

# CCCS CASE STUDY

## -The Sakhalin-II LNG Project-

[\*Materials presented here are excerpted and adapted from "Indigenous Peoples and Oil Companies: Respect the Differences," a paper jointly written by Michaela S. Bergman (EBRD) and Gregory Eliyu Guldin and Aaron Dennis (CCCS) and presented at the Society of Petroleum Engineers (SPE) Asia Pacific Health, Safety, Security, and Environment Conference and Exhibition held in Bangkok, Thailand, 10–12 September, 2007. *Document ID:* SPE-108622-PP.]

### Attempting Best Practice: From Public Protest to Public Partnership on Sakhalin

Sakhalin II, an LNG and oil extraction project of Shell Oil (and lately now of Gazprom), is the Russian Federation's largest foreign investment project to date. The Project has made major headlines over the past few years, much of which has been bad publicity relating to several environmental issues—such as accusations of river crossings that were anticipated to harm fish runs and an offshore platform construction that would harm the Pacific Grey Whales and other sea mammals. Concern for social issues—especially the notion that the onshore pipeline and plant construction would irreparably alter the lands and livelihoods of the inhabitants of Sakhalin Island to the detriment of indigenous and non-indigenous communities alike—was also on the rise throughout the early days of the project. In January of 2005, the growing wave of dissenting public opinion surrounding the project crested when protests by members of Sakhalin's indigenous communities against Sakhalin Energy garnered local, national and international coverage. Yet over the last two years nearly all negative criticism of Sakhalin Energy concerning Indigenous Peoples and their interests on the island have ceased. Why?

#### Background of Contentions

Prior to 2005, the Sakhalin Energy Investment Company (SEIC) had specifically recognized potential and actual project impacts on indigenous territories, but only for a small section of the population—primarily the Uilta reindeer herders (one of the Island's four indigenous populations). The company deserves some credit for its outreach efforts to these herders (less than 100 in number), which included direct compensation payments and regular consultations. However, indigenous spokespersons considered these efforts to be tokenism at best, and they decried the company for ignoring its key demands for 1) an 'ethnological expertiza'<sup>1</sup> that would result in a calculation of compensatory damages claimed and 2) for an Indigenous Peoples Development Fund that would spend the monies paid as such compensation.

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<sup>1</sup> This is an impact assessment review; it was demanded by the islands' indigenous communities to parallel the environmental expertiza, but it was not required under draft legislation before the national and regional legislatures as was the environmental expertiza.

When protests broke out in the winter of 2005-2006, adverse publicity and pressure from the projects' potential international lenders<sup>2</sup> caused the company to reconsider its approach. In May of that year, the Company brought in an advisor to guide the IPDP an international social scientist (ISS) with substantial expertise on planning and implementing such development plans—Greg Guldin of Cross-Cultural Consulting Services.

## Engagement: Facilitation, Neutrality, Giving Voice and Power-sharing as the Basis for Partnership

Upon arrival on the island, Dr. Guldin met with the Coordinator of SEIC's Indigenous Peoples Unit, Lara Korablinova, as well as other SEIC management and advised a policy of direct, open, and collaborative engagement with the representatives of the island's nearly 4,000 Indigenous Peoples. With some foresight, management agreed to allow Coordinator Korablinova to work closely with CSSS on a new approach. This new approach emphasized:

- Dr. Guldin acting as a facilitator between the Company and Indigenous Peoples
- agreement by the Company agreeing to share real decision-making authority with the Indigenous Peoples
- transparency of interactions and decisions
- a stance of neutrality to be adopted and maintained by the Company in intra-indigenous community disputes, conflicts, and rivalries.

Rather than refute previous claims of damage, the new approach developed by Dr. Guldin solicited all grievances that any indigenous group or individual chose to level at the company. Within two months, this produced a comprehensive list of potential and claimed damages. Thus, the universe of claims was delimited and converted into a mitigation matrix that enabled Indigenous Peoples to see that their issues were being treated seriously and allowed the company to respond systematically to each community concern. Over the next year, a committee of company and indigenous representatives worked through each claim, dismissing some, accepting responsibility for others, assigning some for further investigation, and agreeing to disagree on still others.

On Dr. Guldin's advice, SEIC also established a "Working Group" composed of 4 company representatives (most prominently Coordinator Korablinova) and 4 indigenous representatives. In addition, two committees were set up. One had the remit of economic/environmental issues and the other focused on social issues. These committees comprised approximately equal numbers of company and indigenous representatives along with some government attendees. Key to this organizational structure was the approach of the Company team that the content and structure of the IPDP was essentially the business of the Indigenous Peoples of the island, as it was their respective futures and present needs that the Plan would address.

Thus SEIC representatives on the Working Group turned to the Working Group (which included the head of the indigenous council on the island as well as the indigenous representative to the regional governmental legislature) rather than prejudge or influence beforehand how the

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<sup>2</sup> At that time these included the European Bank for Reconstruction and Development Export Credits Guarantee Department, Exim Bank, and the Japanese Bank for International Cooperation.

decision-making process would run. After nearly a year of work, the Working Group and Committees developed an outline of a Plan (dubbed according to indigenous preference, the Sakhalin Indigenous Minorities Development Plan) that reflected the Indigenous Peoples' communities' interests in development: i.e., not just social benefits like education and health. Nearly 50% of funds were to be reserved for the support for "traditional economic activities" such as fishing, hunting, reindeer herding, and wild plant gathering.

## Community Consultations

Beginning in the summer of 2005, Dr. Guldin paid three formal visits to each of the Island's major communities in less than a year's time, informing them of the SIMDP preparation process and also soliciting their input. The results of these consultations were tabulated and summarized for the Working Group and its committees and were used to set the broad directions of the plan contents. Regular meetings were also held with the island's representative Indigenous Peoples' council, which was asked to comment on the emerging SIMDP and to provide concrete suggestions and support for its development. Direct accessing of an island-wide group attempted to ensure that the Company's contacts with Working Group or committee members from the indigenous communities did not overly privilege the elites with some insider knowledge of Plan arrangements or access to benefits.

Perhaps just as significant as the frequency and breadth of contacts was their personal nature. Knowing that Indigenous Peoples on the island indeed treasure the personal and the immediate over the formal and the at-a-distance social and communication styles, Ms. Korablinova and other members of the SEIC IP team members established friendly and informal ties with their key indigenous counterparts. This involved exchanging frequent mobile phone calls, visiting each other, and reciprocating hospitalities. This enabled the IP team to work with the Working Group and its committee members as colleagues and enabled the team to deal with issues as they arose; they never had to read about problems in the media to know what their counterparts were thinking or doing.

## Power-sharing as the Basis for Partnership: Overcoming Company Resistance

Not everyone at SEIC was as enthusiastic about shared decision-making as the key managers and the Indigenous Peoples team. Sometimes the conflicts were simply a matter of differing ways of approaching problems. Corporate culture worships paper and written reporting while the indigenous cultures of the island treasure talking about problems and human interactions as the way to solve disagreements. Furthermore their culture involves a consensus-seeking approach to solving issues, where time is needed. This proved difficult in a culture of a corporation where time is often of the essence. Given so many actual and potential points of conflict, the manager overseeing the Indigenous Peoples efforts ring-fenced the Indigenous Peoples unit—allowing it to follow somewhat different corporate rules and procedures—and intervened only as necessary with other company departments. This worked well and allowed the IP-related staff and consultants to operate effectively with their external interlocutors.

## Third Leg of the Stool: Wooing the Government

Of all the components necessary for the successful launch and implementation of the SIMDP, the company was weakest in establishing early government involvement in Plan design and preparation. This evolved primarily out of the somewhat combative state of relations with the regional government, which was although at times collaborative, also at times antagonistic. The Working Group and its committees were also intended to be staffed by fully participating government representatives as well as corporate and indigenous ones, but this did not happen, and made the months preparing for the Plan more arduous than they should have been. Nonetheless, when the government realized that the company was indeed serious about funding a major program for the island's Indigenous Peoples, attitude changed. Now, to ensure that government representatives are not overly influential on Plan implementation decisions has arisen as a *sub rosa* issue.

Planning for indigenous development plans need to be worked out simultaneously with government authorities. Regional and local administrations have their own plans and approaches to indigenous or local development, and corporate-indigenous planning can usually benefit by learning from and collaborating with local governments. The risks involved—capture by the bureaucracy, crowding out of the indigenous voice—can be controlled through careful attention to the power-sharing process among the three sides.

## Plan Launch—and Implementation

When, after a year's preparation, the SIMDP was launched in May of 2006, it was highly praised not only by the company but also by the regional government, by Indigenous Peoples on the island and in the national indigenous federation (RAIPON), and by representatives of multilateral banks and the international community. The Company Deputy CEO, the regional Vice-Governor, and the head of the Indigenous People Council all stood on the dais and joined hands in celebration of their joint achievement. The next task has been to implement their hard-won agreements.

By 2008, at the point of the SIMDP's midterm review, significant success had been achieved. The social programs (health, culture, education, and training) had been well implemented and engaged the active support of regional and local government agencies, spreading benefits widely throughout the island. The Mini-Grants Fund Committee, an indigenous self-managed 10% of the Sakhalin Indigenous Minorities Development Plan, had learned how to distribute money, devise selection criteria, and to administer a granting facility.

The greatest challenges, however, occurred with the third leg of the plan—the 45% allocated to support of traditional economic activities. The first half of the SIMDP has involved a steep learning curve for all concerned as the company and the community have had to deal with uncertainty about how to fund commercial and non-commercial business enterprises, whether and how to support non-profit subsistence activities, and how to avoid conflicts of interest and capture of the program by a particular clan or regional group. Keeping to the core principles of transparency and non-interference, the Company has succeeded in stewarding successfully the Sakhalin Indigenous Minorities Development Plan into its second half of its five year run.

## Lessons from Sakhalin

Both the corporate and indigenous worlds have an opportunity to learn from each other. On Sakhalin, by loading the SIMDP indigenous development plan's Supervisory Board and committees with indigenous minorities, an interesting dynamic has emerged. Sometimes, when the positions towards a specific issue of the company and the indigenous representatives have diverged and it was clear that the indigenous representatives "had the votes" if they had only chosen to cast them, the indigenous members chose to postpone the decision. A few weeks or months might then pass while both sides worked out an agreement acceptable to both sides. Thus by placing indigenous minorities as majorities on all governance bodies, the company forced itself to work by consensus, a culturally atypical approach for it.

All parties have much to benefit from developing new and mutually beneficial ways of interaction and co-existence—corporations, multi-lateral development financial institutions and, of course, indigenous communities. To build rapport with indigenous communities and their representative organizations, both locally and globally, new ways of interacting and working, involving respect, transparency, participation and partnership, need to be implemented. Doing this will demonstrate sincerity and increase the potential for beneficial outcomes for all.

Learning to respect the differences thus means doing business in somewhat new ways. For both indigenous communities and corporations, there is much to learn and much to gain. With billions of dollars in corporate investment and the lives, livelihoods, and cultures of many Indigenous Peoples at stake over the next few decades as humanity struggles to find the balance between energy supplies and sustainable lifestyles, this intersection between oil operators and indigenous communities will only increase in strategic importance.