

The site had around 1.7m hits in November. Its role in Shell's embarrassment on Sakhalin has raised its profile. Understandably, the company is worried about the information that leaks on to the website: Donovan says that it has taken out injunctions to stop at least one of its disgruntled geologists

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from posting on the site. He also says that his site and its whistleblowing insiders were well ahead of the pack on Shell's reserves scandal of 2003-04, when the company inflated its oil and gas reserves by some 20 per cent.

Donovan and his website have precursors. Another successful "gripe site," www.mcspotlight.org, has tracked McDonald's for years. It was founded after the famous McLibel trial that came to a climax in the high court in 1997, the fallout of which was a public relations disaster for the US fast food chain.

The best historical comparison with the Donovans and their fight, though, could be Ida Tarbell. One of the original "muckrakers," Tarbell's campaigning journalism against John D Rockefeller's Standard Oil, published in the early 20th century, eventually brought the company before the US courts. Antitrust legislation forced the break-up of Standard Oil into several smaller companies (Exxon, Mobil, Chevron and Amoco all rose from Standard Oil's ashes).

Tarbell's grudge began after Standard Oil had put her father's firm out of business. The source of John Donovan's grudge is similar, although it centres on the accusation that Shell stole intellectual property belonging to him and his father. They had been in the garage business since the 1950s and began selling ideas for promotions to attract customers to petrol stations. A typical scheme would involve a tie-in to a popular film. Shell liked the ideas that Don Marketing, the Donovans' company, sold to them, says Donovan, and sales increased by 30 per cent on the back of some of the campaigns.

Then, says Donovan, in the early 1990s, a new manager in Shell's promotions division started stealing the ideas. The men complained to the company's senior management but were ignored. Offended that a company with which they had worked for so long should treat them this way, the Donovans began their guerrilla war.

After various legal actions, Shell agreed to settle out of court, paying the Donovans a sum "in the thousands" as part of a "peace treaty" stipulating that neither party speak about the matter in future. The Donovans were disappointed by the sum—their claim had been for around £1m—but accepted "under duress." That was in 1999. But, says Donovan, Shell later broke the

NUMBERS GAME



PRICES GOING UP AND DOWN

The Bank of England monetary policy committee surprised the City in January with an increase in interest rates. If inflation reaches a percentage point above (or below) the target rate of 2 per cent a year, the governor of the bank is obliged to write a letter to the chancellor explaining why the committee has failed. And prices *are* going up faster than 2 per cent a year, hence the rise in rates to try to keep inflation in check. But which prices are going up, and in which sectors of the economy? Certainly not in retail sales, the products people buy in the shops. The average price of retail sales has fallen in every year since 1999. The average price in 2006 was 4.7 per cent lower than when Labour came to power in 1997, and virtually the same as in 1994, over a decade ago. Of course, in part the average price measures shifts in spending by consumers towards cheaper products as well as genuine price falls for the same product, but inflation in the shops has still been negative.

Prices are steaming ahead in those parts of the economy where competitive forces are weak or non-existent. For example, over one quarter of council tax bills now go not on services to the public, but on the gold-plated pensions of council officials. And council tax increases, backed by the force of law, proceed apace. Many of the former nationalised industry sectors—energy and transport—also feel few

constraints in raising prices, as the rail fare increases in early January show.

SHANE WARNE'S FAILURE

The debacle of the Ashes has come and gone. But things could have been even worse for England in recent years if Shane Warne had been less dedicated to the good life off the field. As a batsman, he notched up 3,154 runs in test cricket, by some margin the highest total in history that does not include a century. Warne made 12 scores of 50 or more, but never got to 100. He does of course hold the record for the highest number of wickets taken in test cricket: no fewer than 708. Only four other bowlers have even taken more than 500; Warne's main rival, Muttiah Muralitharan of Sri Lanka, is on 674. Yet in terms of runs conceded per wicket taken, Warne is not even in the top 50 test bowlers of all time, unlike his teammate Glenn McGrath and Muralitharan. McGrath also appears in the top 50 by strike rate—the average number of balls delivered per wicket taken—and Warne does not. Many of the all-time bests in terms of runs conceded and strike rates were set 100 years ago by English bowlers slaughtering weak opposition on rain-affected pitches. So perhaps McGrath, with a career total of 563 wickets, has a good case to be considered the greater of these two great contemporary Australian bowlers.

The Cruncher

"peace treaty" by making disparaging remarks about them.

So Donovan launched his website—which costs only around £1 a week to run. And thanks to the ecological problems on Sakhalin, Shell's poor record for bringing projects on stream on time and on budget and the power of the web, the Donovan grudge against Shell came to a spectacular climax in December.

Donovan is not worried that his site

became an instrument in the Russian government's ambition to become an energy superpower.

"Shell is not the worst oil company in the world," says Donovan, "but we feel they mistreated us very badly." Shell could have settled with the two men for £1m in 1998. Instead, Shell settled with the Russian government in December, with \$30bn in fines hanging over the company's head. ■