ERRATUM TO THE
ANNUAL REPORT
ROYAL DUTCH SHELL PLC ANNUAL REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2010
SPECIAL EDITION
IDENTIFYING PROBLEMS IN OUR BUSINESSES

ENERGY FOR A CHANGING WORLD
Global energy demand is rising and so are consumer expectations – more people want energy from cleaner sources. At Shell we work with others to unlock new energy sources. We used to operate without considering the impacts on the environment and the people affected by our business. This was the past. Now and in the future, we will focus on finding ways to produce clean energy, to lower emissions and to help customers to do the same with theirs. In building a better energy future we all have a part to play. Shell will be doing its part in a sustainable way, and we will take full responsibility for mistakes we made in the past.

UPSTREAM
- Drilling in complex environments and endangering whales and other wildlife
- Producing oil and gas, creating spills, unnecessary flaring and endangering environment
- Mining tar sands, creating pollution and toxic lakes
- Affecting the rights of indigenous people
- Not investing enough in wind and solar power
- Producing sugarcane for biofuels, violating human rights, endangering biodiversity

DOWNSTREAM
- Dodging climate issues and letting greenhouse gas (GHG) emissions rise
- Interfering with politics in order to ensure business
- Denying workers’ pesticide diseases
- Lack of willingness to relocate dangerous oil depots
- Refusing to clean up massive refinery pollution

CHEMICAL PRODUCTS USED FOR
- Plastics
- Coatings
- Detergents
ABOUT THIS REPORT

This Erratum to the Royal Dutch Shell plc Annual Report 2010 for Shell’s shareholders is sponsored by Friends of the Earth Netherlands (Milieudefensie) and Friends of the Earth International (FOEI).

Milieudefensie is a non-governmental (NGO) environmental organisation with more than 80,000 members and supporters and eighty local groups, conducting campaigns on the oil industry, delocalisation, agrofuels, food and agriculture and traffic. Friends of the Earth International is the world’s largest grassroots environmental network, uniting 76 national member groups and some 5,000 local activist groups on every continent. With over 2 million members and supporters around the world, Friends of the Earth campaigns on today’s most urgent environmental and social issues.

Milieudefensie and FEOI have been following Shell and its activities for years now, worldwide. This Erratum is an account of their findings. It shows that across the globe, Shell’s activities are damaging the environment, human rights and biodiversity; it shows us how imperative it is to change the way Shell works.

The board and executive management are grateful to Milieudefensie and Friends of the Earth International for this gesture and welcome a further exchange of ideas.

With this report we, the Board of Royal Dutch Shell plc, are calling upon our shareholders to take your responsibility in making Shell a more responsible and sustainable company. Our shareholders and other stakeholders can be assured that we will do everything possible to achieve the goals we set ourselves in this report.

The cases presented in this report are based on the background report Milieudefensie is publishing simultaneously. Both reports are also available on www.milieudefensie.nl/shell.

For more information, please contact Milieudefensie. For contact details, see page 22.

May 2011

KEY PERFORMANCE INDICATORS FOR 2011

For the coming years we are setting the following new hard targets. Non-compliance with these targets will result in the immediate discontinuation of annual bonuses of our Executive Directors.

1. The carbon intensity of our oil and gas reserves, as well as our absolute CO₂ emissions, including gas flaring, as well as the anticipated CO₂ emissions resulting from the use of our products by our customers should decrease annually by 5%, starting from 2012.

2. Oil spills and chemical spills from installations, pipelines and plants operated by Shell and transports for Shell will be reduced to zero within a timeframe of six months starting from January 2011.

3. All legacy spills we have been ignoring in Nigeria will be cleaned up before 2013.

4. The number of operations posing severe risks to water supplies, biodiversity, health or agriculture (such as high-volume gas fracking, tar sands and Arctic deep sea drilling) will be reduced to zero by 2013.

5. We take full responsibility for health problems and pollution in divested locations such as Curacao and Sao Paulo; remediation plans will be agreed upon with local authorities before 2012.

6. Our capital investments in wind and solar power will be increased to a level of 50% of our annual profit, starting from 2011 (based on the 2010 profit).

7. We will assess and mitigate all social and environmental risks related to our operations and our supply chain, and report these to the public.

8. In our biofuel undertakings, we will reduce any violations of labour rights within our supply chain to zero.

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CHAIRMAN’S MESSAGE

P. J. Chairman’s message.

This section should read:

In our 2010 Annual Report we mention that our 2010 earnings increased substantially from 2009 levels, driven by better macroeconomic conditions, and Shell’s production growth and cost performance. Political turmoil in the Northern African region is causing yet a further rise in oil prices. We thought these developments would benefit our shareholders.

In the calculations that led to this conclusion, however, we omitted the fact that we as Shell are also causing a lot of unwanted and unnecessary damage.

With this Erratum to the Annual Report we would like to correct this. As Shell, we depend on making the right long-term investments against a range of business assumptions. From now on, the environment and human rights will be made an integral part of these business assumptions. We will no longer assume that our technologies will not be harmful to the environment, as experience shows that they are. We will no longer assume that our business principles avoid human rights from being violated, as experience shows that unfortunately they are.

We must stay true to our principles. Our strategy of More Upstream, Profitable Downstream remains on track. It is the task of the Board and management to chart the right course. In the past, we only took our bonuses and profits for our shareholders into consideration. But from now on, we will take full responsibility to prevent and mitigate costs for the environment and people affected by our operations.

We will pay particular attention to our great pool of human talent, making sure our people remain motivated and fully equipped for the future. And this does not just apply to the people whom we employ directly, but also to the people who work for us through other companies, either Upstream or Downstream.

The global long-term challenge remains: how to produce more energy and less CO₂. Working on reducing our own energy efficiency at our refineries and chemicals plants, and developing more efficient fuels and lubricants, as we have done in the past years, have been successful strategies but they did not deliver enough results. We need to take real responsibility. Rather than developing end-of-pipe technologies such as CO₂ storage, technologies that will remain risky and costly, we need to work on sustainable and safe solutions, increasing our efforts in developing alternative sources of energy.

In our 2010 Annual Report I refer to fossil fuels and nuclear energy supplying the bulk of the world’s energy for the foreseeable future. In hindsight, that was too easy a conclusion. There are undeniable risks associated with these technologies, as recent events in Japan have once again shown. We at Shell will increasingly apply our creativity to develop technologies for alternative energy sources to fossil fuels and nuclear energy, such as wind, solar and tidal energy, making previously uneconomic technologies viable.

Making the world’s energy supply secure, affordable and sustainable is not just a worthy goal, it is a global imperative. It will take time, and it will take a lot of effort. But with our far-sightedness and technical progress, we can contribute to the endeavour in a sustainable way by focussing on clean, sustainable and people and environment friendly energy sources, even as we deliver the results that our shareholders expect in the long term.

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BUSINESS OVERVIEW

Text in our original annual report:

“Shell is one of the world’s largest independent oil and gas companies in terms of market capitalisation, operating cash flow and oil and gas production. We aim to sustain our strong operational performance and continue our investments primarily in countries that have the necessary infrastructure, expertise and remaining growth potential. Such countries include: Australia; Brunei; Canada; Denmark; Malaysia; the Netherlands; Nigeria; Norway; Oman; Qatar; Russia; the UK; the USA; and, in the coming years, China.”

This section should read (additions or changes in bold):

Shell is one of the world’s largest independent oil and gas companies in terms of market capitalisation, operating cash flow and oil and gas production. We aim to sustain our strong operational performance and continue our investments only in countries that have the necessary infrastructure, expertise and remaining growth potential, and where our activities will have a minimum effect on an environment and society. Although further verification is needed, the countries that might fulfill the necessary requirements include: the Netherlands; Norway; the UK and possibly the USA. Current activities will be assessed by independent auditors on issues such as sustainability and human rights. New projects will not be developed until independently proven sustainable and harmless.

UNSUSTAINABLE PRACTICES REPORTED

The overview presented below is an overview of unsustainable practices performed by Shell or by Shell’s business partners. Some of these cases are decades old, some very new. In all cases it holds that Shell has so far refused to take responsibility for damage which has already been caused or which may be in the future.

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<td>Russia</td>
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<td>Kazakhstan</td>
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<td>Ridding environmental damage through unconventional and dangerous gas production methods (coalbed methane)</td>
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RISK FACTORS

The following risk factors mentioned in our original annual report are here to be highlighted by concrete examples. We are aware that in this section, we are wrongly focused on the material, financial and reputational risks for Shell as a competitive company. With these examples, we would like to focus extra attention on permanent damage to the environment that our activities might cause.

p. 14 – Our future performance depends on the successful development and deployment of new technologies

“We operate in environments where the most advanced technologies are needed. While these technologies are regarded as safe for the environment with today’s knowledge, there is always the possibility of unknown or unforeseeable environmental impacts.”

Example: Canadian oil sands extraction causes a rise in greenhouse gas emissions. Due to “easy” oil getting scarce, oil companies are investing in unconventional oil resources. In general, unconventional oil production is less efficient and has greater environmental impacts than conventional oil production. The Canadian oil sands (often called tar sands) are Shell’s largest unconventional oil reserve. As of 31 December 2010, Canadian oil sands amounted to 26% of Shell’s proven oil reserves.

In a study at the request of the European Commission, released February 2011, typical tar sand well-to-wheel greenhouse gas (GHG) emissions were found to be most likely 23% worse from GHG emissions of typical conventional oil sources. For this study, many earlier studies on this subject were reviewed. Shell Canada usually states that fuels derived from oil sands mining have 5 to 15% higher well-to-wheel (GHG) emissions, compared to fuels derived from conventional oil and dependant on crude type and source.

Example: Unacceptable environmental and health risks involved with high-volume fracturing

Conventional natural gas, usually found trapped in the pore space of rock types like sandstone in underground geologic formations, flows rather easily to drilled wells. For unconventional gas reserves, however, high-volume fracturing is used as a technique to bring the gas to the surface. Hydraulic fracturing or fracking involves injecting water mixed with sand and chemicals to break up rock formations and ease the production of natural gas and oil. Fracturing has been done around the world for many years. However, high-volume fracturing is a rather new phenomenon and causes much more environmental and health risks than there are high volumes of water, needed; water resources may become polluted and greenhouse gas emissions increase dramatically.

As with oil, Shell companies are resorting to unconventional production methods for gas as well. In December 2010, our CEO Peter Voser stated: “In recent years, Shell has increased investment in natural gas projects in countries like Qatar, Australia, Russia, the United States and Canada, with a special focus on tight gas, shale gas and coal-bed methane – together these are known as unconventional gas. We’re currently exploring the potential for unconventional gas outside North America in countries like China and South Africa, as well as some European countries.”

Example: Western gray whale on the brink of disappearance forever

The offshore gas and oil extraction by Sakhalin Energy (Shell is a partner and lead technical advisor to the operator) interferes with the feeding grounds of the Western gray whale. Western gray whales feed throughout the summer and autumn in the waters off Sakhalin Island. The estimated population size in 2009 was about 130 whales, including only around 30 mature females. The population, which is listed as critically endangered on the IUCN Red List of Threatened Species†, could be driven to extinction by the mortality of just a small number of reproductive females.

Example: Successful development and deployment of new technologies

“We operate in environments where the most advanced technologies are needed. While these technologies are regarded as safe for the environment with today’s knowledge, there is always the possibility of unknown or unforeseeable environmental impacts.”

Example: The nature of our operations exposes us to a wide range of health, safety, security and environment risks.

“We have operations, including oil and gas production, transport and stopping of hydrocarbons, and refining, in difficult geographies or climate zones, as well as environmentally sensitive regions, such as the Arctic or maritime environments, especially in deep water.”

Example: The construction of a new platform fundamentally changes the full Sakhalin II project scope. The Western Gray Whale Advisory Panel (WGWAP) provides scientific advice and recommendations on the operational plans and mitigation measures by Sakhalin Energy. Prior WGWAP recommendations (which are required by lenders) were based on an assumption that a total of two platforms would be built. The same is true of prior lender decisions, and Russian environmental regulatory decisions. Thus, Sakhalin Energy’s revelation brings about the necessity to review prior recommendations.

Example: Erratum to the Shell Annual Report 2010

[Image and text content related to the erratum are included here.]

Example: Farmers, scientists, NGOs, a Dutch princess, a business tycoon, a nepotism senator from France and a number of 7,000 members by the end of April: we face strong opposition to our exploration plans for shale gas in South Africa’s semi-desert Karoo region. On Wednesday 20 April 2011, the South African Cabinet invited a moratorium on our drilling plans. The Cabinet has made it very clear that the Karoo environment should stay clean. Our fracking operations could pollute water resources and affect the precious Karoo landscape. We also would need massive amounts of water. We have made a commitment not to compete with the people of the Karoo for their water needs, but as of yet we don’t know how to fulfil this promise.

The extraction of oil from tar sands has many features. These are typical of industrial mining: dig up the earth; use lots of energy and water; sell the product; create a huge lake with toxic waste. At Shell’s main oil sands operations, oil is tar mixed with sand, clay and water is dug up in open-pit mines. Enormous trucks deliver these goods to a place where warm water is added to separate sand from the bitumen. After this process, the bitumen goes to an upgrader. In this upgrader (that usually runs on natural gas) the heavy, large hydrocarbon molecules are cracked into lighter molecules. The synthetic crude oil is then sold to refineries to make petrol; the remainder of the process is dumped in a tailings lake.

Executive Directors’ Statement on Sakhalin Project

Washington strongly opposes the construction of a new platform and associated subsea pipeline. They also oppose the seismic survey in preparation for this platform, which Sakhalin Energy has announced will take place during the summer of 2011.

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We are modelling through in Nigeria, against better judgment. We have not made serious efforts to avoid or clean up oil spills nor have we recognised the suffering of the local population. We have reduced gas flaring in other countries but again in Nigeria we did not make a serious effort to end this. Finally, we ignored our obligation to correct and control in the Niger Delta.

Executive Director’s Statement on interring with poli- tics in order to ensure profit. “With our deepest regrets we have to report to our shareholders that we have no longer been able to hide some specifics with regard to our Nigerian operations. Wikileaks revealed that we seconded people to all the relevant ministries of the Nigerian government in order to gain full access to everything being done in those ministries. In addition, we were fined for corrupt practices for the first time in more than 50 years of operations in Nigeria.

We also would like to express our deepest regrets about the fact that we exerted our economic influence on the UK and Dutch governments. In the case of the joint venture with the Libyan National Oil Corporation we were actively aided by the then UK Prime Minister Tony Blair. The forensic policy departments of the UK and the Netherlands have been successfully lobbying on our behalf. They have enabled us to get a fair slice of the action in Iraq after the war.

“We want to fish again!” Nigerian villagers seek compen- sation from Shell. In November 2008 and May 2009, four Nigerian citizens and Friends of the Earth-Netherlands filed a civil lawsuit against Shell in a Dutch court. The plaintiffs in the “People of Nigeria versus Shell” lawsuit have accused Shell of negligence with regard to the prevention and proper cleanup of oil spills. The four Nigerians, farmers and fishermen, are from the villages of Gosi, Onuma and Igbun Ada Udo in the Niger Delta. Oil from Shell installations has leaked onto their fields and into their fish ponds. The plaintiffs are claiming compensation from Shell for the damages suffered, and want Shell to clean up the remainder of the pollution. They want to fish and farm once again.

Chief Bariza Rizzi Mabon, one of the plaintiffs, was born in 1936. He has lived in the village of Gosi in Ogoirikar for many years. An oil spill in October 2004 completely damaged his fish ponds, fruit-bearing trees, canoes and vegetable gardens. Since then, several other spills have occurred. In 2010, Shell had still not cleaned up the crude oil spill nor had the company compensated the villagers for their losses over the years.

Chief Bariza’s son Eric explains: “This Trans-Niger pipeline was put here in the early 1960s by Shell. Ever since, for the past twenty years, there has been no maintenance. The oil spill caused the water, our main source of income and water supply, to be severely polluted.” The Gosi villagers used to live on fishing and farming, but there are no more fish now, the water is black with oil and the mangroves, once thick and green, have died off.

Eric: “Our people are hungry, and a hungry man is an angry man.” The local people do not have the knowledge or the equipment to clean up the spill. And Shell has not made any significant effort to clean up the heavily polluted region.

Example: Oil spills cause human suffering in Nigeria

 Amnesty International concluded that all companies operating in the Niger Delta are linked to violations of several internationally recog- nised human rights. These rights comprise the right to food, the right to work, the right to an adequate standard of living, and the right to health and a healthy environment. In January 2011, Amnesty International and Friends of the Earth International filed a complaint against Shell at the Dutch and UK National Contact Points dealing with the OECD Guidelines. They claim that Shell’s reporting about oil spills in the Niger Delta constitutes a breach of the OECD Guidelines, specifically Sections II (Disclosure) and VII (Consumer Interests) as well as Section V (Environment). The complainants state that Shell’s figures are misleading and incomplete, and that the oil spill investigation system – on which Shell bases its data – is totally lacking independence.

“With our deepest regrets we have to report to our shareholders that we have no longer been able to hide some specifics with regard to our Nigerian operations. Wikileaks revealed that we seconded people to all the relevant ministries of the Nigerian government in order to gain full access to everything being done in those ministries. In addition, we were fined for corrupt practices for the first time in more than 50 years of operations in Nigeria.”

Example: Labour irregularities at Cosan, Brazil

At the peak of the crop year ending 31 March 2010, Cosan em- ployed nearly 41 thousand people. Of this total, about 27 thousand employees were seasonal. More than 33 thousand employees work in the operations sector, especially migrants working on manual cane harvesting. According to Cosan, a manual harvest worker effectively works 6 hours and 45 minutes a day and is paid around EUR 230 a month.

In 2007 and 2010, inspectors from the Brazilian government rescued cane cutters working in situations analogous to slavery for suppliers of Cosan. In addition, in recent years, inspectors have found several labour rights violations at production units of Cosan. The violations mainly refer to the situation of sugarcane cutters. Examples include: work on Sundays without a licence, dirty bathrooms, irregular lodging facilities, shortage of off time between two days of work, the lack of drinking water in work areas, sugarcane cutting practices that are too demanding for the workers, lack of Personal Protective Equipment.

We have reduced gas flaring in other countries but again in Nigeria we did not make a serious effort to end this. Finally, we ignored our obligation to correct and control in the Niger Delta.

Example: Oil spills cause human suffering in Nigeria

 Amnesty International concluded that all companies operating in the Niger Delta are linked to violations of several internationally recog- nised human rights. These rights comprise the right to food, the right to work, the right to an adequate standard of living, and the right to health and a healthy environment. In January 2011, Amnesty International and Friends of the Earth International filed a complaint against Shell at the Dutch and UK National Contact Points dealing with the OECD Guidelines. They claim that Shell’s reporting about oil spills in the Niger Delta constitutes a breach of the OECD Guidelines, specifically Sections II (Disclosure) and VII (Consumer Interests) as well as Section V (Environment). The complainants state that Shell’s figures are misleading and incomplete, and that the oil spill investigation system – on which Shell bases its data – is totally lacking independence.

“With our deepest regrets we have to report to our shareholders that we have no longer been able to hide some specifics with regard to our Nigerian operations. Wikileaks revealed that we seconded people to all the relevant ministries of the Nigerian government in order to gain full access to everything being done in those ministries. In addition, we were fined for corrupt practices for the first time in more than 50 years of operations in Nigeria.”

Example: Labour irregularities at Cosan, Brazil

At the peak of the crop year ending 31 March 2010, Cosan em- ployed nearly 41 thousand people. Of this total, about 27 thousand employees were seasonal. More than 33 thousand employees work in the operations sector, especially migrants working on manual cane harvesting. According to Cosan, a manual harvest worker effectively works 6 hours and 45 minutes a day and is paid around EUR 230 a month.

In 2007 and 2010, inspectors from the Brazilian government rescued cane cutters working in situations analogous to slavery for suppliers of Cosan. In addition, in recent years, inspectors have found several labour rights violations at production units of Cosan. The violations mainly refer to the situation of sugarcane cutters. Examples include: work on Sundays without a licence, dirty bathrooms, irregular lodging facilities, shortage of off time between two days of work, the lack of drinking water in work areas, sugarcane cutting practices that are too demanding for the workers, lack of Personal Protective Equipment.
p. 48 – Employee communication and involvement

Text in the original annual report:
We encourage safe and confidential reporting of views about our processes and practices. Our global telephone hotline and website enable employees to report breaches of our Code of Conduct and the Shell General Business Principles, confidentially and anonymously (see page 77).

This section should read: (additions or changes in bold)

Reporting breaches – telephone helpline open to outsourced employees and civil society
We encourage safe and confidential reporting of views about our processes and practices. Our global telephone hotline and website enable employees to report breaches of our Code of Conduct and the Shell General Business Principles, confidentially and anonymously (see page 77 of the original annual report).

In light of the breaches by Cosan and other violations reported in this chapter, and to ensure a rapid reporting of any violations to our code of conduct and general labour and human rights principles, we will from now on open up our telephone lines to not only our own employees but also those who are employed by other companies working for or in cooperation with Shell and to the general public as well.

Example: Workers’ pesticide diseases denied in Brazil
For a decade or more, starting in 1997, Shell produced organo-chlorine pesticides [aldrin, dieldrin, endrin etc.] and other pesticides at a plant located near Paulínia, about 125 kilometers northwest of São Paulo, Brazil. In 1995 Shell sold the facility to American Cyanamid and the chemical giant BASF on the condition that Shell would assume full responsibility for the contamination of the facility. In 2002 BASF took full ownership of the facility in Paulínia. In 2002, BASF shut down the facility after the plant was banned by the Brazilian Ministry of Labour, in view of existing contamination and serious risks to human health. Several studies of the area revealed that the contamination had moved into the groundwater of the farms located between the plant and the Abobora River.

Both aldrin and dieldrin are highly toxic to humans, the target organs being the central nervous system and the liver. Due to their severe health impacts, by 1990 the use of aldrin and dieldrin was totally banned in the USA and Brazil. There have been many medical examinations of ex-workers and residents living near the factory. These reports show various health problems, such as prostate and thyroid cancers, liver diseases, neurological problems, and problems with reproductive organs and the urinary system.

Shell accused of negligence: The Brazilian public prosecutor and ex-workers have filed a case against BASF and Shell, to ensure funds for health treatment of former employees and compensation for damages.

In August 2010, a Brazilian court ordered Shell and BASF to assume responsibility for the medical treatment of all former employees of the Paulínia facility, and to pay a total of 1.1 billion Brazilian Real (about EUR 490 million) in connection with the exposure of workers to the toxic substances. The children of the employees and independent contractors who were born during or after services were also covered by the decision. More than 1,000 former employees of the company were covered by the court order.

Shell and BASF appeal: Soon after the court order, Shell and BASF made known that they would appeal the court order. “We expect that the Brazilian courts at a higher level will eventually establish that we were not responsible for alleged health impacts and other claims,” a Shell spokesman told Reuters news agency.

Jennifer Moore-Braun, a spokeswoman for BASF told Bloomberg news agency: “We are of the opinion that the environmental damage was caused by Shell, and we will appeal the decision.”

Examples: Bribe to Nigerian customs officials to import materials and equipment. The extent of Shell’s involvement and practices with regard to corruption in the Niger Delta is not known. In late 2010, Shell paid a total of USD 58 million to US and Nigerian authorities to head off the threat of legal action for corruption. SNEPCO, a 100% Nigerian subsidiary of Royal Dutch Shell, had paid approximately USD 2 million in the period 2004-2006 to its subcontractors with the knowledge that some or all of the money would be paid as bribes to Nigerian customs officials to import materials and equipment into Nigeria in relation to the offshore Bonga project.

SNEPCO and the US based Shell International Exploration and Production Inc. employees were aware that as a result of the payment of the bribes, official Nigerian duties, taxes, and penalties were not paid when the items were imported.

Executive Director’s Statement on supply chain responsibility: “From 2010 onwards, Shell’s sustainability principles, standards, and operating procedures will not only be applicable to Shell operations and joint ventures, but also to third party suppliers. Shell assumes full responsibility for any violations of these principles, standards and procedures in the entire production chain.”

ENVIRONMENT AND SOCIETY
p. 30 – Environment and Society
This chapter should be replaced entirely. Please disregard pp. 50 – 52 of the original report and replace by the text below.

Environment and Society
Our success in business depends on our ability to meet a range of environmental and social challenges. We must show we can operate safely and manage the effects our activities can have on neighbouring communities and society as a whole. If we fail to do this, we may lose opportunities to do business, our reputation as a company may be harmed, and our “licence to operate” may be impacted.

The Shell General Business Principles include a commitment to sustainable development that involves balancing short- and long-term interests, and integrating economic, environmental and social aspects into our business decisions. We have rigorous standards and a firm governance framework to establish that we were not responsible for alleged health impacts and other claims.

We also work with communities, partners and non-governmental organisations (NGOs) among others to tackle potential impacts and share benefits of our operations and projects. But we should work together with these stakeholders more than we do now, and more importantly we should listen to them and make the necessary changes to the way we operate in order to avoid environmental and social damages.

Detailed data and information on our 2010 environmental and social performance will be published in April 2011 in the Shell Sustainability Report, but here are a few examples of where our strategy is still failing:

Example: Our toxic legacy in Curacao, a litigation risk for Shell: Curacao is an island in the southern Caribbean Sea, off the Venezuelan coast. In 1985, Shell sold its Isla refinery in Curacao to one Antillean buyer. The agreement stated that the sellers’ companies in the Netherlands Antilles, and the US-based Shell International Exploration and Production Inc. had to obtain irreversibly and unconditionally from existing and future claims for pollution or other environmental effects exerted by the sellers’ companies in the Netherlands Antilles.

The refinery is located along the Schottegat harbor near the capital of Curacao, Willemstad. During seventy years of operation, Shell caused massive pollution. The refinery site and the sediment in the western part of the harbor became saturated with oil. Damage was caused to the groundwater and inland waters. The health of thousands of people living downwind of the refinery has been threatened through substantial emissions of sulfur dioxide and particulate matter. Empty barrels were filled with toxic residues, and dumped into the sea.

The most visible pollution is the asphalt lake, comprising almost 80 hectares. During World War II, the Isla refinery produced a substantial amount of asphalt to fuel the Allied Forces. At that time the market demand for light oil products was higher than for heavy oil products, so the remainder of the heavy Venezuelan oil was dumped in a lake next to the refinery. Presently, the lake is still filled with about a million tonnes of asphalt. At the same location, an acid tar pond contains some 34,000 tonnes of sulfonic acid (a residue from lubricants production) and asphalt.

Shell has consistently refused to take any moral responsibility for the mess it left behind. The government of Curacao is currently reconsidering the future of the Isla refinery. In 2009, the Dutch and Netherlands Antilles parliaments adopted a resolution, ordering an investigation into possibilities to recover the costs associated with the remediation of the damage from, among others, Shell. In a civil case, Shell could still be held liable for the pollution. This is an enormous litigation risk for our company due to the high costs involved with remediation of the environment.
Executive Director’s Statement on drilling.
“We realise now that we should not let technological innovations rule our common sense. We should start drilling just anywhere on earth, just because we are able to. These are areas where we should not drill, full stop.”

Example: High risks involved: the Kashagan oil field. The Kashagan field is located in the Kazakhstan sector of the Caspian Sea and extends over a surface area of approximately 75 kilometres by 45 kilometres. It is a very large oil field, some 11 billion barrels are considered recoverable by the oil companies presently working on it. The oil reservoir has some 4,200 kilometres below the shallow waters of the northern part of the Caspian Sea. Extreme conditions under which the operation takes place cause big risks. The shallow water depths (2-10 metres) and extreme weather conditions (highs of 45 degrees Celsius in the middle of summer, lows of minus 40 degrees Celsius in winter), create a situation in which oil extraction and transport is difficult and bearing a high risk of causing irreparable environmental devastation. Winter ice floes threaten to overrun the artificial islands constructed for extraction activities and the underwater pipelines that transport the crude to shore. In 2005/2006, construction was forced to stop for four months due to ice movement.

Moreover, the field’s reservoir is located at a subsea depth of more than 4,000 metres with pressures reaching high levels of about 700-800 atmospheres. The reservoir fluid contains a high concentration of H2S (hydrogen sulphide). Combined with high temperatures, the safe handling of crude production becomes extremely difficult.

The North Caspian Sea Production Sharing Agreement (NCPSA) is made up of Shell (16.81%), Eni (16.81%), Total (16.81%), ExxonMobil (16.81%), KazMunaoGas (16.81%), ConocoPhillips (8.45%) and Lukoil (7.56%). Since January 2009, the joint company North Caspian Operating Company B.V. (NCOC) has been the formal operator of the project.

Endangered species: The Kashagan oil field is located in the Northern part of the Caspian Sea, within a nature reserve zone. The Caspian seal and the giant Beluga sturgeon are the flagship species of the area. In 2008, the International Union for Conservation of Nature (IUCN) listed the Caspian seal as an endangered species. The seals occur throughout the Caspian Sea, using the winter ice sheets as a surface on which to give birth and nurse pups. Its population has declined by 90 percent over the last 100 years due to unsustainable levels of commercial hunting, habitat degradation and pollution, it is still decreasing. Since 2005 the number of pups born annually has decreased to about 1200 from about 14000 in the early 1980s. A 2007/08 survey in the north east Caspian area reveals a population of 15000-25000 seals. It has been estimated that there are 15000-25000 seals in the south west Caspian area, bringing the population size to 40000-60000. Roughly 300-400 pups are born per year, 25% of the total population, with losses due to habitat, pollution and hunting. As a result the species is listed as endangered by IUCN.

Lack of informing stakeholders: Oil companies including Shell have made little information available with regard to their assessment of the severe risks of the Kashagan project, and how they mitigate any adverse social and environmental risks. Little to no project information has been made available to the public despite repeated requests from local activists. A multi-stakeholder approach, as often recommended as an important tool with respect to corporate social responsibility, has not been followed. For instance, the public was not even involved in the development of the project’s Environmental Impact Assessment.

As Shell, we are on the wrong path towards reduction of GHG emissions. We expect our oil and gas production to increase by 11% in the period 2009-2012, reaching an equivalent of 3.5 million barrels of oil a day. We and expect more of our production to come from unconventional sources, and expect the production of oil and gas from unconventional sources is usually higher than that of production from conventional sources. Therefore, in the long term, both the CO2 intensity of our production as well as our absolute CO2 emissions will increase, for example through the expansion of oil sands activities in Canada and our Pearl GTL project in Qatar. That is, if we don’t take the mitigation measures proposed in this report.

In May 2009 — in a report by Oil Change International, PLATFORM, Friends of the Earth International and Greenpeace UK — we were found to be the world’s most carbon-intensive oil company, holding more carbon in its reserves, per barrel of future oil equivalent, than our competitors such as Chevron, ExxonMobil and BP. According to the report the average carbon intensity of oil and gas produced by Shell is set to rise dramatically, increasing 8.5 percent on the figure for 2008. This sharp increase is caused by our move to tar sands, our reliance on liquefied natural gas (LNG), and our continued gas flaring in Nigeria.

Shell propagates the use of natural gas instead of coal in power plants as a bridge to a low-carbon energy future. By 2012, we will produce more gas than oil. There are, however, concerns with regard to the GHG emissions of gas production. Methane may leak into the air during gas production. Methane is a much more powerful greenhouse gas than CO2. A recent study published in Science Magazine shows that methanes’s is more powerful in warming the atmosphere than our GHG figures presently account for. Moreover, recent studies by the US Environmental Protection Agency and the US Cornell University show that much more methane is leaked than previously thought. This is especially the case for unconventional gas production, in which GHG emissions might even surpass those from coal production. At Shell, we still have to bring our GHG calculations in line with our actual methane emissions and the latest scientific proceedings.

Example: Shell big in dodging climate issues. Except for biofuels, Shell presently does not have any major involvement with renewable energy: wind, solar, biofuels, etc. Though we have a small interest in research for cars with hydrogen as an energy carrier. Wind and solar energy are not longer part of Shell’s investment portfolio, though we still have some wind farms in the USA. In 2008, Shell pulled out of the London Array project, aimed at building 341 turbines in the Thames Estuary required of generating 1,000 megawatts of power – enough to power a quarter of London’s homes. We had a 3.3% share in the project. In March 2009, however, we regretfully announced that we would no longer invest in wind and solar energy. Linda Cook, our executive director of gas and power, said: “We are businessmen and women...
Spills
Large spills of crude oil and oil products can incur major clean-up costs, let alone major damage to the environment and to the livelihoods of people living in the area where the spills occur. They can also affect our licence to operate and harm our reputation. Oil spills resulting from sabotage and theft of crude oil in Nigeria remain significant. We have made major investments in facilities to prevent spills, but use them to almost no attention from our operational spills. There are still many instances where spills occur in our operations from operational failures, accidents or corrosion. Shell has clear requirements and procedures to prevent spills, and multi-billion dollar programmes are under way to maintain or improve our facilities and pipelines.

Water
Global demand for water is growing while access to water is becoming more difficult in some parts of the world. It is estimated that by 2025 two-thirds of the world’s population will live in areas where the demand for water exceeds the available amount or where the water’s poor quality restricts its use. As world energy demand rises, the energy industry is facing new challenges. The energy industry is one of the largest consumers of fresh water globally. If we continue to operate in the way we do, Shell’s water footprint may increase, as we do not know how to deal with the local conditions. The sites three-quarters of Shell’s oil and gas operations in the world are more remote areas on earth, with extreme weather conditions, and the challenges of drilling are formidable. Until we ensure that we can respond to abnormal conditions, our investment in new offshore wind farms might, unfortunately, occur in the future.

Environmental costs
Shell operates in environments where the most advanced technologies are needed. Until recently, we placed a premium on developing effective technologies that are also safe for the environment. However, we also accepted the fact that there is always the possibility that a new technology will cause environmental impacts that could not have been assessed or foreseen beforehand. This is a practice from the past. From now on, we will take all necessary precautions to exclude these risks and take full responsibility for any damages that have occurred in the past and that might, unfortunately, occur in the future.

As a result of this action, we revised our 2010 drilling plans for that area and we should revise them even further until we are sure no environmental damage will occur. Most likely, we will suspend our operations indefinitely, because our spill response system was found to be inadequate, as we do not know how to deal with the local conditions. The site three-quarters of Shell’s oil and gas operations in the world are more remote areas on earth, with extreme weather conditions, and the challenges of drilling are formidable. Until we can ensure that we can respond to abnormal conditions, our investment in new offshore wind farms might, unfortunately, occur in the future.

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Example: Drilling Alaska’s Arctic coast: safe and sustainable?
The marine environments of America’s portion of the Arctic Ocean – the Chukchi and Beaufort Seas – are among the least understood in the world. This wide swathe of ice-covered oceans – circulating between Canada and Russia – is home to one-fifth of the world’s polar bears, as well as seals, migratory birds, bowhead whales, several other types of whales, Pacific walrus and much more. The Inupiat people who live on Alaska’s North Slope call the Arctic Ocean “their garden.” The bowhead whale is the foundation for this unique ecosystem, attracting a diverse range of marine wildlife from the water’s surface to the seafloor.

In November 2010, almost 455,000 square kilometres along the north coast of Alaska were designated as “critical habitat” for the polar bear, as a result of a partial settlement in an ongoing lawsuit brought by the Center for Biological Diversity, the Natural Resources Defense Council (NRDC) and Greenpeace against the US federal government. This designation under the Endangered Species Act is intended to safeguard the habitat that is vital to the polar bear’s survival and recovery. At the same time, the federal government is considering whether to allow oil companies, especially Shell, to drill for oil and gas in the polar bear’s newly designated critical habitat in the Chukchi and Beaufort Seas off Alaska.
Biofuels – fuelling destruction

The international market for biofuels is growing, driven largely by the introduction of new energy policies in Europe and the USA that call for more renewable, lower-carbon fuels for transport. However, sustainability challenges exist with today’s biofuels. With proper regulation, the production of biofuels will fuel destruction, placing biodiversity under threat. Biofuels compete with food crops for available land, and labour rights are widely violated in the industry. In 2010, we sold 9.6 billion litres of biofuels in petrol or diesel blends, making us one of the world’s largest biofuel distributors.

To supply the Caarapó plant, Cosan sources from mostly new sugarcane plantations in the neighbourhood. One of its known sourcing areas is the farmland of the Santa Cludina farm. This farm is located within the Oyãrpã indigenous territory of the Guarani-Kaiowá Indians. According to the Brazilian constitution and United Nations conventions the land is theirs. Shell will proactively ensure that land rights are respected.

Example: Massive monoculture land use in Brazil to produce sugarcane

The Brazilian Institute for Space Research (INPE), sugarcane plantations already occupy half of the Oyãrpã indigenous territory. Since there are 26 “owners” of farmland within Oyãrpã, there could be more suppliers to Cosan. The indigenous territory Oyãrpã, comprising over 11,000 hectares, was traditionally occupied by Guarani-Kaiowá Indians. According to the Brazilian constitution and United Nations conventions the land is theirs. Shell will proactively ensure that land rights are respected.

Example: First Nations in Canada protest against polluting water streams.

The First Nations are concerned about the impact of the oil sands developments on their livelihood. Water withdrawals from the Athabasca River system (up to 650 million cubic metres annually) reduce river flows, threatening fish populations during low flow periods, and the health of the Peace-Athabasca Delta. The water may also become polluted due to the oil sands developments. The New Cree First Nation, located downstream from the most intensive oil sands development, has experienced an increased incidence of cancers. Finally, the caribou is an important species to many Aboriginal groups, for cultural and spiritual reasons. However, due to cumulative development activities (including oil sands), the caribou herds in North-Eastern Alberta are declining.

Neighbouring communities

Gaining the trust of local communities is essential to the success of our projects and operations. In 2010, we introduced global requirements for “social performance” – how we perform in our relationship with communities. The requirements set clear rules and expectations for how we engage and respect communities that may be impacted by our operations. Our approach has evolved as we have learned from experience. For example, the Sakhalin 2 UNG project in Russia was estimated to impact directly, nearly a quarter of a million people, among them some 3,800 indigenous residents. Sakhalin Energy adopted a community grievance mechanism to allow people to file a complaint or a concern. We now plan to implement community grievance mechanisms at other locations based on the Sakhalin experience.

Examples of where a grievance mechanism is seriously needed are the Cosan sugarcane operations in Brazil and the oil sands operations in Northern Alberta, Canada. In Brazil, Cosan’s new sugarcane plant in Caarapó, Mato Grosso do Sul, is sourced from suppliers occupying indigenous lands. In Canada, aboriginal communities are increasingly concerned about the negative impacts of the oil sands developments on their land, water and wildlife.

Example: Indigenous communities in Brazil suffering from Shell operations.

Since June 2009, Cosan has owned a newly built sugarcane plant in Caarapó, Mato Grosso do Sul state. The plant has a present capacity to crush 2.5 million tonnes of sugarcane a year. The former owner estimated that it would create 6 million tonnes in 2017/2018. The plant is included into the Shell-Cosan joint venture plants, so soon it will be half owned by Shell.

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Our performance

We, members of Friends of the Earth, are the self-appointed External Review Committee on Shell’s corporate social behaviour. We have been advising Shell for years and have learnt a lot about this company. For all these years we had felt that we were merely being used as a ‘greenwash’ board; therefore we are very happy that Shell has finally implemented our recommendations. We now can say that the reflection on the recommendations of the Annual Reports was a very limited and paltry version of the critical feedback we gave to Shell.

This Ematum to the Annual Report undoubtedly shows how the Shell board has chosen to take up the challenge of transforming the company into a truly responsible organisation. As the external review committee we would like to be part of the process leading to a better company. In this light we offer the following suggestions:

Shell must be accurate and transparent in its communication. Advertising gas as a clean fossil fuel is not correct and therefore undermines the credibility of the company. The local problems attached to gas exploitation are visible in the niger delta as is the case in sao paulo and the asphalt lakes in curacao.

Shell urgently needs to become part of the low carbon economy and explain this change of direction and the associated long term benefits to its shareholders. The ambition to invest 50% of annual profits in sustainable energy, mentioned in this erratum, is a good start. The need for external review committee we would like to be part of the process leading to a better company. In this light we offer the following suggestions:

Shell should present future damage in all its operations. Shell’s projects can cause considerable damage, apart from foreseeable emissions such as greenhouse gases. Now that the company has admitted it is responsible for all damage associated to its operations, it is not only socially responsible but also economically logical not to invest in high risk operations such as deep sea and arctic drilling and mining operations, and chemical plants and storage facilities, in ecological sensitive or densely populated areas.

Finally, we extend our best wishes to the Board of Shell and the worldwide Shell workforce on the long road ahead. As the External Review committee, we are looking forward to the 2011 Annual Report.
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