



## CORPORATE SOCIAL RESPONSIBILITY

### ■ EDITORIAL

Introduction to the Issue

Policy Recommendations for Corporate Social Responsibility for Arctic Petroleum 2

### ■ ANALYSIS

Petroleum CSR in Russia: Affordable Luxury or Basic Necessity? 3  
By Nina Poussenkova and Elena Nikitina, Moscow

### ■ ANALYSIS

Perceptions of Petroleum-Related CSR in the Russian Arctic 8  
By Julia S. P. Loe and Elana Wilson Rowe, Oslo

### ■ ANALYSIS

Partnership or Dependency? 12  
Local Perceptions of the Petroleum Industry Ripple Effect in the Komi Republic  
By Emma Wilson, London, and Daniel Fjaertoft, Oslo

## Introduction to the Issue Policy Recommendations for Corporate Social Responsibility for Arctic Petroleum

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Players involved in petroleum exploration and extraction frequently propose corporate social responsibility (CSR), while those who oppose such activities critique CSR with equal vigor. A common understanding of CSR's theoretical and practical meanings rarely exists—and perhaps could not and should not exist. Using Arctic petroleum in Norway and Russia, the research reported in this issue identifies and analyzes similarities and differences in CSR perspectives and perceptions.

The articles included here cover the field work in four case studies where semi-structured interviews were conducted: Hammerfest, Murmansk, Komi Republic, and Nenets Autonomous Okrug (NAO). Interviewees included the local population, regional and local authorities, NGOs, and petroleum company representatives. Additionally, an input-output model of economic analysis was developed to determine how much petroleum contributes to the economy in the Komi Republic. The results were compared with Norway in order to investigate the petroleum industry's capacity to drive regional growth in Russia and Norway.

The field work and economic analyses reported in the other articles provide the basis for a set of policy lessons which are summarized here. These lessons apply to all players involved in petroleum-related CSR, including companies, governments, non-governmental organizations, and citizens—whether inside or outside the communities involved.

A first step is to ensure that definitions used for CSR and related terms are clear. Mismatches can occur through both language and culture. With regard to language, the phrase CSR emerges from English and generally from a Western, academic context. While the phrase is translated into, and used in, other languages, including Norwegian and Russian, the understanding is not as straightforward as in English.

Culturally, even when speaking the same language and using the same words, different meanings emerge. Interpretations of CSR can range from support-

ing a company's employees to being environmentally friendly to providing sports and entertainment facilities for the entire community. Understandings frequently differ regarding how to consult a community and what to do with the consultation results.

If CSR is about working with people and communities to determine and respond to their needs, then consultation can be particularly tricky. No community is homogenous and many researchers and policy makers even suggest that the concept of "community" is too abstract and nebulous to be of practical use. Individuals differ, meaning that their needs, interests, and modes of expression differ.

Dealing with only leaders, elected or otherwise, cannot suffice to understand any group of people. Often, those making the decisions or negotiating on behalf of the "community" regarding collaboration with petroleum companies reap the most benefits, but they are not the ones most negatively affected by the consequences of the decisions or by the petroleum-related activities.

One overall lesson from the case studies is that divisions identified amongst views in the community did not follow stereotypical lines. Splits were not observed along for-profit/NGO or indigenous/non-indigenous lines. Instead, at community and individual levels, those inside the sector tended to be more positive about petroleum-related CSR than those outside the sector.

At times, being an "insider" meant being closer to the center of wealth and farther from the industrial sites, rather than necessarily working for the sector. But where personal benefits were perceived to emerge from petroleum, especially related to CSR (or simply standard company operations), then people tended to be more favorable towards petroleum exploration and extraction.

Consequently, to understand local contexts and differences amongst and within groups, people need to be consulted and engaged on their own territory in their own ways. Holding an open meeting in the capital is useful, but is only a partial step. Not everyone has the time or ability to attend—nor might everyone wish to

be publicly open about their questions and concerns. Community consultation also means heading out into the villages and countryside to see how people live, what they need, and what they can contribute; learning from them on their own terms. A “one size fits all” approach to consulting about CSR, or for implementing CSR, cannot give a full or accurate picture.

Instead, CSR should not stand isolated from other livelihoods and development activities. The social and political contexts in which a company operates, and the varying contexts for different community sectors, need to be understood by governments, companies, and non-governmental organizations. CSR goals would need to be lucidly strategized, articulated, and communicated as part of a conversation and dialogue, not as a one-way provision of information to those who turn up. Listening and responding is as important as presenting and responding.

This situation does not mean that all individuals and community sectors are entirely correct in their views or must be completely obeyed. In the same way that self-critique and self-reflection should be part of conducting CSR, critiquing and reflecting on what people in the community divulge are important activities. Perceptions can diverge due to differential access to different information—as well as due to varying impacts of petroleum-related work. People have personal and collective agendas which they have a right and duty to promote.

No knowledge form or source is a panacea. No single individual or entity necessarily has all the right answers. Working with communities regarding petroleum-related CSR means creating a partnership, seeking a representative sample for consultation, and being flexible about the meanings and practicalities of CSR.

## ANALYSIS

### Petroleum CSR in Russia: Affordable Luxury or Basic Necessity?

By Nina Poussenkova and Elena Nikitina, Moscow

#### Abstract:

Petroleum CSR in Russia is particularly important in remote Northern regions with harsh climate, and it has specific national characteristics that result from historic, economic, political and psychological factors. Soviet social responsibility in the oil and gas industry was born in West Siberia where major oil fields were discovered in the 1960s, and tens of thousands of workers from the “mainland” arrived in a sparsely-inhabited land with adverse natural conditions. Siberian oil production associations had to become the “founding fathers” of oil towns and ensure acceptable living standards for their employees, so that they would meet challenging crude production plans. This all-encompassing social responsibility was the consequence of mismanagement and dysfunctions within the Soviet system, a low level of automation and poor productivity in the oil industry, and the harsh climate of West Siberia. During the 1990s, most vertically-integrated oil companies divested their non-core social assets, passing them to municipalities, and their social responsibility began to resemble the CSR of International Oil Companies. Now, all Russian petroleum companies proclaim firm commitment to CSR in accordance with globally-recognized principles. However, a survey of CSR perceptions among MBA students from the main oil and gas companies show that their views are a combination of the Soviet legacy, recollections of the roaring 1990s, the current situational context, and Western attitudes that were transplanted into Russia.

#### Understanding Expectations

With the oil and gas industry of Russia moving further North and East, to uninhabited regions with harsh climate, “petroleum” corporate social responsibility is becoming increasingly important. In general, the concept of corporate social responsibility (CSR) remains rather vague, and views on its essence range

from “A company’s business is business” of Milton Friedman to “Doing well by doing good” ascribed to Benjamin Franklin. CSR perceptions across countries are largely determined by national context—history, traditions, socio-economic development, and even public mentality. Also, different companies focus on different aspects of CSR in their sustainability strategies.

Therefore, the project “Sustainability and petroleum extraction: Corporate and community perspectives in Northern Norway and the Russian Arctic” can add real value, since it is important for foreign petroleum companies, including the Norwegian Statoil, to understand what the Russian authorities and population expect from them in terms of social and environmental actions. In their turn, Russian companies, such as Rosneft and LUKOIL which are expanding their presence in Norway, should be aware of the Norwegian perceptions of CSR.

### Past Realities

Interestingly, some respondents to our surveys spoke nostalgically about “Soviet social responsibility”. To understand this phenomenon, one should recall the history of the Soviet oil industry. It was born before the 1917 revolution in Azerbaijan and the North Caucasus: territories with mild climate and relatively well-developed social infrastructure. After WWII, the activities moved to the Volga-Urals region, where living conditions were quite adequate and the economy was reasonably well-diversified, so there was no particular need for a special “petroleum” social responsibility.

But then, in the early 1960s, the industry shifted to West Siberia, where huge oil fields were discovered. It is a sparsely-populated region with extremely severe climate (temperatures range from  $-50^{\circ}\text{C}$  in winter to  $+40^{\circ}\text{C}$  in summer), covered with swamps, and plagued by myriad mosquitoes. Overnight, tens of thousands of workers “from the mainland” arrived to prospect and produce the “black gold” in an area with no roads and just a few wooden houses, in typical Soviet gross mismanagement and disregard for people.

As Thane Gustafson has pointed out, energy decision-making in the USSR was unbalanced. “Hydrocarbons have been excessively favored over coal and nuclear power, Tyumen’s province over the rest of Siberia, development over exploration, field operations over industrial support, short-term output over sound infrastructural development (such as housing and roads), and autarky over interdependence—in short, there has been a chronic favoring of the near-term over the long, the safe over the risky, and narrow objectives over the broad ones”<sup>1</sup>.

Thus, in 1964, Surgut, a town with the population of 5,000 people, had only seven enterprises. By 1965, there were over 60 new enterprises, and their employees had to be somehow housed and fed<sup>2</sup>. The regional

party committee tried to cope with these problems, but its capacities were simply not enough. So, oil production associations (PA) came to the rescue—they needed capable workers to fulfill challenging oil production plans.

Moscow planners pushed the oil ministry toward inexorably higher output levels, and they were not particularly concerned how the West Siberian oilmen reached the targets. Given insufficient automation and poor labor productivity, Siberian PAs had to attract large quantities of manpower. Consequently, the oil and gas ministry used two methods: either housing workers in permanent base towns in the region and sending them on temporary duty to the fields or flying in workers from outside Siberia on a two-week rotation. However, the fly-in system was hard on the oilmen and detrimental for efficiency.

Many new arrivals were lured to West Siberia by money and/or the chance for career advancement. Indeed, oilmen’s salaries were adjusted by a regional coefficient of 1.7, and the so-called Northern coefficient.

But financial incentives alone were not enough to make oilmen stay in West Siberia. The main reasons for high personnel turnover were bad living conditions: initially, workers often lived in tents in winter where water froze in glasses. So, oil PAs had to rapidly erect wooden barracks or convert storage facilities... Interestingly, geophysicists, rather than construction workers, built the first two panel 5-storey houses in Surgut in 1965–1966.

In addition to housing, oilmen had to build cinemas and recreation centers because the young workers had nothing to do in their free time and soon conflicts began in West Siberia. In 1967, Glavtyumenneftegas began to construct two major rest and recreation centers for Siberian oilmen in the Tuapse region on the Black Sea.

Lev Tchurilov, the last USSR Minister of the Oil and Gas Industry, describes how social problems were resolved at the start of oil production in West Siberia in his book “Lifeblood of Empire. A Personal History of the Rise and Fall of the Soviet Oil Industry”<sup>3</sup>. When he was appointed director of the Nefteyugansk Oil Production Unit, there was only one small bakery (built by geologists) in the town of Nefteyugansk. However, its capacity was absolutely insufficient for the rapidly growing population of oilmen. They ordered a couple of mobile military ovens that were regularly breaking down. One unlucky day both of them broke down, and the town was left without bread. Oilmen began to hurriedly build a new powerful bakery for their own needs—and meanwhile bread was flown to the town from Surgut, Nizhnevartovsk and Khanty-Mansiisk.

1 Thane Gustafson. *Crisis Amid Plenty*, Princeton University Press, 1989, pp. 58–59.

2 Oil Epopee of West Siberia. Ed. By M.Krol, Moscow, Publishing House Neftyanik, 1995, p. 33.

3 Lev Tchourilov with Isabel Gorst and Nina Poussenkova. *PIW Publications*, 1996.

Moreover, given the total shortage of consumer goods in the USSR, the simplest task turned into a “mission impossible”, and oilmen relied only on their ingenuity. Lev Tchourilov recalls that TV antennas were installed in Surgut in 1967, but Nefteyugansk was located too far away, and the quality of TV transmission left much to be desired. Armed with a sack of delicious Siberian smoked fish, oilmen went to Riga where a major electronic plant was based. There, fish was swapped for a powerful antenna that they installed on an old drilling rig—and the TV began to function properly in Nefteyugansk.

In December 1969, the decree of the CPSU Central Committee and the Council of Ministers “On Measures Aimed at Accelerated Development of the Oil Industry in West Siberia” was adopted. It envisaged, among other things, large-scale construction of the oil towns. But even 15 years later, in 1985, the availability of housing in the West Siberian petroleum sector was just 66% of the Russian average. The availability of schools was 79%, child-care facilities—44%, hospitals and polyclinics—55% of the norm<sup>4</sup>.

Yet, if state-of-the-art technologies were used and labor productivity improved, the number of workers in the Siberian oil industry could be reduced, as well as the resulting social expenditures. Instead, the oil sector was forced to build permanent towns in the extreme North. These settlements grew far faster than planned, as new workers were brought in to compensate for shortfall in other inputs. In the early 1980s the population of the Tyumen province grew twice as fast as projected: the net increase was nearly 750,000 people, instead of the 370,000 originally planned. Much of the housing problem, therefore, was a symptom rather than a cause<sup>5</sup>.

Therefore, oil companies had to maintain non-core social assets (schools, bath-houses, cow-breeding farms, etc.): everything they needed to make life reasonably adequate for their workers. These non-core social activities took up much of their time and energy, sometimes interfering with their key job.

Thus, the 1985 oil production plan was fulfilled only by 94%, and the shortfall was mainly in West Siberia. The CPSU and the relevant ministries identified the principle reasons of this failure as follows: insufficient focus on supplying workers with housing and social and cultural infrastructure, low rates of new field development, shortage of modern equipment, etc<sup>6</sup>.

Therefore, the much admired Soviet “petroleum” social responsibility resulted from a number of factors:

the harsh West-Siberian climate; mismanagement and dysfunction in organization of oil production; low labor productivity and insufficient level of mechanization. And heads of oil PAs had to heroically cope with adverse natural conditions, challenging crude production plans, pressure and interference from Moscow, and, in addition, had to be “founding fathers” of oil towns. Regrettably, the petrodollars that the USSR earned from exports of hydrocarbons produced with such hardships were not used to raise the living standards of the people.

During the 1990s, when market reforms began in Russia, and PAs were corporatized and privatized, transforming into vertically-integrated oil companies, many of them divested of their social assets in order to raise operating efficiency and transferred them to the local municipalities. Still, it remains an open question whether their efficiency improved due to this divestment, and whether the quality of social services provided by the municipalities to the residents remained adequate.

In general, the 1990s were the period of economic, social and political upheavals in Russia, low oil prices, crude production decline, galloping inflation and rampant non-payments. Oil companies were forced to reduce investments, shut down wells and delay payment of salaries. In response, oilmen went on strike under a popular slogan “Hungry oilman—a shame to Russia”. In Autumn 1993 a strike of some 7,000 oilmen began because they had not received salaries for over six months<sup>7</sup>. Clearly, CSR issues were not the top priority in such conditions.

However, even in these troubled days, some oil companies were globalizing, hiring foreign advisors, establishing alliances with international partners, entering world capital markets, and learning the internationally-accepted rules of the game, including in the CSR sphere.

### Present Myths

In the 2000s, life in Russia was stabilizing, oil prices were rising, crude production was increasing, and CSR and sustainability became an affordable luxury. Two new petroleum provinces were launched—Timano-Pechora and East Siberia—but they are much smaller than West Siberia, and require considerably less “imported” manpower. Oil companies now do not have to provide such comprehensive social packages to their employees as they did in the Soviet past, but their policy now embraces new stakeholders, e.g. indigenous people. So their “sotzialnaya otvetstvennost” became closer to the CSR practiced by their Western counterparts.

All petroleum companies in Russia proclaim their firm commitment to CSR issues. Rosneft, for example, says that it “adheres to the policy of high social respon-

<sup>4</sup> Oil Epopee of West Siberia, p.277.

<sup>5</sup> Thane Gustafson, p. 116.

<sup>6</sup> Vagit Alekperov, *Oil of Russia: Past, Present and Future*, Moscow, Creative Economy, 2011, pp. 333–334.

<sup>7</sup> Kommersant, 25.11.1993.

sibility towards its employees, their family members, population of the regions where it operates, and society as a whole... the company is interested in having its employees and their families living in modern comfortable towns and settlements, them being provided with adequate communal services, proper medical treatment, opportunities for sports activities, interesting recreation, good schools for their children. It is particularly important in remote regions with extreme climate”<sup>8</sup>. Rosneft publishes annual glossy sustainability reports with due account for requirements of the Global Reporting Initiative: international influence is quite strong in Rosneft (four out of nine directors are foreigners, as well as three out of eleven members of the Managing Board).

However, presumably PR professionals write these reports. Meanwhile, it is important to understand what the average employees of petroleum companies, who work in the fields and actually implement the CSR policy, think about it. We compiled a questionnaire on elements of CSR, and intentionally introduced several positions that, presumably, do not constitute CSR as such, but can be classified as “good management practices”. We made a survey among 5 MBA groups (total of 73 students) during our lectures at the Gubkin Oil and Gas Academy, MGIMO and the Institute of Oil and Gas Business. Students were asked to fill in the questionnaire (they could tick off more than one box) and provide their own definition of CSR. Since the respondents were well-educated mid-level managers, from Gazprom, Rosneft, LUKOIL, Surgutneftegas, Gazpromneft, Tatneft, Transneft, and service companies, they were an ideal sample.

Their answers concerning elements of CSR provided certain surprises. Two most popular answers, probably, can be termed as “good management practices”, rather than CSR per se. No less surprisingly, support of sports in the regions of the company operations was only marginally less popular than environmentally sound activities (despite the claim of all petroleum companies that environment protection is their top priority).

Another surprise was that climate change impacts, a hot subject in governmental policy and public debate (and PR publications of Russian companies), was one of the least popular answers, in stark contrast to international practices (see Table 1 on p. 7).

Definitions of CSR given by the MBA students were rather general. Still, some answers indicate that the Russian oilmen believe in “doing well by doing good”. They

state that CSR means “Increasing the company’s competitiveness by being a socially responsible citizen” and that “A profitable and successful company can afford to take care of people and the environment”.

However, some definitions are very indicative of the Russian specifics. Many students said that “Actually, practically all the elements outlined in the questionnaire are envisaged by the effective federal and regional legislation. So, CSR means a strict adherence to the law”. Other respondents commented that the extent of CSR activities was determined by the licensing agreement between the company and the authorities. However, Western companies in their CSR efforts voluntarily go beyond what is prescribed by the effective legislation. Besides, the strictness of Russian laws is compensated by the fact that it is not necessary to fully observe them.

Another popular answer was: “Honestly paying taxes so that the regional and local authorities can take care of the local population”. While in the OECD countries honest payment of taxes is an indisputable legal and moral obligation of companies, this answer, actually, is the legacy of the “roaring 1990s”, when tax evasion was *modus operandi* for many Russian businesses. Moreover, today it is not guaranteed that tax revenues generated by the oil and gas business will be used to improve living standards in the petroleum provinces.

One student made a bitter reference to the 1990s: “I think that this sphere should be regulated by the state. This “responsibility” as such under private ownership does not exist! The events of the 1990s in our country confirmed this”.

Some oilmen said rather cynically that CSR was actually a PR effort aimed at improving the image of the company, and CSR activities meant behaving in a way that does not irritate unnecessarily the local people. “Implementing a sound social and environmental policy in order to improve the image of the company and avoid social conflicts in the region of its operations”.

Some students stressed that the company should take care of the most pressing needs of the local people (necessities rather than luxuries); even specifically emphasizing that CSR does not mean buying football teams.

Thus, it seems that the CSR perceptions of the contemporary Russian oilmen are in fact an uneasy mix of the Soviet legacy, recollections of the roaring 1990s, the current situational context, and Western attitudes that were transplanted into Russia.

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8 <<http://www.rosneft.ru/Development/social/>>

**Table 1: What Elements Does CSR Include?**

Element	Number of answers
Protecting health of the company's employees	61
Training and development of the company's employees	59
Promoting job creation and small business development in the regions of operations	58
Environmentally sound activities	57
Support of sports in the regions of operations	56
Protecting health of the local population in the regions of operations	51
Ensuring occupational safety of the company's employees	48
Training of the company's employees in the sphere of environmental safety and social responsibility	48
Regular dialogue with the local population on social and environmental issues	48
Support of education and development of skills of the local population in the regions of operations	46
Support of arts and culture in the regions of operations	44
Contribution to the development and upgrading of public utilities and social infrastructure in the regions of operations	44
Assistance to the local population in the events of natural and technogenic disasters	44
Support of R&D institutes	43
Clean-up of past environmental damage inflicted by the company	37
Protection of historic heritage and culture of indigenous population in the regions of operations	31
Business transparency and accountability	30
Compensation of the local population for the negative impact of production activities	30
Respect of indigenous population's land rights	30
Ethical conduct of business	26
Support of sports in the whole country	26
Support of health protection sphere in the whole country	25
Support of education in the whole country	25
Support of arts and culture in the whole country	21
Clean-up of past environmental damage inflicted by other players	20
Activities aimed at climate change prevention/adaptation	19
Involving stakeholders in decision-making on production issues	10

## Perceptions of Petroleum-Related CSR in the Russian Arctic

By Julia S. P. Loe and Elana Wilson Rowe, Oslo

### Abstract:

There is an increasing tendency to consider social and commercial issues at the circumpolar level, including creating contact networks, exchanging experience and enhancing the role of business in circumpolar regional cooperation. This brief article speaks to this growing trend in Arctic business cooperation by bringing to light both commonality and variation in society-business relations in the Russian Arctic. Drawing upon 56 in-depth qualitative interviews, we examine and compare how petroleum-related corporate social responsibility (CSR) was understood in Murmansk Oblast' (with its shelved Shtokman project) and Nenets Autonomous Okrug (with its decades-long experience with petroleum projects).

### Introduction

There is an increasing tendency to consider social and commercial issues at the circumpolar level, including creating contact networks, exchanging experience and enhancing the role of business in circumpolar regional cooperation. The establishment of the Arctic Economic Council—an arms-length body established by the Arctic Council—is one such recent example. However, while the Arctic region is an interlinked ecosystem and bears the impressive stamp of 20 years of post-Cold War regional cooperation, there remains substantial variation in terms of key socio-economic and political factors at national and local levels. To what extent can 'lessons learned' or common sets of best practices be generated across the Arctic when it comes to business-society relations?

This brief article speaks to this growing trend in Arctic business cooperation by bringing to light both commonality and variation in society-business relations. We examine how petroleum-related corporate social responsibility (CSR) was understood in two Russian Arctic locations. Corporate social responsibility can be understood as an 'umbrella term' (Frynas, 2009: 194), encompassing many activities a company performs in order to maintain a 'social contract' with stakeholder populations. What CSR means in practice—and, importantly, who is defined as a stakeholder—tends to vary highly across contexts and specific projects.

In the case of the Nenets Autonomous Okrug (NAO) in the Russian Arctic, the perceptions presented are of fully realized petroleum projects and accompanying CSR projects, as there has been large-scale oil and gas production in the region for several decades. By contrast, Murmansk Oblast'—where the giant Shtokman gas project in the Barents was put on indefinite hold in 2012 in the wake of high expectations—the analysis is necessarily more about petroleum anticipation and early CSR engagement. We draw upon 56 in-depth qualitative interviews with a variety of actors (business, government, indigenous and environmental organizations

and 'everyday' citizens) carried out in 2013 and 2014 (for the complete set of findings and methods, see Wilson Rowe, forthcoming and Loe, forthcoming). The interviews focused on eliciting interviewees' expectations of petroleum companies' CSR engagement, their general understanding of the term CSR, and their perception of quality of life changes in their region.

### Murmansk and the Shtokman Project

The Kola Peninsula, with most of its territory north of the Arctic Circle, was among the targets for Soviet pioneering and the region grew massively from 23,000 residents in 1927 to one million by the end of the Soviet period (for a detailed account see Rowe, 2013; numbers from Kiselev in Overland and Berg-Nordlie, p. 19). Much of the region's development took place under Stalin's staggering "revolution from above", involving an expansion of the industrial resource base that prompted the exploration and subsequent incorporation of the Soviet Arctic into the socialist production system (*osvoenie severa*) (Josephson, 2014).

The possibility of petroleum development in the Barents Sea seemed to be ushering in a new chapter in the region's economic geography. The Shtokman gas field, located in the Barents Sea some 600 km north of the shores of the Kola Peninsula, is one of the world's largest natural gas fields. The prospect of developing the Shtokman field was first earnestly pursued in the early and mid-1990s. In 2005, cooperation agreements to develop this field were signed by Russia and Norway and Russia and France with Gazprom at the forefront. These agreements triggered an avalanche of bids from other IOCs for field development (Claes and Moe, 2014).

What ensued could be described as a 'beauty pageant' (Overland, 2011) with companies seeking to present their competence (including in CSR and local relations), financing and willingness to accept bargaining downwards on contract terms. Eventually, Statoil and Total joined a consortium with Gazprom called the Shtokman Development AG in 2008. However, explo-

ration never got off the ground with the ‘shale revolution’ in the US driving gas prices down in what had been a target market for liquefied natural gas from the Shtokman field. The shareholder agreement expired in July 2012 and the costly and challenging nature of the project make Shtokman a daunting prospect for any company operating in today’s gas markets.

### *Perceptions of CSR*

In contrast to the Nenets case presented below, the formal translation of the term ‘corporate social responsibility’ frequently elicited little response and interviewees were reluctant to engage with it. However, when rephrased into asking them to recount and assess the social and environmental engagement of companies more generally, all interviewees, including dentists and manicurists and others quite far from corridors of power and industry, had much to say. This finding suggests that information about large-scale economic development does indeed circulate in Murmansk Oblast, informally, via social media and through more formal media and informational channels.

As interviewees were asked to consider whether the international parade of oil and gas companies involved in the Shtokman field had met their expectations, many preferred to keep the focus on what one might call ‘Soviet CSR’, judging petroleum companies’ involvement against the memories and current practices of the major economic actors established in the region during the Soviet period. Interviewees warmly recited past and present benefits and services provided by the companies to their own employees—entertainment and celebrations, travel, pensioner housing, specialized medical care, education and other family benefits.

One interviewee from the NGO-sector put it this way, arguing that ‘Soviet CSR’ was much like what one could expect from a proper CSR policy today:

“I grew up in Monchegorsk [one of the mining towns] and as a kid knew who the director of the factory was, but not the head administrator of the town. There were good kindergartens and schools, organized trips and excursions to the factory. This was not called CSR then, but the form was the same even if the name was different.”

This quote suggests that one element of the social contract between business and society in Russia is that it remains focused on the company’s relations to their own employees and their families and, within this relationship, expectations are quite high about what a company should provide.

Given the historically labour intensive aspects of mineral resource extraction and processing, this group

of employees and families could be quite large and usually encompassed entire towns (Rowe, 2013). This focus on the employees of the company itself as the primary social and environmental stakeholders is a feature of ‘Soviet CSR’ that may be at odds with how international oil companies define and understand stakeholder sets (where stakeholders can, for example, also be the regional public more generally and/or those specifically negatively impacted by development at any point in the production process).

There was nonetheless a general appreciation of, and ability to recollect, some of the flagship outreach efforts by Russian and international petroleum companies new to the region. Some interviewees were able to list concrete initiatives that they felt companies had included as part of their social policies. For example, one interviewee noted that Rosneft has many social projects, like ‘Best Yard in Town’ and Total brings opera singers and ballet to town. Statoil loves cultural projects too—exhibitions, Grieg music, while another recalled a scholarship program, support of sporting events and excursions for residents of Teriberka (a village on the Murmansk coastline) as key CSR initiatives.

Many remained uncertain about the actual outcomes of CSR, wondering if it had been just PR or empty words to satisfy company policy. Over half of the interviewees emphasized a basic set of corporate citizenship principles, arguing that the best CSR was for companies to manage risk (environmental and social) properly, provide employment, follow legislation and pay their taxes. As with the Nenets case below, there was also an enduring concern about inequality. For example, an ‘everyday’ interviewee put it this way, ‘maybe the companies do a lot—they sure say a lot. But it gets lost somewhere up high’. Several interviewees expressed the suspicion that the oil and gas boom—even the one in their region that never came to fruition—had surely benefited someone, but not the general public.

### **NAO Case**

The Nenets Autonomous Region (NAO) is geographically large, approximately half the size of Finland, but sparsely populated, with only about 43,000 inhabitants. Nearly half the population lives in the regional capital, Naryan-Mar, while the rest is spread across the region, many living from traditional reindeer herding. The local population and regional authorities have several decades of experience with relating to the oil and gas industry. Oil accounts for more than 90 per cent of the region’s total industrial output, which provides NAO with the highest gross regional product per capita in Russian (GKS 2013).

### *Perceptions of CSR*

When asking about CSR, the Russian term “*korporativnaya sotsial'naya otvetstvennost'*” was used which, interestingly, was known to practically all respondents. Many interviewees re-phrased it, explaining that they used a similar term, but there was strong awareness of oil and gas companies' responsibility to contribute to the well-being of the local population among all layers of the population. Like in Murmansk, “Soviet CSR” was referred to by several interviewees, of which some explained that the term “CSR” was nothing else than a foreign way of presenting something they had always had in Russia.

When asked about how CSR was carried out in practice, the dominating explanation was that it entailed three main components: Firstly, the oil companies provided funding to the regional authorities, who re-distributed the money to the benefit of the population, including social and cultural measures. Secondly, the companies paid for particular activities or “social objects” (schools, kindergartens, orphanages etc.) which the regional authorities had asked them to finance. Finally, there were projects initiated and organized by the oil companies themselves, including for example health and educational activities, and sponsoring festivals or other cultural events. Providing compensation for reindeer herders affected by oil and gas activities, following established procedures, was also put forward as an important CSR component. The interviewees hence related CSR primarily to allocation of funding for uncontroversial so-called “micro-level” activities or projects, while practically no interviewees mentioned “macro-level” CSR, defined by Gulbrandsen and Moe (2007: 813) as “the responsibility of transnational companies for the broader economic, political, social and human development in host countries”.

A philanthropic perspective of CSR was apparent from several interviews. For example, a local oil company representative explained that CSR was what people did due to the “kindness of their soul”. Others talked about CSR as something the companies did voluntarily, additionally (*dopolnitel'no*) to what he law required.

Many interviewees emphasized the need to support the indigenous population more, especially those living far away from the regional capital—where the living standards were particularly low. In order to understand their real needs, several respondents called for increased involvement and physical presence from the oil companies, which were encouraged to spend time talking to people where they live. At the same time, cooperation and engagement with the regional authorities was described as essential and indispensable for companies aiming to respond to local needs through CSR measures.

While the majority of respondents welcomed CSR measures from the companies, there were also some critical voices—arguing that companies should do their business, but leave the local population alone. One indigenous woman in a high position warned against a “beggar mentality” which easily occurred if there were opportunities for asking economic support or other kinds of help from the oil companies. Others explained that when oil companies supported some groups, for example reindeer herder units directly affected by oil and gas activities, and not others, it easily created conflicts between people who previously were on equal terms.

All in all, there was a broad span in what respondents said about their understanding of CSR, what they thought about CSR practices they were familiar with locally, and what they personally thought CSR *should* encompass. No clear dividing line was apparent between responses from indigenous and non-indigenous people, nor between oil company representatives or regional authorities. While the number of interviews is too small to be representative, some patterns nevertheless appear to emerge from the conversations: The closer links respondents had to the oil and gas companies or the regional authorities, the more positive attitudes they expressed. Several oil company representatives, representatives for the regional authorities and people who had received funding for projects, talked about NAO as a particularly successful region, where relations between people were harmonious and mechanisms for conflict resolution were in place. “Ordinary”, and relatively poor people, with no stakes in the benefits from oil and gas, were often far more critical of how the system worked, reporting that some oil company representatives treated them badly, and that there was a low degree of transparency in the spending of CSR-related funding.

One may perhaps talk about “insiders” and “outsiders” to the system, where some, but not all, benefit directly from oil and gas activity. The general attitude towards petroleum activity in the region however appeared to be positive; only one of the respondents directly expressed opposition against oil and gas activities. The rest pointed either at benefits from oil and gas or encouraged improvement of the current system.

### **Concluding Thoughts**

The Murmansk and NAO cases stand out as examples of the great regional variety found in the Russian Arctic, the first being a large industrial city where the expected oil and gas boom never happened, the second a sparsely populated region completely dominated by oil and gas activities. The Murmansk case is perhaps an outlier in the Russian context, where oil and gas projects do indeed continue to be developed in the Arctic, but perhaps more

indicative of a research agenda around the expectations and lessons learned from abandoned extractive industry projects that could be usefully pursued in Greenland, Canada and the USA.

In terms of CSR practice, companies and those who regulate them must remember that the experiences generated through a near century of Arctic industrialization in Russia will be important if and when international companies further expand their involvement in Russia's oil and gas development. For example, 'Soviet CSR' keeps the focus on a company's relations to its own employees and their families and the local setting—while meeting a general standard of tax and political loyalty to the region. This is in contrast to a CSR that tar-

gets a broader audience, such as the public as a whole or negatively impacted communities. Carrying out successful CSR may entail both matching previous 'positive' local experiences while meeting international standards.

A lesson learned from the two case studies is hence that, when talking about petroleum-related CSR in the Arctic, a "one-size-fits-all" solution may not be applicable, and that the local context must be taken into account. In order to achieve local acceptance or "licence to operate" oil companies operating in Russia need to establish a context and project-dependent dialogue and interaction with the regional authorities, as well as dealing with the local population.

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## Partnership or Dependency? Local Perceptions of the Petroleum Industry Ripple Effect in the Komi Republic

By Emma Wilson, London, and Daniel Fjaertoft, Oslo

### Abstract:

Petroleum exploration and production can boost development in resource-rich regions. Yet revenue misuse, environmental neglect, or the crowding out of traditional industries may lead to disappointed local expectations. Petroleum activity often increases employment, in the industry itself, in service and supply industries, and through multiplier effects from secondary industries and increased purchasing power. In some countries, employment and business opportunities dominate the discourse around promoting new oil and gas projects. In Russia, however, companies tend to highlight their social investment spending, such as support for kindergartens, sports arenas and cultural events. In this article we compare economic research findings with ethnographic field results to understand how local people in Russia's Komi Republic assess the direct and indirect economic effects of oil and gas projects and how these are weighed against environmental and social concerns.

### Introduction

Like other oil-producing regions of the world, the Komi Republic has experienced both benefits and adverse effects of oil development. In urban centres such as Usinsk, petroleum activity contributes to employment and increased purchasing power. In rural areas, however, while there are some oil jobs, the population faces the effects of environmental neglect and limited economic opportunities overall following a decline in traditional industries. As a result, there is distrust towards the petroleum industry and local authorities.

In other countries local job creation and business opportunities feature greatly in the discourse around promotion of new oil and gas projects. In Russia, however, companies tend to focus on their social investment<sup>1</sup> spending in their promotional material, highlighting projects such as kindergartens, clinics, youth competitions, sports and cultural events.<sup>2</sup> Fjaertoft (2015) suggests this distinction relates to the lack of economic benefits that accrue to local populations through jobs and multiplier effects; and while tax revenues are important to the regional economy, the centralisation of tax collection at the federal level substantially reduces the regional benefits from taxation.

This article seeks to explore these points further, combining economic and ethnographic analysis. The economic analysis outlines the significance of the petroleum

industry to the Komi Republic economy. We compare this with ethnographic field research to explore how local people perceive the local socio-economic effects of the industry. The economic analysis uses a purpose-made input-output model<sup>3</sup> created to capture the petroleum industry's economic significance at the levels of Russia and the Komi Republic (Fjaertoft, 2015). The ethnographic fieldwork took place between 2013 and 2015 in the north of the Komi Republic and includes 33 formal and informal interviews with officials, industry, academics, and citizens of villages directly affected by the industry (see Wilson, 2015). The research is part of the project *Sustainability and Petroleum Extraction*, funded by the Norwegian Research Council.<sup>4</sup>

### Oil in the Komi Republic

In the Komi Republic oil production is concentrated the northern districts, such as Usinsk District, where the industry was established in the 1960s. Usinsk suffered one of the world's largest oil spills in 1994, when the state-owned company Komineft spilled 100,000 tonnes of oil across 72 square miles of tundra following a pipeline leak.<sup>5</sup> Komineft was bought by Lukoil in 1999, re-named Lukoil-Komi, and now dominates the region's oil companies. In their 2006 Sustainability Report Lukoil reported that they had cleaned up the inherited consequences of 1994 (Lukoil, 2006). Nonetheless, much of the ageing pipeline infrastructure still

1 Social investment programmes are defined as the voluntary contributions companies make to the communities and broader societies where they operate, with the objective of benefiting external stakeholders, typically through the transfer of skills or resources (IPIECA, 2008, p.2).

2 See for example the company websites of Gazprom (<<http://www.gazprom.ru/social/>>) and Lukoil (<[http://www.lukoil.com/static\\_6\\_5id\\_263\\_.html](http://www.lukoil.com/static_6_5id_263_.html)>)

3 This technique maps the inputs needed by one sector of the economy from all the other sectors of the economy to produce one unit of output. When this mapping is completed for all sectors of the economy the input-output model reveals detailed quantified inter-relations between all sectors in the economy

4 See <<http://csroil.org/>>

5 See <<http://www1.american.edu/ted/komi.htm>>

needs replacing and continues to leak. The industry saw substantial growth in the early 2000s with oil production increasing from 9 million tons in 2000 to 13.7 million in 2012 (Staatesen, 2014). In addition to Lukoil-Komi the region's oil companies include Severnaya Neft' (Rosneft'), Rusvietpetro (a Russian–Vietnamese joint venture), and Kolvanef't' (Nobel Oil).

The town of Usinsk has visibly benefited from the oil wealth, with shopping malls, supermarkets and cafes. Usinsk's citizens include many incomers from other Russian regions as well as Azerbaijan, Uzbekistan and Ukraine who came for oil and construction jobs. Residents seem happy with the benefits brought by the oil industry, though some complain about the cost of living, particularly housing.

The villages of Usinsk District lie on tributaries of the Pechora River and are predominantly populated by the Komi people who have traditionally engaged in fishing, reindeer herding and commerce. Agriculture thrived during the Soviet period, but has since declined in the face of market competition and reduced subsidies. Some people have set up small enterprises (e.g. in trade or construction), or work in the public sector. But still, the oil industry is one of very few significant employers in the district. Villagers engage actively in fishing, hunting and harvesting berries and mushrooms to sustain their livelihoods. In contrast to city dwellers, they feel the direct negative effects of oil spills, as well as land disruption from oil-related exploration and construction.

### Structure of Taxation Hampers Ripple Effects in Russian Regions

Russia's petroleum sector is subject to a range of taxes, the most important being the federal mineral extraction tax (Diachkova, 2011). Petroleum production also generates income tax, profit tax and tax on dividends. Oil companies operating in the Komi Republic are predominantly major Russian companies incorporated in Moscow; and so profit tax is mainly levied there. The same is assumed to apply for taxes on dividends. Thus regional budgets only benefit from income tax, along with some minor land taxes. Moreover, many non-local workers are employed on oil projects, and much of the income tax is collected in workers' home regions.

Comparing the economic effects of petroleum sector growth at the national and regional (Komi Republic) levels, Fjaertoft (2015) demonstrates that an equal relative increase in petroleum output leads to higher average sector growth at the national level. This finding demonstrates the Komi economy's lesser capacity to harness ripple effects from the petroleum industry. At the same time, because of the regional petroleum industry's greater size relative to the regional economy,

the same relative industry growth leads to greater overall economic growth (primarily through tax revenues) regionally than nationally, despite the limited capacity for tax collection regionally.

According to Fjaertoft's (2015) input-output model, the petroleum sector accounts for 5% of total output at the national level and 15% in the Republic of Komi. Thus a 10% increase in petroleum output constitutes a roughly three times larger impact at the regional than national level, if measured relative to total economic output. Had employment effects been equal at the national and regional levels, one would expect employment benefits in Komi to be roughly three times larger than at the national level. Instead they are roughly equal under the most optimistic modeling assumption and lower when accounting for centralized petroleum tax collection, which deprives Russia's oil-producing regions of an important ripple effect mechanism.

In sum, although the Komi Republic economy is highly dependent on the oil industry, it receives less benefit from increased regional oil production than the national economy does. Adverse effects such as oil spills, however, are a local affair. It appears that oil-producing regions in Russia are bearing a greater cost for increased oil production than the benefit they get in return, compared to the nation as a whole.

Economic analysis suggests the lack of employment-related ripple effects in public discourse such as oil industry publicity materials may be explained by the relative insignificance of such benefits. But how do local people assess oil industry benefits and how do they weigh these against other social and environmental considerations? In the following section we consider what ethnographic analysis can tell us about the local discourse surrounding oil industry benefits in the northern Komi Republic.

### Local Perceptions of Oil Industry Benefits

Local people are aware of the implications of Russia's tax regime, and that they used to receive more tax before 'federalisation'. They are also aware that many oil workers pay their taxes in their home regions, while some companies that are responsible for oil spills—such as Rusvietpetro, responsible for a significant spill in 2013—are registered and pay their taxes elsewhere.

Villagers as well as townsfolk appreciate the positive benefits of the oil industry, including jobs and trade opportunities. There are good relations between reindeer herders and oil workers when they meet on the tundra (e.g. exchanging fuel for reindeer meat). While the oil industry is sometimes blamed for the withdrawal of government support for other industries (notably agriculture), there is also acceptance that the days of large-scale Soviet subsidies are gone and agriculture in north-

ern Komi is much less viable in modern day market conditions.

There is, however, some resentment that northern Komi is not thriving as much as it should. Some villagers are still waiting to have gas piped to their village, something that was promised but not delivered. Others note the poor state of the roads or water supply. They complain of damage to fisheries from oil pollution. As one villager stated: 'There have been no commercial fisheries since the 1994 spill.' There has been damage to livestock (e.g. cows dying after consuming oil-covered grass, reindeer killed in road accidents). People have lost berry and mushroom picking grounds and hunting grounds to oil works.

In general people want the industry to stay, but say that companies need to work cleanly and respect local people. The biggest problem is the ageing pipelines—they are being replaced, but not well enough or fast enough. People are angry at what they perceive to be environmental negligence and corruption. Companies often fail to report spills. Moreover, lack of land rights means lack of access to compensation, while the methods for calculating compensation are unclear. The villages that suffer the pollution do not receive anything from environmental fines: the money goes into the district budget and is used for general purposes.

### **Social Investment Spending: Partnership or Dependency?**

Given the lack of benefit from taxation, the scale of environmental damage and the lack of compensation, it is unsurprising that companies' social investment projects (or 'social partnerships') take on a greater significance in local people's eyes. This includes support for education and culture, sports events, youth competitions and community festivals; restoration of local churches, construction of libraries, and support for war veterans and invalids. Innovative projects have included provision of satellite phones to reindeer herders and a zero-interest credit programme for local enterprises.

Yet people frequently express dissatisfaction with 'social partnership' programmes. There is a perception that companies just want to generate positive publicity for themselves, especially after a spill; companies make promises when eliciting approval for starting work, and then fail to keep those promises.

Previously there were direct agreements between oil companies and the villages, but in 2009 the relationship was taken over by Usinsk, as part of an overall centralization of power. People feel excluded from decision-making as a result. The head of a local village council complained: 'The administration of Usinsk depends on the oil companies to pay for pensions and so on. Then

they tell us "we are paying your pensions" as an excuse for centralizing the relationship with the oil companies'.

People report that social investment spending is frequently ineffective or misspent, with projects such as a cowshed or a water borehole poorly constructed or left unfinished. People complain of the lack of research that goes into deciding how to spend these funds, and a lack of public access to information and involvement in decision-making. They call for greater support for skills development, especially for young people, both for the oil industry itself and for other livelihood activities.

### **Concluding Remarks**

Local residents of the Komi Republic's oil-producing districts are aware of the lack of benefits that accrue to them through the taxation system, and this affects the way other benefits are viewed locally. This, and the lack of benefits through employment and multiplier effects, helps to explain the emphasis of Russian companies on reporting their social investment projects over other types of ripple effects. Below we suggest one or two ways to enhance local benefits.

First of all, the overriding priority for local people is for the oil industry to improve its environmental performance. This means replacing ageing pipelines effectively and in a timely manner; sharing adequate information about spills with local populations; and engaging in meaningful community engagement on environmental issues as well as benefit sharing. Engagement and partnership need to take place more directly with communities rather than focusing only on the relationship with officials in Usinsk.

To enhance benefit sharing we suggest a greater focus on building local skills both to work on oil projects and to support enterprise outside the industry. In the case of food production, the oil industry could also become a key customer. Experience worldwide has demonstrated how provision of low-interest credit and co-funding enhance local buy-in and project sustainability. This experience has been successful in the past in the Komi Republic and could be revisited. Decentralizing decision making to village-level committees could reduce dependency, increase local commitment and encourage local entrepreneurs to co-fund projects.

Transparency of decision-making on social investment spending is essential, with better research into local needs, open discussion of budget lines, and publication of how funds have been spent. This will help avoid perceptions of misspending and corruption. All of the above would strengthen the potential for retaining more of the benefits of the oil industry locally through sustainable and genuine social partnerships.

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## ABOUT THE RUSSIAN ANALYTICAL DIGEST

Editors: Stephen Aris, Matthias Neumann, Robert Ortung, Jeronim Perović, Heiko Pleines, Hans-Henning Schröder, Aglaya Snetkov

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Editors: Stephen Aris, Matthias Neumann, Robert Ortung, Jeronim Perović, Heiko Pleines, Hans-Henning Schröder, Aglaya Snetkov

Layout: Cengiz Kibaroglu, Matthias Neumann, Michael Clemens

ISSN 1863-0421 © 2016 by Forschungsstelle Osteuropa, Bremen and Center for Security Studies, Zürich

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