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Perspectives

# Benefit sharing in the Arctic energy sector: Perspectives on corporate policies and practices in Northern Russia and Alaska

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ABSTRACT

Many transnational energy companies are engaged in the exploration and development of oil reserves in the Arctic, and are facing policy challenges in respect to benefit sharing with the local communities. Benefit sharing arrangements between oil and natural gas companies and indigenous communities were investigated in Nenets and Khanty-Mansi Autonomous Districts, Irkutsk and Sakhalin regions in Russia and the North Slope of Alaska. We argue that Indigenous communities are not equally benefitting from oil and gas extraction, and no one benefit sharing policy model seems to ensure a sustainable local development. This may stem from the mismatch between benefit sharing policies and local institutional frameworks. Thus, as a part of benefit sharing obligations, companies and the state must work with Indigenous peoples and other affected communities to build local capacities and human capital. There is an urgent need to improve our knowledge base about benefit sharing in the Arctic energy sector, and we urge the Arctic Council Sustainable Development Working Group and/or the Arctic Economic Council to conduct a synthesis study aiming at finding best practices, identifying lessons learned, and initiating an inclusive, multi-stakeholder process of developing guidelines for companies on benefit-sharing in the Arctic.

## 1. Introduction

Since the last century, the Arctic has become an important arena for energy resource extraction, and this activity is expected to grow in the decades to come [1,2]. Many transnational energy companies (TNC) are actively engaged in the exploration and development of oil and natural gas reserves in the high latitudes, and are facing serious policy challenges in respect to dealing with the local communities and state actors. Oil and natural gas extraction in remote regions, including the Arctic, brings opportunities for development, but also inflicts costs to local communities and Indigenous peoples. It affects the subsistence economy and removes land from traditional resource use. The costs of resource extraction to local communities may outweigh the benefits, which, in turn, affect the social and environmental security in the Arctic [3].

The majority of oil and gas companies in the Arctic have declared their commitment to benefit-sharing arrangements that assist local and Indigenous communities and protect local and Indigenous rights to land and traditional resources [4]. Benefit sharing generally refers to an exchange between actors granting access to a particular resource and actors providing compensation or reward for its use [5], as well as the distribution of the monetary and non-monetary benefits produced by a resource-based project [6].

The implementation of these commitments varies considerably among the regions, companies, and communities. Large surveys of literature have been undertaken in respect to benefit sharing in mining industry (see [7–9]), including remote regions [10–13], but only recently the discussion has evolved to focus on the energy extractive sector in the Arctic and sub-Arctic regions [14–18]. The analysis and systematization of Arctic experiences is still in its beginning stages, although there is enough empirical material and case studies to present a classification and initial assessment of the benefit sharing modes and policy models, as we attempt below.

The review of benefit sharing arrangements in different Arctic countries and regions is based on our field case studies in Russia and Alaska, as well as, on literature review. Field work took place 2014–2017 in Nenets Autonomous District, Khanti-Mansi Autonomous District, Sakhalin Island, Irkutsk Region, and the North Slope of Alaska. Qualitative methodology using semi-structured interviews, participant observations, and document analysis has been used. In addition,

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literature on the topic of benefit sharing has been analysed. Research indicates that there is seemingly no ideal blueprint, or a single set of best practices leading to benefit sharing conditions satisfactory to local and Indigenous-nomadic communities. By examining the typology of benefit sharing governance modes and corresponding company policy models, we argue that some modes are more advantageous for meeting community needs and fostering sustainable development in remote regions. Concurrently, we explain why, despite company-community-state cooperation dating back to at least the 1970s, we have not seen the emergence of a successful benefit sharing model. We analyse what elements of Alaskan and Russian experiences could be used to build more locally-responsive and sustainable Arctic benefit sharing frameworks. Finally, we present our policy perspective and suggest new research directions to fill existing knowledge and policy gaps.

## 2. Background

The concept of "fair and equitable benefit sharing" represents a legal phenomenon, which originates from several international conventions, e.g. the biodiversity, international human rights, law of the sea and human right to science ([19];). It became a normative concept in connection with natural resources. Despite the International Labor Organization (ILO) Convention 169, which specifies Indigenous peoples' rights, is not directly using benefit sharing terminology, experts are widely exploring it [20] to frame benefit sharing principles that would close the gap between extractive industries, global beneficiaries and local residents ([21–23]).

*Benefit sharing is defined as the distribution of monetary and non-monetary benefits generated through a resource extraction activity* (e.g., [6,9]). Benefit sharing is understood to be a part of the 'social license' to operate, i.e. of a societal acceptance of company's activities in addition to and in concert with fulfilling obligatory licensing and permit requirements for resource extraction [24].

Differences in benefit sharing arrangements depend on international expectations imposed on the companies by investors, existing legislation, prevalent practices, regional contexts, and the level of empowerment of Indigenous and local communities [18]. Benefits from oil and natural gas extraction can be shared by energy companies with local communities in a number of ways: taxes, community investment, infrastructure development, jobs creation, sponsorship, compensation for damage, dividends, socioeconomic agreements, etc. [25,9]. For example, compensation payments may take a form of cash transfers, subsidies, purchases, and in-kind support directed at the local individual or collective beneficiaries. Community investment may include grants to local businesses and organizations, support for schools, and social services, etc. Dividends may be paid to local beneficiaries from investment funds created as a result of the extractive activity. Ideally, the concept of benefit sharing has to incorporate fairness, equitability (procedural, i.e. an ability to participate in benefit-related decision making, and distributive, i.e. ability to receive equitable benefits) and justice, which extends beyond compensations for loss [26,19,20] and increase well-being and fate control of local communities [27].

Recent literature on benefit sharing, including our past research, has focused on the energy companies and local communities in the Russian North and the North Slope of Alaska [17,18,28–31]. Multiple field studies showed mixed types of benefit sharing arrangements in these regions, resulting in different outcomes for local communities and Indigenous peoples. Several Arctic and sub-Arctic benefit sharing governance modes have been identified (e.g., [17,18]).

In this paper, we identify, describe, and compare benefit sharing modes and corresponding benefit sharing policy models found in the energy sector in the Russian and U.S. Arctic. In this context, a mode refers to a general manner or approach in which benefit sharing is executed, while a policy model represents a specific institutional arrangement that supports a given mode. We discuss their advantages and shortcomings in respect to the two key points of this paper: (1) the (in)ability to meet community needs and foster sustainable development, and (2) potential characteristics of and impediments to a successful benefit sharing policy model for the Arctic.

## 3. Evaluating modes of benefit sharing in the Arctic

Below we describe four modes of benefit sharing. This classification emphasizes governance and distribution mechanisms and divides all benefit sharing arrangements into paternalistic, company centered social responsibility (CCSR), partnership, and shareholder modes [17,18]. Although we introduce these "ideal" types and provide their stylized descriptions using examples from the field, we must note that in all case studies we see a mix of several modes. Most regions of interest have two co-existing modes, with Alaska bolstering three. To reflect this complexity we created a mixed mode category for Alaska. Another cautionary note is that in some instances it is challenging to clearly identify the mode as benefit sharing arrangements as it may incorporate features from two modalities. We attempted to distill the examples we are using here to illustrate our point most vividly. Finally, we discuss not only features and pitfalls of each mode, but try to connect them with policy models and sustainability process and outcomes. The latter is done using the notions of procedural and distributional equity of benefit sharing [26].

### 3.1. Paternalistic mode

The state usually dominates in this mode: it defines, monitors, and intervenes in companies' policies and practices. In some cases in Russia it represents both sides of stakeholders: a state-run company and a regional government. The company either (partially) takes a role of the state or contributes significantly to some elements of state support to local communities and Indigenous peoples. The latter parties have a very limited ability to control the nature, types, and delivery of benefits. In Russia, the paternalistic mode is rooted in the Soviet legacy and often results in the Indigenous people's dependency on energy companies, which sometimes *de facto* represents the state. Since the 1990s, the Russian Arctic has been undergoing a transition from state paternalism to corporate paternalism [28]. In Alaska, paternalism is perceived by scholars and Indigenous people as rooted in colonialism, but it also is embedded in some distributional practices by municipal and tribal governments.

For example, the paternalistic mode of benefit sharing arrangements can be exemplified using communities in the Nenets Autonomous District [30]. As a part of the socio-economic agreements between oil companies and the regional government, the oil-generated funds were distributed to Indigenous communities without control by Indigenous people. Non-transparent negotiation and top-down execution of the programs resulted in substandard services, such as inadequate housing provided to Indigenous reindeer herders.

In addition to the regional-level agreements, prior to 2013 the direct socio-economic agreements were also concluded between energy companies and Nenets reindeer herding enterprises. The amount and nature of the included benefits depended on reindeer herders' leadership negotiation skills, but most were in-kind. If the management of funds was delegated to the Indigenous enterprises, they were obliged to submit reports on their spending. In addition to colonialism, dependency, and inefficiency in respect to local communities, according to our observations, such top-down system is prone to persisting inequity based on the unequal access to distributed benefits.

After partial transition from socio-economic agreements to compensations in 2013, increased self-sufficiency of reindeer herding enterprises and depletion of state resources diminished the level of paternalism in the Nenets region. Concurrently, strengthening local institutions represented by reindeer herding enterprises were able to partially capitalize on compensation payments to become more economically mature, self-sufficient, and independent compared to the