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## Original research article

## Oil and indigenous people in sub-Arctic Russia: Rethinking equity and governance in benefit sharing agreements

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## ABSTRACT

How can the interests of extractive industries and indigenous communities in the Arctic be balanced through benefit sharing policies? This paper analyses how the international oil consortia of Sakhalin Energy and Exxon Neftegaz Limited (ENL) on Sakhalin Island in Russia have introduced benefit sharing through tripartite partnerships. We demonstrate that the procedural and distributional equity of benefit sharing depend on corporate policies, global standards, pressure from international financial institutions, and local social movements connected in a governance generating network. Sakhalin Energy was profoundly influenced by international financial institutions' global rules related to environmental and indigenous people's interests. The benefit sharing arrangement that evolved under these influences resulted in enhanced procedural equity for indigenous people, but has not prevented conflict with and within communities. In contrast, ENL was not significantly influenced by international financial institutions. Its more flexible and limited benefit sharing arrangement was shaped predominantly by global corporate policies, pressure from the regional government and the influence of Sakhalin Energy's model. The paper closes with policy recommendations on benefit sharing arrangements between extractive industries and indigenous communities across Arctic states that could be further developed by the Arctic Council Sustainable Development Working Group.

## 1. Introduction

Russia possesses the largest natural gas reserves in the world [1] and eighth largest oil reserve in the world [2]. It is the most important oil and gas supplier to the European Union (EU) and intends to significantly increase its role as an energy supplier to China [3]. Russia also is home to many isolated indigenous communities, particularly in the Arctic and sub-Arctic regions. These communities must cope with the expansion of the oil and gas industry, which may threaten traditional livelihoods based on hunting, fishing or reindeer herding. Rapid changes in the Russian Arctic and sub-Arctic raise the question of whether the benefits of oil revenues can be shared equitably with indigenous populations in order to allow indigenous communities to pursue their traditional ways of life even as industry expands.

Benefit sharing arrangements and their implementation in different regions of Russia are highly variable. This variation is rooted in different modes of interaction between oil companies and

indigenous communities as well as in different legal and regulatory frameworks in the regions. These different modes of interaction depend on various factors, such as the companies' adoption of corporate social responsibility (CSR) standards, their internal CSR policies, their relations with government, and factors related to the local political, economic and social context. Ultimately, indigenous people may or may not benefit from resource extraction. By examining two cases in Russia, this study contributes to a better understanding of how global and local actors are co-determining the design and implementation of benefit sharing arrangements and how equitable these arrangements are. It also offers the opportunity to make policy recommendations for benefit sharing in the Arctic and sub-Arctic more broadly.

This article focuses on the interaction between oil companies and indigenous communities on Sakhalin Island, situated in the Far East of the Russian Federation. Oil exploration on the island started in 1920; however, major reserves were discovered only in the 1990s. Two large private, transnational oil consortia – Sakhalin-1 (with

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Exxon Neftegaz Limited (ENL) as operator) and Sakhalin-2 (with Sakhalin Energy as operator) – started producing oil in 1999 and continue to expand. We compare similarities and differences between these two consortia. Both consortia involve transnational corporations and Russian companies, operating in the same local context (Sakhalin Island) and involved in offshore oil development, including exploration and production. We examine how the two consortia developed benefit sharing arrangements with the indigenous communities in the sub-Arctic region of Sakhalin. Benefit sharing arrangements may consist of several elements, such as local employment, support for infrastructure, sponsorship for community projects, resources from tax payments, and negotiated production sharing agreements. ENL and Sakhalin Energy initiated benefit sharing arrangements that include tripartite partnerships among the oil companies, government and indigenous communities. These tripartite partnerships have been designed in different ways. The companies also differ in how they implement global standards, affecting both the procedural and distributional equity of benefit sharing. Additionally, the Russian oil companies that participate in the consortia make their own arrangements and contributions to local communities.

The aim of this paper is twofold. First, we will provide insight into differences in the emergence and design of the benefit sharing arrangements implemented by ENL and Sakhalin Energy. Second, we will assess the benefit sharing arrangements for indigenous communities in terms of distributional and procedural equity and analyse their intended and unintended consequences. Ultimately, we find that benefit sharing varies based on transnational corporations' (TNCs) corporate social responsibility policies and commitment to global norms, such as respect for indigenous rights, free prior and informed consent, stakeholder engagement, and meaningful consultations with indigenous people, as well as pressure from international lenders and transnational social movements that network environmental and indigenous groups.

## 2. Methodology

Fieldwork for this study was carried out in Sakhalin during September 2013 and August 2015. Research methods included semi-structured interviews with a range of actors and document analysis. Interviews (63 total) were conducted in Yuzhno-Sakhalinsk, and in the towns and villages affected by oil extraction, including the district centers of Poronaisk, Okha, Nogliki, and Korsakov, and the villages of Nekrasovka, Val and Veni. Several interviews with Sakhalin stakeholders were done in Moscow. Interviews were conducted with the representatives of oil companies, including ENL (9), Sakhalin Energy (6) and Rosneft (1). Interviews also were conducted with representatives of state agencies (6), municipal administrations (8), an environmental non-governmental organization (NGO) (Sakhalin Environmental Watch (2), indigenous peoples association (1), a scientist (1), as well as local residents including indigenous peoples (29). (See Annex, Table 1) Separate interview guides were developed for company representatives, government officials and local civil society actors. Each interview lasted from 30 min to 1.5 h. All interviews were transcribed and coded to highlight stakeholders' views of benefit sharing arrangements, the mode of interaction between oil companies and indigenous peoples, the role of global standards in the design, and the procedural and the distributional equity associated with benefit sharing. Corporate documents, such as annual reports, indigenous minorities development plans, and other publications, and Russian federal and regional legislation have been analysed in order to see when over-compliance occurs in order to implement companies' internal policies and/or requirements of the investment banks.

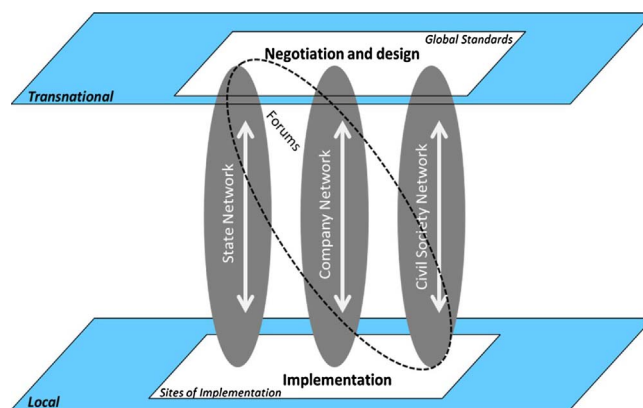


Fig. 1. Governance Generating Network.

## 3. Theoretical approach

To analyze and evaluate benefit sharing among oil companies and indigenous people, this article applies and synthesizes several concepts. First, to study the interactions of actors within a multi-level, multi-actor global assemblage of oil production networks [4–6], we use the concept of Governance Generating Networks (GGN) [7–10]. The GGN in this study consists of oil company networks, including operators, investment banks, equity partners, international and local offices, as well as state agencies at different levels and civil society actors (primarily environmental NGOs and indigenous peoples' associations). Interactions in these networks among actors from the state, oil companies and civil society link the transnational and local level. The main components of the GGN are i) the transnational nodes of global governance design, ii) the forums of negotiation, and iii) sites of implementation. (See Fig. 1) In the transnational nodes of design, new global regulatory standards and guidelines for oil companies are developed to ensure the sustainability of oil production and the protection of indigenous people's rights, such as the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP), the Arctic Council's (AC) Offshore Oil and Gas Guidelines, the Extractive Industry Transparency Initiative (EITI), and the lending policies of the International Monetary Fund (IMF), the International Financial Corporation (IFC), the World Bank (WB), the European Bank of Reconstruction and Development. Some of these standards are recommendations and may be only declaratory, while the rules developed by international financial institutions are strictly required for actors seeking loans and investment. However, even declaratory standards can be used by indigenous advocates to pressure companies to change their policies and practices.

Governance decisions are not only made in the nodes of design, but also in "forums of negotiation" and "sites of implementation" [7]. Sites of implementation are geographical territories where governance arrangements are implemented and adapted to local circumstances. In the context of oil production, key sites of implementation are the places of oil exploration, extraction and transportation. In these sites, local stakeholders, and especially indigenous people practicing traditional ways of life, experience the impact of oil development. These sites of implementation are connected to the transnational level by forums of negotiation where state, market and civil society actors debate the evolution of global policies and standards related to benefit sharing and address challenges in the implementation of benefit sharing arrangements on the ground.

The concept of "fair and equitable benefit sharing" is a legal norm related to natural resource use that is addressed in several international conventions, including agreements focused on biodiversity, international human rights, and the law of the sea [11,12], p. 353). The concept has been developed in detail in the 2010 Nagoya Protocol, a

supplementary agreement to the Convention on Biodiversity (CBD), related to the use of biological resources [13]. In the last decade, benefit sharing agreements became a global phenomenon, especially in case of oil and mining industries [14–17]. As revenues from oil flow far beyond extraction sites, local indigenous people may be more or less able to receive dividends from the “black gold” extracted from their lands and to receive compensation for damage to the surrounding environment and natural resources. Oil companies often declare their commitment to benefit sharing on the transnational or national levels; however, how they negotiate and implement these commitments in communities varies significantly [18]. Depending on the mode of interaction among coalitions of actors, different discourses, rules and resources of benefit sharing are emphasized, resulting in different benefit sharing arrangements. Different modes of interaction between oil companies and indigenous communities related to benefit sharing can be distinguished, such as the shareholder mode, in which residents of indigenous communities receive direct dividends from oil extraction; the partnership mode, in which communities are partners in tripartite agreements between state, company and community representatives; the corporate social responsibility mode, in which companies implement global standards in their own terms to determine compensation; and the paternalistic mode, in which companies assist the state by providing in-kind support to local communities [19]. Benefits from oil extraction are shared with local communities in different forms, such as taxes (formal benefits), as part of partnership agreements among the company, state and indigenous communities (semi-formal arrangements), as charitable giving and sponsorship (informal arrangements), and as trickle-down benefits, such as the construction of infrastructure and the creation of local jobs.

The processes of benefit sharing or paying compensation deeply implicate questions of equity. Actors disagree on how the effects of oil development should be measured and the quantity, quality and mechanisms of resource transfer to communities. To assess the fairness of benefit sharing arrangements, we make use of the concept of equity developed by McDermott et al. [20]. The concept of equity allows for an assessment of benefit sharing between oil companies and indigenous peoples by evaluating the type and distribution of social impacts of the industry. Equity in this context is understood as the achievement of equality across some agreed upon and negotiated social measure, although the type of measure will vary across cases [21]. Following McDermott et al. [20], we distinguish between *procedural* and *distributive dimensions* of equity to assess how benefit-sharing has evolved over time and whether indigenous communities perceive the outcomes of benefit sharing arrangements in the oil governance network as equitable. Procedural equity refers to participation in decision-making processes – for example, who is involved in the design of benefit sharing arrangements and to what extent indigenous people can participate in its creation. Distributive equity, in contrast, encompasses the distribution of costs and benefits that local and indigenous people receive from oil production. With its focus on equity, our work is in dialogue with the energy justice literature and its concern with human-centred research on energy politics [22]. The energy justice literature also has identified as basic tenets of justice the concepts of distribution (what and where are the challenges related to energy), recognition (who is affected), and procedure (how can problems be resolved) [23, 175; [24]. In our analysis of equity in benefit sharing, we highlight the *outcomes* of energy-company community interaction and consider whether, once oil production is established, is it possible to set up procedures of decision-making and systems of resource distribution that ameliorate damage to traditional territories of indigenous use.

This paper examines how oil companies and indigenous communities interact in two partnerships in Sakhalin, Russia. In our case studies, oil companies, state and civil society networks (i.e. the oil GGN) are linked through processes at transnational and local levels.

The actors in these networks are involved in continuous interaction and negotiation, both within and between networks, and from the global level nodes of design to the sites of implementation. Throughout these scales of interaction, members of the GGN engage in forums of negotiation, including those associated with the design and implementation of benefit sharing standards as well as environmental and indigenous activism more broadly. We touch upon the existing array of benefit sharing arrangements among oil companies on the island and specifically analyze those that emerge from the two partnerships. We examine how the tripartite agreements have been influenced by global actors and global standards, and how the distribution of allocated benefits was determined in part within the GGN's forums of negotiation.

## 4. Background: oil consortia and indigenous peoples

### 4.1. Oil consortia

Sakhalin-1 is one of the largest oil and gas projects in Russia, measured by level of foreign investment. The consortium operator is ENL, a subsidiary of the US company Exxon Mobil, which owns 30% of the shares. The Russian company Rosneft, which entered into a strategic partnership with Exxon Mobil, is represented in the consortium through two subsidiaries: RN-Astra (8,5%) and Sakhalinmorneftegas-Shelf (11,5%). In addition, the consortium includes the Japanese company SODECO (30%) and the Indian state oil company ONGC Videsh Ltd (20%). The oil fields where Sakhalin-1 operates were discovered in the 1970s, but a production sharing agreement with the Russian federal and regional governments was concluded only in 1996. The first commercial oil was produced in 2010. The project operates three offshore oil fields: Chayavo (since 2005), Odoptu (since 2009/10) and Arkutun-Dagi (since 2015). (See Appendix, Table 1)

Sakhalin-2 is a consortium led by the operator Sakhalin Energy, headquartered in Yuzhno-Sakhalinsk. Sakhalin Energy was founded in 1994 by three companies – Royal Dutch Shell, Mitsui Co. Ltd, and Mitsubishi Corporation – in order to develop the Piltun-Asokhskoye and Lunskeye oil deposits on the north eastern shelf of Sakhalin Island. Sakhalin-2 includes the first liquefied natural gas (LNG) plant in Russia, situated in Prigorodnoye in Aniva Bay. In 1994, Sakhalin Energy signed a production sharing agreement with the Russian federal and regional governments. The project started to produce its first oil in 1999, earlier than Sakhalin 1 project. In 2006, Gazprom, Shell, Mitsui and Mitsubishi signed an agreement allowing Gazprom, Russia's state-owned gas company, to enter the consortium as the main shareholder. In 2007, Gazprom Sakhalin Holdings B.V. bought 50,1% of the Sakhalin-2 shares, a controlling stake. Prior to the purchase, Shell Sakhalin Holdings B.V., a subsidiary of Royal Dutch Shell, had owned the controlling stake, but after Gazprom joined Shell was left with only a 27,5% share. As a result, since 2007 Shell has not participated in decision-making processes for the consortium, although through Sakhalin Energy Shell had taken the lead in designing and launching the benefit sharing agreement in 2006 [25], p. 107. In addition, the two Japanese companies remain part of the consortium: Mitsui Sakhalin Holdings B.V. (a subsidiary of Mitsui Co. Ltd, holding 12,5%) and Diamond Gas Sakhalin (a subsidiary of Mitsubishi Corporation, with 10%).

### 4.2. Indigenous people

Sakhalin is populated by approximately 3000 Nivkhi, Uilta, Nanai, Evenk, Chukchi and Itelmens indigenous people (out of a total population of 511,000) [26], p. 84] living mainly around the towns of Okha, Nogliki, Tym, Aleksandrovsk-Smirnykhovskiy, Poronaisk, and Yuzhno-Sakhalinsk and the villages of Val and Nekrasovka. In Sakhalin territories of traditional nature use are not designated and regional

legislation is not developed as in other Russian regions (e.g. Khanti-Mansiisk Autonomous region<sup>1</sup> or Sakha Yakutia<sup>2</sup>). This means that Sakhalin's traditional fishing, reindeer herding and hunting grounds have to be shared with other users to allow multiple land use and no compensation is required on the side of the companies. An exception are the Nivkhi fishermen, who, after the Soviet collapse, managed to use existing legislation to officially designate fishing grounds for themselves. The most active and influential organization of indigenous people is the Regional Council of Authorized Representatives (Commissioners) of the Indigenous Peoples of Sakhalin Oblast. The Council was established in 2005 as a consequence of indigenous people's role in the Green Wave protests on Sakhalin [25], p. 107. The Council of Authorized Representatives consists of eight members representing the four main indigenous groups of Sakhalin (Nivkh, Uilta, Nanai, and Evenk). The aims of the Council are to protect indigenous peoples' rights, represent indigenous communities in their interactions with government and oil companies, and monitor operations of oil companies and their contractors. In addition to the Council, there is the Sakhalin Indigenous People's Union which unites all indigenous NGOs on Sakhalin Island, such as Kykh-Kykh (The Swan).<sup>3,4</sup>

## 5. Benefit sharing: a comparative analysis

We use the GGN and equity framework together to assess whether and why an oil production network may or may not lead benefit sharing that is perceived as equitable. While the GGN approach maps out decision-making dynamics at multiple scales within a governance network, the equity framework provides a means to assess the balance of power and interests resulting from GGN dynamics. We leverage the distinction between procedural and distributive equity to assess on-the-ground outcomes of benefit sharing arrangements, differentiating between outcomes involving process-based change in the form of indigenous peoples' participation in decision-making related to oil production and benefit sharing, and distributive outcomes in the form of changes to the distribution of material benefits from oil extraction. Benefit sharing arrangements may take different forms in oil GGNs. Some benefits are determined by legislation, such as taxes or production sharing agreements, negotiated in the early stages of resource extraction. These formal arrangements are established by the government and do not require constant renegotiation. Other benefit sharing arrangements are semi-formal in character and are negotiated at the regional and local level by actors spanning from local to global: TNCs, national companies, the state authorities, and beneficiaries, including local indigenous groups. The tripartite partnership agreements in our case studies serve as examples of semi-formal arrangements.

Both the Sakhalin-1 and Sakhalin-2 GGNs are atypical for Russia as they are characterized by international companies' high level of involvement in applying their CSR policies in the Russian context. Although onshore oil development has been taking place on Sakhalin since 1920, it was only in the 1990s offshore drilling was undertaken by international oil consortia. The TNCs involved in these consortia were not influenced by Soviet oil development practices [27] or by the Soviet style of CSR that often resulted in paternalistic benefit sharing arrangements with local communities

[18]. In contrast to Russian oil companies, transnational companies were vulnerable to scrutiny and pressure from both transnational and local environmental NGOs, as well as indigenous protests from the late 1990s, peaking in the mid-2000s. These protests were directed both against Sakhalin-1 and Sakhalin-2 projects, but mainly affected Sakhalin-2 when public financial institutions that were lenders and investors to the project threatened to cancel their investments in Sakhalin-2 [28]. Also, in Sakhalin-2, Shell was a receptive target [27], p. 80. Sakhalin-1 turned to be less vulnerable to the NGO campaign as its operator ENL relied on investment funds directly from its corporate parent Exxon Mobil. The local campaign resulted in changes in the sites of implementation in terms of procedural and distributional equity in implementation of benefit sharing arrangements, but had a greater effect on Sakhalin-2. Although consortium operators differ in their benefit-sharing arrangements, even sharper differences exist between foreign and Russian companies active on Sakhalin.

### 5.1. Formal benefits in Sakhalin: Russian legislation

Russian tax legislation establishes the foundation for formal benefit sharing in Sakhalin. Oil companies in Russia pay taxes to the federal government (income, profit, mineral production and VAT taxes), to the regional government (property taxes, payments to social funds, and customs), and to local governments (transport taxes) [29]. Most of the taxes paid by oil companies, including the mineral extraction tax (MET) and export duties go to the federal budget, leaving a much smaller share for the regions [30]. According to Russian legislation, the distribution of tax revenue depends on where the company is registered. Both ENL and Sakhalin Energy are registered in Yuzhno-Sakhalinsk, the region's capital. Rosneft is represented on Sakhalin by RN Sakhalin Morneftegas LLC; until recently this company was registered and paid its taxes in the municipal unit of the Okhtinskiy urban district. However, after the reorganization of the company in 2011, its office moved to Yuzhno-Sakhalinsk, and the taxes shifted to the regional budget. A local administrator from Okha stated that the regional budget allocates money to the municipal budget for infrastructure development instead of for social needs.<sup>5</sup> Therefore, the municipal government now has less discretion over how the tax income is used.

Both Sakhalin-1 (1996) and Sakhalin-2 (1994) established production-sharing agreements (PSAs) with the Russian federal and Sakhalin regional governments. These PSAs are quite unique in Russia, with only one other active PSA in the Kharyaga oil field in the Nenets Autonomous Okrug, and Sakhalin hosts the two most successful uses of Russia's 1990 law on production sharing agreements. A PSA provides a special taxation arrangement in which production sharing substitutes for the majority of tax and custom charges that would have been paid under the traditional system. PSAs can address the imbalance between federal and regional revenue streams, providing more financial support at the regional level and opening up greater potential to address distributional equity. Based on these PSAs, Sakhalin-1 and Sakhalin-2 are the major contributors to the Sakhalin regional budget. The Sakhalin-1 consortium contributed more than US\$ 1.3 billion to the budget of Sakhalin region [31], while the Sakhalin-2 consortium, which is larger than Sakhalin-1, paid US\$ 2.4 billion to the Sakhalin regional budget in 2015 alone [32–34].

As a result of its PSA, once oil production has started Sakhalin Energy pays 6% of royalties to the regional state budget. After the reimbursement of project implementation costs, Sakhalin Energy pays income tax at the rate of 32% and delivers a share of the production in the form of natural gas to villages. Actual production sharing started in 2012, several months before schedule [32–34]. Thus, according to the PSA, Sakhalin Energy pays taxes not only to the federal budget, but also

<sup>1</sup> Regional law #145. On Territories of Traditional Nature Use of Indigenous Numerically Small Peoples of the North in Khanty-Mansi Autonomous Okrug. From 23 December 2006. Available online: <http://docs.cntd.ru/document/422448755> (accessed on 23 September 2016).

<sup>2</sup> Regional law #145. On Territories of Traditional Nature Use of Indigenous Numerically Small Peoples of the North in Nenets Autonomous District. From 29 December 2001. Available online: <https://www.info83.ru/territorii-tradicionnogo-prirodopolzovaniya> (accessed on 23 September 2016).

<sup>3</sup> Interview with local activist, Nekrasovka 18.08.2015.

<sup>4</sup> Interview with the head of the Council of tribal enterprises 19.08.2015.

<sup>5</sup> Head of local administration, Okha, 17.08.2015



to the budget of the Sakhalin region. In 2013, the taxes of Sakhalin Energy amounted to 60% of the Sakhalin regional budget.<sup>6</sup> In addition, taxes are paid not only by companies themselves, but also by their contractors, which increases budget revenue [32–34]. The Sakhalin government uses some tax money coming from PSA agreements to support regional programs for indigenous peoples. Therefore, PSAs indirectly contribute to benefit sharing by oil companies by making more resources available at the regional and local level.

Sakhalin island also experienced trickle down benefits from the oil industry more generally. Sakhalin-1, for example, contributed \$156 million to the construction of roads in Sakhalin Oblast and Khabarovsk Krai [31], while the Sakhalin-2 project spent over \$600 million repairing 50 bridges, several landfills and 200 kilometres of roads and other infrastructure on the island [32].

### 5.2. Semi-Formal benefits: transnational and local influences on benefit-sharing

Natural resource companies operating in Russia are governed by the Russian law “On guaranteeing the rights of small numbered indigenous peoples of the North” [35], which allows indigenous people to pursue their subsistence economic activities on the land free of charge, including on land licensed to oil companies. However, international consortiums are also guided by global standards, which foster an innovative set of benefit sharing arrangements. Global standards especially are likely to shape benefit sharing when they provide leverage for local actors within the GGN to pressure TNCs for more equitable outcomes. Sakhalin Energy and ENL, the two consortium operators, reference the same global standards. They have undergone compliance certification with ISO-26000 standards, which include worker health and safety, ecological sustainability, energy efficiency, and other criteria.<sup>7</sup> They also cite international voluntary principles on security and human rights. Both companies have the stated goal of addressing the interests of transnational and local stakeholders as well as shareholders.<sup>8</sup> Both companies demonstrate a commitment to the principles of UN Global Compact and the ILO convention in their corporate policies. (For more detail on global standards, see Appendix, Table 2 [36].) Sakhalin Energy is implementing the Sakhalin Indigenous Minorities Development Plan (SIMDP), a plan which incorporated standards from the IMF, World Bank, EBRD and UNDRIP. ENL relies to a larger extent on its own CSR policy, elaborated in their U.S. headquarters by Exxon Mobil, which is based on the same global standards [37], but is not constrained by the requirements of global financial institutions as ENL has not borrowed money from these institutions.

To protect the rights of indigenous people specifically, the companies have developed procedures in internal corporate documents that conform to global standards and serve as decision-making guidelines.<sup>9</sup> In these documents, both companies declare their commitment to the ILO Convention 169 “Indigenous and Tribal Peoples Convention”, the United Nations Declaration on the Rights of Indigenous Peoples [38,39], the International Finance Corporation (IFC) Performance Standards on Environmental and Social Sustainability, and the World Bank Operational Policy and Bank Procedure on Indigenous Peoples. (See Annex, Table 2) Both consortium operators have committed to taking into account indigenous rights as they conduct reputational, ecological and economic risk assessments. The companies also observe the International Covenant on Economic, Social and Cultural Rights and perform environmental impact assessments (EIA) as required by Russian and international legislation.

Involving indigenous people in the design and implementation of benefit sharing arrangements is not required as such in any of these global standards. Instead, several standards, such as the UN Guiding Principles on Business and Human Rights [40], the 1989 ILO Convention 169 “Indigenous and Tribal Peoples Convention”, and the 2007 UN Declaration on the Rights of Indigenous Peoples, require consultation and recommend the use of the principle of Free Prior and Informed Consent (FPIC). The IFC interprets FPIC as an expansion of Informed Consultation and Participation (or meaningful consultation) [41]. When land is owned by indigenous people, the use of FPIC may allow indigenous communities to veto oil drilling if they face resettlement. More generally, FPIC calls for negotiations between companies and indigenous communities that would determine an appropriate compensation toward indigenous communities for land extraction and damage.

On Sakhalin, two social movements have actively made use of global standards to pressure TNCs through the GGN network – first, an environmental movement concerned with the threats to the Pacific grey whale population and damage to rivers, among other issues, and, second, indigenous mobilization focused on disturbances to traditional practices, such as reindeer herding and seasonal fishing. The environmental movement included the Russian NGO Sakhalin Environmental Watch, in partnership with the California-based NGO Pacific Environment and the Russian Green Party; these groups continuously challenged the oil industry on Sakhalin from the late 1990s and their campaign stretched from local to global venues to target investment banks willing to finance the second stage of the Sakhalin-2 project [42,43]. Activists used the expertise of the CEE Bankwatch Network to pressure financial institutions not to invest in the oil industry [44]. During the same period, indigenous activists demanded an ethnological impact assessment to determine how local communities would be affected by oil development. Even though both Sakhalin-1 and Sakhalin-2 projects supported indigenous peoples financially, leaders of the Regional Association asked companies to carry out impact assessments and pay compensation for damages, as well as to allocate funding for indigenous peoples’ development.

The movements came together in the Green Wave protests which culminated in January 2005 when approximately 100 people blocked road access to several of the consortia construction sites [25], p. 106. This primarily indigenous action was supported by some environmental organizations which shared indigenous concerns. Environmental networks, including Sakhalin Environmental Watch and 146 NGOs operating in 22 countries, notably WWF, Greenpeace, Rainforest Action Network, BANKTrack and Friends of the Earth, as well as 80 Russian NGOs located all over Russia which had been pressuring international financial institutions about green issues, began to make demands on behalf of indigenous groups as well [45]. Sakhalin-2 was the primary target of the campaign, in part because the consortium was soliciting public financing of more than \$20 billion, primarily from the European Bank of Reconstruction and Development (EBRD) in order to expand. Responding to pressure, Sakhalin-2 representatives helped to develop the Sakhalin Indigenous Minorities Development Plan (SIMDP) which expanded consultation with indigenous groups [46], p. 333. In this way, the local and global activists connected across the GGN helped to expand forums of negotiation for stakeholders and to press the TNCs for more robust benefit-sharing arrangements with greater procedural and distributional equity. Ultimately, these movements shaped the evolution of tripartite agreements for benefit sharing on Sakhalin, as described below.

### 5.3. The tripartite agreement of Sakhalin-2

Until 2007, the Sakhalin-2 project was mainly operated by Shell and adopted Shell’s social policies and standards [27], p.77. In the mid-1990s, prior to the development of SIMDPs, Sakhalin Energy contributed resources to indigenous people through its “Supplemental

<sup>6</sup> PR manager of Sakhalin Energy, Yuzhno-Sakhalinsk, 12.08.2015

<sup>7</sup> PR representative of Exxon Neftegas Limited, Yuzhno-Sakhalinsk, 11.08.2015

<sup>8</sup> Employee of Sakhalin Energy, Yuzhno-Sakhalinsk. 09.2013.

<sup>9</sup> PR representative of Exxon Neftegas Limited, Yuzhno-Sakhalinsk, 11.08.2015

Assistance Program” by sponsoring cultural and sporting events [47]. Sakhalin Energy also created a grievance mechanism, developed as part of its community engagement strategy in the 1990s and modified several times in response to external reviews [26]. Initially, during the construction phase, grievances were primarily environmental, but over time the mechanism has become a forum of negotiation between the company and indigenous communities. Apart from the development plan, Sakhalin Energy has devised several social programs that serve not only indigenous people, but all residents of Sakhalin, such as the Fund of Social Initiatives ‘Energiya’, a competitive grant program to support local projects led by NGOs.<sup>10</sup>

In 2005, as a direct outcome of the Green Wave protest and as a response to the World Bank requirements, the company designed the Sakhalin Indigenous Minorities Development Plan (SIMDP), a tripartite partnership agreement between Sakhalin Energy, the Sakhalin regional government, and the Regional Council of Authorized Representatives of the Sakhalin Indigenous Minorities [46], p. 333. Each development plan covers a period of five years and is designed by representatives from the company, regional government, and indigenous communities. The SIMDPs were an arrangement recommended by the EBRD [48], and their development occurs in forums of negotiation that have offered opportunities for greater involvement by indigenous people over time. SIMDPs have become the main venue for the delivery of benefit sharing arrangements to indigenous people by Sakhalin Energy. The SIMDP applies to the whole territory of Sakhalin, not only to areas of oil exploitation, and indigenous people make decisions on distribution of funds. The indigenous settlements generally are located far from population centres; therefore, the company created communication centres in villages for future grantees. The development plan is implemented by an executive board that includes two representatives from each of three partners – the company, the state and indigenous people. Since 2016, it involves one representative of indigenous people from each of seven municipal units. The executive board manages two programs, the Traditional Economic Activities Support Program and the Social Development Fund. Each program has its own managing committee or council; an expert group offers recommendations, but the indigenous representatives make all decisions on grant competitions.

The tripartite agreement generates direct distributional benefits for local communities. The first SIMDP was implemented in 2006–2010 with annual financial support from the company of US\$ 300,000. Its activities were focused on social development, traditional economic activities, and a mini-grant competition. SIMDP-2 took place from 2011 to 2015, with funding increased to US\$ 312,000 annually. This second plan included a mini-grant competition directed towards social priorities including healthcare, education, cultural programs and traditional economic activities (hunting, fishing, and foraging). The SIMDP-3 (2016–2020) allocated \$320,000 [49]. In addition, since 2011 a microloan program has been implemented. A local administrator of the Traditional Economic Activities Support Program states: “This is a targeted financial support for the development of traditional business activities and tribal enterprises, regardless of whether they received support in 2015, 2014 or 2013, or not.”<sup>11</sup> Indigenous people can receive necessary equipment for economic activities. A recipient recalls: “We received a boat, an engine, ... in 2008 we received a smoking oven.”<sup>12</sup> However, some grant-seekers only receive these items on their second or third attempt.

The SIMDP also provides funding to registered communities and organizations, while unregistered applicants can receive grants through partner organizations, such as the Center for the Preservation and

Development of Traditional Culture Kykh-Kykh (The Swan) and a social organization of indigenous minorities of the Poronaiskiy District, the indigenous organization “Poiran,” among others. The Social Development Fund provides support to students (including payments for education and accommodation) and for healthcare (such as denture treatment, eye treatment and emergency hospitalization).<sup>13</sup> International bank officials have been satisfied by evaluations of benefit-sharing arrangement through SIMDPs. For example, in 2007, the IFC included the outcomes of SIMDP-1 into its edition “Stakeholders Engagement: a Guide of Successful Practices” [33]. During the implementation of SIMDP-2, the company stated that it follows the FPIC guidelines by empowering indigenous communities and allowing them to determine to whom grant funds are allocated. SIMDP-3 contributed to procedural equity with the further decentralization of decision making for grant funding to lower levels of governance. The SIMDP-3 governance scheme includes district committees with participation of two indigenous people and one person appointed by the mayor to determine how money is distributed.

Although the Russian company Gazprom participates in the Sakhalin-2 consortium, the company has an alternative strategy for benefit sharing. The company supports and develops infrastructure on Sakhalin, such as roads, hospitals, bridges, airports and seaports. However, it does not give money directly to indigenous groups, but instead responds only to requests from government bodies. A deputy director of the Department of Indigenous Affairs states: “We contact Gazprom as the occasion requires. In other words, we contact them only when we need a certain sum for certain purposes.”<sup>14</sup>

#### 5.4. The tripartite agreement of Sakhalin-1

The operator of Sakhalin-1, ENL, developed its tripartite partnership significantly later than Sakhalin Energy. The tripartite agreement also differs in some ways from that of Sakhalin Energy. Because ENL has not taken any loans from international banks, it was not influenced by threats of lost investment. Instead, the Sakhalin-1 consortium came under pressure to engage in a tripartite agreement from regional state officials who wanted more influence in grant funding and from the perceived success of the Sakhalin-2 model. In line with its global policy, ENL has chosen to support only regions where it is extracting oil. Also in accordance with its corporate standards, ENL does not work with individual indigenous families, only with organizations. Decisions on grant recipients are made by representatives of the company, the state and indigenous peoples collectively, so indigenous preferences can be overridden by state and company representatives.

During the Sakhalin-1 project’s exploration and construction periods (1998–2001), and prior to the tripartite agreement, ENL paid compensation for damages to the State Department of Environment and Natural Resources, calculating compensation using Russian standards developed by the Ministry of Regional Development. The calculation for damages occurred in advance of the expected damage, in this case for the withdrawal of 10% of reindeer pastures for construction, among other environmental issues. Compensation was paid to the Noglikskii District budget and was used for infrastructure improvements, and a small part was allocated for supplies to reindeer herders [25], p.103. However, the Sakhalin regional government continually requested more and more money from the company, in addition to the estimated damages, which frustrated company representatives.<sup>15</sup> An Exxon company representative states, “In no situation do business entities have the

<sup>13</sup> Head of the Center for the Preservation and Development of Traditional Culture “Kykh-Kykh” (The Swan), head of regional council on SIM of the Sakhalin region, the village of Nekrasovka, 10.08.2015

<sup>14</sup> Deputy director of the Department of Indigenous Affairs, Yuzhno-Sakhalinsk, 11.08.2015

<sup>15</sup> Representative of Exxon Neftegaz Limited, 05.09.2013

<sup>10</sup> PR manager of Sakhalin Energy, Yuzhno-Sakhalinsk, 12.08.2015

<sup>11</sup> Head of local administration, Okha, 17.08.2015

<sup>12</sup> Indigenous person from the village of Nekrasovka, 20.08.2015

right to substitute for the government in addressing socio-economic challenges.”<sup>16</sup>;

ENL stopped paying compensation, and in 2001 began a grant program as an alternative, allocating a fixed sum for charity and for support of indigenous peoples' cultural and social projects. This shift from compensation to grants was an effort to protect the company from the persistent demands of state agencies. Since 2001, the company has cooperated with the Association of Indigenous Peoples of Sakhalin Oblast, and this has led to new forums of negotiation over benefits. In 2002, an Advisory Committee that included company and indigenous representatives was created to evaluate grant applications and distribute funding. Representatives of the Sakhalin regional government served as advisors, but decision-making authority was shared between the company and representatives of indigenous peoples. This arrangement created tension as state representatives often had strong opinions and were not satisfied with their limited role. Moreover, when disputes occurred over the grants, indigenous people turned to the state officials for resolution.

This arrangement persisted for ten years until, responding to state pressure, ENL acknowledged the necessity of a tripartite agreement among the company, indigenous people, and the state. The inclusion of regional government representatives in the partnership agreement lessened tensions and facilitated decision making on grant funding. Finally, in 2012, the company concluded a tripartite agreement with the Sakhalin regional government and the Regional Council of Authorised Representatives of the Sakhalin Indigenous Minorities. Following this agreement, the three parties became equal partners on the Advisory Committee that allocates grants, which reduced the likelihood of funding disputes.<sup>17</sup> In 2013, a vice president of Exxon Neftegaz announced the importance of participation by state actors, stating: “We all recognize the leading role of the executive authorities in providing life assurance, [and] guaranteeing the rights of indigenous peoples.”<sup>18</sup>;

Since 2002, the ENL-sponsored grant program has supported more than 350 projects by indigenous groups. Exxon allocates grants only in the local territories where it operates – in Nogliki and Okha. In 2015, the total budget for the grant programs for indigenous people amounted to more than US\$100,000.<sup>19</sup> ENL has a fairly simple grant application form and organizes trainings to show people how to complete the application. The company delivers information about grant competitions through a team of six indigenous public relations specialists, from Yuzhno-Sakhalinsk and neighbouring villages (Nogliki, Val, Okha, Nekrasovka). ENL representatives state that this grant support allows the company to fulfil its social obligations without replacing the state in making up for shortages in the state budget.<sup>20</sup>

Rosneft's benefit sharing activities occur through the Sakhalin-1 consortium and are carried out by Exxon instead of RN Sakhalin Morneftegas, the Rosneft subsidiary. Separately, Rosneft builds relations with local governments at sites where Rosneft is in charge of operations through social and economic cooperation agreements, including the development of infrastructure in towns and villages populated by employees and their families, and the provision of necessary equipment for medical, educational and leisure organizations. Rosneft funds sports events in Sakhalin, as well as participation of Sakhalin children in national sport events. The representative of the Okha Indigenous People Department stated: “This year Rosneft allocated more than 3 million rubles<sup>21</sup> to sport events; it is more than

enough.”<sup>22</sup>; However, in contrast to ENL, Rosneft provides funds only through local and regional governments. According to one expert, it is easier to build official and structured cooperation with foreign companies, and to apply for their grants, than to develop similar agreements with Russian companies.<sup>23</sup> He states that with Russian companies that lack a formal funding structure, it is more important to build personal relations. There is less stability in relations with Rosneft, and funding is intermittent.

### 5.5. Effects in indigenous communities: benefits, conflicts, and unintended consequences

The tripartite partnership agreements of both Sakhalin Energy and ENL have become major forums of negotiation where indigenous people can influence how the grant money will be spent. However, Sakhalin Energy demonstrates much greater procedural equity than ENL, deferring to the decisions of indigenous people as to whom and what should be funded and reaching out beyond the sites of immediate oil extraction. Because of its reliance on investment from international banks, Sakhalin Energy is subject to annual third party evaluations. In these evaluations, international and local experts as well as indigenous people have an opportunity to comment on how benefits are allocated and distributed. Over time, the range and depth of consultation of the indigenous groups has expanded. However, although indigenous communities continue to request ethnological impact assessment of oil development on native cultures, both consortia have avoided carrying out these assessments.<sup>24</sup> Instead, the companies perceive that they are allocating funding in a way that supports community development and the revitalization of culture. Thus, while procedural equity has increased generally, specific demands are not always met.

Grant funding from TNCs has assisted in the institutionalization of social organizations, tribal communities and enterprises. Starting in the early 2000s, many indigenous groups legally registered and began to receive financial support. In 2015, there were 19 communities registered in Nekrasovka, 18 in Okha, 8 in Nogliki, and 23 in Poronaiksk.<sup>25</sup> Corporate funding enhances the ability of indigenous people to perform traditional activities, and is especially helpful to older residents who do not have alternate means of earning an income.<sup>26</sup>

Grant funding also has shaped the perceptions of indigenous people on Sakhalin. In general, Sakhalin residents have a positive evaluation of Sakhalin Energy because it provides funds for projects on the whole island, rather than in certain regions.<sup>27</sup> Indigenous representatives also point out that the company provides funds for traditional business activities of kinship groups, in contrast to ENL which allocates money only to NGOs for educational, cultural and social projects that may not be related to the economic needs of communities. Sakhalin Energy's Development Plan and other social programs have boosted indigenous business ventures.<sup>28</sup> The company funds many pressing needs on Sakhalin formerly undertaken by the state, but also prevents state agencies and government officials from obtaining funding to pursue their own interests.<sup>29</sup> On the other hand, indigenous community members also claim that the contributions of Sakhalin Energy, as well as overall funding from oil companies, are not sufficient. An activist states, “Sakhalin Energy allocates only \$312,000 every year, \$156,000 are spent to support tribal enterprises for traditional economic activities and the

<sup>22</sup> Deputy director of the Indigenous People Department, Yuzhno-Sakhalinsk, 11.08.2015

<sup>23</sup> PR specialist of administration, Okha, 17.08.2015

<sup>24</sup> Member of the Regional Council of Authorized Representatives, 22.09.2013

<sup>25</sup> Member of the Regional Council of Authorised Representatives of the Sakhalin Indigenous Minorities, Poronaiksk, 14.08.2015

<sup>26</sup> Representative of the Administration of the Sakhalin Indigenous Minorities of the Government of the Sakhalin Region, Yuzhno-Sakhalinsk, 09.2013.

<sup>27</sup> Activist, Nekrasovka, 18.08.2015

<sup>28</sup> PR manager of Sakhalin Energy, Yuzhno-Sakhalinsk, 12.08.2015

<sup>29</sup> PR manager of Sakhalin Energy, Yuzhno-Sakhalinsk, 12.08.2015

<sup>16</sup> Vice president of Exxon Neftegaz Limited, a record of the conference «Indigenous nations and industrial companies: cooperation, outlooks, challenges», 02.10.2013

<sup>17</sup> PR representative of Exxon Neftegaz Limited, Yuzhno-Sakhalinsk, 07.09.2013

<sup>18</sup> Vice president of Exxon Neftegaz Limited, a record of the conference «Indigenous nations and industrial companies: cooperation, outlooks, challenges», 02.10.2013.

<sup>19</sup> Deputy director of the SIM department, Yuzhno-Sakhalinsk, 11.08.2015

<sup>20</sup> PR coordinator of Exxon Neftegaz Limited, Okha, 17.08.2015

<sup>21</sup> Approximately \$48391.81 (using 10 October 2016 exchange rate)



other \$156,000 are distributed through a social development fund. This is nothing. This money cannot compensate for the damage they cause to the environment and culture.”<sup>30</sup>;

Sakhalin Energy’s effort to adopt a more equitable approach has empowered local communities but also generated conflicts around the distribution of resources. In their cooperation with Sakhalin Energy, indigenous people are able to design the funding scheme and are in charge of distributing grants, but this sometimes leads to disputes. For instance, “in Nogliki there are many disputes over funding because indigenous people allocate money to their friends and do not listen to expert groups which leads to resentments when the committee is changed.”<sup>31</sup>; Inevitably, some groups and communities will be more successful than others. An expert accounts for this variation, stating, “Somebody has already participated in these programs. He is experienced. He knows all launch dates. He knows what to avoid. He knows what reasons to use, how to make a request for a snow cat, laser cable and so on.”<sup>32</sup>; ENL’s more limited approach to grant funding was less likely to lead to conflict. Indigenous peoples’ perspectives on ENL’s contribution are mixed. The grant process is seen as convenient; applications can be sent at any time, without fixed deadlines.<sup>33</sup> At the same time, ENL is criticized mostly due to the fact that the company funds projects only in affected communities and not on the whole island.

Benefit-sharing from the oil industry, in all its various forms, thereby results in some unintended consequences over time, in part due to changing perceptions related to procedural and distributional equity. For example, indigenous people may become dependent on grant funding. An indigenous leader comments that they “have become used to support” and think that companies owe them something.<sup>34</sup> Dependency on support from oil companies also creates conflicts. A recipient states, “We start playing tricks, we try to divide sponsors between us – ‘your milking cow is ENL, and ours is Sakhalin Energy.’”<sup>35</sup>; Thus, the opportunity to receive grant support from oil companies is both a benefit and a source of tension for many communities. Several indigenous informants felt that, for better or for worse, the activities of oil companies have changed livelihoods on the island so much that it is impossible to imagine life without financial funding of the consortia. Comments include: “Sakhalin indigenous people lapsed into idleness when these companies came” and indigenous peoples “are now financially addicted to the resources provided by oil companies.” Here we see that short term improvements in equity can have unintended consequences in the long term.

Therefore, the impact of oil companies and their developments on the life of indigenous people is significant, but controversial. A village leader who works with Exxon expresses this ambivalence: “You all know that we have already been pressed by civilization. We are dislodged here. And if we lose all these developments, these exploitations, we will lose the source of money.”<sup>36</sup>; She continues: “It goes without saying that indigenous people must preserve their ethnoscapes and traditional lifestyle irrespectively of oil companies, and to do this they must preserve their spirituality”<sup>37</sup>; An interviewee notes that people are trying to save what remains of cultural practices: “On Fisher’s day we organized the presentation of national and

modern clothing which was bought on oil money.”<sup>38</sup>; Traditions are observed mostly by elderly people. A community member comments: “In general we learn about folk art from our grandmothers. We have plenty of national skills, we have got hand embroidery on clothing.”<sup>39</sup>; The villages are trying to preserve their folk art practices and the knowledge of their elders in the midst of a rapidly changing socioeconomic environment, but not always successfully. Several informants stated that traditional culture slowly is being transformed to a ‘souvenir’ culture as, for example, their costumes have become brighter than tradition requires.

## 6. Conclusion and policy implications

Benefit sharing occurs all over the world, in numerous industrial sectors [16]. Yet benefit sharing is especially important in Arctic and sub-Arctic regions because of the coincidence of vast concentrations of oil and mineral wealth, the significance of extractive industries, and the livelihood practices of indigenous people. These industries are likely to expand and be joined by new economic activities, such as shipping. Benefit sharing arrangements also are highly variable, yet key institutional actors such as the Arctic Council and its Sustainable Development Working Group have not yet issued guidelines on benefit sharing. How can the interests of both the extractive industries and indigenous communities in the Arctic be balanced through the implementation of benefit sharing policies? Research on this question is needed to provide indigenous communities with models of engagement as oil and gas development proceeds rapidly in the region.

Benefit sharing practices of consortium operators depend upon corporate policies and standards, as well as on the involvement of transnational investment banks and their vulnerability to social movement campaigns. We have shown that Sakhalin Energy, through loans and investments, was profoundly influenced by the global standards of international financial institutions related to the environment and indigenous people. In part, this is because Sakhalin Energy was the target of a multi-year transnational social movement campaign to raise awareness about environmental and social issues and to pressure both the consortium and its lenders [28,27]. Following the campaign, the consortium adopted global standards, including FPIC, and became subject to annual third party evaluations. The benefit sharing arrangement that evolved under these conditions was relatively complex and available to all districts populated by indigenous people. It included the participation of indigenous people in design of the benefit sharing arrangement through SIMDP, as well in distributing grant funding to community groups. While indigenous people were empowered through resources and through the design of SIMDPs, they were only lightly consulted on the broader operations of the company. The evidence suggests that Sakhalin Energy has done more to expand both procedural and distributional equity in its form of benefit-sharing with indigenous people. However, Sakhalin Energy’s effort to adopt a more equitable approach had unintended consequences, including higher levels of conflict around the distribution of money in local communities, as was described above. Exxon’s approach was less likely to lead to conflict.

ENL depended less on loans, was not significantly influenced by international financial institutions, and faced less social movement pressure. Instead it was influenced by ENL’s global policies, persistent state pressure, and the example of Sakhalin-2 partnership model. ENL’s benefit sharing is less complex, more flexible, and more limited, as its grant funding is available only to communities where drilling occurs. It has been somewhat less generous, but also less prone to conflict than benefit sharing by Sakhalin Energy. Until 2012, funding was determined in a bilateral relationship between the company and

<sup>30</sup> Activist, Nekrasovka, 18.08.2015

<sup>31</sup> Administration of the Sakhalin Indigenous Minorities of the Government of the Sakhalin Region, Yuzhno-Sakhalinsk, 09.2013.

<sup>32</sup> Sakhalin State University professor, head of social assessment group in “Sakhalin Energy”, Yuzhno-Sakhalinsk, 08.08.2015

<sup>33</sup> Head of the Center for the Preservation and Development of Traditional Culture “Kykh-Kykh” (The Swan), head of regional council on SIM of the Sakhalin region, the village of Nekrasovka, 10.08.2015

<sup>34</sup> Representative of the Regional Council of Authorised Representatives of the Sakhalin Indigenous Minorities, Poronaisk, 10.08.2015

<sup>35</sup> PR representative of ENL, the village of Nekrasovka, 10.08.2015

<sup>36</sup> PR representative of ENL, the village of Nekrasovka, 10.08.2015

<sup>37</sup> PR representative of ENL, the village of Nekrasovka, 10.08.2015

<sup>38</sup> Director of the community center of the village of Nekrasovka, 20.08.2015

<sup>39</sup> Director of the community center of the village of Nekrasovka, 20.08.2015

communities which then became tripartite under pressure from the state and indigenous people. The tripartite framework allowed for better coordination in the distribution of funds to indigenous people. Thus, we see that the ENL approach and its evolution over time were influenced by local factors, such as involvement of the state in tripartite partnership, to a larger extent than by global factors, such as international lenders transnational and activist campaigns. The GGNs of Sakhalin-1 and Sakhalin-2 differ in the dynamics of interaction both in transnational spaces and sites of implementation. Ultimately, the Green Wave campaign and its effect on Sakhalin Energy's corporate policies explains differences in the design and distribution of benefit sharing arrangements between Sakhalin-1 and Sakhalin-2.

Moreover, we see that transnational oil companies differ from Russian companies in their benefit sharing arrangements. This leads to the broader insight that benefit sharing arrangements depend on the path dependent evolution of past practices, which vary widely among TNCs of foreign origin and new TNCs of Russian origin. Within the Sakhalin consortia, Russian companies rely to a large extent on CSR programmes of consortium operators, on the one hand, while on the other hand they deliver benefits to the communities in ways that evolved from Soviet and post-Soviet practices in Russia in which economic enterprises focus on the construction of social infrastructure (houses of culture, sports facilities) and sponsorship of cultural and, most significantly, sports events. Contrary to foreign companies, they pay less attention to procedural equity, community participation and consultation, although indigenous informants express their desire to have similar partnership arrangements with Russian companies.

The case of benefit sharing on Sakhalin Island suggests several policy recommendations. The distribution of benefits from extractive industries needs to be guided by the principles of equity and social justice. Benefit sharing arrangements should evolve over time and need to take into account industry effects on communities during all phases of resource extraction as impacts vary during the phases of exploration, construction, production and transportations of

resources, with the construction phase often having the greatest direct effects. More broadly, benefit-sharing also needs to take into account unavoidable impacts on indigenous culture and subsistence lifestyles affected by the forced development in the region. Forums of negotiation that allow for communication between companies and indigenous people are crucial and provide venues for interactions to move from protest to negotiation. Ideally, benefit sharing should evolve from consultation to engagement with indigenous peoples so that communities are empowered to lay the foundation for their future economic development, thereby increasing procedural equity, in addition to the somewhat more straightforward task of providing greater distributional equity.

For scholars working on energy justice and indigenous rights, benefit sharing offers an important subject for further study. In examining benefit sharing, we should look well beyond how companies engage in simple compensation for loss of territory and livelihood to pay greater attention to how benefit sharing may address the more diffuse effects of energy development, including impacts on culture. To assess these effects and study the perceptions of indigenous community members and their visions of justice must be at the center of any research. By conceptualizing justice in a multifaceted way and looking beyond damages to think about possible benefits of energy development for indigenous communities, scholars can disaggregate resource transfer from participation and empowerment of indigenous communities.

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#### Annex

**Table 1**  
List of interviews.

Dates of travel	Place of interview	Professional affiliation	Position, date of the interview	Number of interviews
August 2015	Yuzno Sakhalinsk	Sakhalin State University, Sakhalin Energy, expert	Professor Head of social impact assessment team of Sakhalin 08.08.2015	1
August 2015	Village	Center for the preservation and development of traditional culture of indigenous peoples' Kyhkyh " ('Swan'). The Regional Board of Authorized representatives (Commissioners) of indigenous peoples of Sakhalin region.	Chairman 10.08.2015, 09.2013	2
August 2015	Nekrasovka			
August 2015	Village	"Exxon Neftegas Limited" Center for the preservation and development of traditional culture of indigenous peoples Kyhkyh " ("Swan")	Public relations representative for "Exxon Neftegas Limited" Kyhkyh staff person 10.08.2015, 09.2013	2
August 2015	Nekrasovka		Representative, 10.08.2015	1
August 2015	Poronaisk	The Regional Board of Authorized representatives (Commissioners) of indigenous peoples of Sakhalin region.	Director on public relations, 11.08.2015	1
August 2015	Yuzno Sakhalinsk	"Exxon Neftegas Limited"	Public Relations staff 11.08.2015, 09.2013	2
August 2015	Yuzno Sakhalinsk	State Department of Indigenous Minorities of the North	Vice chair, 11.08.2015, 09.2013	2
August 2015	Yuzno Sakhalinsk	«Sakhalin Energy»	Public Relations manager, 12.08.2015	1
August 2015	Yuzno Sakhalinsk	Rosprirodnazdor of Sakhalin oblast	Head, 13.08.2015	1
August 2015	Poronaisk	Council of Regional Representatives of indigenous people	member, 14.08.2015	1
August 2015	Okha	Okha city administration	Head, Specialist on public relations, 17.08.2015	1
August 2015	Okha	"Exxon Neftegas Limited"	Okha company representative, 17.08.2015	1
August 2015	Village		Local activist, 18.08.2015, 09.2013	2
August 2015	Nekrasovka		Local fishermen, 18.05.2015, 09.2013	2
August 2015	Nekrasovka	Local administration	Head, 18.05.2015	1
August 2015	Nekrasovka		Local resident, 19.08.2015	1
August 2015	Nekrasovka	Council of tribal enterprises	Head, 19.08.2015	1
August 2015	Nekrasovka		Local resident, 19.08.2015	1
August 2015	Nekrasovka	House of culture	Director, 20.08.2015	1
August 2015	Nekrasovka		Local resident, 20.08.2015	1
August 2015	Nekrasovka		Local resident, 21.08.2015	1
August 2015	Village Veni		Local resident, 21.08.2015	1
August 2015	Village Veni	"Exxon Neftegas Limited"	Vice president, transcript of the presentation at the conference "Indigenous people and industries: collaboration, perspectives, challenges" 10.2013.	1
October 2013	Moscow		Vice chair on public relations, transcript of the presentation at the conference "Indigenous people and industries: collaboration, perspectives, challenges" 10.2013.	1
October 2013	Moscow	«Sakhalin Energy»	Staff person, head 09.2013.	1
September 2013	Yuzno Sakhalinsk	«Sakhalin Environmental Watch»	Vice director, 09.2013.	1
September 2013	village Nogliki	Museum of natural history	Specialist in public relations and the Media 09.2013.	1
September 2013	village Nogliki	Nogliki public administration	Owner, 09.2013	1
September 2013	village Nogliki	Hotel Kuban	Head, 09.2013	1
September 2013	village Nogliki	Territorial tribal enterprise of indigenous people	Local activist, 09.2013	1
September 2013	Korsakov	Library	Director, 09.2013	1
September 2013	village Nogliki	«Sakhalin Energy», Also Regional Council of Authorized Representatives of indigenous people	Representative, 09.2013	1
September 2013	Yuzno Sakhalinsk		Начальник управления по связям с общественностью, 09.2013	1
September 2013	Yuzno Sakhalinsk	«Sakhalin Energy»		

(continued on next page)

Table 1 (continued)

Dates of travel	Place of interview	Professional affiliation	Position, date of the interview	Number of interviews
September 2013	Yuzno Sakhalinsk	«Sakhalin Energy»	Staff person, 09.2013	1
September 2013	Yuzno Sakhalinsk	Rosprirodnazdor	Head of the water department, 09.2013	1
September 2013	Village Nogliki	Rosprirodnazdor	staff, 09.2013	1
September 2013	Yuzno Sakhalinsk	Museum of Natural History	Director, 09.2013	1
September 2013	?			
September 2013	Yuzno Sakhalinsk	“Exxon Neftegaz Limited”	Representative, 09.2013	1
September 2013	Village Val	«Sakhalin Energy» Indigenous peoples Council	Specialist on public relations, member, 09.2013	1
October 2013	Moscow	Association of indigenous minorities on the North, Siberia and Far East	Vice president, 10.2013	1
September 2013	Yuzno-Sakhalinsk	Executive committee of Indigenous Minorities assistance plan, Sakhalin Energy	Member of the council 09.2013	1
September 2013	Village Val	Local administration	Member of the consultative committee on the side of indigenous peoples, 09.2013	1
September 2013	Village Val		Local resident, 09.2013	1
September 2013	Village Val	Local administration	Staff person, 09.2013	1
September 2013	Village Val	“Exxon Neftegaz Limited”	Specialist on public relations, Reindeer herder 09.2013	1
September 2013	Village	Civil chamber under the government of Sakhalin Oblast Rosneft Kich-kich	member, specialist of public relations at Rosneft local activist, 09.2013	1
September 2013	Nekrasovka			
September 2013	village Nogliki	Department on Social Affairs and indigenous issues at local administration	Staff person, 09.2013	1
September 2013	village Nogliki	Department on Social Affairs and indigenous issues at local administration	Staff person, 09.2013	1
September 2013	village Nogliki	Library	Methodology Department, 09.2013	1
September 2013	Yuzno Sakhalinsk	State Duma of Sakhalin oblast	Indigenous peoples' representative, 09.2013	1
September 2013	Village		Local resident, 09.2013	1
September 2013	Nekrasovka			
September 2013	Village		Local resident, 09.2013	1
September 2013	Nekrasovka			
September 2013	Okha		Local resident, 09.2013	1
September 2013	Village	School №4	Teacher, 09.2013	1
September 2013	Nekrasovka			
September 2013	Village	School №4	Vice director on child development, 09.2013	1
September 2013	Nekrasovka			



**Table 2**  
Comparison between the Sakhalin-1 and Sakhalin-2 projects.

Characteristics of consortiums	Sakhalin-1	Sakhalin-2
Operator	Exxon Neftegaz Limited	Sakhalin Energy
Shareholders	Exxon Mobil 30% Rosneft: RN <sup>1</sup> -Astra 8,5%, Sakhalinmorneftegas-Shelf 11,5%, SODECO 30%, ONGC Videsh Ltd 20% <sup>2</sup>	Gazprom – 50% plus 1 Royal Dutch Shell-27,5% (-1) Mitsui Co. Ltd, holding 12,5% Mitsubishi Corporation- 10% <sup>3</sup>
Oil fields	Chaevo, Odoptu, Arkutan Dag <sup>4</sup> .	Piltun-Astokhskoye (PA) oil field, Lunskeye gas field <sup>5</sup>
Global standards, adopted by operators	Exxon Mobil – Globally ISO-26000GRI-Global Reporting Initiative <sup>6</sup> ILO Convention 169 Concerning Indigenous and Tribal Peoples in Independent Countries  <ul style="list-style-type: none"> <li>United Nations Declaration on the Rights of Indigenous Peoples</li> <li>International Finance Corporation (IFC) Performance Standards on Environmental and Social Sustainability</li> <li>World Bank Operational Policy and Bank Procedure on Indigenous Peoples<sup>7</sup></li> </ul>	Adopted by Sakhalin Energy for implementation on Sakhalin ISO – 26000 <sup>8</sup> UN Global compact <sup>9</sup> , Sustainable Corporate Leadership Platform (LEAD) GRI and AA1000SES standards <sup>10</sup> ILO Convention 169 Concerning Indigenous and Tribal Peoples in Independent Countries  <ul style="list-style-type: none"> <li>United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP)</li> <li>International Finance Corporation (IFC) Performance Standards on Environmental and Social Sustainability</li> <li>World Bank Operational Policy and Bank Procedure on Indigenous Peoples</li> </ul> EBRD standards Free Prior and Informed Consent (FPIC) <sup>11</sup>
Benefit sharing: formal benefits	Taxes, PSA	Taxes, PSA
Benefit sharing: contributions for social courses	2002–2015–\$3 mln education, health, arts (300 social initiatives)	Social programs in the Sakhalin Oblast.
	2001–2012 – 11 mln for community projects: <sup>12</sup> health care (medical equipment to kindergartens), civic and arts (Okha Museum, Sakhalin chamber orchestra), employee volunteerism Education: Science, Technology, Engineering, and Math (STEM) <sup>13</sup> \$14, 7 mln 2012–2014) <sup>14</sup>	Around \$60000 in 2015 Fund for social initiatives “Energiya”-to NGO “Korsakov Sustainable Development Partnership Council”- grant program “What to do in emergency situations” “Charitable initiatives of employees <sup>15</sup> ”
Benefit sharing: indigenous people	2002–2015–approximately \$2 million-400 projects of indigenous people <sup>16</sup>	2006–2010 Indigenous minorities development plan (SIMDP-1) (\$300000 annually) 2011–2015 SIMDP-2(\$312000 annually) 2016–2020 2010 SIMDP-3 (\$320000 annually) <sup>17</sup>
Tri-partite partnership governance	Advisory committee with representative of the company, indigenous people and government	Governing Board (Company, State, Indigenous) Executive board (Company, Spate, Indigenous) Social Development Fund (SDF)-indigenous Traditional Activities support program(TASP)-indigenous District Committees-2 indigenous + 1 appointed by the Mayor <sup>18</sup>
Benefit sharing: tri-partite partnership grants to indigenous peoples	To organizations: projects for preserving culture, traditions, languages (2002–2015–\$2mln US) <sup>19</sup> Education, health, arts, sports (2002–2015—around \$3 mln US) <sup>20</sup>	SDF-capacity building, health, education, culture, sports TASP-capacity building, self-sufficiency grants, business planning, micro-loans <sup>21</sup>
Distribution	To organizations in places of operation of the company	To all indigenous districts of Sakhalin Island To both organizations and kindships-for traditional activities Equally to SDP and TASP
Community engagement	Network of public relations coordinators (liaison people), working in Okha, Nekrasovka village, Val village, Community of Nogliki, and Sakhalin Oblast <sup>22</sup> Meaningful consultations <sup>23</sup>	Information centres in libraries in the villages along the pipeline Community liaison organization (two people on staff) <sup>24</sup> Meaningful consultations

<sup>1</sup> Rosneft.

<sup>2</sup> Website of the Sakhalin-1 project, [http://www.sakhalin-1.com/Sakhalin/Russia-English/Upstream/about\\_consortium.aspx](http://www.sakhalin-1.com/Sakhalin/Russia-English/Upstream/about_consortium.aspx), (accessed 8.11.16).

<sup>3</sup> Website of the of Sakhalin Energy, <http://www.sakhalinenergy.ru/en/company/overview.wbp>, (accessed 08.11.16).

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<sup>5</sup> Website of the of Sakhalin Energy, <http://www.sakhalinenergy.ru/en/company/overview.wbp>, (accessed 08.11. 16).

<sup>6</sup> Exxon Mobil citizenship report, 2015, <http://corporate.exxonmobil.com/en/community/corporate-citizenship-report/charts/2015-ipieca-gri-content-index?parentId=c1f2fc43-1c09-4c34-8d85-227a1f30b773>, (accessed 03.11.16).

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<sup>8</sup> [http://www.sakhalinenergy.ru/en/social\\_responsibility/sustainable\\_development.wbp](http://www.sakhalinenergy.ru/en/social_responsibility/sustainable_development.wbp), (accessed 08.11.16).

<sup>9</sup> Website of the of Sakhalin Energy [http://www.sakhalinenergy.ru/media/user/article/SD\\_Policy.pdf](http://www.sakhalinenergy.ru/media/user/article/SD_Policy.pdf). (accessed 08.11.16).

<sup>10</sup> Website of the of Sakhalin Energy [http://www.sakhalinenergy.ru/en/social\\_responsibility/international\\_programs.wbp](http://www.sakhalinenergy.ru/en/social_responsibility/international_programs.wbp), (accessed 08.11.16).

<sup>11</sup> Indigenous Minorities Development Plan (SIMDP-3), 2016, p78-82, [http://simdp.com/uploads/files/SIMDP2016\\_ENG.pdf](http://simdp.com/uploads/files/SIMDP2016_ENG.pdf) accessed (accessed 08.11.16).

<sup>12</sup> Corporate citizenship report 2012, p. 57, [http://cdn.exxonmobil.com/~media/Global/Files/Corporate-Citizenship-Report/news\\_pub\\_ccr2012.pdf](http://cdn.exxonmobil.com/~media/Global/Files/Corporate-Citizenship-Report/news_pub_ccr2012.pdf), (accessed 08.11.16).

<sup>13</sup> Corporate citizenship report, 2015, p. 65, [http://cdn.exxonmobil.com/~media/global/files/corporate-citizenship-report/2015\\_corporate\\_citizenship\\_report\\_full\\_approved-pdf.pdf](http://cdn.exxonmobil.com/~media/global/files/corporate-citizenship-report/2015_corporate_citizenship_report_full_approved-pdf.pdf), (accessed 22.09.16).

<sup>14</sup> Website of Sakhalin-1 project, [http://www.sakhalin-1.com/Sakhalin/Russia-English/Upstream/community\\_contributions.aspx](http://www.sakhalin-1.com/Sakhalin/Russia-English/Upstream/community_contributions.aspx), (accessed 08.11.16).

<sup>15</sup> Website of Sakhalin Energy, [http://www.sakhalinenergy.ru/en/social\\_responsibility/social\\_programs/social\\_prog.wbp](http://www.sakhalinenergy.ru/en/social_responsibility/social_programs/social_prog.wbp), (accessed 08.11.16).

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<sup>17</sup> Sakhalin Indigenous minorities development plan, five year SIMDP3 (2016–2020), [http://simdp.com/uploads/files/SIMDP2016\\_ENG.pdf](http://simdp.com/uploads/files/SIMDP2016_ENG.pdf), (accessed 22.09.16).

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<sup>20</sup> Website of Sakhalin-1 project, [http://www.sakhalin-1.com/Sakhalin/Russia-English/Upstream/community\\_contributions.aspx](http://www.sakhalin-1.com/Sakhalin/Russia-English/Upstream/community_contributions.aspx), (accessed 08.11.16).

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<sup>23</sup> See detailed description of the concept at [49].

<sup>24</sup> Website of Sakhalin Energy project, [http://www.sakhalinenergy.ru/en/social\\_responsibility/pr.wbp](http://www.sakhalinenergy.ru/en/social_responsibility/pr.wbp), (accessed 08.11.16).

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