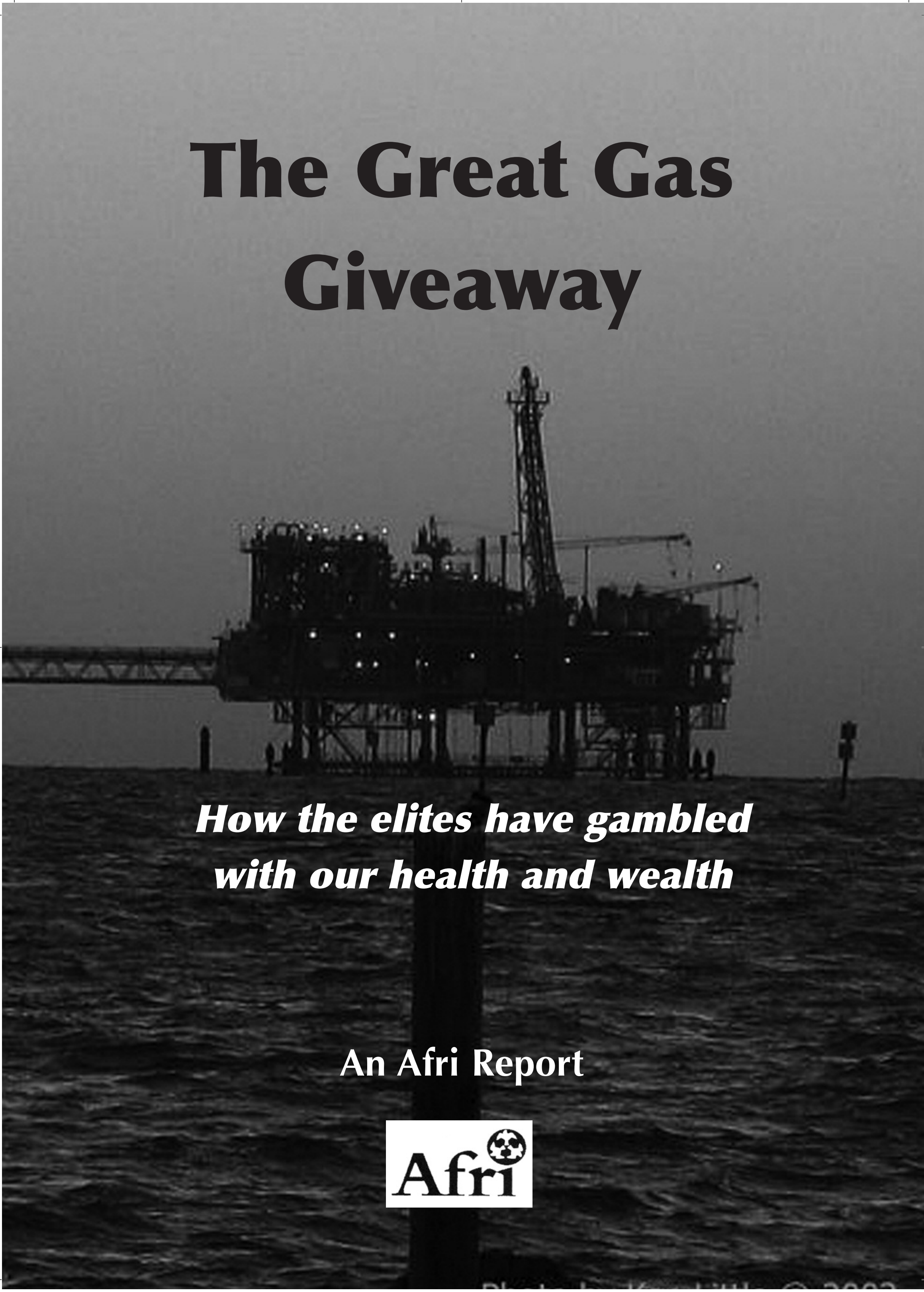

The Great Gas Giveaway

How the elites have gambled with our health and wealth

An Afri Report

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Afri

Giving away the gas

> "We gave the Corrib gas away and now Éamon Ryan is intent on giving away the remaining choice areas of our offshore acreage at less than bargain basement prices". [1]

An international study in 2002 found that only Cameroon took a lower share of the revenues from its own oil or gas resources than Ireland – ***the vast majority of countries demand that multinational oil and gas companies pay the state proportionately twice the amount that the Irish government is extracting from the Shell-led consortium that is exploiting the Corrib gas field.*** Ghana, for example, insists that the state-owned Ghanaian National Petroleum Corporation has a 10 per cent ownership stake in any resource find and the multinationals are also liable to a 50 per cent profits tax.

Ireland, by contrast, demands no state shareholding in any resource finds, nor does it demand royalty payments. A generous (to the companies) tax rate of only 25 per cent applies – and even that low tax rate only kicks in after a company's exploration and development costs (and the estimated costs of closing down the operation when the resources are depleted) have been recovered.[2] ***The Corrib gas field will probably be half depleted before any tax is paid at all.***

[1] Colm Rapple, Irish Mail on Sunday, 14th December 2008. The following section draws extensively from Colm Rapples's work (colmrapple.com).

[2] For larger and more profitable finds, a 40 per cent rate may apply in the future.

The state, through Bord Gáis, will also pay for the pipeline to link the proposed refinery at Bellanaboy to the national grid in Galway. The Irish government has, in addition, given Shell and its associates 400 acres of state-owned forest for the laying of the pipeline to the refinery, and has sought to further facilitate the corporations by expropriating private assets – local people's farmlands – through compulsory purchase orders. Add in the costs the state is incurring to police Glengad on behalf of Shell et al (the Garda overtime bill alone is enormous), and the generosity of the Irish government towards already wealthy companies (Shell's profits in 2008 were $31 billion) stands in even starker contrast.

It was not always thus. Under the 1975 Irish government strategy for energy extraction, the state would have held a 50 per cent shareholding in any oil or gas discovery, and the extracting company would have had to pay royalties of at least 8 per cent as well as tax at a rate of 50 per cent. Those terms were progressively relaxed during the 1980s and 1990s (most notably under the tenure of Ray Burke as Energy Minister) to the extent that economist and journalist Colm Rapple now describes them as "decidedly soft by international standards". The tax rate, for example, is 50 per cent in the UK and 78 per cent in Norway.

The Irish government claims that the favourable terms are worth it to ensure Ireland's energy security, ***but there is no necessity for Shell to sell the gas to Irish consumers – in fact, if they do us the favour of selling our own resources back to us we will be paying the full market price for them, the same price we currently pay for gas from the North Sea or further afield.*** The same will apply to any future discoveries, such as the Dooish project off the coast of Donegal on which Shell is willing to spend more than €100 million – on the basis that it can reap enormous profits by selling it back to us (the people who are its rightful owners in the first place). Indeed, they could choose, if they wished, to pump oil directly onto tankers and ship it abroad to the highest bidder.

An estimate in June 2007 put the value of Corrib gas at €14 billion. As gas prices have fallen somewhat since 2007, it may be that the total value is now less than that, but credible estimates suggest that the Corrib and other sites currently being explored could, taken together, yield some €50 billion in oil and gas revenues. If the Irish government were to take only a modest 10 per cent stake in these discoveries then the Irish exchequer would stand to gain a staggering €5 billion. ***Taking a 10 per cent stake in the Corrib gas field alone should certainly gain the exchequer at least €1 billion.***

We are simply giving away our gas – at a time when the state's finances are severely strapped. Reclaiming even a portion of the revenues that should rightfully be ours would obviate the need for the severe expenditure cut-backs now occurring and would allow us stimulate the economy to relieve the impact of the recession and boost employment. For example, the estimated cost of building the Metro North is €3.7 billion, a sum that could comfortably be financed from the revenues which should be accruing from the Corrib and other sites. ***Simply investing the €1 billion that would arise from a 10 per cent stake in the Corrib field alone would generate a revenue stream that would obviate the need for such penny-pinching measures as the closure of three wards in Crumlin Children's Hospital because of a €9.6 million deficit.*** The out-of-hours social service helpline recommended in the recent Monageer report, and which the government tells us we cannot afford, could easily be financed – its estimated cost is only €15 million. The €156 million savings from scrapping the Christmas social welfare bonus could readily be recouped by judicious investment of even a small proportion of what the government's stake should be in the country's oil and gas reserves.

The process of reclaiming oil and gas revenues for people, rather than for profit, is exactly what other governments are doing. ***A recent wave of resource nationalism has seen governments around the world take back control of natural resources which were previously in the hands of foreign companies.*** The following section shows how this has occurred in just three countries: Bolivia, Russia and Venezuela. ***In none of the cases did the affected companies (including Shell) walk away from their investments, despite their dissatisfaction with the new regimes.***

How they do it elsewhere

Bolivia

In Bolivia the nationalisation of the country's vast gas deposits was initiated by popular resistance during the 2003 'gas war' in which thousands of citizens took to the streets to demand the state take back control of the nation's gas reserves. The country came to a standstill and the army was dispatched to clear the streets, leaving 60 unarmed protestors dead. General outrage at the massacre of civilians forced President Gonzalo Sanchez de Losada out of office. His successor, President Carlos Mesa, promised a referendum which would allow citizens to express an opinion on the ownership and exploitation of the country's natural resources.

In July 2004 citizens voted Yes/No to five questions. Question 2 asked whether citizens agreed “that the Bolivian State should recover ownership over all hydrocarbons at the wellhead”. Voters said ‘yes’ to all five questions but it was question 2, on the ownership of hydrocarbons, which drew the biggest response, with 92 per cent of participating voters backing the proposal. The Mesa administration dragged its feet on the issue of enacting enabling legislation, sparking further protests in 2005 which forced Mesa out of office. Against this backdrop, Evo Morales, a coca farmer and socialist, was elected president in November 2005, promising to retake complete control of state energy assets. On May 1st 2006, President Morales issued Decree 28701, the decree of nationalization.

Article One of the Decree was unequivocal: “From this day onwards oil and gas companies engaged in production activities anywhere in the country are obliged to hand over all aspects of production to YPFB” (state energy company), ceding “total and absolute control” to the Bolivian state. Article Three announced a 180-day window of opportunity during which each company had the chance to draw up new contracts allowing them to resume productive activities under new regulations. Article 4 announced that gas fields over a certain size would return 82 per cent of revenues to the state (18 per cent royalties, 32 per cent energy tax, and 32 per cent additional income for YPFB). The foreign companies would pay for exploration and operation costs out of their 18 per cent share.

International commentators expressed displeasure; “We had hoped there would be a process of discussion and consultation before it (Bolivian government) adopted such measures”, complained the EU Commission. But ***there was no international backlash and the Bolivian government proceeded cautiously, paying out compensa-***

tion and rewarding compliant companies with fresh investment opportunities. Foreign companies, including Shell, agreed to the new terms. In fact, Shell stayed on even though Ashmore Energy International, its investment partner in Bolivia, rejected the new terms. On Aug 8th 2008, Shell accepted a compensation offer of $120 million for its 50 per cent stake in the nationalized gas pipeline company Transredes. The price was established by the Bolivian government.[3] Since the nationalization process was decreed in 2006 there have been problems and setbacks but the industry is moving on and state revenues are being funneled into badly needed social services.

Russia

In Russia President Vladimir Putin tackled the issue from a different angle, picking out breaches of regulations to halt and review operations and ultimately retake majority ownership of key fields. ***In December 2006 Russia's Ministry of Natural Resources published a 600-page dossier – prepared by environmental watchdog Rosprirodnadzor (RPN) – which listed alleged environmental violations by Shell and its project partners at the giant Sakhalin oil and gas field. More significantly, the Russian government announced that in the light of Shell's improper activities, the terms of the deal, signed ten years previously, would have to be renegotiated.*** The report gave legal and political cover to what was effectively a heave against Shell in the name of energy security.

Shell took the blow well, realizing that even a lesser stake in a large field is better than no stake at all. The state-owned gas giant Gazprom agreed to pay $7.5 billion for a 50 per cent-plus-one-share stake in the Sakhalin-2 project, leaving Shell with a 27.5 per cent

[3] Ashmore Energy International, a Texas-based company with a share in Transredes, demanded $500 million instead. The case has gone to international arbitration.

stake, down from 55 per cent. Shell's chief executive, Jeroen van der Veer, described talks with Gazprom executives as "constructive" but the Russians were more direct, saying that Shell had become cooperative after the company was threatened with having its operating licence withdrawn. The Russian government also moved on BP to surrender control over a Siberian field, again citing environmental violations.

Venezuela

Within years of the discovery of Venezuela's massive oil reserves in the 1920s, Standard Oil and Shell had seized control of 85 per cent of the industry. Opposition to foreign control over oil resources prompted nationalization in 1976 but little changed as foreign companies enjoyed decisive influence over executive policy at state energy giant PDVSA. Everything changed in 1998 when Hugo Chavez was elected President. The price of oil soon tripled in value and in 2001 Chavez approved the Hydrocarbons Law which reclaimed effective state control over PDVSA. Since then, Chavez has introduced new legislation to ensure total state control over every aspect of the industry, enjoying popular backing for the move. The process has occurred at a steady pace: the most recent move was approved in May 2009 when parliament issued a law extending state control over all aspects of the oil industry, including contractors and other services. ***In March 2008 Chavez had announced a windfall tax on 'extraordinary oil profits' to help expand the provision of healthcare services. An estimated 350,000 lives have been saved by the increased health provision with the number of doctors rising from 20 to 60 per 1,000 people.***

In May 2007 the Chavez administration nationalized the Orinoco

River Belt oil reserves, insisting that the state hold a 60 per cent stake in the region's oil projects. Italian energy company ENI accepted compensation in return for a lesser stake in the area but Exxon rejected an offer based on the value of the company's stake at the time of nationalization. Exxon demanded it be given projected profits from the 'Cerro Negro' project, which company lawyers estimated at $5 billion. A London Court ruled in favour of Venezuela and Exxon was ordered to pay PDVSA's legal fees.

Lessons for Ireland

Could it happen here? Yes, it could, and a variety of legal reasons can be advanced as to why the terms of the Corrib gas deal should be renegotiated so as to ensure that a fairer share of the resources accrue to their rightful owners – the Irish people. These reasons include breaches of environmental and planning law, and abuses of human rights perpetrated by Shell and its partners. On any of these grounds, the Irish government could call a halt to the project and launch an independent review to reconsider both the wider issue of ownership of natural resources and the operation of this particular project.

For example, ***in 2007 Shell engaged in unauthorised drilling on a protected habitat in north Mayo, breaching the European Communities (Natural Habitats) Regulations 1997 which obliges any such work in a Special Area of Conservation (SAC) to be authorised in writing by the Environment Ministry.*** Also, in 2007 concerned locals occupied the proposed refinery site at Bellanaboy due to the apparent contamination of local water supplies when a brown-coloured liquid seeped out of the site. Local streams feed into Carrowmore Lake, the source of drinking water for thousands of homes in the Erris area. Shell E&P Ireland, the subsidiary established to operate the Erris project, admitted a leak had occurred. More recently, Shell has undertaken work at the landfall site at Glengad without the required notices of consent.

Shell's private security agents – Integrated Risk Management Systems (IRMS) – have engaged in disturbing surveillance operations against local people, filming children as they undress on the beach at Glengad and aiming cameras into the kitchen of a nearby home. ***During a recent protest by Willie Corduff, a middle-aged local farmer, a group of masked security guards beat him severely, leaving him with extensive bruising and in deep shock.*** These security guards previously included Michael Dwyer, the Irishman shot dead by police in Bolivia in April. Dwyer worked for Shell at Glengad with a Hungarian colleague who invited him to visit Bolivia and connected him with Eduardo Rozsa Flores, a mercenary with a record of anti-communist military actions in Croatia. Flores recorded his final words on video before he left for Bolivia, to be broadcast only in the event of his death. He announced that he was going to fight for freedom in Bolivia, clearly anticipating a bloody outcome. Flores hired Dwyer as a bodyguard and they spent several months in Bolivia. Government troops closed in on the group, alleging an imminent plot to kill the President Morales. It is still not known exactly what happened when armed troops moved to arrest the men, but the operation left three of the five men dead, including Dwyer and Flores. The well founded suspicion that Shell's private security force is engaged in such illegal practices should be sufficient reason to halt work at the site pending an independent investigation.

The Irish government should immediately suspend this project pending a full review of its environmental, legal and economic dimensions. The project should only be allowed resume on the following bases:

1. Local people should not be forced to live with a high-pressure pipeline carrying unrefined gas through their community – the gas should be refined offshore or at a location acceptable to the local community.

2. The human rights of the local community must be protected and human rights abuses perpetrated by private security firms (and by the Gardai) ended.

3. ***The Irish people must, as a matter of justice, receive a substantially larger share of the revenues accruing from this project; the evidence from other countries proves that such renegotiated terms would not cause Shell or any other firm to discontinue the project or deter investment in the future.***

There would be nothing remotely illegal about such a move. The licensing terms for offshore oil and gas exploration, development and production, available on the website of the Department of Communications, Energy and Natural Resources website, state that "The Minister may, for such period as the Minister deems necessary, require that specified exploration, exploitation, production or processing activities should cease… subject to conditions which the Minister may specify, in any case where the Minister is satisfied that it is desirable to do so in order to reduce the risk of injury to the person, waste of petroleum or damage to property or the environment. No claim for compensation may be made against the Minister on foot of any such requirement". This clause needs to be invoked now so that people's human rights can be protected, the environment preserved, and resources redirected to serve the needs of the Irish people.

Michael McCaughan, researcher and writer, was freelance Latin America correspondent with the Irish Times for 15 years. He has written three books, including ***The Price Of Our Souls: Shell, Gas and Mayo (2008),*** an in depth account of the Corrib Gas controversy and the only published research to examine the project from both community and corporate perspectives.

Andy Storey lectures on political economy and international development at University College Dublin. He has published extensively on issues such as trade, aid and corporate power. He is chairperson of Afri.

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