

Special Report: Arctic Drilling

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Over the last few years, RepRisk has detected an ever-increasing amount of news related to companies engaged in or planning drilling operations in the Arctic region. This report analyzes documented controversies, both fact and allegation, related to the five firms that received the most negative news or stakeholder sentiment due to related or proposed controversial practices within the past four years. The information has been taken from a wide range of sources used by RepRisk including newspapers, news sites, NGO and governmental sites, blogs and social media.

Arctic drilling is a highly divisive topic. While many see it as a large, untapped and much needed source of oil and gas, critics have long claimed that opening this region to commercial drilling will create irreversible ecological damage in a still pristine part of the planet. They say it will wreak untold environmental damage and destroy livelihoods, impacting on endangered animals such as polar bears and in particular on indigenous communities. They further raise concerns that companies are incapable of properly applying contingency plans in the case of an accident occurring, due to the freezing waters, remote locations and lack of infrastructure. A 2012 article in Germany's 'Der Spiegel' dubbed the companies' proposed operations "Arctic Roulette."

In the US, drilling involves the encroachment on a designated wildlife sanctuary, the Arctic National Wildlife Refuge, a breeding ground for Caribou. In Norway, despite fierce opposition, the government has recently decided to open up the Lofoten Archipelago for oil exploration, even though it is a spawning ground for the huge cod population.

The debate has in part been fueled by recent publicized incidents of ships running aground. The controversy prompted Greenpeace International, a powerful player in the global environmental campaigning scene, to launch 'The Arctic Truth,' a site aimed at creating transparency. The site offers a secure platform for employees in the oil industry to effectively blow the whistle on companies that breach environmental and safety standards. The environmental activists have mobilized protesters and collected over a million signatures in its 'Save the Arctic' campaign from around the globe including Sweden, Lebanon and Argentina.

There have been several recent developments within this topic. Alongside an appeal earlier this year by the United Nations Environmental Program to global oil majors to leave the sensitive region off their drilling and exploration plans, there have been several companies that have shelved or delayed plans due to safety concerns or uncertainty over possible regulations that may be introduced. ConocoPhillips is one firm that made such an announcement and environmentalists have called on other companies to do the same. However, with rising gas and oil prices, the exploitation of reserves in the Arctic seems ever more likely to occur.

The five most controversial companies linked to the practice of Arctic drilling according to information collated in the RepRisk database are:

- **Royal Dutch Shell**
- **Cairn Energy**
- **Gazprom**
- **Exxon Mobil**
- **Statoil**

This RepRisk Special Report focuses on these firms and examines the criticism launched at their current or proposed projects. Although they do not feature in this report, other companies that have been criticized for their proposed Arctic operations include BP, ConocoPhillips, Rosneft, Chevron, and Total.

1. Royal Dutch Shell PLC

In early 2013, Shell announced that it would suspend its Arctic offshore drilling program in the Chukchi and Beaufort Seas near Alaska for the remainder of the year. The company claims this will allow it time to work on safety improvements.

The company's subsidiary, Shell Oil, has been in the spotlight for its endeavors in the Arctic region. Its operations have generated considerable controversy and exposed areas of significant concern. The company recently halted drilling activities following an alleged series of broad safety failures in 2012. An assessment in early 2013 by the US Department of the Interior, which focused on Shell's Alaskan projects, alleged that the company was not in a position to drill safely in the Arctic. The review was carried out following several reported mishaps off the coast of Alaska in 2012. The first involved the drill ship, Noble Discoverer, which ran aground in July. The Kulluk rig then also ran aground in December and inspections revealed more than a dozen deficiencies. In January 2013, the US Environmental Protection Agency (EPA) also accused Royal Dutch Shell of failing to properly supervise air emissions from Kulluk, which led to violations of its air-quality permit.

The report claims that Shell has continued with its Arctic project despite being aware of technical problems, and raises doubts regarding the secure collection of oil after an accident as well as the control of air pollutant emissions. It allegedly also found that Shell had failed to adequately manage and oversee its contractors.

In 2012, Shell Oil also encountered delays following an accident during testing for its spill containment dome in Puget Sound, Washington. Environmental groups, such as the Center for Biological Diversity, suggested that the accident indicated that Shell would be unable to contain an oil leak in extreme conditions, where emergency response efforts would be greatly complicated.

In late 2012, Shell received the infamous People's Public Eye Award specifically in relation to its Arctic drilling plans.

2. Cairn Energy PLC

RepRisk has detected ongoing controversies surrounding Cairn Energy and its exploration and extraction activities in the Arctic region since mid 2010. Despite declaring in 2011 that its wells At7-1 and At2-1, part of the Leiv Eiriksson oil rig in West Greenland, were deemed inadequate for commercial extraction, Cairn announced its intention to continue drilling operations the following year. The announcement came among strong anti-extraction sentiment.

In July 2011, Greenpeace activists entered the company's Edinburgh headquarters seeking an oil spill response plan, which the company had reportedly refused to make public. The plan details steps to be taken in the event of an oil spill. The great concern is that the company could not act fast enough to protect the pristine habitat that hosts endangered species such as polar bears and narwhals. Additionally, Greenpeace's Executive Director and 20 other activists were arrested for scaling the Leiv Eiriksson oil rig to push the company to publish its disaster preparation plan. It was subsequently released by Greenland's authorities and was widely criticized by experts.

Greenpeace International has claimed that the company is unprepared to meet the challenges of operating in extreme and remote Arctic environments. In response to the activist invasion, Cairn Energy issued an injunction to prevent Greenpeace from publishing protester photos or issuing them to other media. It also launched a legal petition seeking a permanent injunction against protests by the NGO. The case has continued up until 2013 with the Scottish Court of Session recently turning down the company's petition.

Greenland reportedly issued 17 exploration licenses for its west coast to 11 companies, including: Cairn Energy, Royal Dutch Shell, ConocoPhillips, Exxon Mobil, Chevron, Statoil, Petronas, GDF Suez, Maersk Oil and DONG Energy. Cairn Energy was the first to initiate test drilling.

Other environmental groups have also rallied against Cairn with Friends of the Earth Scotland recently demonstrating against the company's plans to extract fossil fuels in the Arctic. The NGO claims such activity would increase greenhouse gas emissions and harm sensitive ecosystems and local communities. Denmark's Center for Environment and Energy accused the company of releasing hazardous chemicals while drilling for oil in Greenland between 2010 and 2011. It stated that Cairn released over 160 tons of highly hazardous Ultrahib, which prompted it to demand that the company be forced to use less environmentally threatening alternatives.

Greenland's Bureau of Minerals and Petroleum reportedly also ordered the company to reduce emissions, while local politicians and the Danish Foreign Ministry want Denmark, as an Arctic Council member, to introduce tighter guidelines for regulating oil industry waste products and for protecting the fragile Arctic environment during oil explorations.

3. Gazprom, OAO

Gazprom's activities in the Arctic region have proved controversial since 2008, when RepRisk began detecting criticism of the company's intention to use nuclear power to tap into the rich oil and gas resources together with Statoil and Total at the Shtokman Field in the Barents Sea. One of the most contentious issues was a plan to build floating nuclear power stations. Environmentalists expressed concern about radioactive waste, saying that the plants could further jeopardize the vulnerable Arctic surrounds, which are already affected by climate change and unstable weather. In August 2012, it was reported that Gazprom had decided to shelve the Shtokman project, citing difficulties in financing the costs, which were estimated at USD 15 billion. Statoil had already withdrawn from the project and written off its USD 336 million investment.

Plans by Gazprom's subsidiary, Gazprom Neft Shelf, to develop the Prirazlomnoya Oil Field, located on the Pechora Sea shelf in the Arctic region, have continually faced strong opposition due to an alleged lack of safety considerations. Critics claim that the company underestimates the scale of a potential disaster, despite claims by NGOs that a spill would impact vast areas of a fragile environment that includes over 140,000 square kilometers of open water and 3,000 kilometers of coastline.

In 2011, NGOs including Greenpeace, World Wildlife Fund, and Bellona called on Gazprom to delay its production plans, fearing that it has not insured its oil field adequately in case of a spill, or proved that it has the necessary technology required to collect oil from under the thick ice that covers the field most of the year. Prirazlomnoya oil field is located 100 kilometers from Nenets Nature Park and other federal reserves. Furthermore, local fisheries could suffer, thereby affecting many livelihoods in regions that depend on fishing. In August 2012, Greenpeace activists stepped up their campaign against Arctic drilling by suspending themselves off the side of the Prirazlomnaya platform.

Although it occurred in the Pacific rather than in the Arctic, concerns were also raised about safety after the Kolskaya oil rig sank 200 miles off the east coast of Sakhalin in Russia resulting in the death of 53 crew members in 2011. The 26-year old rig that was caught in stormy seas was owned by Arktikmor Neftegaz Razvedka and used by Gazprom subsidiary Gazflot for oil exploration.

In 2012, Greenpeace released a report entitled "Russian Arctic Offshore Hydrocarbon Exploration: Investment Risks," which outlines the potential problems with the commercial development of fossil fuel extraction. The report states such activities could increase air pollution, contaminate soil and groundwater, negatively impact biodiversity and lead to a decrease in Arctic mammal and bird populations as well as create abnormalities in fish. The NGO further states that operations may have detrimental impacts on the livelihoods of indigenous populations and fail to benefit local communities.

This year, Gazprom has been criticized once again by WWF and Greenpeace for planning to start Arctic drilling at the Dolginskoye oil field without first addressing issues arising from drilling at Prirazlomnaya.

4. Exxon Mobil Corp

With the increasing interest and concern regarding Arctic drilling, Exxon Mobil has faced calls, along with several other firms, for it to leave the Arctic out of its drilling and exploration plans. The company has signed an exploration deal for operations in Russian waters. With Russian infrastructure reportedly outdated, environmentalists are particularly concerned about the occurrence of accidents and their repercussions in the pristine region. Exxon Mobil was also mentioned as one of the companies that had been given an exploration license in Greenland. Furthermore, in 2011, it was reported that Exxon Mobil had started drilling operations in the Canadian Beaufort Sea.

The challenge of working in Arctic conditions and the surrounding controversy is not new to Exxon Mobil, or indeed to the oil industry. The company's part-owned Trans-Alaska Pipeline that transports crude oil, extracted from beneath the frozen tundra in Prudhoe Bay on the Alaskan North slope, is 250 miles north of the Arctic Circle. The pipeline was fiercely opposed at the time of construction in the 1970s, and has most recently caused concern due to decreased oil flows that, in the freezing environment, can increase the risk of corrosion or clogging and lead to ruptures and spills.

In 2006, the company came into the spotlight after it was named as a partner in Imperial Oil's proposed Mackenzie Gas Project, which was to run through vast wilderness areas of Canada from the Beaufort Sea coast to the province of Alberta. Critics claimed it would affect the Dene Tha' First Nation lands.

5. Statoil ASA

Statoil has been linked to exploration agreements in several Arctic locations. However, the company recently announced its intention to suspend plans for Arctic drilling in Alaskan waters that was to begin in 2014. Similar to ConocoPhillips, this may be due to regulatory uncertainties with the US government. The US Department for the Interior issued a report last year that urged the industry to develop safety and emergency response standards prior to beginning any activities in Arctic waters. Statoil had also previously withdrawn from the Shtokman Gas Project, a venture with Gazprom and Total, after financing proved difficult to secure.

The company's safety standards and preparedness for Arctic drilling had already come into question following an incident on November 7, 2012 at its Floatel Superior rig in the Norwegian Sea. Reportedly, one of its ballast tanks was damaged, which caused the platform to tilt at a 45-degree angle. Around 330 workers were evacuated and Greenpeace used the incident to highlight the implicit risks of drilling for oil, saying that the incident showed that even experienced and technologically advanced firms could not ensure safe drilling procedures. The NGO continued to urge a ban on operations in the Arctic, saying that the only reason this incident did not have more serious consequences was its location close to shore, which would be very different in more remote areas.

Despite an appeal by the UN Environmental Program in 2012 that industry giants stay away from Arctic exploration and drilling, there were reports that Statoil plans to expand its activities in the Norwegian Barents and in Canada. The company allegedly also signed an oil exploration deal for Russian waters; in May 2012, it entered into agreement with Rosneft to drill in the Barents Sea. Furthermore, it reportedly received an exploration license from Greenland.

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METHODOLOGY

RepRisk special reports are compiled using information from the RepRisk database, which consists of facts, criticism and controversies related to projects and companies’ environmental, social and governance performance. The RepRisk database currently contains criticism on more than 34,000 private and publicly listed companies. RepRisk analysts monitor the issues related to environmental, social and governance risk across a broad shareholder and other stakeholder audience of NGOs, academics, media, politicians, regulators and communities. Once the negative news has been identified with advanced search algorithms and analyzed for its novelty, relevance and severity, risk analysts enter an original summary into the database and link it to the companies and projects in question. No article is entered twice unless it has been escalated to a more influential source, contains a significant development, or has not appeared for the past 6 weeks. This helps to ensure the balanced and objective rating and weighting of the negative news, and thus the company’s quantitative measure of risk exposure, the RepRisk Index (RRI). The RRI measures the risk to a company’s reputation, not its actual reputation in general. RepRisk objectively monitors the level of criticism to which a company is exposed. All data is collected and processed through a strictly rule-based methodology. Controversial issues covered include breaches of national or international legislation, controversial products and services, environmental footprint and climate change, human rights and community relations, labor conditions and employee relations as well as fraud, anti-competitive behavior tax evasion and corruption. In particular, all principles of the UN Global Compact are addressed.

ABOUT REPRISK

RepRisk is the leading provider of business intelligence on environmental, social and governance (ESG) risks. It systematically collects and analyzes facts, criticism, and controversies related to companies and projects worldwide. It does so on a daily basis and in 13 languages from thousands of public sources including international and local media, government sites, non-governmental organizations (NGOs), newsletters, social media and blogs. The RepRisk database currently includes information on over 34,000 companies, 7,000 projects, 5,500 NGOs and 4,500 governmental bodies. These numbers are continuously growing as relevant ESG information is added. The use of RepRisk business intelligence allows companies and financial institutions to proactively assess ESG issues that may present financial, reputational and compliance risks. For more information about the usage and benefits of RepRisk in relation to the effective management of ESG Risk, please visit our website: www.reprisk.com

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