

GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OFFICE OF PLANNING



Office of the Director

**MEMORANDUM**

**TO:** D.C. Zoning Commission

**FROM:** *EM* *EC*  
Andrew Altman, Director

**SUBJECT:** Preliminary Report – Zoning Commission Case No. 01- 07C  
A Proposed One-Stage Planned Unit Development (PUD) and Application for  
Rental of Public Air Space at 1700-1730 K Street, N.W. --Square 126, Lots 56  
and 851

**DATE:** May 30, 2001

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**I. APPLICATION-IN-BRIEF**

Applicant: Commerce Building Associates

Flexibility Sought: -11.14 FAR in Zone Permitting 11.0 FAR for a PUD  
-Penthouse Setback of 9'4" (vs. 18'6") at rear  
-No Rear Yard or Court (vs. 35'to 40' wide court)  
-Rental of approx. 225 GSF of Air Rights Over Public Space

Under Sections: -DCMR 11, Chapter 24 – particularly Sec. 2405.2 for FAR  
-Sections 777 and 411 for Penthouse Setback  
-Section 774.9(c) for Rear Yard/Court  
-Public Space Utilization Act for Alley Air-Space Rental

Parcels: Square 126, Lots 56 and 851

Addresses: 1700 –1730 K Street, NW

Zoning: C-4

Matter of Right: 10.0 FAR, 130 Feet

PUD: 11.0 FAR, 130 Feet

Existing Buildings: 11.55 FAR, 13 Stories

Proposed Building: 11.14 FAR, 130 Feet

Proffered Amenities: -Superior Architectural Design  
-Widening of K Street Sidewalk  
-Landscaping and Benches Along K Street Frontage  
-Enhancements to Farragut Square park

Other Relevant Issues: -Required Housing Contribution

**ZONING COMMISSION**  
District of Columbia  
Case 01-07C  
Exhibit 11

## **II. OFFICE OF PLANNING RECOMMENDATION-IN-BRIEF**

The Office of Planning (OP), **recommends the Zoning Commission set down this application for a public hearing**, with the understanding that, before the public hearing, the applicant solve some issues of concern to the Office of Planning, particularly:

- The effect of the design on the vitality of both street life and the proposed street level retail along the K Street frontage;
- The adequacy of the public amenities package;
- The adequacy of the off-site housing contribution;

The project has architectural merit and may provide useful public amenities at a very important intersection and public gathering place in the central business district. The flexibility requested is relatively small. Development of the site as a PUD ensures a contribution to the construction of new affordable housing off site. Setting this application down for a public hearing will also stimulate further discussion of the design and amenities appropriate to this primary commercial site in central Washington.

## **III. APPLICATION SUMMARY**

The applicants wish to tear down the existing Commerce Building and Riddell Building at the southwest corner of 17<sup>th</sup> (Connecticut) and K Streets and construct a larger, more efficient new office building, with first floor retail. They have applied for a one-stage PUD, asking flexibility on FAR, rear yard/court requirements, and rear penthouse setback from the public alley. As part of this application and a concurrent request to the Department of Consumer and Regulatory Affairs Building and Land Regulation Administration (DCRA), the developer is requesting Zoning Commission approval of the rental of a small amount of air rights over the rear and side alleys.

The applicant cites the Zoning Commission's authority to approve FAR over and above that requested as part of the Zoning Regulations. It states it is providing significant amenities in return for relatively little requested flexibility. These amenities include superior building design, a wider sidewalk, and improvements to adjacent Farragut Square.

## **IV. SITE AND AREA DESCRIPTION; ZONING AND HISTORIC PRESERVATION CONTEXT**

The corner of 17<sup>th</sup> and K Street, N.W., where Connecticut Avenue meets Farragut Square, has long been one of Washington's premier locations. For most of the decades after World War II it was considered the epicenter of the central business district, and of the private professional sector in the City.

Farragut Square is a park under National Park Service jurisdiction and was part of the original L'Enfant plan for the City. K Street is a major boulevard, 160 feet wide, including flanking service roads. 17<sup>th</sup> Street, to the confusion of many out-of-town visitors, borders both the east and west sides of the Square. The Square is ringed with commercial structures generally containing retail uses on the first floor and offices above. Although some of the older buildings rise to only 110 feet, the majority of buildings are 130 feet high, both on the Square and along nearby K Street.

The Metro Farragut North, Red Line station is diagonally across the intersection of 17<sup>th</sup> and K Streets. The Blue/Orange Line, Farragut West station is one block south, at 17<sup>th</sup> and I Streets

The site is approximately 33,485 square feet. The zoning for the site, and for all nearby squares, is C-4, as befits this section of the central business district.

Neither the Commerce Building nor the Riddell Building, the two structures proposed for demolition, have been declared or nominated to be landmarks. They are not located in an historic district. The Barr Building, which adjoins the Commerce Building immediately to the south along 17<sup>th</sup> Street, is a significant structure. It has not yet been nominated for landmark status. The Army-Navy Club, however, which is diagonally across Farragut Square from the site of the proposed development, is a designated landmark. There are many other historically designated buildings of both local and national significance within a four block radius of the Commerce and Riddell Buildings, including the White House. Nearby Lafayette Square is an historic district.

## **V. APPLICANT'S PROPOSAL**

The applicant wishes to demolish the two early 1950's 11.55 FAR buildings presently on-site, rent approximately 225 gsf of public space over rear alleys and courts, and construct a single, more efficient 373,135 gsf, 11.14 FAR, 130' foot high, 100% + lot coverage building. It would stretch approximately 120 feet along the western side of 17<sup>th</sup> Street, and 265 feet along K Street.

The project would include approximately 17,000 square feet of retail space. Approximately 2,244 square feet would be constructed over public alley space in the rear of the building. To achieve this, 5 ½ square feet would be rented over a cul-de-sac of the northern section of the east-west alley, beginning at the third floor; an additional 7 ½ square feet would be rented over the alley at the southwestern corner of the building, beginning at the fourth floor.

A 225 space underground parking garage would be entered from K Street, just to the east of the alley bordering the site on its west.

Under matter-of-right C-4 zoning, the applicant would be permitted to develop 334,850 square feet, with a 10.0 FAR, 130 foot height, 100% lot coverage, and no parking requirement.

A standard PUD would permit 368,335 gsf, with an 11.0 FAR, the same height and lot occupancy as matter of right, and a 155 space parking requirement.

With the 5% flexibility permitted the Commission under Section 2405.3 the Commission could – with rental of public space air rights --permit the applicant to develop up to 386,751 square feet, at an 11.55 FAR, again to same height and lot coverage as a matter of right project, and the same parking space requirements as a regular PUD.

	<b>Project</b>	<b>Compared With M-O-R</b>	<b>Compared With Standard PUD</b>	<b>Compared With PUD Plus 5% Flexibility</b>
<b>GSF</b>	373,135	+ 38,285 gsf (+11.4%)	+5515 gsf (+1.5%)	-13,616 gsf (-3.5%)
<b>FAR</b>	11.14	+1.14 (+11.4%)	+14 (+1.27%)	-.55 (-4.9%)
<b>Height</b>	130'	Same	Same	Same
<b>Lot Occ.</b>	99%	-1%	-1%	-1%
<b>Parking</b>	225	+225	+70	+70

The applicant has hired the architectural firm of Pei Cobb Freed and Partners in conjunction with Weihe Design Group to design the structure. The Charles E. Smith companies would develop it.

The architects have developed separate but related architectural treatments for the 17<sup>th</sup> and the K Street facades.

The 17<sup>th</sup> Street façade, which faces Farragut Square, has a stone-veneer screen wall with punched openings. This screen wall is about 2 ½ feet in front of the glass curtain wall behind it. The size and shape of the openings echo the rhythm of similar openings on the “bookended” Farragut Building, at the southern end of the 17<sup>th</sup> Street Block. The stone screen wall relates to the adjacent stone-fronted Barr Building. The retail frontage is pulled out from the curtain wall, to the same plane as the screen wall.

Along K Street, the single building reads as a glass and metal structure consisting of two pavilions joined by a recessed central hyphen. It appears to thrust-out from the 17<sup>th</sup> Street screen wall with a 5½ foot projection on the right side of the screen wall. This projection is from the 2<sup>nd</sup> to 11<sup>th</sup> floors. The ground floor and penthouse curtain wall are flush with the corner of the stone screen wall at the corner of 17<sup>th</sup> and K Streets.

There is an overscaled glass and metal canopy at the main entrance (which is defined by a slight projection at the ground floor), and, at the penthouse roof line, a metal trellis that contains a retractable sunshade and is also designed to support banners. The applicant proposes to widen the sidewalk along K Street by approximately 5 ½ feet, and cantilever the 2<sup>nd</sup> through 11<sup>th</sup> floors

over the K Street retail frontage, providing a sheltered, column-free, well-lit “awning” for this space.

## **VI. PLANNING AND ZONING ISSUES**

### **A. Consistency with the Comprehensive Plan**

The site of the proposed PUD falls within the portion of the Central Employment Area covered by the Ward 2 element of the Comprehensive Plan. The proposal is consistent with the emphasis on infill and “replacement of older buildings with new buildings” in Section 1356.1.

The PUD also promotes the housing elements of many Ward plans through its collaboration with Jubilee Enterprises in the rehabilitation of affordable residential units.

### **B. Consistency with the PUD Evaluation Standards of Section 2400**

The proposal is consistent with the objectives and evaluation standards of a Planned Unit Development, as defined in DCMR Section 2400.

#### 1. Quantitative Standards

- In a C-4 zone, a PUD has a 15,000 square foot minimum lot area. This project meets that standard (Section 2401.1(c)).
- The maximum Floor Area Ratio for the total of the project may not exceed 11.0, according to Section 2405.2 . Section 2405.3 gives the Commission the discretion to increase height or FAR by 5% if such an increase “is essential to the successful functioning of the project” and is consistent with other PUD purposes and standards. The project appears to meet these standards, but the pre-hearing statement would benefit from a more detailed description of floor plates that were considered and rejected as being so unworkable that they make the proposed, slightly large floorplate “essential”.
- The maximum height is 130 feet, according to Section 2405.1 (again, with 5% discretion pursuant to Section 2405.3). The project meets that standard.

#### 2. Discretionary Physical Standards

Other standards, from which the PUD may vary, subject to a public hearing and Zoning Commission approval, include:

- greater or lesser requirements for yards or courts (Section 2406.5), “depending on the exact circumstances of the project”. For the purposes of setdown consideration, the applicant provides adequate justification for relief from the rear yard and court

requirements. The final application would, however, benefit from a more detailed discussion than what is contained in the pre-hearing statement.

### 3. Housing Requirements

The housing element of the Comprehensive Plan encourages the private sector to provide new housing to meet the needs of present and future residents. The zoning ordinance, in Section 2404, also links the Commission's discretionary awarding of additional commercial square footage through a PUD or public space action to the applicant's effecting the provision of additional housing. The provision of the housing is not an amenity; it is a requirement.

This relatively new section of the zoning regulations, as spelled out in Zoning Commission Order No. 795, responds to a case (No. 95-2) initiated by the Office of Planning to bring housing linkage regulations into conformance with the City Council's 1994 amendments to the Comprehensive Plan. The Council had mandated the production of or financial support for affordable housing whenever an alley closing or a PUD resulted in an increase in office development rights.

Section 2404.3 allows the applicant to provide the required housing by:

- a. Actual construction, as specified in section 2404.6 or by;
- b. A financial contribution to a housing trust fund, as provided in section 2404.7.

With respect to alley closings and other existing housing linkage requirements in the District, most, if not all, developers have chosen to ensure actual construction of housing and to have their certificates of occupancy for the discretionarily approved office space tied to that construction, rather than make a contribution to the housing trust fund. Section 2404.6 (b) allows the applicant to construct the housing, or "secure the housing production by other business arrangements..." Developers have been frank in acknowledging their preference for the first option governed by Section 2404.6 (b) option because it requires less money to meet a third-party housing provider's gap, and it provides more surety that the housing will actually be constructed than has a contribution to a housing trust fund as structured in the past.

This applicant has elected the first option.

The applicant proposes to work with Jubilee Enterprise of Greater Washington to "add at least 13,000 square feet of affordable housing to the residential housing market in southeast Washington". Jubilee Enterprise is a well-established provider of affordable housing. Under an agreement being negotiated, the applicant would provide Jubilee Enterprises with financial assistance to rehabilitate "a minimum of 13,000 square feet of space, constituting approximately twenty low-income rental apartment units, at the Trenton Park Apartment Complex". Trenton Park is adjacent to, but not part of, the Wheeler Hills Estates and is in Housing Opportunity Area 25, in far southeastern Washington.

The gross square footage of new or rehabilitated housing is calculated according to section 2404.6 (a) (2) of the zoning regulations: "not less than one-third of the gross square feet of increased office space". The 13,000 gsf of proposed housing construction or rehabilitation is slightly greater than the 12,765 square feet that would be required by the formula.

The applicant has not completed the negotiations with Jubilee Enterprise about how the applicant would actually effect the construction of the 13,000 square feet of housing. Presumably, there would be a dollar contribution. The final agreement would be submitted to the Commission prior to any public hearing on the PUD application.

OP has explored different approaches to guide the Commission in assessing whether a proposed dollar contribution would be appropriate.

One method might be based on the precedent set by the previous Commission decision on the Solar Building, which is one block east of the proposed PUD. In this case, where the developer agreed to provide for gap financing for affordable fee-simple housing, the parties based the contribution on the gap between housing affordability for a family of 4 whose median income is 50% of the Washington area's average, and the cost of constructing housing for such a family. For the year 2000, HUD determined this figure to be approximately \$40,000. The unit size in the case was 1500 square feet. Therefore, for the proposed 1700 K Street PUD, where the applicant would be required to assist in the production of approximately 13,000 square feet --i.e., the equivalent of approximately eight 1500 square foot units -- the contribution to Jubilee Enterprise of Greater Washington would be approximately \$320,000.

However, this model is not completely apt because Jubilee Enterprise is providing rental housing, not fee simple housing. Because of this, the Commission may wish to be aware of what the applicant would be required to provide to the housing trust fund alternative, by way of comparison.

Section 2404.7 provides other formulas for calculating the contribution to the housing trust fund, should the applicant have chosen this option. The language of the section is somewhat ambiguous about the formula and OP will be doing further research in the record before the setdown hearing to determine the intended formula. However, based on an assessed land value of \$634 per square foot and 38,285 discretionary gross square footage requested as part of the PUD application, under the formulas in Section 2424.7 the value of the contribution would be between \$1.9 and \$2.4 million.

The zoning regulations would not likely have provided for different ways of ensuring the production of housing if the Council had not intended to provide some flexibility to the applicant. While the dollar equivalent of the housing provided under Section 2404.6 must not necessarily be equal to the contribution that would have been provided under the provisions of section 2404.7, there needs to be a reasonable relationship between the two levels of contribution. OP will discuss these options further with the applicant before the setdown hearing, and can continue determination of the reasonable level of contribution prior to the

applicant's submission of its pre-hearing statement, should the Commission choose to set down the application.

### **C. PUD Amenities**

The objectives of a PUD are:

- to permit flexibility of development in return for
- the provision of superior public benefits,
  - provided the PUD process is not used to circumvent the intent and purposes of the Zoning Regulations,
  - or results in an action inconsistent with the Comprehensive Plan.

Public amenities are defined in Section 2407.3 as including “one type of public benefit, specifically a functional or aesthetic feature of the proposed development, that adds to the attractiveness, convenience or comfort of the project for occupants and immediate neighbors”.

The applicant states the project will provide several amenities.

#### *i. Local Business Opportunities and First Source Agreements.*

By entering into a Memorandum of Understanding with the D.C. Local Business Opportunity Commission, the applicant will agree to a goal of thirty-five (35%) participation by small, local and disadvantaged businesses in the contracted development costs in connection with the design development, construction, maintenance and security of the project.

By working with the Department of Employment Services, the applicant will agree to use DOES as its first source for recruitment, referral and placement of new hires for employees whose jobs are created by the PUD.

#### *ii. Superior Urban Design, Architecture and Site Planning*

While the Zoning Regulations do provide for this to be considered an amenity, OP notes that any developer would wish to provide high quality design for the purpose of attracting tenants. However, the design may demonstrate superiority by responding to the context of both K Street and 17<sup>th</sup> Street, with different façade treatments reflecting the masonry or glass traditions of each street. The 17<sup>th</sup> Street façade “bookends” that side of Farragut Square with fenestration similar to the Farragut Building at the southern end of the block. (Whether the Farragut Building will remain, or retain this façade treatment is not guaranteed, given its 30+ year age).

The quality of the materials, and their detailing is excellent. This applies to both the office space and the retail frontage.



The K Street façade is embellished with a distinctive entrance awning and penthouse metal work, both of whose design the Commission may wish to consider in detail.

The proposed benches along K Street will provide a pedestrian amenity and promote safety by inhibiting jaywalking.

The K Street façade, while literally the length of two typical K Street buildings, is broken down into separate masses.

There is one outstanding urban design question that OP has asked the applicant to address in considerably more detail. In proposing to widen the K Street sidewalk, and set off the cantilever of the building's 2<sup>nd</sup> through 11<sup>th</sup> floors along K Street, the applicant has, in effect, "recessed" the K Street retail frontage by 5½ feet. OP is concerned that this feature may carry with it some of the negative effects of the arcaded retail frontage the City long-promoted, but that it has recently discouraged because of its poor visibility, lack of contribution to the pedestrian experience and sales performance. The applicant has recently provided additional computer simulations that allay some of OP's concerns about the cantilever/recess, but we have asked the applicant to give this aspect of the design further consideration.

*iii. Improved Pedestrian Traffic Circulation and Parking.*

The applicant views the widening of the K Street sidewalk as an amenity. OP has asked the applicant to provide pedestrian traffic counts at peak hours, and further documentation of whether such a sidewalk widening is appropriate and should be considered an amenity.

Similarly, the applicant has been asked to give further consideration to whether provision of extra parking at this location, within one block of two Metro lines and stations, is desirable, and should be considered a public amenity.

*iv. Increased Tax Revenues*

To the extent that upgraded commercial space replaces existing space, this can be a benefit. The applicant has not actually demonstrated that the lesser amount of upgraded space would generate more tax revenue than the slightly greater amount of less attractive space currently on the site. Such a situation seems logical to OP, given the inefficient configuration of the existing buildings, but it has not yet been documented.

**D. Other Zoning Flexibility: Rear Penthouse Setback Requirements**

Section 411.11 allows the Commission to approve penthouses that do not meet setback requirements specified in other sections of the zoning regulations, "provided, that the intent and

purpose of this chapter and this title shall not be materially impaired by the structure, and the light and air of adjacent buildings shall not be affected adversely”.

The applicant requests flexibility to setback the rear penthouse line 9’4” rather than 18’6” from the building line. This would allow a more generous setback on the public frontages at 17<sup>th</sup> and K Streets. Given the width of the rear alley, there would be over 30 feet between the proposed penthouse and the adjacent property. OP feels that the proposed setback strikes an appropriate balance between the public benefits proposed and the intent of the zoning regulations, and therefore meets PUD criteria.

#### **E. Amenities and Benefits in Relation to the Degree of Flexibility Requested**

Until the entire amenities package is completed by the applicant, OP will not be able to determine this relationship fully.

Whether the design is significantly superior to what a developer might provide for a matter of right development at this prime location is open to discussion. OP is unable to evaluate the benefits the project may provide the public through participation in the refurbishment of Farragut Square, since the applicant has not yet received replies to its overtures to the National Park Service. The proposed project does not exceed permitted heights. Its density would be less than the buildings currently on the site. Tax revenues will probably increase from the replacement of Class B+ office buildings with a Class A or A+ building. The provided parking will significantly exceed what is required; whether this is a benefit at a location one block from two metro stations on two separate lines is debatable. At least 13,000 square feet of rehabilitated affordable housing will be provided in a part of the City where such housing is a high priority.

In return for these benefits and amenities, the applicant is asking to rent a very minor amount of air space over alleys, avail itself of the Commission’s option to grant up to 5% additional square footage than would normally be permitted a PUD in a C-4 zone, and get relief from rear yard/court requirements and from penthouse setback requirements at the rear.

The trade-off will require further examination should the Commission set the case down for a hearing.

### **VII. PUBLIC SPACE RENTAL CONSIDERATIONS**

The applicant proposes to rent public air space over a portion of the alley abutting the property, in the rear of Square 126. The applicant states this would allow for a more rational layout of the proposed building above the first and second floor. One air space rental would permit extension of the footprint by 5 1/2 linear feet in the middle of the rear of the building. The other would allow for the “squaring off” of 2,275 square feet of the southwestern corner of the building, without interfering with turning radii for vehicles needing to use the alley.

The configuration of the proposed air space rental appears not to interfere with the ability of traffic, deliveries or emergency vehicles to safely negotiate the alley. The minor projections are at least twenty feet away from the nearest buildings. OP has no objection to the proposed rental of public space at this time, subject to additional review by the Department of Public Works, the Fire Department, the Metropolitan Police Department, and other appropriate agencies.

The linkage between the rental of this space and the provision of housing has been addressed in another section of this report.

### **VIII. AGENCY REFERRALS AND COMMENTS**

This application is being referred to the following District government agencies for review and comment:

1. Department of Public Works;
2. Metropolitan Police Department;
3. Fire and Emergency Medical Services Department;
4. Department of Community and Regulatory Affairs (DCRA).
5. Department of Housing and Community Development.

This referral is particularly important to comply with Section 2404.12's requirement that DHCD analyse the PUD application for compliance with the housing requirements of Section 2404, and a recommendation.

### **IX. COMMUNITY COMMENTS**

OP is aware of no discussion with the community to date.

### **X. PRELIMINARY OP RECOMMENDATION**

OP recommends the Commission set down the application for a public hearing with the understanding that the applicant will be expected to address several issues before submitting its pre-hearing statement. These include, but are not necessarily limited to:

- A. The Effect of the Design on the Vitality of Street Life and the Proposed Street Level Retail. The 2<sup>nd</sup> to 11<sup>th</sup> floors will cantilever 5 ½ feet out from the street level retail frontages on K Street. The applicant should compare this proposed treatment with other street level retail "arcade" designs in Washington, both those with and without visible columns. The applicant should also present more details about the proposed lighting, colors and building material along the K Street retail frontage.
- B. The Adequacy of the Public Amenities Package.  
The applicant states that the proposed building would have a superior architectural design. While the applicant supplies a list of quality materials, and explains how the two

facades respond to the different contexts of the streets they face, it would be useful to discuss the general concept behind the architectural design, and some of the extra design features and outward appearance that would not have been affordable under a matter of right development.

As part of the design presentation, the applicant should show in greater detail, the garage entrance, both open and closed, and any inside back wall for the garage that may be visible from the street,

The applicant suggests that the 5½ foot widening of the K Street sidewalk is an amenity. It would be useful to supply written comments from the Department of Public Works about whether sidewalk widening along K Street is necessary or useful. Photo documentation of pedestrian traffic patterns at peak hours would also be helpful. To further understand the trade-off proposed by the developer between sidewalk space and the lost retail space, it would be useful to supply information about the retail square footage that would be sacrificed for the proposed sidewalk expansion, and the relationship between the FAR and the “lost” retail space.

The applicant lists the metalwork at the penthouse roof-level as part of the amenities package because it functions not only as a practical container for a sunshade, but also as a decorative element that can support large-scale banners. It would be useful for the applicant to supply illustrations of the metal work as it would appear when performing these different functions.

The pre-hearing statement should give more detail about the paving, landscaping, street benches, and shop front materials, graphics, and lighting.

C. The Adequacy of the Off-Site Housing Contribution.

The applicant should provide more documentation about the off-site housing proposed to be funded as part of the PUD. This should include agreements with the housing provider; the total square footage, square footage per unit, and number of units to be enabled; and total dollar contribution to the housing provider.

D. Consultation With the Community.

The applicant should consult with the appropriate ANC and community groups.

AA/slc

Attachments

## List of Attachments

1. Location Map of Proposed PUD Site
2. Proposed PUD Site Plan
3. 17<sup>th</sup> Street Façade
4. K Street Façade
5. Perspective
6. Perspective Detail of 1<sup>st</sup> Floor Façade
7. Angled Detail of K Street Facade

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ROYAL DUTCH SHELL  
MEMORANDUM

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TO: MR. DOUGLAS FUROYLE, VP PUBLIC AFFAIRS  
FROM: KONRAD SCHLATER  
SUBJECT: LEARNING FROM THE BRENT SPAR  
DATE: 6/1/01

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The main lesson to be learned from the Brent Spar fiasco is that Royal Dutch Shell (RDS) needs to modernize its decision-making. The company is extremely profitable, but in the fast emerging environment of globalization its antiquated management structure is poorly prepared for new challenges – and could be at risk for further public relations catastrophes.

**I suggest RDS develop a rapid-response corporate public relations team.** A well-funded team empowered to make important decisions, even at the local level, would have helped counteract the orchestrated media and activist onslaught. The current decentralized management structure is a very effective profit-machine, but lacks sensitivity to global corporate interests needed in a polarizing public relations battle. This evolution is necessary because:

- ❖ Media outlets are now able to disseminate volatile images and messages throughout the world instantly. For international companies, a local problem can quickly evolve in to a company-wide crisis.
- ❖ Communications evolution makes grass roots campaigns cheaper and more effective. They require quicker responses than were once thought necessary. These campaigns no longer have national boundaries; a crisis for UK Shell easily becomes a crisis for Shell Germany.
- ❖ Environmental organizations understand this new globalization dynamic; RDS needs to be able to respond in kind. Greenpeace and their like have the advantage of playing the small and righteous fighter, but this image belies the fact that they are well funded, media-savvy and ruthless.

A rapid response team would have recognized a number of problems in the public relations strategy during Brent Spar. The project had a number of things going against it from the beginning.

- 1) This was the first time an oil platform of this kind would be disposed of at sea. Despite spending \$1.5 million on environmental impact studies, more should have been done to temper obvious potential public apprehension. The company must recognize the explosive nature of the situation, before it gets out of control.
- 2) The Brent Spar was one of the few offshore drilling structures that contained storage tanks. These tanks accumulated toxic residues and radioactive waste. Anything radioactive will not play well with the public.

- 3) Greenpeace provided media-support and staging that ultimately influenced coverage. RDS' biggest advantage is in financial resources. It is unacceptable that Greenpeace outflanked us in this regard and points to the need for more a more media-savvy public relations team.
- 4) RDS lacked government backing throughout Europe. More work needed to be done before announcement to get buy-in from all major governments in Europe.

### **Presumed Guilt Makes Any Response Difficult**

RDS' difficulties in Brent Spar were not only due to poor media and government relations. The reason why reasoned arguments were not heard over the media din was because of the public's presumption of guilt. Once this issue became controversial, it would have been difficult for any effective public relations campaign to counter the prevailing distrust of our company and industry. Shell and other oil companies' poor environmental records and mounting lawsuits hindered the public relations response. Again, this is the result of poor global branding. Any locally atomized management structure will never satisfactorily take into account the whole company's interests. For this reason, lawsuits such as Nemagon and Rocky Mountain Arsenal should receive global corporate attention, recognizing their potential harmful effects on global public relations.

### **Changing the Dynamic in the Future Requires New Corporate Culture**

RDS has a difficult balance to maintain. Continued profit from natural resources is sure to raise the ire of consumers who value environmental concerns. Nevertheless, shareholder and stakeholders demand high profitability be maintained. Environmentalist distrust is a result of and threat to continued profitability. More resources should be put into a "Greening of Shell" public relations campaign. **RDS's largest advantage in the public relations war is a financial one.** We should exploit it. Senior management must not be resigned to an adversarial relationship with environmentalists and concerned citizens. Shell needs to make a corporate decision to make a large public commitment to cleaning up its environmental image.

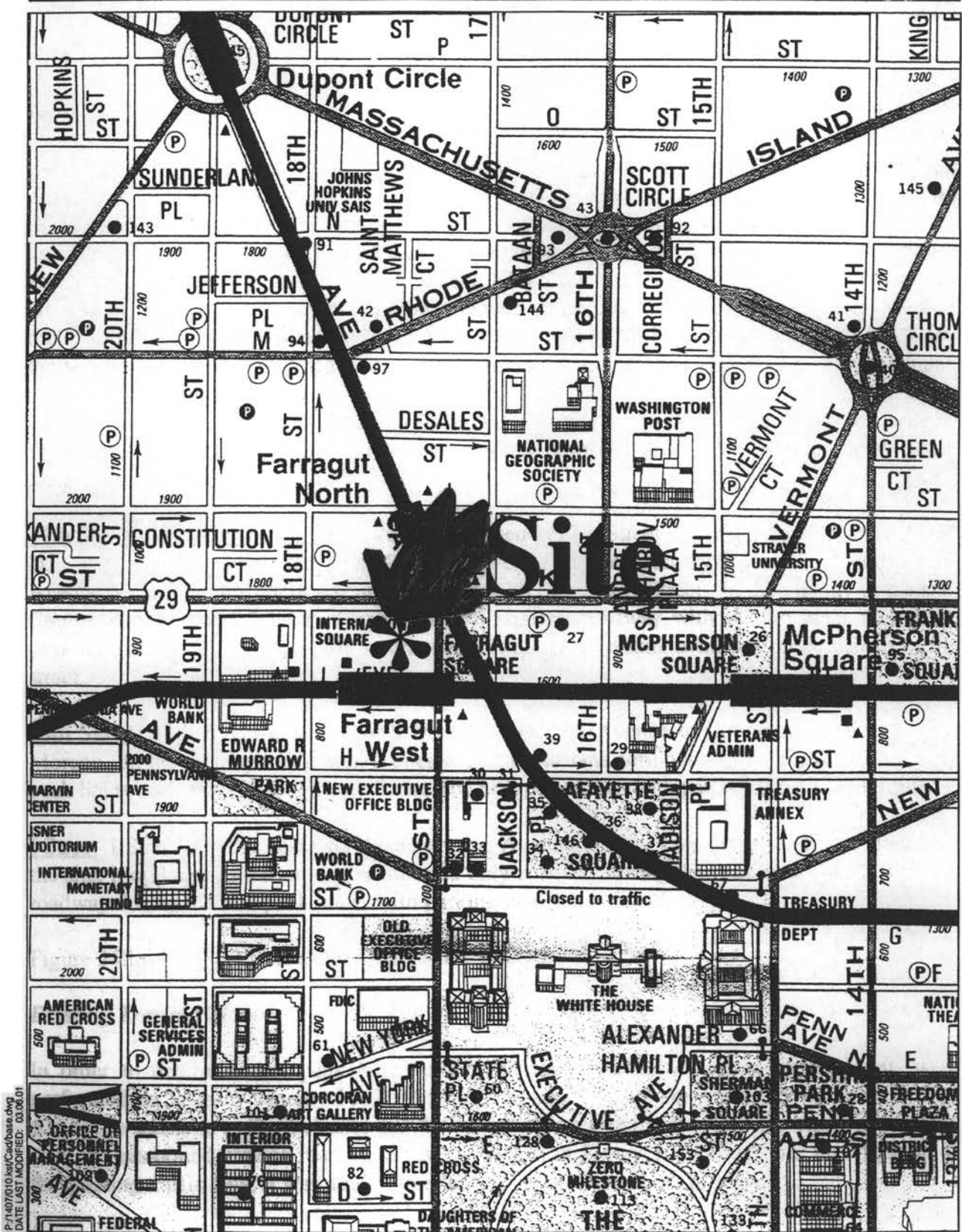
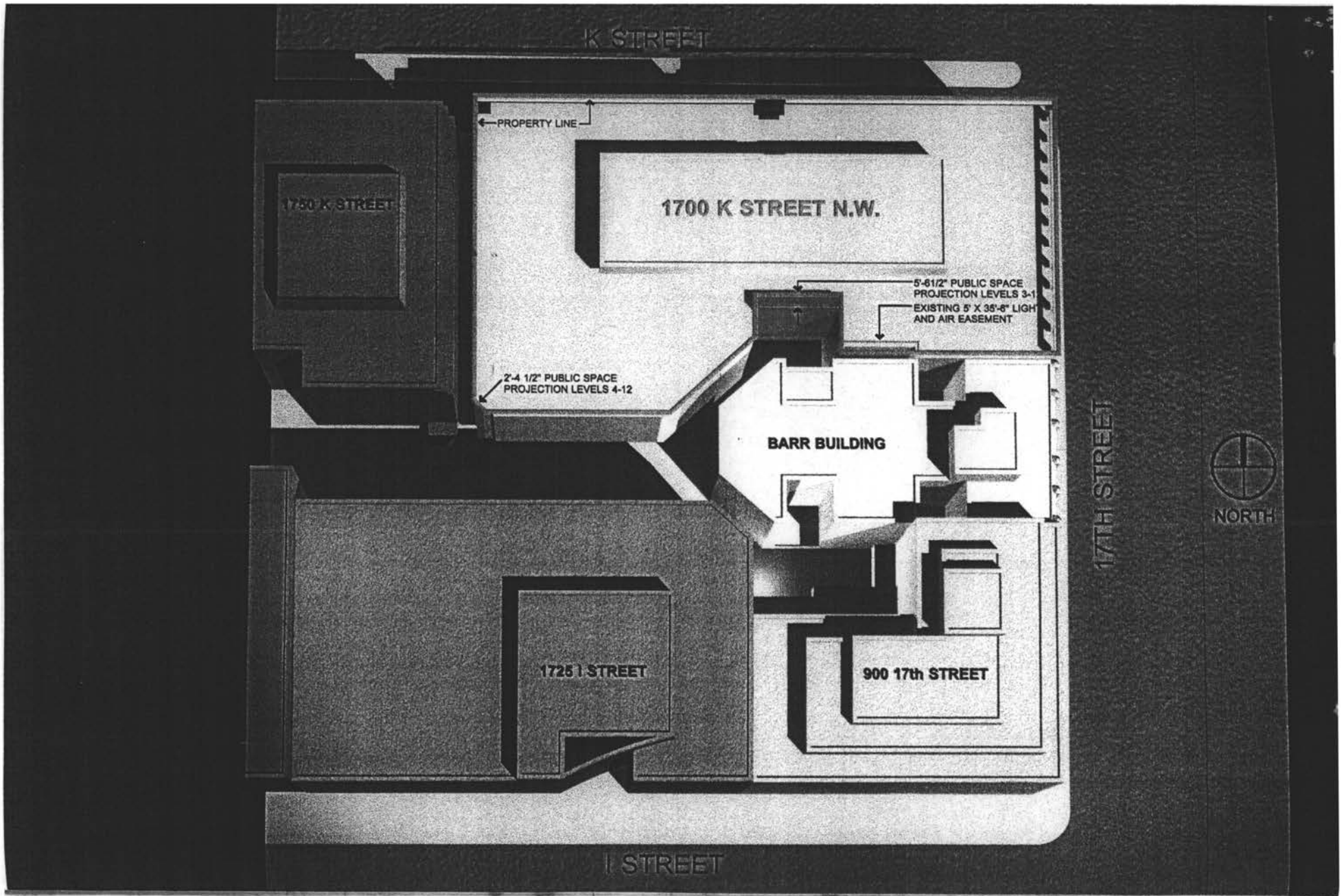


Figure 1  
Regional Map

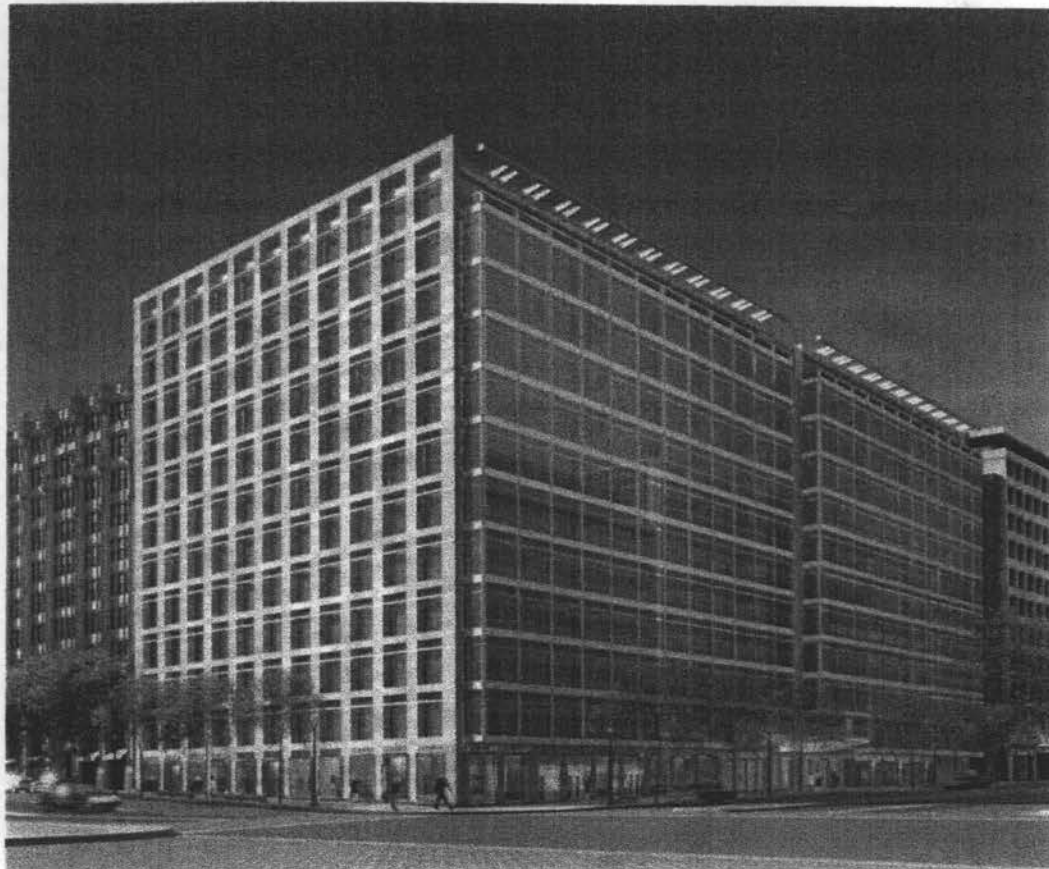
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1N

# 1700 K STREET, N.W.





Attachment 5

