

# **Can stakeholder engagement lead to sustainable development outcomes on Sakhalin?**

**Emma Wilson**

**Environment & Community Worldwide**

**Associate of the Scott Polar Research Institute, University of Cambridge**

**Presentation for ESRC seminar 'A Sustainable Future for Sakhalin Island?'**

**Department of Geography, University of Leicester, 9<sup>th</sup> March 2005**

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## **Introduction**

Oil companies are increasingly understanding that it is not enough to deliver a project successfully solely for the benefit of their shareholders. Oil and gas projects have a wide range of other stakeholders with their own concerns and needs, not least the people living in the areas where the projects are taking place. Oil companies are increasingly seeking to address stakeholder concerns about social, economic and environmental issues, primarily through public consultation and information disclosure. However, can stakeholder engagement lead to real sustainable development outcomes?

Sakhalin's offshore oil and gas projects have a broad range of stakeholders with very diverse interests. Stakeholders include local, national and international governments, local special interest groups (e.g. indigenous, environmental). 'Local' here may refer to Sakhalin Oblast (Region) or a local district (e.g. Noglikskii District), and it should be noted that these stakeholders might have quite different priorities. Stakeholders also include contractors and employees, shareholders and lenders, local businesses and scientific institutions, and international NGOs (foreign or Russian).

Community engagement was the focus of the first seminar in this series 'Trans-Sectoral Partnerships, Sustainability Research and the Oil and Gas Industry in Russia'. Seminar 1 was held at the Scott Polar Research Institute, University of Cambridge in November 2004. The report from that seminar together with the seminar presentations can be found on the seminar series website at: <http://www.spri.cam.ac.uk/events/russianoil> This presentation touches on some of key issues raised at the November 2004 seminar that are relevant to a discussion of sustainable development on Sakhalin.

This presentation is based on my experience working as NGO activist, academic researcher and oil company consultant on Sakhalin Island. My PhD research focused on local involvement in decision-making relating to natural resource use in Noglikskii District, north-eastern Sakhalin. In this presentation I focus on oil company – community relations from the perspective of a practitioner. The conclusions also reflect my thoughts on the relevance of academic research and field work to the debate.

## **Sustainable development requires a balanced use of resources & concern for human needs**

The oil and gas industry is not the only major industrial sector on Sakhalin. Fishing is the biggest employer and forestry is also significant. Vladimir Bida and Dmitry Lisitsyn include more about these in their presentations. Sakhalin needs to find a balance between renewable and non-renewable resource use. Oil and gas production itself is not an inherently sustainable activity, and can only contribute to sustainable development if revenues are invested with an eye to the long-

term benefit of society. Projects should facilitate human capacity building, while minimising negative social and environmental impacts.

Investing revenues 'sustainably' is primarily a government responsibility. However, the nature of agreements between oil companies and governments determines the level of benefits that go to the host country. The Sakhalin I and II project Production Sharing Agreements (PSAs) have been controversial and they are not considered to provide equitable benefits to Russia or Sakhalin (Doug Norlen and Mike Bradshaw discuss this more in their papers; see also Rutledge, November 2004, <http://www.carbonweb.org/documents/SakhalinPSA.pdf> ). This is a reflection on the political risk associated with investing in Russia and the eagerness of the government to encourage Western investment at the time that the agreements were negotiated. However, while investment agreements are negotiated differently today, these original PSAs are still in force.

Aside from negotiating revenue sharing agreements, companies have limited control over the distribution of project revenues. However, human capacity building is something that western companies can support more actively, through training of local workers for specialised jobs with the projects, contracting local companies and scientific institutions, sourcing food supplies from local producers and so on. In doing so, the companies can considerably increase the ability of local populations to enjoy a share of project benefits.

Aside from the direct project benefits, companies seek to provide additional benefits to society via 'social investment', which often entails support for community initiatives (in the spheres of education, health and culture). Any such investment in local groups needs to be preceded by an assessment of the community and the impacts that investment will have on community dynamics. Outside funding sources, including from oil companies, can be jealously guarded by community recipients and can be the source of political rivalry. External funding sources can serve to divide a community, rather than to unite them. Companies and NGOs need a good understanding of local communities. This is one area where ethnographic research – in-depth study of local societies – can be very relevant.

In theory, oil companies are now moving away from sponsorship towards more 'sustainable development'-oriented community support. Models of industrial development on Sakhalin have traditionally involved industries providing the social infrastructure in the villages where they were based. Today's local administrators have the legacy of the Soviet and post-Soviet eras to consider. Local (district) administrations often still cannot finance the social services that collapsed or privatised businesses once financed. Infrastructure is still poorly developed in some districts. People may also have unrealistic expectations of huge multinational corporations, believing they can certainly afford to provide such social support. Western experts often have their own approaches to sustainable development initiatives, based largely on western values and corporate models, and featuring support for small business development and environmental initiatives.

Sustainable development programmes thus need to combine Western models (which may not always 'fit' well in local contexts) with local models (taking into consideration local realities and expectations), to find common solutions that are self-sustaining in the long-term. It is important to involve local experts in planning processes (government, academic, NGO and community).

### **Stakeholder engagement is increasingly being incorporated into national & corporate policy**

As the global sustainable development agenda has evolved, increasingly people have called for more involvement in key decision making that has an impact on their social, environmental and economic wellbeing. Public participation in decision-making was identified as being central to the

global sustainable development agenda in the Brundtland Report (WCED, 1987) and is a key concept in the Corporate Social Responsibility (CSR) paradigm. This has led international financial institutions and multinational corporations to develop policies and procedures related to public participation, stakeholder engagement and sustainable development.

At a minimum a company is obliged to abide by the national law of the country where it is implementing its project. Russian Federation legislation is acknowledged to be quite strong in the sphere of environmental protection (though enforcement is often lacking). Environmental protection, access to information, and public participation in decision making are framed in the Russian Constitution, the Law on Environmental Expert Review, and Guidelines on Public Participation in Environmental Impact Assessment, among others. International conventions such as the Aarhus convention (the UNECE Convention on Access to Information, Public Participation in Decision-making and Access to Justice in Environmental Matter) and the Espoo Convention (the Convention on Environmental Impact Assessment in a Transboundary Context, 1991) are recognised as important, though Russia has not yet ratified them.

Companies themselves, especially multinational oil corporations such as Shell and BP who are active on Sakhalin, have their own policies, including sustainable development principles, social performance policies and policies for health, safety and the environment (HSE). Generally these can all be found on the company websites. As a minimum, companies are now expected to carry out an Environmental, Social and Health Impact Assessment (ESHIA) before starting up a project, including related public consultations.

In addition, international projects are often bound to adhere to the standards set by their lenders. The Sakhalin II project (Sakhalin Energy/Shell) for example is receiving credit from, among others, the European Bank for Reconstruction and Development (EBRD), who expect compliance with their own policies (e.g. Environmental Procedures and Public Information Policy) and those of the World Bank Group (e.g. Operational Directives on involuntary resettlement and indigenous peoples). Increasingly financial institutions that do not have their own environmental and social policies, are signing up to the Equator Principles, which obliges them to follow international standards (International Financial Corporation/World Bank) when lending to projects.

International NGOs have found that it is effective to apply pressure on companies via the banks that are financing their projects (see Doug Norlen's presentation). This approach has been used with the Sakhalin II project. The fact that they are applying for credit from IFIs has made Sakhalin Energy the focus of much NGO and media scrutiny (unlike ExxonMobil's Sakhalin I project which is being implemented in the much the same part of Sakhalin at the same time).

Indeed, international public opinion has a disproportionate influence on projects, as companies and lenders are particularly concerned about their international image. This kind of control from a 'global civil society' is necessary and often useful. International NGOs who are monitoring the Sakhalin oil projects generally have a very good understanding of the local situation and work closely with local groups such as Sakhalin Environment Watch (see presentations by Dmitry Lisitsyn and Doug Norlen). However, with regards to most issues relating to the sustainable development of Sakhalin, the wider international community of non-experts (Friends of the Earth membership, Guardian readership, etc.) tends to have a much poorer understanding of the situation than local communities and experts, and yet they may have a loud voice in debates (e.g. through mass letter-writing campaigns). The voices of the local government and communities rarely get heard in the international arena.

## **Corporate stakeholder engagement: risk mitigation or opportunity?**

Public consultations are required by Russian law for projects such as the Sakhalin offshore oil and gas projects. However, companies are now learning that it is not enough simply to carry out public meetings. It is important to organise them at a location and time suitable for local people to attend. Sakhalin Energy has been criticised in the past for carrying out consultations that do not afford local people an opportunity to take part in decision-making (see Doug Norlen's presentation).

However, it is worth mentioning that Sakhalin Energy has made considerable efforts with Project-affected groups, in particular the reindeer herders in the northeast. Local resident, Evgenii Mitrofankin, who spoke at the November 2004 seminar described Sakhalin Energy's meetings with reindeer herders on their pastures, and commented that they had been relatively successful. One issue addressed at the meeting was that of compensation. Because the reindeer herders have no rights to their lands, financial compensation is paid to the district administration. One outcome of the meeting was a joint agreement on how the compensation monies would be spent (for the benefit of the herders) and a commitment to transparency.

In the November 2004 seminar, Vladislav Peskov of the Native Association 'Yasavei' from the Yamal Peninsula, Northern Russia, described how 'partnerships' and 'agreements' established between local indigenous groups and oil companies could be an effective way to negotiate rights and benefits in the absence of a comprehensive legal framework. On Sakhalin, such partnerships and agreements have to date not been as successful as the Yamal example. However, one result of a recent indigenous peoples' protest on Sakhalin (see below) was the establishment of an indigenous peoples' council, set up in order to negotiate benefits from the oil projects for the local indigenous populations.

Companies tend to think about stakeholder engagement in terms of managing risks rather than creating opportunities. However, engagement with all levels of society, especially at the local level, can often yield benefits to both the company and the stakeholders. Sakhalin's natural resources are vast, but its human resources are considerable too. Although several departments in the Sakhalin Administration, including the Economics Department led by Vladimir Bida, are engaging regularly with the Western oil companies, in my opinion there is potential for much greater collaboration. It is important to build trust between Western companies and local government, and to identify expertise in government departments. Sometimes local capacity is overlooked, in particular in local scientific institutions. There are many local experts who could contribute to sustainable development programmes and provide useful insights into local society, in order to ensure successful delivery of company programmes.

Too often, though, stakeholder engagement is seen in terms of risk management, where greater risks (to company image or project delivery) are given greater attention. Issues that resonate loudly at the international level (e.g. grey whales) may detract the attention of companies away from emerging local issues (e.g. contractor-community relations). If a company is involved in 'fire-fighting' a big international issue, attention and company resources can be diverted away from local issues. This may have negative results for the company in the long-term, especially if latent local dissatisfaction emerges at a later date because it hasn't been addressed in time.

At the earliest stages of a project it is critical for companies to establish the whole range of stakeholders, their needs and interests, and by developing corporate strategies to avoid or address these problems. A crude 'stakeholder mapping' exercise for Sakhalin will reveal that most stakeholder concerns in fact fit within the overall sustainable development agenda so there should

in principle be potential to find a common language. It is a case of finding the right forum to hear everyone's perspectives. That is partly what we are exploring with this seminar series.

### **Sakhalin Indigenous Peoples' protest, January 2005**

The January 2005 protest by indigenous peoples in northeastern Sakhalin did come as a surprise, but it was probably motivated less by simmering discontent than by political opportunity. Large numbers of indigenous residents, mostly from Noglikskii District in the northeast, took part in a mass demonstration against the oil and gas projects, protesting that the companies had not consulted adequately with them and demanding that they undertake an anthropological expert review (a type of assessment discussed in the November 2004 seminar) and set up a development fund for Sakhalin indigenous peoples.

The indigenous protesters included the Nivkhi, who live mostly in Nogliki, the administrative centre of Noglikskii District, and engage in commercial fishing as well as subsistence fishing, hunting and gathering, together with some representatives of other groups, such as the Uil'ta and Evenk community in the nearby rural village of Val. The Uil'ta and Evenk people traditionally own reindeer and a few are still engaged in herding, migrating between winter pastures in the mountains and summer pastures on the coast, where considerable construction work is under way – the laying of pipelines and construction of an onshore processing facility. As mentioned above, the herders have been involved in close consultation with Sakhalin Energy, as a directly impacted group, and therefore were less keen to join the protest.

The indigenous groups, led by the Sakhalin Association of Indigenous Peoples, collaborated effectively with Russia's national indigenous organisation (RAIPON) and international environmental groups – this included a mass Internet campaign and letters sent to the EBRD and other key decision-makers. However, the situation as reported in the international media was far from simple. Local commentators questioned why the Liberal Democratic Party had provided so much financial support and leadership, criticised the local administration for meddling, and claimed the national and international media had tried to oversimplify and over-dramatise a complex story (see for example: Morosov, 21 January 2005, <http://www.sakh.com/> ). Westerners (living very far from Sakhalin and with no idea of local politics) wrote letters en masse to Shell protesting against their poor treatment of the local indigenous population.

Despite the highly politicised nature of the protest, it did draw attention to the very real issue of the long-term sustainable development of Sakhalin's northern communities. The results of the protest – the start up of a renewed dialogue between companies and local residents, and proposed development plans for local communities – may well improve the lives of the indigenous residents and the broader population and possibly lead to sustainable development outcomes. It will be important to involve the local non-indigenous residents, who make up 93% of the local population of Noglikskii District and, as hunters, fishers and gatherers themselves, have an equal concern for the state of the local environment.

Oil companies can be an easy target in such protests, and it is important to note that the roots of the problems faced by Sakhalin's indigenous peoples lie in the past, well before the multinational oil companies came on the scene. Indeed oil has been produced onshore on Sakhalin since the 1920s and 30s. What is more, oil company compensation alone will not resolve these deep-rooted issues, though it could provide a kick-start to long-term sustainable development plans. The solutions need to be developed and implemented with the participation of government, industry, NGOs, and the local communities themselves.

## **Management of contractor behaviour**

One of the most critical issues that companies have to manage is contractor behaviour in local communities. This was highlighted by Evgenii Mitrofankin in the November 2004 seminar. For local residents, the contractors are the face of the company in the community, and if they do not pay salaries or if they destroy local property through carelessness, that reflects first of all on the company. Management of contractor behaviour is extremely difficult, especially in outlying communities, where weather and working conditions can be quite harsh at the best of times.

A company needs to make sure that their contractor management procedures are in place at a very early stage of project development. These need to be explained clearly to the contractors, perhaps with training, and they need to be monitored effectively. Some issues can be managed quite simply. As Evgenii Mitrofankin recommended at the November 2004 seminar, contractors should first of all hire a good lawyer and make sure all their sub-contractual documentation is in order. They should also make themselves familiar with Russian labour law if they are not already.

Oil companies often employ local representatives to be their 'eyes and the ears' in the local community. Sakhalin Energy's local representatives are known as 'community liaison officers' (CLOs). This is a network of local experts who live in the communities and are meant to resolve issues through liaison between the community and the company, including via implementation of the company's Grievance Procedure. It is important for these company representatives to have the authority to take local concerns where necessary to a sufficiently high level of management to resolve them quickly. It is important that all corporate procedures translate into real action and change. In last November's seminar, participants noted that companies often focus too much on process and there is a need to focus more on outcome. Thus a company may hold regular public consultations, have a team of CLOs in the field and have a grievance procedure on paper. The challenge is to translate the results of all this stakeholder engagement into real change within the company. Aside from corporate will, one key to the success of that is good communication. Company managers need to be aware that cultural barriers to effective communication may exist in a company with mixed nationalities, and find ways to build trust and mutual respect among their staff.

## **Concluding thoughts**

For Sakhalin Island, a strategic social and environmental assessment would identify the whole range of stakeholders and provide a framework within which the multinationals could work with local industry, the government, NGOs and communities for the benefit of the environment and society. With or without such an assessment, good communication between all stakeholders is essential. Stakeholder engagement can lead to sustainable development outcomes if it is meaningful, appropriate to the stakeholder group in question, and if it translates into real action and change. Corporate policy needs to be implemented throughout the project implementation structure, including contractors and subcontractors. Stakeholder engagement should be seen as an opportunity as well as a risk mitigation strategy for companies, and local voices, concerns and expertise need to be given the same kind of consideration as those of the international community. A good understanding of local community dynamics and politics is essential for a company, especially when providing social investment to local communities. Ethnographic and other academic research can greatly inform corporate engagement and communication strategies, both internally and externally, with international and local communities.