

# Philip Watts

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*For the naval architect, see Philip Watts (naval architect)*

**Sir Philip Watts**, KCMG is the former chairman of the multinational energy company Shell.

Watts was born on June 25, 1945, in Leicester, England and grew up in the Midlands where his father worked in the textile industry. Watts attended Wyggeston Boys' and Dixie Grammar schools in Leicestershire and the University of Leeds, where he gained a bachelor's degree in physics in 1968. After graduation he taught briefly in Sierra Leone before returning to Leeds to study for a master's degree in geophysics.

Watts joined Shell in 1969.

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## Shell career

- 1969–1983; Seismologist
- 1983–1987; Exploration director, Shell UK
- 1987–1991; Various in Shell's production liaison and planning operations
- 1991–1994; Managing Director, Shell Nigeria
- 1994–1995; Regional coordinator, Shell Europe
- 1995–1998; Director for "Strategic Planning, Sustainable Development, and External Affairs", Shell International
- 1998–2001; Managing Director, and CEO Exploration and Production Division
- 2001–2004; Chairman.

## Nigeria

During Watts's tenure as managing director of Shell Nigeria in the early 1990s a major area of exploration in the country was the oil-rich Niger River delta and here Shell came into conflict with the Ogoni people. The conflict with the Ogonis eventually culminated in the execution by the Nigerian regime of activist Ken Saro-Wiwa. In 2002 a class action lawsuit was filed by the Philadelphia law firm of Berger & Montague alleging that Shell "engaged in militarized commerce in a conspiracy with the former military government of Nigeria...purchasing ammunition and using its helicopters and boats and providing logistical support for ... a military foray into Ogoniland designed to terrorize the civilian population into ending peaceful protests." Shell dismissed the allegations as "groundless", but Watts was questioned in London by representatives of Berger & Montague in mid-April 2004 although he was not named a defendant in the lawsuit, which was brought solely against the company.

## Style

Watts succeeded Sir Mark Moody-Stuart in mid-2001 as chairman of Shell's "Committee of Managing Directors". Within Shell this appointment was greeted with some surprise as the abrasive Watts was a contrast with his patrician predecessor. Externally the appointment was at first welcomed as a sign that Shell was going to move aggressively to reduce costs, however Watts soon fell into disfavour with Shell's institutional investors, in large part because he was seen as aloof and uncommunicative. This unpopularity was reflected inside Shell where many were privately critical of his aggressive form of management and poor communications style. His devotion to Shell could not be faulted not least because he wore a ring on his right hand which had been engraved with the Shell symbol, the pecten.

Delivering the keynote address at the opening of the Shell Centre for Sustainability at Houston's Rice University in March 2003, Watts spoke out forcefully in favor of Sustainable Development. Later that year he was knighted by Queen Elizabeth II for services to British business and to the World Business Council for Sustainable Development, which he served as chairman.

## Head of Exploration & Production

Watts' tenure as head of Shell Exploration & Production is widely agreed to have been one of the causes of the later reserves scandal that forced his resignation from Shell in 2004. Under his leadership, Shell E&P failed to discover enough oil and gas to replace the hydrocarbons that the company was producing. This led to an alarming dip in the company's reserve replacement ration (RRR) - one of the most important indicators of an oil company's corporate health.

Nevertheless, the causes of Shell's inability to find new sources of hydrocarbons were not entirely Watts' fault. Shell had elected in the late 1990s, at a time both of consolidation in the industry and very low oil prices, to cut costs within the business rather than buy other companies as BP and Exxon did. It was the wrong bet - Shell cut costs within exploration when others were increasing their spend. When oil prices rocketed, the results were unsurprising - although this was unanticipated and very few commentators thought at the time that Shell was making a mistake by cost-cutting.

Having been the industry leader at the start of the 1990s, Shell went rapidly downhill as the mergers of BP and Amoco and Exxon and Mobil created companies that could compete blow for blow with Shell. Shell had failed to realise, despite its long history, that there was a direct correlation between investment in exploration and oil discoveries. The company has been rectifying this recently but Shell's RRR still remains very low in comparison with its main competitors.

While Watts was head of Shell E&P at this difficult time, others were also responsible for cost-cutting decisions. In particular Sir Mark Moody-Stuart, who was Watts' predecessor both as head of Shell E&P and as Chairman of the Committee of Managing Directors and is now Chairman of Anglo-American, appears to have escaped much of the blame heaped on Watts.

## Reserves

Less than three years after taking over the chairmanship Watts was swept out of office in early 2004 by revelations that the company had overstated its proven oil reserves by nearly 25 percent.

On January 9, 2004, Shell announced that it was cutting its estimate of proven oil and gas reserves by roughly 3.9 billion barrels, close to 20 percent of total reserves. Investors began calling for Watts to resign and it was particularly galling to many Shell shareholders that the bulk of the overstatement of reserves had occurred during Watts's tenure as CEO of the company's Exploration and Production Division.

Watts was asked to resign by the Board on March 3, 2004 and shortly after this reports of internal memorandums indicating that many of Shell's senior executives had been alerted about 18 months earlier to the likelihood that the company's proven reserves had been overestimated emerged in the public domain. Put simply, Watts had lied both publicly and privately when he stated that he had not been aware of the reserves problem until late in 2003. Increasingly fractious e-mails to Walter van de Vijver, Watts' successor as CEO of Shell Exploration and Production, throughout 2003 made it clear that Watts had known about the problem for

some time. Particularly damning was an appearance in front of around 1,000 staff in Shell Centre's sports hall in January 2004 where Watts stated that not only had he been informed of the problem in late 2003 but also that his first response had been to write down on a piece of paper that he (and, by implication, Shell) should 'get the facts and do the right thing'.

In April 2004, the U.S. law firm of Davis, Polk and Wardwell released a report on its independent review of Shell's reserves overbooking crisis which revealed that top company executives, including Watts, had known about the reserves shortfall for years and had begun to worry in late 2002 about how much longer the situation could be kept a secret. In mid-April he was grilled by a U.S. law firm in London about his role in Shell's alleged conspiracy with the former military government of Nigeria in a scheme to deprive the Ogoni people of their human rights.

Watts (who had consistently said that he had "...acted properly and in good faith at all times") was investigated by the British Financial Services Authority (FSA) about his role in relation to the recategorisation of the company's hydrocarbon reserves. In November 2005 the FSA announced that it had "closed its inquiries" when its "Regulatory Decisions Committee", decided that the regulator should take no action. Watts was refused permission to proceed with a counter action against the FSA by the "Financial Services and Markets Tribunal".

Watts was also investigated by the U.S. Justice Department and the Securities and Exchange Commission for allegedly misleading the stock market by allowing the overstated reserves figures to stand. These investigations are now closed with "no case to answer".

## Retirement

Sir Philip Watts' severance payment following his resignation as a director of The "Shell" Transport and Trading Company, p.l.c. (ST&T), and as an employee in March 2004 consisted of a lump sum payment of £1,057,971. He also received an (index linked) pension of £584,070 per annum under the Shell pension scheme.

Watts is currently believed to be living in Berkshire.

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