

Billion-Dollar Bribery Scandal Sweeps Through Oil Industry

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Criminal case alleges corruption in Shell and Eni deal for Nigerian field

A top oil executive walked into the marble lobby of an exclusive Milan hotel on a chilly winter night. His dinner date was a former Nigerian oil minister offering to sell one of Africa's biggest untapped oil discoveries.

Eight years later, the question of whether the \$1.3 billion paid for the license to that prized oil field was mostly a bribe is at the heart of one of the biggest bribery scandals the oil industry has ever seen.

Part of a broader crackdown, the case has reached into the highest levels of the executive ranks of Royal Dutch Shell PLC, the second-

By Sarah Kent in Abuja, Nigeria, and Eric Sylvers in Milan

largest Western oil company—including wiretaps on its chief executive—and into Eni

SpA, Italy's state-backed oil company.

Italian prosecutors say Claudio Descalzi, the senior Eni executive at the Milan dinner, and high-level Shell officials approved an arrangement that allowed them to pay the government while knowing most of the money would be transferred to a company controlled by Dan

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Etete—the ex-oil minister Mr. Descalzi met that night, according to court documents. The prosecutors say executives knew Mr. Etete would pay off Nigerian officials and send kickbacks to Eni executives. A criminal trial begins in Milan on March 5.

The scheme went as high as former Nigerian President Goodluck Jonathan, who received payouts during his presidency, the prosecutors say. Mr. Jonathan has denied involvement.

The case is a rare example of top executives from giant Western oil companies facing accountability for corruption. Scrutiny of foreign bribery is growing. More than 500 ongoing investigations were taking place in member countries of the Organization for Economic Cooperation and Development in 2016, up about 25% from 2015, according to the 35-nation group's latest analysis.

The amount of money that allegedly changed hands in the Eni-Shell case could prove to be one of the oil industry's largest ever bribes, said Global Witness, a London nonprofit that investigates allegations of wrongdoing in the resources industry.

Mr. Descalzi, now Eni's chief executive, will face criminal charges of international corruption and bribery in the Milan trial, along with the company's CEO at the time of the Nigerian deal, Paolo Scaroni. Shell executives, including Malcolm Brinded, Shell's global exploration and production chief at the time of the deal, will also be tried on those charges, as well as both companies.

Eni and Shell both deny wrongdoing, saying they simply paid the government and didn't know the money would be used for bribes.

"Eni and Shell paid the consideration for this license to the Nigerian government," Eni wrote in emailed responses to questions from The Wall Street Journal. "It was the prerogative, right and at the discretion of the Nigerian government to decide...how to use the price received from Eni and Shell."

"The board has said clearly that it has full confidence in the company and in Claudio Descalzi," Eni Chairwoman Emma Marcegaglia said in an interview.

A Shell spokesman said the company didn't believe there was a basis to prosecute Shell. "If the evidence ultimately proves that improper payments were made...it is Shell's position that none of those payments were made with its knowledge, authorization or on its behalf," he said.

Eni's Mr. Descalzi, who was appointed by the Italian government for a second three-year term as CEO in April, Mr. Scaroni, who left Eni in 2014, and Shell's Mr. Brinded, who left the company in 2012, denied wrongdoing.

Shell and Eni also face prosecution in Nigeria, one of Africa's biggest oil producers. The country's financial crimes watchdog has threatened to strip the companies of their claim to the oil field.

Shell and Eni in 2011 jointly acquired the license to the area known as OPL 245 off Nigeria's coast, but so far development has been stalled.

This account of the deal is based on interviews with more than a dozen people with knowledge of the case, internal company emails and documents, and

hundreds of pages of court documents from cases in Britain, Italy and Nigeria reviewed by the Journal.

The deal pulled in top executives for Shell and Eni, who were required to approve and in some cases negotiate the transaction, bringing them into contact with a host of now discredited figures in Nigeria.

Chief among them is Mr. Etete, a Nigerian politician who was an oil minister in the mid-1990s during the reign of military dictator Sani Abacha, and who personally claimed ownership of OPL 245. Mr. Etete's career has been dogged by corruption allegations. In 2007 he was convicted of money laundering in France and was pardoned in 2014. A lawyer for Mr. Etete, whose whereabouts is unknown, didn't respond to requests for comment. He faces corruption charges in both Milan and Nigeria.

"It smacks of a Hollywood movie," said Razak Atunwa, a Nigerian member of parliament investigating the case for the government. "You've got nefarious characters mixing with ministers, nefarious characters mixing with the presidency."

The struggle over OPL 245 dates back to 1998, when the Abacha government awarded the oil rights to a newly minted Nigerian firm called Malabu Oil and Gas. According to court documents, the company was ultimately owned by figures close to Mr. Abacha's regime, including his son and Mr. Etete, then the country's oil minister.

The company was meant to pay the government \$20 million for the license, but paid only a little over \$2 million, according to the court documents.

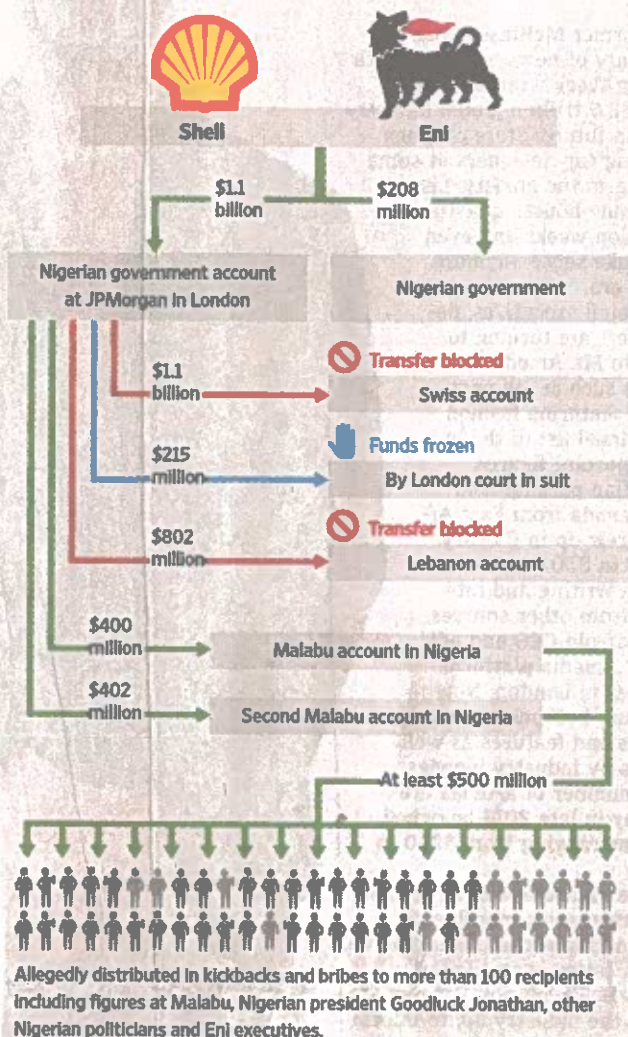
In 2001, Shell agreed to acquire a 40% interest from Malabu in the oil field. Shell, already a dominant producer in Nigeria, hoped the move would expand its footprint in the oil-rich waters off the coast. But within months, Malabu's ownership was revoked by the new, democratically elected president, Olusegun Obasanjo.

Shell won a new tender in 2002 that gave it exclusive rights to operate the field as a contractor for the state oil company, pledging to pay the government \$210 million. But Mr. Etete, who was no longer in office, and later Mr. Abacha's son separately maintained their claims to the site. Successive Nigerian governments flip-flopped on the decision to rescind Malabu's license, helping tie up the ownership question in court.

In an attempt to resolve the dispute, Shell executives spent years alternately wooing Mr. Etete and threatening him with

Flow of Funds

Prosecutors allege Shell and Eni agreed to pay \$1.3 billion to Nigeria for the rights to a valuable offshore oil field, knowing that the government would funnel \$1.1 billion of that amount to a company called Malabu to be used for bribes.



Source: Nonpublic court documents

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legal action. They negotiated over lunches with Champagne and discussed taking him on a stag hunting trip to Scotland, according to internal company emails reviewed by the Journal.

In the emails—some with the subject line “Loony Tunes”—Shell executives openly speculated that any settlement they reached with Mr. Etete would be used to pay off his political sponsors and fretted over the risk he might seek to strike a deal with another company.

In early 2009, John Copleston, a former British intelligence officer working for Shell in Nigeria, sent an email to colleagues that reported Mr. Etete was claiming he would keep \$40 million of the \$300 million Shell was offering at the time. “Rest goes in paying people off,” Mr. Copleston wrote. Mr. Copleston couldn’t be reached for comment.

Eni became involved in 2010. After discussions with Mr. Etete, the Italian firm, which already had major oil holdings in Nige-

ria, proposed to buy out Malabu’s disputed stake. The company aimed to end Malabu’s legal claims and join Shell in a 50-50 partnership.

Shell executives were pleased. According to internal emails, they were impressed by Mr. Descalzi’s personal, “privileged” relationship with Mr. Jonathan, who was serving as acting president and would soon fully succeed the Nigerian president at the time. According to the emails, the two men met in southern Nigeria in the 1990s and had stayed close.

“Let’s hope Eni can succeed where we have struggled to close on this,” Shell’s then-chief financial officer, Simon Henry, wrote in an email in October 2010.

Beginning that year, Mr. Descalzi for a period met twice a month with a middleman who claimed to be working on behalf of Mr. Etete, sometimes at a luxury hotel in London’s Belgravia neighborhood, according to court documents. The Eni execu-

tive, a 36-year veteran and longtime Africa hand who led Eni’s operations in Congo and in Nigeria, also oversaw months of talks with the Nigerian government and with Shell, according to internal Shell emails.

Meanwhile, two external risk reports commissioned by Eni in 2007 and 2010 had raised red flags about Mr. Etete. The documents, reviewed by the Journal, warned of past corruption allegations against the former oil minister and questioned aspects of his ownership of the oil license.

Pressure was mounting to settle the deal. Shell feared other companies such as Total SA of France and China’s Cnooc were also negotiating with Mr. Etete. Cnooc didn’t respond to requests for comment. Total declined to comment.

“We need to move fast as the wolves are indeed circling,” wrote Mr. Brinded, the global exploration and production chief, in an October 2010 email to colleagues.

Eni and Shell soon hammered out a complicated deal with the Nigerian government, according to emails and court documents. In a deal that included Shell’s previous promise to pay around \$210 million, the company agreed to pay a total of just under \$320 million for a 50% stake. Eni would pay a little more than \$980 million for the other 50%.

The deal was made on the basis that \$200 million would be kept by the Nigerian government and that \$1.1 billion would be passed on to Malabu in exchange for its dropping all claims to the oil field, court documents say.

The two sides completed the deal in April 2011, but within months, it began to unravel. Initial efforts to transfer the \$1.1 billion from a Nigerian government bank account at JPMorgan Chase & Co. in London to an account in Switzerland was blocked by bank authorities for reasons of “compliance,” marking an early red flag. A second attempt to transfer money to a bank in Lebanon was also blocked. The transfer was eventually completed to two Malabu accounts in Nigeria, according to nonpublic Italian court documents.

In the U.S., the Federal Bureau of Investigation traced the flow of dollars from the deal, millions of which made it to the U.S., court documents show. Mr. Etete splashed out nearly \$57 million to buy a private jet in Oklahoma in 2011 and another \$670,000 for three armored cars in the U.S., according to court documents. He even was able to pay off \$74 million in fines for

the money-laundering conviction in France.

The FBI turned over much of its evidence to authorities in Italy, where Fabio De Pasquale, a high-profile prosecutor in Milan, had begun probing the deal in 2014. Mr. De Pasquale had made a name for himself in the 1990s as a dogged investigator willing to take on powerful forces in Italy, including former Italian Prime Minister Silvio Berlusconi. He presided over separate corruption investigations against Eni that have forced it to overhaul its compliance practices and restructure its former oil services subsidiary.

Italian investigators turned up the heat on executives who might provide useful evidence. One was Vincenzo Armanina, a senior executive in Eni’s sub-Saharan Africa business at the time of the deal. Prosecutors allege he received a kickback of more than \$1 million when the deal closed, according to Italian court documents.

Mr. Armanina acknowledged he discussed the final destination of Eni’s money with his bosses. “We were aware that most of it would go to the political sponsors of the deal,” he told prosecutors in 2014, according to the court documents. Mr. Armanina didn’t respond to requests for comment.

Another Eni executive received a delivery of \$50 million in cash to his house in Abuja, according to Italian prosecutors. By that time, the Italian investigation was zeroing in on the top levels of Eni’s management.

“It’s believed that Scaroni and Descalzi organized and managed the illegal activities,” Milan prosecutors wrote in a 2014 document saying they had put the two under investigation.

In 2016, Shell’s offices in The Hague were raided by Dutch police, who spent hours combing top executives’ rooms for information on the deal. A cache of internal emails widely leaked to the media revealed details about the company’s yearslong negotiation for the oil field.

Dutch investigators also tapped the phone of the company’s current CEO, Ben van Beurden, even though he wasn’t running the company when the

The amount of the alleged bribery could prove to be one of the oil industry’s largest.



Eni CEO Claudio Descalzi, former Nigerian oil minister Dan Etete and former Shell executive Malcolm Brinded face corruption charges.

Nigeria deal was struck and faces no charges.

"There was apparently some loose chatter between people from the team," said Mr. Van Beurden on a wiretapped call to his chief financial officer at the time of the raid. He said on the call that discussions of the deal included comments such as, "I wonder who gets a payoff here."

Mr. Van Beurden declined to comment. A Shell spokesman said the company was cooperating fully with regulatory authorities.

The executive was on vacation in France with his children when police were rummaging through his office. "I don't think they have found anything that was clearly incriminating or that sort of suggested that we were colluding or doing anything inappropriate," he said on the tapped call. But referring to the chatter, he said, "Nevertheless, it's there."

—Gbenga Akingbule and
Aruna Viswanatha
contributed to this article.

Exxon Designed Deal To Skirt Anticorruption Scrutiny

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P. A1

Oil giant was excited about Africa prospect but worried about U.S. laws

Negotiators for Exxon Mobil Corp., gathered in a London hotel room, faced a problem. The government of Liberia suspected that oil rights the energy giant coveted were tainted by corruption.

By Scott Patterson,
Bradley Olson
and James V. Grimaldi

It was the winter of 2011, and crude-oil prices were surging. Exxon and then-Chief Executive Rex Tillerson were battling rivals to win access to fresh deposits around the globe.

They wanted a deal.

The drilling rights the company sought in Liberia, however, appeared to be linked to former officials from the West African nation, according to internal Exxon documents reviewed by The Wall Street Journal and people familiar with the negotiations. An Exxon presentation from the London meeting indicated the company had "concern over issues regarding U.S. anticorruption laws."

An idea took shape. A Canadian company would buy the rights from a Liberian oil operator whose ownership was murky.

Then Exxon would buy a controlling stake in the project from the Canadian outfit, according to the London presentation, documents outlining the deal and people familiar with the matter. Exxon completed the deal for \$120 million in 2013.

There is a growing body of U.S. and European laws aimed at stamping out corruption around the world, and they have been aggressively enforced. The Exxon transaction shows the extent to which companies are structuring deals to try to minimize the risks of government scrutiny.

This account of what Exxon learned about potential red flags, and what it did in response, is based on interviews with three people directly involved in the negotiations and a review of transaction and bank documents detailing the movement of funds. Some of the documents were provided by Global Witness, a London-based organization that investigates corruption, which released a report on the deal Thursday. The Journal independently corroborated information from the Global Witness documents.

The bank documents reveal that hundreds of thousands of dollars in payments were made to Liberian government officials involved in the deal, including the son of the country's former president, Ellen Johnson Sirleaf, who was awarded the Nobel Peace Prize in 2011.

Exxon spokeswoman Rebecca Arnold said the company is "confident that the agreement complies with local Liberian law and international anticorruption laws....Exxon Mobil has an unwavering commitment to honest and ethical behavior wherever we do business. We have a longstanding commitment to compliance with the U.S. Foreign Corrupt Practices Act and the anticorruption laws of the countries and territories in which we do business."

Mr. Tillerson, President Donald Trump's recently ousted secretary of state, declined through a spokesman to comment.

Christopher Neyor, who was chief executive of the Liberian state oil company at the time of the London meeting, said "it was comfortable for" Exxon to deal with the Canadian company as part of the transaction. He said the state oil company and the Liberian "government at large did not know the truth" regarding the true owner of the Liberian oil stake.

President's son

Robert Sirleaf, Ms. Sirleaf's son and a former chairman of the state oil company, defended the payments to Liberian officials, saying they were bonuses for completing what was then a landmark deal in an impoverished country.

Global watchdogs see transparency as one of the best ways to reduce corruption, believing that when companies disclose payments to governments, money will be less likely to flow illegally to public officials. The U.K. in 2010 passed a law called the Bribery Act, a close cousin to the U.S. Foreign Corrupt Practices Act, which bars public

ernment officials to gain an advantage over competitors.

In 2010, as Exxon's chief executive, Mr. Tillerson lobbied against a new federal requirement that required energy and mining companies to disclose payments to foreign governments, arguing that it put U.S. companies at a disadvantage to foreign rivals. Last year, U.S. lawmakers scrapped the requirement, which was part of the Dodd-Frank law.

Interest in potential oil riches off Liberia's shores blossomed in the mid-2000s as the country emerged from a long civil war. During a chaotic transitional period before the 2006 election of Ms. Sirleaf, there was a scramble among Liberians, including some members of the government, to get a piece of the possible oil-exploration boom, say people involved in Liberia's oil industry.

"There were a lot of suggestions that contracts were not signed in the way they would be under a more stable government," said Jeffrey Wood, a U.S. lawyer who has worked with the Liberian government on natural-resource oversight and helped it with the Exxon deal.

In 2005, when the contest for oil rights was gaining steam, a company called Broadway Consolidated PLC, registered on the Isle of Man, signed a contract with Liberia's state-run oil company, the National Oil Company of Liberia, or Nocal, for drilling rights to an offshore expanse known as Block 13. Another company, Oranto Petroleum Ltd., also obtained licenses from Nocal. Oranto said in a written statement that

Bank documents reveal that payments went to Liberian government officials.

"multiple inquiries have concluded that Oranto's activities in Liberia were carried out in accordance with all laws and regulatory requirements." Broadway is now defunct.

Broadway investors have included an energy fund operated by RAB Capital, a U.K. investment fund. Several Liberians have also been linked to the company, including David Jallah, a politically connected lawyer listed in corporate filings as a shareholder. Mr. Jallah, the former dean of the country's law school, didn't respond to requests for comment.

Adolph Lawrence, a Liberian lawmaker who was chairman of the committee that oversees the country's oil-and-gas deals, once held contracts giving him the right to buy a stake in Broadway, according to a 2011 document related to a separate, scuttled transaction. He held his position at the time of the Exxon deal, although it isn't known whether he retained his Broadway interests after he began serving as a lawmaker in 2012. Mr. Lawrence didn't respond to requests for comment.

Jonathan Mason, minister of Liberia's lands, mines and energy department in the 2000s, helped launch several companies in the 1990s whose names included the word Broadway, according to documents reviewed by the Journal. In an interview, Mr. Mason said he

worked as a consultant for Broadway Consolidated but never owned a stake in it.

The discovery of an enormous oil field off nearby Ghana's shores in 2007 touched off a rush to explore for oil off West Africa's coast, including in Liberia. Exxon, Chevron Corp. and other Western companies angled to gain access to potentially lucrative concessions. They struggled to compete with state-backed firms from China and Russia that often didn't adhere to the same anticorruption standards as the U.S. and European Union.

First strike

Chevron, the second-largest U.S. oil company, struck first in Liberia, inking a deal in 2010 with Oranto for three deep-water blocks. Chevron spokeswoman Isabel Ordóñez said the company applies "full due diligence" to all potential partners and follows all laws in the countries where it operates, which it did in Liberia.

A 2011 investigation by Liberia's General Auditing Commission found that in 2006 and 2007, Nocal disbursed more than \$100,000 to legislators. Some members of Nocal's board had concerns the payments were made "to influence the passage of the petroleum contracts" of Broadway and Oranto and were "a form of bribery," the commission said.

Chevron had concerns similar to Exxon's about securing Block 13, including about the owners of Broadway, which had changed its name to Peppercoast Petroleum, according to a former Liberian government oil minister and a person familiar with Chevron's review of the block.

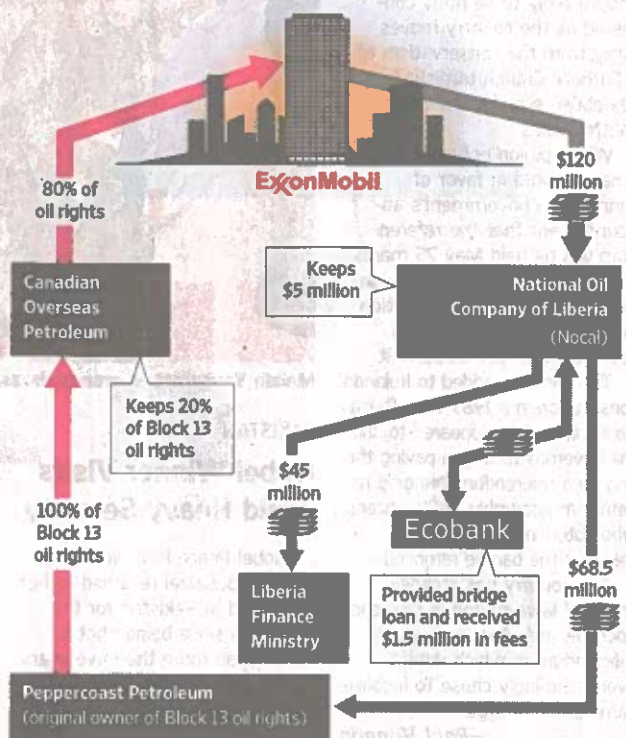
Peppercoast, meanwhile, had failed to move ahead on an exploration program. The Liberian government pushed it to sell.

Canadian Overseas Petroleum Ltd., a Calgary, Canada, oil company, began negotiating to purchase a stake in the block from Peppercoast. But Nocal blocked the bid amid concerns that Canadian Overseas didn't have experience drilling deep-water wells, according to Mr. Neyor.

Enter Exxon. In December 2011, a team of Exxon officials

Complicated Transaction

How Exxon Mobil structured a deal to buy oil rights off the coast of Liberia.



Sources: Loan agreement; sale and purchase agreement; asset purchase agreement; bank transfer receipts; company news releases; Nocal meeting minutes.

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met in London with several Liberian government officials, including then-President Sirleaf's son, Mr. Sirleaf, who was soon to be appointed chairman of Nocal, according to documents reviewed by the Journal and people who attended the meeting.

Exxon officials outlined their concerns about potential corruption tied to the block, according to the people and a PowerPoint presentation made by Exxon at the meeting.

Exxon detailed a two-step transaction: Canadian Overseas would purchase the rights to Block 13 from Peppercoast, then Exxon would buy a controlling stake in the block from Canadian Overseas, according to the people and the PowerPoint presentation. Putting Canadian Overseas in the middle of the transaction would allow Exxon to avoid dealing directly with Peppercoast.

Canadian Overseas said in a written statement that it "adheres to the highest levels of corporate governance as a public company," and that it "car-

ried out meticulous due diligence over a two-year period before completing the Liberian acquisition and sought legal advice in the UK, Liberia, Canada and United States. No evidence was ever found to suggest Liberian government officials were linked to shareholdings in Peppercoast."

Mr. Wood, who attended the meeting on behalf of the Liberians, said Exxon was "extremely careful to be seen as doing things that were correct" in the deal.

Sixteen months later, the Liberian government approved a deal that public and internal Liberian records show was close to what had been outlined in the London hotel, with an important added detail outlined in the production-sharing agreement.

Exxon insisted that it wouldn't pay any cash to Peppercoast, nor would partner Canadian Overseas Petroleum. Instead, the money for the deal would go to the state oil company, Nocal, which had agreed to act as an intermedi-

ary. Nocal secured a short-term loan from an African bank called Ecobank Transnational Inc. to pay Peppercoast to transfer the oil block. On April 5, 2013, Nocal used the loan to pay \$68.5 million to Peppercoast, which transferred Block 13 to Canadian Overseas, which then transferred an 80% stake to Exxon, bank records and deal documents show.

That same day, Exxon paid \$120 million from a New York bank account to the African bank used by Nocal, satisfying the short-term loan, the documents show. The Liberian government got \$45 million from the deal, Nocal got \$5 million as a bonus, and the African bank received \$1.5 million in fees, the documents show. A spokeswoman for EcoBank didn't respond to a request for comment.

Bonus payments

Weeks after the money was transferred, Nocal made payments totaling more than \$500,000 to more than 100 Nocal employees, according to Mr. Sirleaf and bank records provided by Global Witness. He received \$35,000, the bank records show.

There is no indication Exxon, Mr. Tillerson or Canadian Overseas was aware of the payments.

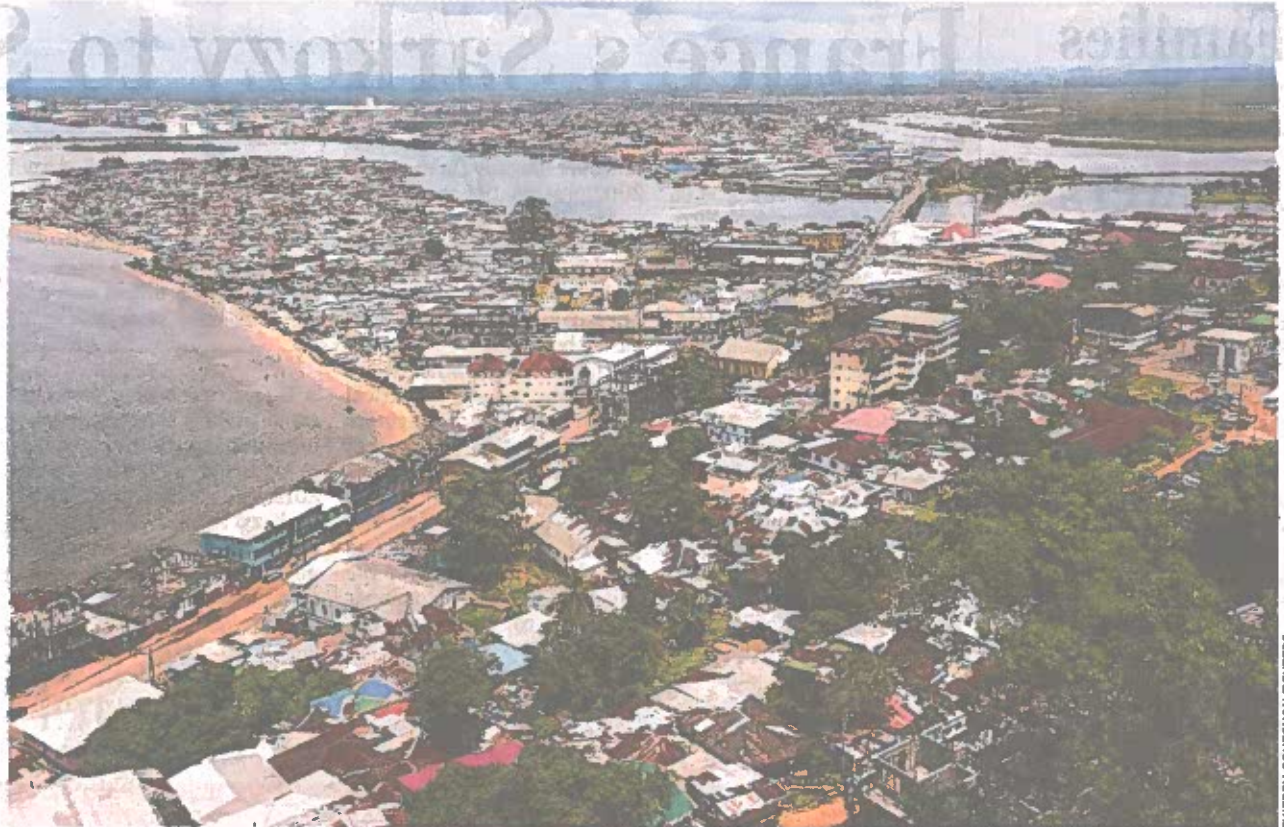
The Liberian government, under newly elected president George Weah, is reviewing Nocal's audit reports and the bidding processes that led to the auctioning of oil blocks, said Eugene Nagbe, Liberia's minister of information, culture and tourism, in an email. "If any corruption activity is found to have taken place, the perpetrators will be brought to justice," he said.

Mr. Sirleaf, who said he has worked for 24 years in finance for several U.S. banks, stands by the deal.

"It was the right thing to do at the right time, and it still is," he said. He compared the payments to year-end bonuses and said they were paid to all Nocal employees.

It was ultimately not the right deal for Exxon. The well it drilled to test the site's prospects came up dry. Exxon gave up its rights to the prospect last year.

IN DEPTH



THIERRY GOUIGNON/REUTERS

Interest in potential oil riches off the coast of Liberia, whose capital is Monrovia, above, blossomed in the mid-2000s.

Two Different Ethical Approaches to Oil Industry Transactions

Visit the relevant websites and read each article and then respond to the corresponding questions. Be sure to write thorough, detailed responses. Submit print outs of your responses on the due date. This exercise is worth up to 40 points.

Billion-Dollar Bribery Scandal article

Go to the Royal Dutch Shell Oil Corporation website (Shell.com) and find its Code of Conduct. Download it in the language of your choice and familiarize yourself with sections 2 and 5 and specifically sections 2.1 – 2.2 and 5.1 and 5.4. Next read the Wall Street Journal article from February 14, 2018. Finally respond to the questions below.

1. Did the interrelationship between politics and business surprise you? Explain your response.
2. Would a payment of \$1.1 billion to Malabu Oil be questionable given the known owners of that firm? Should this payment have raised questions, especially in light of Shell's Code of Conduct? Explain your response.
3. If you served as a Shell compliance officer, how would you attempt to learn where the payment went to be confident that it wasn't a bribe?
4. Is Shell's "We didn't know" defense credible in your opinion? Explain your response.
5. Did you notice a difference in ethical standards between the Shell executives and the bankers at J.P. Morgan Chase who blocked the transactions? Why do you suppose the bankers questioned the transaction while some Shell executives apparently did not?

Exxon article

Go to the ExxonMobil website and find the ExxonMobil Anti-Corruption Legal Compliance Guide. Read and familiarize yourself with pages 4, 7-10. Next read the Wall Street Journal articles from March 30, 2018. Finally respond to the questions below.

1. Were you impressed that the Liberian government was concerned about possible corruption? Explain your response.
2. How credible was the comment of the former CEO of the Liberian state oil company that the company and government "did not know" the truth regarding ownership of the oil?
3. State owned or controlled oil firms such as in Russia and China often do not hesitate to bribe foreign government officials. How may a private firm that is bound by its nation's laws compete for access to resources without resorting to bribery and other forms of corruption?

4. In your opinion, by crafting a complex transaction that attempted to avoid the appearance of corruption, did Exxon comply with the letter of the law, but, perhaps, violate the spirit of the same law? Explain your response.
5. Given the facts that faced the ExxonMobil CEO, Rex Tillerson, how would you have proceeded with this transaction? Approve or disapprove? Explain your response.