

# CCCS CASE STUDY

## — The Sakhalin 2 LNG Project —

*Materials herein partly derive from “Indigenous Peoples and Oil Companies: Respect the Differences,” a paper jointly written by Michaela S. Bergman (EBRD), Gregory 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. This Case Study has been updated and edited in 2015 by Rachel Bessner and Marcus Bjoerkqvist (CCCS).*

### From Public Protest to Partnership on Sakhalin

Sakhalin 2, an LNG and oil extraction project originally of Shell Oil (and now with Gazprom as the operator), is one of the largest foreign investment projects ever in the Russian Federation. Over a decade ago the Project had made major headlines, much of which was bad publicity relating to several environmental issues, such as an offshore platform construction that would harm the Pacific Grey Whales and other sea mammals. There was also a public rise in concerns for social issues in the project’s early days, 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. In January 2005, the growing wave of dissenting public opinion surrounding the project reached a boiling point when protests by members of Sakhalin’s indigenous communities against Sakhalin Energy garnered local, national and international media coverage. However, over the following two years, nearly all of the negative criticism of Sakhalin Energy concerning Indigenous Peoples and their interests on the island ceased. This case study will relate how this was made possible, and what lessons can be learned from the Sakhalin experience.

### Background of Contentions

Prior to 2005, the Sakhalin Energy Investment Company (SEIC) had specifically recognized both potential and actual project impacts to indigenous communities. However, this covered only a small section of the population, and focused primarily on less than 100 Uilta reindeer herders, one of the Island’s four indigenous populations. While SEIC did make outreach efforts to these herders that included direct compensation payments and regular consultations, indigenous spokespersons considered these efforts to amount to little more than mere tokenism. They decried the company for ignoring their key demands for an ethnological *expertiza*<sup>1</sup> that would result in a calculation of compensatory damages claimed, and for an Indigenous Peoples Development Fund to manage and spend compensation payments.

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<sup>1</sup> An impact assessment review, demanded by the islands’ indigenous communities to parallel the environmental *expertiza*. However, unlike the environmental *expertiza*, this was not required under draft legislation before the national and regional legislatures.



**Cross-Cultural Consulting Services, PLLC**

7002 N. 10 Street, Tacoma, WA 98406, USA

+1-253-7598697

info@crossculturalconsult.com

www.crossculturalconsult.com

When protests broke out in the winter of 2005 against many of the key oil and gas operators including Sakhalin Energy, adverse publicity and pressure from the projects' potential international lenders<sup>2</sup> caused the company to reconsider its approach. In May 2006, the Company brought in Dr. Greg Guldin of Cross-Cultural Consulting Services (CCCS) as an advisor to guide the development and implementation of an Indigenous Peoples Development Plan (IPDP).

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

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

- Dr. Guldin acting as a facilitator between the Company and Indigenous Peoples representatives
- compromise by the Company to share real decision-making authority with the indigenous communities
- 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, a comprehensive list of potential and claimed damages had been generated. Thus, the universe of claims was delimited and converted into a mitigation matrix, enabling Indigenous Peoples to see that their issues were being treated seriously and allowing the company to respond systematically to each community concern. Over the next year, a committee consisting of representatives both of the company and of the indigenous communities worked through each claim individually—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 dedicated Working Group composed of four company representatives (most prominently Coordinator Korablinova) and four indigenous representatives, including the Head of the Indigenous Council on the island as well as indigenous representative to the regional government legislature. In addition, two committees were set up, one with the remit of economic and 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 acknowledgment that the content and structure of the IPDP was essentially the business of the Indigenous Peoples of the island, as it was their respective present and future needs that the Plan would address.

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<sup>2</sup> At that time, these included the European Bank for Reconstruction and Development's (EBRD) Export Credits Guarantee Department, ExIm Bank, and the Japanese Bank for International Cooperation.

After nearly a year of work, the Working Group and Committees developed an outline of a Plan, which, according to indigenous preference, was dubbed the Sakhalin Indigenous Minorities Development Plan (SIMDP). This Plan reflected the indigenous communities' core interests in development, and was not simply limited to social benefits like education and health, as community development plans often are. Nearly half of the funds were to be reserved for the support of "traditional economic activities" such as fishing, hunting, reindeer herding, and wild plant gathering.

## Uniting the Three Cultures: Community, Corporate, and Government

### 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 soliciting their inputs. The results of these consultations were tabulated and summarized for the Working Group and its committees, and were subsequently used to set the broad directions of further SIMDP development. Regular meetings were also held with the island's representative Indigenous Peoples' council, which was asked to comment on the emerging SIMDP and provide concrete suggestions and support for its development. Holding meetings directly with community members and similar island-wide groups 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 with indigenous communities was the personal nature of communications. Knowing that Indigenous Peoples on the island favor personal and immediate social and communication styles over the formal and distant, Coordinator Korablinova and other team members established friendly and informal ties with their key indigenous counterparts. This involved exchanging frequent mobile phone calls, informal visits, and reciprocating hospitalities. Establishing this friendly, collegial atmosphere enabled the Indigenous Peoples team to deal with issues as they arose. They no longer had to read through negative news coverage to know what their counterparts were thinking or doing.

### Overcoming Company Resistance

Not everyone at SEIC was as enthusiastic about shared decision-making as were the key managers and the Indigenous Peoples team. As is often the case, the friction and past conflicts were based in differing cultural ways of approaching problems. Corporate culture generally favors paper-based communication and written reporting, while the indigenous cultures of the island value direct human interactions and talking about problems as the best way to resolve disagreements. Furthermore, the culture of the island's indigenous communities involves a consensus-seeking approach to solving issues, which requires time. This approach conflicted with the values of corporate culture, where time is of the essence.

Acknowledging the amount of actual and potential points of conflict, the manager overseeing the Indigenous Peoples efforts ring-fenced the Indigenous Peoples unit, and intervened with other company departments only when necessary. Hence, the Indigenous Peoples team was allowed to follow somewhat different corporate rules and procedures, in a way that conflicted less with the cultural preferences of indigenous communities. This approach proved fruitful, and allowed staff and consultants to operate effectively with their external interlocutors.

## Wooing the Government

Of all the components necessary for a successful launch and implementation of the SIMDP, the Company was least successful 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; while at times collaborative, this relationship sometimes turned antagonistic. The Working Group and its committees were intended to include fully participating government representatives as well as corporate and indigenous ones. However, this did not happen, and the months spent preparing for the Plan were less efficient than they could have been. Nonetheless, when the government realized that the company was indeed serious about funding a major program for the island's Indigenous Peoples, attitudes changed. Ironically, this gave rise to the challenge of ensuring that government representatives are not to have too much influence over SIMDP implementation decisions.

Planning for IPDPs need to be worked out in collaboration with government authorities. This need arises not only out of the reach and power of such authorities, but also from their experience and development ambitions. Regional and local administrations have their own plans and approaches to indigenous or local development, and corporate-indigenous planning benefits by learning from and collaborating with local governments. The risks involved—such as capture by the bureaucracy and 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 the SIMDP was launched in May of 2006, after a year of preparation, it was highly praised not only by SEIC, 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. At the inauguration ceremony, the Deputy CEO of the Company, the regional Vice-Governor, and the head of the Indigenous Peoples 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, circulating widespread benefits across the island. For example, 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 to implementation occurred with the third leg of the plan—the 45% allocated to support for traditional economic activities. The first half of the first SIMDP involved a steep learning curve for everyone involved, as the company and the community both had to deal with many challenges. These included 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. These challenges, however, were largely overcome. By keeping to the core principles of transparency and non-interference, the Company successfully stewarded the SIMDP through its five-year run.

## Plan 2—Spreading Benefits and Building Capacity

By the completion of the first SIMDP in 2010, the Plan successfully aided Sakhalin's indigenous population in many respects, including health, education, culture, and capacity building. The most prevalent negative aspects of the Plan for the indigenous population, meanwhile, were in terms of governance and implementation. Many felt that the Plan's reliance on unfamiliar contracts, regulations, applications, and tax and insurance requirements made it too challenging. Others felt that the Plan contributed to friction between the island's indigenous communities. To tackle these issues and build upon the SIMDP's successes, the Company launched the second Five-Year Plan (SIMDP 2) in 2011.

When SIMDP 2 began, its main objectives shifted from mitigating the negative effects of the Sakhalin 2 project, and focused instead on improving the lives and livelihoods of the indigenous minorities of the Sakhalin Oblast. To do this, SIMDP 2 concentrates on enhancing the indigenous populations' capacity to participate in the management of the Plan and other socio-cultural and economic intervention strategies, as well as preparing for the eventual establishment of an independently managed Indigenous Minorities Development Fund. To do this, SIMDP 2 has focused on capacity-building, the distributions of social benefits, and increasing indigenous participation and representation in governing bodies. During the midterm review in 2013, many representatives of the Sakhalin Oblast Government (SOG) have praised SIMDP 2, noting how it has helped improve lives, fostered indigenous cultural pride, strengthened economic enterprises, and contributed to a more fair distribution of benefits.

The Municipal District Governments has also been positive about the Plan, appreciating SIMDP 2 as a productive method to serve local communities. Meanwhile, Sakhalin Energy believes that the Plan owes its successes to its good management approach, notably its move away from a paternalistic relationship between corporations and governments toward indigenous minorities. Many parties have also approved of SIMDP 2's micro-loans program, which they see as an essential step in realizing the ultimate goal of the indigenous minorities for a development fund.

## Lessons from Sakhalin

As this case study has shown, all parties—corporations, multi-lateral development financial institutions and indigenous communities—have much to benefit from developing new and mutually beneficial ways of interaction and collaboration. In order to foster a productive working relationship with minority communities, corporations need to bridge the cultural differences that normally hamper communication. By basing interactions with affected communities and their representative organizations on respect, transparency, participation and partnership, companies can demonstrate sincerity and increase the potential for beneficial outcomes for all.

As a result of loading the SIMDP Working Group and its 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, which was reciprocated by the participating minorities.

Learning to respect differences thus means doing business in new ways. For both indigenous communities and corporations, there is much to learn and much to gain. Involving billions of dollars in corporate investment, and the lives, livelihoods, and cultures of many Indigenous Peoples, this kind of intersection between extractive industry operators and indigenous communities is of tremendous strategic importance.