

Participation in Benefit-Sharing Arrangements in the Komi Republic

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Abstract

The oil industry is vital for the economy of the Komi Republic in Russia. It also benefits the municipalities near oil production sites in terms of benefit-sharing agreements between oil companies and local authorities. These agreements compose an important part of the corporate social responsibility (CSR) of oil companies working in the Komi Republic, and in Russia in general. While this financial support is essential for local communities, local people also primarily bear the negative environmental impacts of oil operations. Yet, they rarely have a chance to participate either in environmental decision-making or in formulating benefit-sharing agreements. This paper discusses why this is problematic, and demonstrates new developments in Russian CSR practices: in 2015, the oil company Lukoil-Komi concluded a new type of benefit-sharing agreement with the indigenous peoples' association Izvatas. In addition to traditional social benefits, the company agreed to consult the communities on new projects and committed to disclose information about oil leaks publicly. This more recent type of benefit-sharing arrangement incorporates elements of local participation in environmental issues into the prevailing form of philanthropic and paternalistic CSR practices.

Izhemskii District

The local economy of Izhemskii district and other oil-producing areas in the Komi Republic depend on extractive industries. As an unfortunate side-effect, the district has long suffered from oil leaks and the resulting negative environmental impacts. Old and rusty pipelines and wells continuously cause new oil leaks and are the major factor leading to the destruction of the vulnerable ecosystems in the Komi Republic. Some of the oil pipelines have not been replaced since the Soviet era (Wilson 2015, Pierk & Tysiachniouk 2016, Britcyna et al. forthcoming).

Our case study area, Izhemskii district, is in the northern part of the Komi Republic. The local population consists predominantly of the Komi-Izhemtsi, a part of whom still practice reindeer herding and fishing, and have their own distinct dialect and culture. They are a subgroup of Komis, and have tried to obtain official status from the Russian Federation as an indigenous people—as descendants of reindeer herders, who partly still engage in their traditional way of life—but without success (Pierk & Tysiachniouk 2016).

The oil companies in the region have their corporate social responsibility policies and practices, yet the local people do not seem to be satisfied with them, and conflicts keep arising due to environmental problems. The relationship between oil companies and local communities dates back to the Soviet regime, when enterprises were state units and, as such, provided social services (Kortelainen & Nysten-Haarala 2009). Nowadays, the companies are continuing some of these practices in the form of benefit-sharing agreements, which are an important part of CSR practices among the Russian oil companies (Henry et al 2016).

In our paper, we examine how Russian environmental impact assessment (EIA) legislation and CRS practices support citizen participation and environmental responsibility, which have become an important part of CSR globally. In our case study we combined the methods of legal studies and sociology. We studied how legislation is being implemented in localities and what measures oil enterprises take to either enhance or hinder the participation of local people in decision-making processes. The case study highlights how interaction among different stakeholders functions in a Russian locality (Britcyna et al. forthcoming). In 2015, we made two field trips, one to Izhemskii district to interview the representatives of local governments and oil companies, as well as activists, and another one to Moscow to interview representatives of companies. In total, we conducted 42 semi-structural interviews.

Several oil companies operate in the Republic of Komi, among them are LUKOIL-Komi (hereinafter Lukoil-Komi), Rosneft, Kolvanef, Yenisei, Pechoraneftegaz, and Neftus. We focus on the relations between Lukoil-Komi and local communities, because Lukoil-Komi is the largest oil producer of the Northwest Russia, with more than 60 oil fields in the Komi Republic and Nenets Autonomous Area (Lukoil 2015).

Local People and their Relationship with the Company in Izhma

Local residents feel the effects of oil extraction, leading many to criticize the current practices of oil companies. The communities complain about polluted lakes and rivers with poisoned fish, and report that swamps, reindeer pastures and forest areas are contaminated with oil

mud. Contamination of the environment leads to the degradation of the traditional way of life for the locals.¹

Dead reindeer and poisoned berries and mushrooms in the forests and swamps have increased tensions among the locals, sparking numerous protests and demonstrations by local people in the Izhemskii district.² It does not help that according to Russian law, local people have few chances to participate in decision-making concerning their environment (Britcyna et al. forthcoming).

In fact, local people feel they have no voice in environmental matters³. For example, oil companies and the authorities have concealed information on oil spills and the only case when Russian legislation guarantees the local people the right to be heard before permission to drill oil is given is when an environmental impact assessment (EIA) is being organized. In practice, currently EIAs are conducted only for a small number of large projects and typically the information relating to new projects arrives after decisions concerning the project have already been made. Oil exploration work, for example, does not require an EIA. As a consequence, unexpected exploration near villages has given rise to conflicts between locals and oil companies when locals were not informed about the forthcoming exploration work beforehand. So far Lukoil-Komi does not typically voluntarily inform local people before launching exploratory work (Britcyna et al. forthcoming).

Even the local voluntary public hearings organized in connection with an EIA have become scenes of mistrust and power struggle instead of constructive dialogue. Local people try to “fail” the hearings by declaring them invalid, and the oil company tries to shape the result of the public hearings by bringing their own employees to them.⁴

In our interviews, it became clear that above all people want a clean environment where they and their children can live safely and sustain traditional livelihoods. They do not wish the oil industry to leave the area, but they want it to operate in a more responsible way. In addition to environmental responsibility, the economic support that oil companies give to municipalities and to the region is also considered important and even a self-evident part of corporate social responsibility.

In addition to spontaneous local protests, two environmental non-governmental organizations “Save Pechora Committee”⁵ and the Komi-Izhemtsis’ “Izva-

tas”⁶ have been defending the environment and local people for years. They have also been seeking the support of international NGOs to raise their voice and deliver their case to a larger audience to strengthen the pressure on the oil industry.

Benefit-Sharing Agreements

The provision of social services by local companies has a long tradition in Russia going back to the Soviet era. Thus, considering social aspects as a part of CSR is not a novel approach for decision-makers in Russian oil companies (Kortelainen & Nysten-Haarala 2009). The focus on environmental aspects and public hearings were also achievements of the environmental movement in the Soviet Union and not new for Russian oil companies (Henry 2009), although the role of hearings has been diminished in Russian EIA legislation during the 2000s. Global demands for CSR practices have, however, now placed both the environmental aspects and participatory rights of local people onto the agenda of Russian companies’ CSR policies. In Russia this has been most evident in the forest sector, where international forest certification schemes have significantly affected Russian forestry (e.g. Tysiachniouk 2012). Also Russian oil companies have faced these global demands when they, for example, have borrowed money from international financial corporations.

Lukoil-Komi has partly adapted to these global developments and now publishes sustainability reports in Russian and English and is committed to several environmental and social standards, as for instance, to the environmental management system ISO 14001 and the UN Global Compact principles (Lukoil 2017). It, however, does not seem that these standards are actively being implemented on the ground (Henry et al 2016).

Lukoil-Komi concludes benefit sharing agreements normally at two levels. The first level comprises the agreements between the company and the government of the Komi Republic. These agreements are signed every four years and aimed at the development of the region. The second level includes the agreements with municipalities. Municipalities gather information from the communities about the most pressing issues and give this information to Lukoil-Komi. The company considers the preliminary plan and sends it to the Lukoil main headquarters, where the final decision about financial support is made.⁷

1 Activists in focus group discussion, Izhma 22 February 2015.

2 Interviews of activists of Save Pechora Committee and Izvatas in Izhma 20 February 2015.

3 *ibid.*

4 Interview of local activists in Izhma, 20 February 2015.

5 An NGO working in the Basin of the Pechora River (Komi Republic) and dealing with environmental and social problems,

<http://savepechora.ru>

6 An NGO that advocates for the rights of the Izhma Komi.

7 Interview of Lukoil manager in Moscow, April 2015; Interview with municipal representative in Izhma February 2015.

For example, in 2017, Lukoil-Komi concluded agreements with seven municipal units, including Izhemskii district. According to the agreement, Lukoil-Komi provides 25 million rubles (about 380,000 euros) to Izhemskii district for such things as the renovation of a sports hall, a museum and a hospital canteen and purchase of a first aid vehicle for the hospital and a bus for the children's activity center.⁸

The decision-making leaves very little room for the local people to express their opinion on the content of the CSR policies. The company negotiates with regional and municipal leaders, who sign the contracts. Democratic decision-making on the development of the infrastructure in the municipal organs does not play a decisive role, but the choices are handed over to the oil companies as the financiers of the development. During our field trips, we have observed that the stakeholder dialogue has not been efficient. Also, the agreements are not freely available. Some interviewees complain that they have not received information about how the financial support from Lukoil-Komi is going to be used. In addition to the lack of transparency, these agreements do not seem to include any provisions concerning environmental issues or compensations for environmental damages. Sufficient information on the amount of oil spills and replaced pipelines in the Komi Republic is not currently available.

However, in April 2015, Lukoil-Komi concluded an agreement for a period of one year with Izvatas, the association of the Komi-Izhemtsi.⁹ In this agreement, for the first time in Komi, environmental problems were at the top of the agenda. For example, the company agreed to consult with the Izvatas before starting any new operations in the area and to publish timely information about oil leaks.¹⁰

By entering the agreement, the oil company aimed to improve its stakeholder relations by including provisions about environmental issues and by publishing the monetary value of the agreements online. The company, as well as the Chairman of the Izvatas consider this benefit-sharing agreement as a step forward for taking into consideration the interests of the local community that is suffering from the ecological situation.¹¹ However, the reason to enter this agreement, according to other

activists,¹² was obviously to silence the loud demands of the local protest movement, which were beginning to have a negative impact on the reputation of the company. Incorporating promises to be heard in a traditional benefit-sharing agreement can thus be seen in the light of this background.

Conclusions

The tensions between the extractive industrial operators and the local communities living in the areas where the extraction activities take place never go away. Benefit-sharing agreements between the company and municipal and regional leaders have traditionally been the only tools in building acceptance among local residents for the operations of the oil companies. This system is a paternalistic way of practicing CSR and does not support local democratic decision-making; in some cases, it even conceals corruption. Such agreements can also be seen as a way to buy off the locals with social benefits in exchange for them accepting environmental degradation.¹³ Both the making and the content of these agreements conflict with how both locals and other observers typically view CSR. Even if Russian EIA legislation and its current implementation does not actively support it, we recommend increasing transparency, participation, and environmental responsibility in benefit sharing agreements and other oil company policies. By diminishing conflicts in this area, such practices—if also implemented for the benefit of the environment—may serve as a positive example for future oil company benefit sharing agreements.

We conclude that, based on our research, oil companies should proceed to publish the signed agreements. Additionally, in the process of negotiations, oil companies should consider a wider range of stakeholder dialogue, by looking beyond the municipal leaders and listening to the social and environmental concerns of local people as well. However, environmental legislation should be developed to include exhaustive participatory rights and implemented on the ground with an eye to guaranteeing that every citizen can exercise his or her equal participatory rights, and thereby develop trust in formal institutions and enhance democracy.

For information about the authors, references and acknowledgement see overleaf.

8 "A new agreement is signed between Lukoil-Komi and Izhemskii district," accessed 27.01.2017 <<http://www.izhma.ru/ru/news/1704/>>

9 "From 'cold war' to a dialog: the transformation of the relations of oil industry workers and Izhma Komi," accessed February 12, 2017, <<http://finugor.ru/node/48453>>

10 "Meaningful dialog between Komi-Izhemtsi and Lukoil," accessed November 12, 2016, <<http://finugor.ru/kv/node/48595>>

11 Ibid.

12 Interview of activist of Save Pechora Committee, January 2016.

13 The same mechanism is described in Linda Cook's *Soviet Social Contract* (Cook 1993).

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