



## OIL COMPANY BENEFIT SHARING IN THE RUSSIAN NORTH

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## Benefit Sharing Arrangements in the Russian North and Alaska

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### Abstract

As part of a recent study, we investigated benefit sharing arrangements between oil companies and indigenous communities in several regions of Russia—the Nenets Autonomous Okrug [NAO], Khanti-Mansiyski Autonomous Okrug (KhMAO), Sakhalin—and on the North Slope of Alaska—Barrow, Nuiqsut, Kaktovik. Our analysis demonstrates that indigenous communities are not benefitting equally from oil and gas extraction. The project analysed the procedural and distributional equity of four different types of benefit sharing arrangements: paternalism, corporate social responsibility, partnership and shareholder models.

### Costs and Benefits

Oil extraction in remote territories of the Russian North and Alaska brings opportunities for development to remote areas, as well as costs to local communities and indigenous peoples, affecting their subsistence way of life and making land unavailable for traditional resource use. In many cases, it is apparent that the costs of resource extraction to local communities outweigh the benefits. Most transnational corporations working in the Arctic oil and gas sector have declared their commitment to benefit-sharing arrangements that assist indigenous communities and protect indigenous rights to land and access to traditional resources, but the local implementation of these commitments varies.

Ideally, benefit sharing represents a more stringent notion of social equity than corporate social responsibility (CSR), since it claims to reduce the gap between local resource providers and global beneficiaries (Schroeder, 2007). Differences in benefit sharing arrangements depend upon legislation, local and regional contexts and the level of empowerment of indigenous communities. Benefits from oil extraction can be shared by oil companies with local communities in a number of ways: taxes, development of infrastructure, local employment, and through less formal negotiated benefits, such as sponsorship, compensation for damage, oil dividends, and socioeconomic agreements, among others. Ideally, the concept of benefit sharing has to incorporate both procedural and distributional justice that goes beyond compensations for loss.

Our recent literature review has identified four models of benefit-sharing arrangements, including paternalism, CSR, partnership and shareholder types (Tysiachniouk 2016). This study is based on qualitative research methodologies, including semi-structured interviews, participant observation and document analysis. Interviews were conducted with more than 190 oil industry representatives, members of indigenous peoples' organizations, NGO experts, representatives of regional and local authorities, and local residents between 2011 and 2016.

Field research showed that there are mixed types of benefit sharing arrangements in both the Russian North

and Alaska, resulting in different outcomes for local communities and indigenous peoples. In each region, benefit sharing arrangements were assessed from the perspective of procedural and distributional equity.

To assess the fairness of benefit sharing arrangements, we make use of the concept of equity developed by McDermott et al (2013). They make a distinction between procedural and distributive *dimensions* of equity. 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 can indigenous people participate in them? Distributive equity encompasses the distribution of monetary and non-monetary benefits that indigenous people receive from oil production. The articles in this issue of the Russian Analytical Digest analyze benefit sharing arrangements observed in the Nenets Autonomous Okrug (NAO), Khanti-Mansiyski Autonomous Okrug (KhMAO), Sakhalin, Komi Republic, and the North Slope of Alaska (Barrow, Nuiqsut, Kaktovik).

### Major Modes of Benefit Sharing Arrangements

There are four types of benefit-sharing arrangements. Each is described briefly below.

**Paternalistic mode:** The state is dominant in this mode and it monitors and intervenes in companies' corporate social responsibility efforts. The company adds to or replaces the state's efforts to provide support to local communities and indigenous peoples, who do not, or only poorly control, the delivery of benefits. In Russia, the paternalistic mode is rooted in the lingering effects of the Soviet past and often results in the indigenous people's dependency on the oil companies. Therefore, in some areas, there has been a transition from state paternalism to corporate paternalism. In Alaska, paternalism is perceived by both scholars and indigenous people as rooted in colonialism. Here we show how this system works in the Nenets Autonomous Okrug.

**Corporate Social Responsibility (CSR) mode:** The oil company network is dominant in this mode. The company adopts globally developed standards coming from such sources as the International Labor Organization (ILO) convention, United Nations guidelines, the Arctic Council guidelines, standards of the European Bank of Reconstruction and Development (EBRD), World Bank, and International Finance Corporation (IFC). Companies pursuing benefit-sharing arrangements take into account both global standards and local path-dependent practices in a minimalistic way. This mode of benefit sharing arrangements was observed in several Russian regions: Komi Republic, Khanti-Mansi Autonomous Okrug and Irkutskaya oblast. This paper illustrates the CSR mode in the example of the Khanti-Mansi Autonomous okrug.

**Partnership mode:** This type of benefit sharing takes the form of tripartite partnerships among the oil companies, government and indigenous communities. The partnership mode fosters development, empowerment, self-sufficiency and participatory decision-making in the indigenous communities. This mode was studied on Sakhalin Island.

**Shareholder mode:** The shareholder approach provides residents with dividend funds and shares from regional and village corporations. This mode has been investigated in the North Slope of Alaska.

## Empirical Findings

### *Nenets Autonomous Okrug*

The paternalistic mode of benefit sharing arrangements has been observed predominantly in the Nenets Autonomous okrug (NAO) in 2011–2012 (Henry et al. 2016). In the framework of socio-economic agreements between oil companies and the governor, oil money was channeled to indigenous communities through state-led programs and was spent without input from the indigenous people. These practices resulted in housing provided to indigenous reindeer herders that was not adapted to permafrost conditions, loss of money during construction projects, and a variety of other problems.

Direct socio-economic agreements between oil companies and indigenous enterprises until 2013 involved mostly in-kind support as oil companies did not trust indigenous people to manage their bank accounts and the amount of money was dependent on reindeer herders' negotiation skills. When money was transferred into bank accounts, indigenous enterprises were obliged to submit reports on their spending.

Since 2013, these agreements have been replaced with formal compensation for damage to the pasture lands calculated according to a federally developed

methodology. As a result, the amount of money channeled to indigenous peoples increased 5–10 times. Even though both the socio-economic agreements and compensation were negotiated directly between indigenous leaders and oil companies, the participatory equity of the reindeer herders has remained low.

Nevertheless, the distributional equity increased with the switch from socio-economic agreements to compensation. The level of paternalism toward indigenous peoples in NAO in 2015–2016 decreased both because of the economic downturn and the inability of the state and companies to deliver goods and services to indigenous communities, and because reindeer herding enterprises became more mature, self-sufficient and independent compared to the early post-soviet years. In this region, the paternalistic mode of benefit sharing gradually transferred towards CSR mode.

### *Khanti-Mansi Autonomous Okrug (KhMAO)*

As part of their CSR, companies conclude annual socio-economic cooperation agreements with the governor of KhMAO and municipalities. These deals include constructing social infrastructure in towns and villages, such as schools, kindergartens, recreation centers, road construction etc. If indigenous people have officially designated territories for traditional use of natural resources (TTNR), "typical agreements" are made directly with households. They provide the same goods to all households, without taking into account to what extent TTNR is damaged by the oil infrastructure and drilling. Therefore, the distributional equity is very low in KhMAO. Heavily and lightly affected households receive the same number of snowmobiles, outboard motors, motor saws, fuel, and clothing. If local residents have no formally designated TTRNs, the company transfers funds to the budget of the district administration, which then distributes the received funds, as in Beloyarski district. Here, state paternalism is strong. The company allots a certain sum to the local administration that distributes it after engaging in only a few consultations with the locals. The amount of material aid and the procedure of distribution are non-transparent.

Several indigenous people in KhMAO are elected to the State Duma, where a special commission for dispute resolution between oil companies and indigenous people has been set up. Indigenous people are active and may oppose oil expansion, as in Numto Nature Park, for example. Generally, while the participation rate of indigenous people in disputing oil development is high and citizens rebel against state and company paternalism, the participatory equity in benefit sharing agreements remains low. Therefore, both distributional and

participatory equity in KMAO are recommended to be improved.

### *Sakhalin Island*

The partnership mode of benefit sharing arrangements was observed in the oil companies/operators of the two large transnational consortia: Sakhalin Energy and Exxon Neftegaz Limited on Sakhalin Island. There, the success of benefit sharing practices depends upon the corporate policy of the consortium operator and on whether loans from investment banks are received. Sakhalin Energy, through loans and investments, was profoundly influenced by the global rules of international financial institutions related to the environment and indigenous people. The consortium adopted a multitude of global standards, including free prior and informed consent, and became subject to annual third party evaluations (Wilson, 2016). The Indigenous Minorities Development Plan that evolved under the influence of the International Finance Corporation and the World Bank, incorporating the full range of global sustainability standards, was relatively complex and was available to all districts populated by indigenous people. It included the participation of indigenous people in distributing grant funding to community groups. Although this approach was popular, it also generated some conflict among community members around the distribution of funds. In contrast, Exxon Neftegaz Limited depended less on loans and was not significantly influenced by international financial institutions. The benefit sharing arrangement is less complex and more flexible, including grant funding available to communities where drilling occurs, but not for other communities. It has been less prone to conflict than benefit sharing by Sakhalin Energy. Tripartite partnership benefit sharing arrangements adopted by both consortium operators proved to be high in both participatory and distributional equity. As we will see (see Tulaeva, Tysiachniouk in this RAD issue), only consortium operators on Sakhalin Island explored the partnership mode of benefit sharing arrangements, while Russian companies proceeded with paternalism.

### *North Slope of Alaska*

Benefit sharing arrangements in Alaska are extremely complicated and involve several layers of governance. In Alaska, every resident annually receives Permanent Fund Dividends. Indigenous people of the North Slope are almost always shareholders of the Arctic Slope Regional Corporation (ARSC) and usually of one of the village corporations and receive dividends from both. ASRC contracts with many oil companies and receives royalties from oil extraction on native-owned land. The village corporation for the community of Nuiqsut (Kuupik

Corporation), for example, is very successful, owns the surface title to the land, receives royalties through surface-use agreements with industry and with ASRC, is involved in oil-field services and benefits from contracts with oil company ConocoPhillips. This results in significant dividends from Kuupik to its shareholders, while dividends from less successful village corporations may be much lower. ConocoPhillips provides additional support to the Nuiqsut, including free natural gas for the community, scholarships to students and sponsorship of events, and contributes to community infrastructure. For unavoidable impacts to subsistence and culture, mitigation money is provided through the Northeastern NPR-A Regional Mitigation Strategy. In addition, multiple benefits come to indigenous people through the State of Alaska and the North Slope Borough, both of which receive taxes from oil infrastructure. The North Slope Borough is the largest employer, has its own hospitals and police, builds houses for indigenous families, and funds schools.

However, there are multiple conflicts and tensions in communities around benefit sharing and distribution of funds, participatory equity is high, while distributional equity is low. Tensions emerge between the city, tribal government and Kuupik Corporation in Nuiqsut around distribution of funds as these three governance entities have different interests. Tribal governments are not benefitting from oil, are more environmentally oriented, and are often not in favor of future oil development. The city government is usually neutral or pro-development, while Kuupik Corporation is pro-development. Therefore, difficulties occur in decision making around mitigation funds.

Another set of tensions occur between those who are born before 1971 and younger “afterborn” people in Nuiqsut. ASRC and several village corporations give fewer rights to “afterborns,” but still provide shares, while the Kuupik Corporation distributes dividends only for those born before 1971 or who have inherited shares. Tensions continue within indigenous families around gifted and inherited shares. Despite tensions it is important to acknowledge that income from oil extraction is shared between companies and indigenous communities and indigenous peoples have broad opportunities for economic development. The relationships between the North Slope Borough and indigenous communities remain paternalistic as Inupiat people expect multiple benefits, such as medical care, housing and infrastructure. With Conoco-Phillips the relationships fluctuate between the CSR and partnership modes, while the shareholder mode experiences multiple pitfalls due to the lack of distributional equity and overall conflictual environment.

## Conclusion and Policy Recommendations

This article demonstrates that indigenous people in all research sites become dependent on oil money and experience significant impacts from oil extraction on their subsistence lifestyle and culture. The benefits from oil extraction are highly variable.

The articles collected in this issue contribute to policy development for benefit sharing in the Arctic. We urge the Arctic Council Sustainable Development Working Group to conduct a study with the aim of finding

the best practices, reproduction of lessons learned, and development of guidelines for companies on benefit-sharing arrangements. Further development of benefit sharing policies for the Arctic regions is essential.

It is important that the extractive industries share a portion derived from the resources they extract with native inhabitants in an equitable way. Ideally, the concept of benefit sharing should incorporate both procedural and distributional justice that goes beyond simple compensation for loss.

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### *Acknowledgements:*

This research was supported by the NWO, the Netherlands Organization for Scientific Research, Arctic Program ('Developing benefit sharing standards in the Arctic', No. 866.15.203), and the Finnish Academy Arctic Program ('Oil Production Networks in the Russian Arctic', No. 286791).

Editorial work in supporting this issue of the Russian Analytical Digest came from two National Science Foundation awards: Research Coordination Network-Science Engineering and Education for Sustainability: Building a Research Network for Promoting Arctic Urban Sustainability in Russia (award number 1231294) and Partnerships for International Research and Education: Promoting Urban Sustainability in the Arctic (award number 1545913).

## 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.<sup>1</sup>

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.<sup>2</sup> 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 matters<sup>3</sup>. 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.<sup>4</sup>

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”<sup>5</sup> and the Komi-Izhemtsis’ “Izva-

tas”<sup>6</sup> 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.<sup>7</sup>

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.<sup>8</sup>

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.<sup>9</sup> 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.<sup>10</sup>

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.<sup>11</sup> However, the reason to enter this agreement, according to other

activists,<sup>12</sup> 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.<sup>13</sup> 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.*

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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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*Acknowledgement:*

This research was sponsored by the Finnish Academy Arctic Program (Oil Production Networks in the Russian Arctic, No. 286791).

## Global Standards and Benefit Sharing among Russian and Transnational Oil Companies on Sakhalin Island

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### Abstract

This article compares benefit sharing arrangements set up between indigenous people and Russian and transnational oil companies. It demonstrates that Russian oil companies interact with indigenous communities in a paternalistic way, while transnational consortiums, operated by Sakhalin Energy and Exxon Neftegaz Limited, use the partnership mode of benefit sharing. Typically, both kinds of firms set up tripartite partnerships involving companies, indigenous peoples and the state. The paternalistic model of benefit sharing overall provides few opportunities for indigenous peoples to participate in the distribution of funds, and thereby offers little procedural equity. In terms of distributional equity, it is hard to compare Russian companies with their transnational counterparts as the different companies cover different aspects of indigenous peoples' well being. Russian companies are involved mostly in building social infrastructure, while transnational firms support indigenous entrepreneurship and the revitalization of indigenous subsistence lifestyle, languages and cultures.

### A Variety of Practices

Russian and international oil companies work on Sakhalin using a variety of instruments for coordinating with indigenous peoples. Currently there are two basic models for distributing benefits among the oil companies, native residents, and authorities: paternalistic and partnership [Tysiachniouk 2016].

For the paternalist model, a hierarchical form of relations is typical with the presence of a patron and various clients. The patron clearly dominates the process of decision making. The remaining groups try to secure what they can. This system is based on informal practices and the process of adopting decisions is not transparent. The role of the patron can be played by either the authorities or the oil company. Local communities in these cases typically have minimal opportunities to participate in the decision-making process.

In contrast, the partnership model of management offers equal opportunities for participating in dialogue and adopting decisions to the indigenous peoples, companies, and state institutions. Global standards play an important role because they determine the rules of interaction among the companies and local communities. Various international organizations, such as banks, non-governmental organizations, and inter-governmental organizations serve as guarantors for the rights of all players.

For this project, we analyzed which factors allow for the formation of the various models of distributing resources in the conditions of one or another region on the basis of the relationship between companies and indigenous peoples on Sakhalin. We will assess

both modes in terms of procedural (participatory) and distributional equity in benefit sharing arrangements (McDermott et al. 2013) [see article by M. Tysiachniouk for definitions in this RAD issue].

The research was conducted in 2013 and 2015 and was based on a qualitative methodology, including interviews, document analysis, and observation. Interviews were conducted with company representatives, oblast and local public officials, indigenous residents, and NGO experts. A total of 60 interviews were conducted. We also examined federal and regional legislation addressing indigenous peoples, as well as corporate standards and reports concerning these issues. The research also incorporated observations of training seminars on the rights of indigenous peoples during the period when the researchers lived on Sakhalin.

### Cooperation Among Companies and Local Societies

Three large oil and gas companies currently are working on Sakhalin Island:

- Sakhalin Energy, the operator of the Sakhalin-2 consortium,
- Exxon Neftegaz Limited, a subsidiary of Exxon-Mobil, which is the operator of the Sakhalin-1 consortium, and
- Sakhalin Morneftegaz, a Rosneft subsidiary.

The paternalistic model is represented on Sakhalin by Rosneft, which has worked there since the 1960s. This company built much of the social infrastructure on the island. Generally, the company supports projects connected to the development of culture, sport and educa-

tion. Decisions about social investments are made by the leadership of the company based on the results of discussions with representatives of the regional and raion authorities. According to one local official, “Well, with the Russian companies it was somehow always easier for us to cooperate—using telephone calls and meetings. We also work with other oil companies, but we write them official letters and there are no phone calls based on trust.”<sup>1</sup>

Rosneft does not have a regular monitoring system for tracking public opinion and the desires of the local population. During the time when the company was building its industrial sites, it achieved these ends through public hearings and procedures for evaluating the impact on the natural environment required by legislation. Therefore, there is little participatory equity in the paternalistic mode of benefit sharing, while distributional equity may be sufficient since the oil companies are contributing to valuable social infrastructure.

The second model—partnership—is represented by the relations with the population adopted by the companies operating the Sakhalin-2 and Sakhalin-1 international consortiums: Sakhalin Energy and Exxon Neftegaz Limited. This model appeared on Sakhalin in the middle of the 2000s. The starting point was in 2005–6, when the indigenous peoples began to protest the oil and gas companies. The people were unhappy that the companies did not take their interests into account in launching industrial operations. The actions of the indigenous groups had the support of the local NGO Sakhalin Environmental Watch and also 146 NGOs operating in 22 countries, notably, the World Wildlife Fund (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 (Lee, 2005).

The groups placed the most pressure on Sakhalin Energy, because it had borrowed money from international banks. According to the standards of the international financial institutions, the company must take the interests of the local communities into account and resolve any emerging conflicts during the construction process. Sakhalin Energy developed a “Sakhalin Indigenous Minorities Development Plan.” The goal of the plan was to strengthen the image of the company as a socially responsible concern, establishing partnership relations with the indigenous peoples and supporting their sustainable development.

As one representative of the company explained, “At that time it was even hard to explain to people what the word ‘partnership’ means. It means that we are going to join with you, you have your resources, we have ours, we will unite them and work together for the same goals. At that time, many considered that the company was rich and that it could give, that it should give, and the others would simply take. In fact, the situation was different. Everyone has resources. The most important thing is to understand what these resources are.”<sup>2</sup>

At the base of this model of cooperation with the local population lay the international standards of the UN and the World Bank. Also influential were the corporate standards of international corporations, which were shareholders in the Sakhalin-2 project, such as Shell. In practice, the company operationalized Principle #7, free prior and informed consent from the UN declaration on the defense of indigenous peoples. The principle of informed consent assumed the participation of representatives of the indigenous peoples in the decision-making process as it affected the area where they lived. In this case, the company applied the principle in distributing corporate funds for social projects and recruiting representatives of the indigenous peoples to participate in the decision-making process.

The main partner for developing and realizing this plan was the Regional Council of Authorized Representatives of the Indigenous Peoples of Sakhalin. Also involved in developing the plan were the Sakhalin Oblast authorities and experts. They set up a management structure, which included an advisory board, executive committee, and two program committees. The committees focused on two basic issues: social programs and supporting traditional resource use. The first direction focused on financing health, culture, and education projects. The second was connected with providing financial support to indigenous family enterprises and giving them the opportunity to buy necessary equipment, such as motors, machine tools, boats, and other equipment. Representatives of the company and the authorities cooperated in managing the plan. But the main management role was played by representatives of the indigenous people. On one hand, the opportunity for local residents to determine the priorities in distributing the funds for social projects made it possible to include the local residents in discussing issues that were important to them, let them initiate local projects and initiatives, and made sure that their interests and needs were taken into account. On the other hand, the chance to influence the distribution of these funds led to internal conflicts among the local communities. The sup-

1 Interview with a representative of the Okha local administration, August 2015.

2 Sakhalin Energy employee, Yuzhno-Sakhalinsk, August 2015.

port efforts were realized in all parts of Sakhalin, even in areas that were not physically near the activities of the company. Twice a year international experts evaluated the implementation of the plan.

Exxon Neftegaz Limited developed a somewhat different system for distributing funds. Like Sakhalin Energy, Exxon set up a trilateral agreement with representatives of the oblast authorities and the indigenous peoples as well as a consultative committee. The company makes the main decisions on distributing the funds for social projects, but there are collegial discussions of the possible projects. Three representatives of the company, a representative of the Sakhalin Oblast government, and three members of the regional council take part in these discussions. Exxon's zone of support for social programs for the indigenous peoples is smaller than the area that Sakhalin Energy addresses. Exxon supports only those raions in which it is actively working (Nogliki and Okha). Exxon spends its money on education, culture, and healthcare. It does not provide grants to support traditional economic activities by family entrepreneurs.

Overall, Sakhalin Energy supports more general social programs than Exxon Neftegaz Limited. This strategy reflects Sakhalin Energy's greater dependence on international creditors. As a result of these ties, Sakhalin Energy generates greater procedural and distributional equity than Exxon Oil and Gas Limited.

## Conclusion

Our research allows us to define the basic components of the two models. The paternalistic model is represented in the activities of Rosneft–Sakhalin Morneftegaz and is characterized by the following features. First, the company conducts the main relationship for addressing questions related to the development of industrial projects, social investments, and the resolution of ecological problems with representatives of the authorities. Local residents practically do not participate in discussing the activity of the company as it affects their immediate environment. Representatives of the community who are concerned about the impacts of the company on the environment do not have the opportunity to complain directly to the company. Instead, they work with the NGO Sakhalin Environmental Watch, which plays the role of a social monitoring agency on Sakhalin.

Second, there are no clear and transparent procedures for decision-making in relation to the development and implementation of social programs. A significant part of the decisions are adopted as a result of semi-formal negotiations with representatives of the authorities.

Third, priority in the implementation of social programs goes to the construction or repair of buildings

designated for public uses, such as sports facilities and schools, and conducting sports and cultural events.

Fourth, the company has few special programs oriented toward indigenous people. Finally, there is no regular system of monitoring and outreach to the population about the activities of the company.

By contrast, the partnership model, employed by Sakhalin Energy and Exxon Neftegaz Limited has the following characteristics. First is the participation of the indigenous residents in the distribution of funds for social projects of the companies working on Sakhalin. Sakhalin Energy had fully delegated to representatives of the indigenous people the right to choose which social projects get implemented. Exxon Neftegaz Limited gave the representatives of the local communities an advisory vote. In both companies, they use a transparent and formalized procedure for adopting decisions. The distribution of grants is conducted with well-defined and transparent rules and the results are announced to all residents. Independent international experts carry out consistent monitoring of the awarded grants.

Second, there is regular cooperation with the local residents on the social and ecological aspects of the companies' activities. Both companies actively inform the population about their extraction efforts and monitor the mood of the population. This outreach is carried out by corporate information centers, during annual meetings with the population, by a system of seeking complaints from the population, and a network of coordinators closely connected with the local communities. In situations when local residents are concerned about the impact of the company activities on their environment, the firms organize additional research in which the residents themselves can participate. Thus, in addressing the question of whether the seismic exploration activities have had an impact on the behavior of nearby fish stocks, indigenous representatives served as observers during exploration works of the company.

Third, the companies' social programs work to support local initiatives rather than providing generic social infrastructure buildings. The companies try to stimulate the local residents to realize their own projects. Examples include grants which the companies have made to support dog breeding, purchasing processing equipment, and the revival of national languages.

Finally, the realization of the partnership model includes a large number of trainings and seminars for local residents aimed at helping them to develop their own initiatives. The main goal of these seminars is to teach residents to develop partnership relations with companies, take the initiative, and to dream up and implement their own projects.

However, these beneficial practices do not guarantee that the partnership model automatically improves the territory's social development. In several cases there have been unanticipated consequences from the implementation of these strategies. For example, when Sakhalin Energy delegated the ability to distribute grants among entrepreneurs to indigenous representatives, there was conflict within the indigenous community over who was most deserving of the funds.

Another example is the question of the extent to which the implementation of such corporate social programs is effective. The partnership model gives preference to expanding local initiatives and encouraging entrepreneurship among the local population. Such programs are considered preferable because they are less likely to contribute to the emergence of attitudes of dependency among local residents or push people to organize themselves. At the same time, not all training programs seeking to develop local initiatives turn out to be effective. In several cases, corporate funds invested in the construction of social infrastructure turned out to be a more reliable investment strategy. Therefore, it is hard to compare distributional equity in benefit sharing arrangements between Russian and transnational companies.

According to the results of our research, we can identify several key factors affecting the formation of either partner or paternalistic models of cooperation with indigenous peoples. First is the level of influence of international investors and standards. The higher the company's dependence on international financial institutions, the more likely it is oriented toward international standards protecting the rights of indigenous peoples. Therefore, many multinational corporations seek to create special programs for indigenous peoples, demonstrating in this way their attention to international rules. In implementing the international standards at the local level, the companies themselves experience changes. Thus, the principle of free prior and informed consent from the UN Declaration of the rights

for indigenous peoples requires discussion and agreement with representatives of the indigenous people about all extraction activities which affects their lives. At the same time, Sakhalin Energy narrowed the sphere of work for this principle and connected it only with the participation of indigenous peoples in the distribution of corporate funds for social projects.

The second important factor in the formation of partnership relations is the level of dependence on the state authorities. As a rule, Russian companies are more dependent on the Russian authorities than the international companies. This level of dependence affects the strategies which the companies choose in realizing their social programs in the regions. The Russian companies prefer to follow the demands or desires of the regional authorities, while the international companies cooperate directly with the population. In part, this situation reflects the Soviet tradition under which industrial companies were dependent on state policy and also the more recent experience in the 1990s when businesses typically resolved their problems through informal ties to the authorities. Following the collapse of the Soviet Union and the construction of new businesses in the 1990s, business people typically came to believe that the key factor of success for companies was good relations with the authorities.

The third factor is the readiness of the population to take the initiative with its own projects and defend its positions. The efforts of the indigenous people on Sakhalin in 2005 forced Sakhalin Energy and Exxon Neftegaz Limited to develop new, more effective instruments of cooperation. These included the creation of the Regional Council of Authorized Representatives of the Indigenous Peoples of Sakhalin, which took on the basic function of a mediator of relations between the indigenous peoples and the oil and gas companies. In each case, the developed and mutually formalized rules were adapted to the local context and led to the creation of specific practices for distributing benefits.

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*Acknowledgements:*

This research was supported by the NWO, the Netherlands Organization for Scientific Research, Arctic Program ('Developing benefit sharing standards in the Arctic', No. 866.15.203), and the Finnish Academy Arctic Program ('Oil Production Networks in the Russian Arctic', No. 286791).

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

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

Layout: Cengiz Kibaroglu, Matthias Neumann, Michael Clemens

ISSN 1863-0421 © 2017 by Forschungsstelle Osteuropa an der Universität Bremen, Bremen and Center for Security Studies, Zürich

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