



Resettlement: Experience of Sakhalin Energy

RESETTLEMENT: EXPERIENCE OF SAKHALIN ENERGY



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Resettlement issues have become a special importance, taking into consideration increasing number of the projects, which are associated with land acquisition/withdrawal necessary for implementation of oil and gas projects, construction of housing, infrastructures and other.

One of the resettlement related problems, which the businesses encounter with has been lack of consolidated information on practices and experience in this area.

The brochure describes Sakhalin Energy's experience in relation to resettlement, payment of compensation and other impact management issues related to land allocation.

Authors were involved in the company's activities associated with the resettlement.



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Implementation of large-scale infrastructure projects (e.g. in oil and gas, mining, hydraulic power industry, agriculture, construction, etc.) often calls for withdrawal/acquisition of lands, which may in turn result in involuntary resettlement (physical resettlement in view of the loss of property, land, income sources, etc. and/or economic resettlement in view of socio-economic changes for people, enterprises and organisations).

Involuntary resettlement may turn to be the most sensitive to the people involved, especially to vulnerable groups. This human rights issue is therefore viewed as a key one and requires special attention of enterprises in order to mitigate the negative impacts, on the one hand, and to minimise business risks, on the other hand.

The key problems faced by the parties in the course of resettlement include:

- problems of legislation regulations and international standards application;
- incomplete identification of the affected people who are eligible to receive compensation (including in line with international standards);
- insufficient and late information sharing and stakeholder engagement;
- failure to comply with vacation of land plots, resettlement works and provision of compensations timeframe;
- issues related to the amount of compensations, compensation calculation transparency, etc.

These and a number of other issues may eventually delay project works and bring about financial, legal and reputational risks.

On the other hand, the risks to the affected people are quite obvious, too. Most notably, these are deterioration of socio-economic conditions and risks to further development, including the development of host communities (e.g. settlements where the migrants have moved to). This is the reason why today the problem of involuntary resettlement is discussed in the context of both the social impact and observance and respect for human rights, including the right for housing, food, information, self-determination, etc.

This brochure describes the experience of Sakhalin Energy Investment Company Ltd. in addressing the involuntary resettlement issues, compensation provision and other mitigation measures related to land allocation, including:

- brief description of the impact scale;
- methodological aspects;
- practical measures;
- results.

The Appendices hereto contain the terms, abbreviations and useful references that are met throughout this brochure.

The brochure does not describe land allocation procedures, registration of rights for the land plots, etc. All these actions were performed by the company in compliance with the RF laws.

2 SAKHALIN-2 PROJECT DESCRIPTION

Sakhalin Energy Investment Company Ltd. (hereinafter referred to as the company, or Sakhalin Energy) was established in 1994 on the basis of the Production Sharing Agreement (PSA) with the Russian Federation for implementation and development of a major oil and gas project - the Sakhalin-2 (hereinafter referred to as the project).

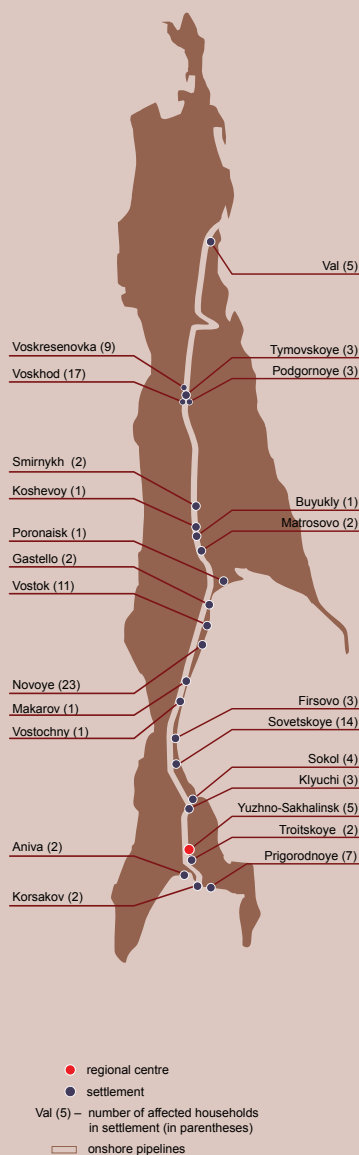
The Sakhalin-2 project includes the development of two oil and gas fields offshore the north-east Sakhalin and production and export of oil and liquefied natural gas (LNG).

For the purpose of the Sakhalin-2 project, a modern oil and gas infrastructure was built, including three offshore platforms, an offshore pipeline, a trans-Sakhalin pipeline system, an onshore production facility (OPF), an oil export terminal (OET) and Russia's first LNG plant.

During the pre-construction phase, a large-scale programme was implemented for the upgrade of the island's infrastructure, calling for the construction and reconstruction of roads, bridges, ports, airports, healthcare institutions, etc.

Further details of the company and the project are available on Sakhalin Energy's website and in the Sustainable Development Reports (www.sakhalinenergy.ru).





3 GENERAL DESCRIPTION OF IMPACTS

Land needs

To construct the natural gas and crude oil production infrastructure, the company had to acquire the rights for more than 4,700 ha of land.

Most of the land required for implementation of the project was owned by the state and by municipalities, with less than 3% in private ownership.

The company is using the land on long-term or short-term lease.

Categories of impacts

In the course of the social impact assessment (2001–2002) the company anticipated the following categories of impacts with regards to withdrawal/acquisition of land plots for the project needs:

- impacts resulting in physical relocation (full loss of dwelling premises/land/property);
- impacts that may result in economic relocation (partial loss of land or property that may adversely affect the income level, etc.);
- impacts on general resources (full/partial loss of pastures and gathering, hunting and fishing grounds).

Affected groups

The project-affected groups include:

- private households (individual land users, farmers, dacha users, and reindeer herders);
- enterprises (forestries, agricultural producers, fishing enterprises, etc.); and
- municipal entities, etc.

Acquisition of the rights to the lands and resettlement involved 125 households (430 people) and 66 enterprises in nine municipal entities. Among them:

- 10 households and 13 enterprises lost their land plots permanently.
- 117¹ households and 53 enterprises were affected by temporary land allocation: upon completion of construction the land plots were restored and returned to the owners.

¹ Two out of 117 households were affected by permanent and temporary land allocation.

4 HISTORY OF DEVELOPMENT OF THE RESETTLEMENT ACTION PLAN

4.1 SOCIAL IMPACT ASSESSMENT

In the period from September 2001 to October 2002 the company performed a Social Impact Assessment for the Sakhalin-2 Phase 2 (with Addendum in 2003-2005). At the time of completion, that was the world's most comprehensive Social Impact Assessment in relation to the development of oil and gas projects. The assessment was carried out in compliance with the standards of the World Bank and International Finance Corporation.

Social Impact Assessment is definition of the key social parameters, impacts forecast, development and implementation of the detailed impact mitigation measures (see diagram Social Impact Assessment Phases).

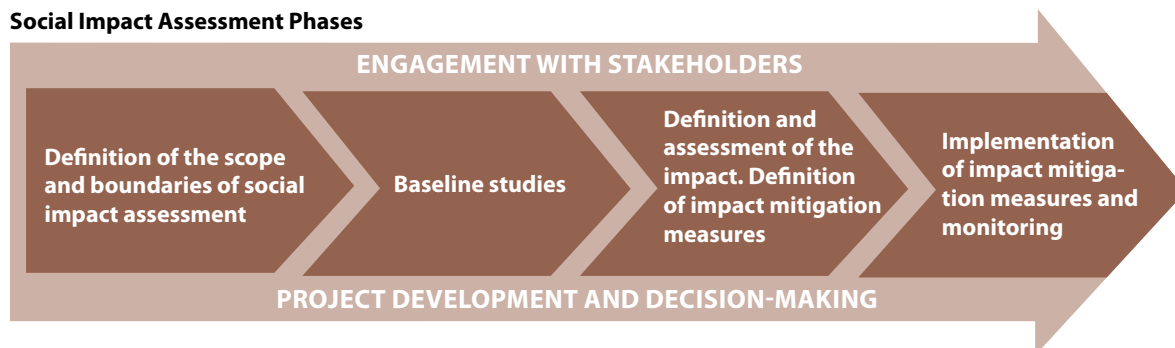
As part of social impact assessments their outcomes are discussed with the potentially affected people and public. For example, the interviews in 2001 through 2002 covered more than 5,000 Sakhalin residents in 52 Sakhalin communities. Besides, a series of public consultations were held to discuss potential impact and appropriate impact mitigation measures.

The assessment reports are available on the company's website.



Meeting with the community in Starodubskoye as part of social impact assessment

Social Impact Assessment Phases



The impact assessment materials were prepared by a team of independent international experts and Sakhalin specialists in sociology, anthropology, economics, indigenous people, community engagement, etc.

The social impact assessment addressed a wide range of special issues such as impacts on local communities, cultural heritage, and demography, economic and gender impact, impact on health, indigenous peoples, infrastructure, recreation and tourism area, resources issues (access to and possession of the resources) and other impact categories.

The assessment has also identified the scale and level of potential impact and the groups that could be affected as result of land withdrawal for the purpose of construction and operation of the project facilities. Based on the assessment results, the appropriate principles, actions and programmes were formulated (see Social Impact Assessment, 2003, Chapters 7, 8 and 12 and references in Appendix 3, available on the company's website).



Listed below are the key principles, actions and programmes:

- Sustainable Development Policy,
- Code of Conduct,
- No Hunting, Fishing and Gathering Policy During Construction,
- Camp Management Policy,
- Grievance Procedure,
- Supplemental Assistance Programme,
- Monitoring Programme,
- Contractor requirements, etc.

For the purpose of a more detailed consideration of resettlement and compensation issues and for ensuring a better transparency in this area, in the course of negotiations with the potential lenders a decision was made in 2003 to develop a special document — a Resettlement Action Plan (hereinafter referred to as the Plan) that would set out a detailed description of the company's approaches and procedures on compensations and resettlement, including the impact mitigation and monitoring measures.

4.2 DEVELOPMENT OF THE PLAN

One of the requirements imposed by the potential project lenders was to apply the best international practices and standards related to resettlement and compensations. At that time, such a standard was deemed to be represented by the World Bank Operational Directive 4.30 (OD 4.30) Involuntary Resettlement.



World Bank OD 4.30 defines the Bank's policy and procedures with respect to involuntary resettlement as well as the conditions to be met by the borrowers in the course of measures on involuntary resettlement.

The goals of the Bank's resettlement policy are ensuring project benefits to those of the community who had to resettle to other locations.

The company developed its Resettlement Action Plan together with the leading international experts on resettlement, including specialists of ERM consulting company.

The initial phase included analysis of the following requirements:

- RF laws,
- World Bank Operational Directive 4.30 (OD 4.30) "Involuntary Resettlement",
- World Bank Operational Directive 4.20 (OD 4.20) "Indigenous Peoples",
- International Finance Corporation Good Practice Manual "Doing Better Business Through Effective Public Consultation",

- International Finance Corporation Handbook for Preparing a Resettlement Action Plan, and
- Standards of other international financial organisations (Asian Development Bank, etc.).

Sakhalin Energy has been using the best international human rights standards, including the standards shaped by the UN (UN Guiding Principles on Business and Human Rights, i.e. the so-called Ruggie Principles), International Finance Corporation (IFC Performance Standards on Environmental and Social Sustainability), International Organization for Standardization (ISO 26000:2010 Guidance on social responsibility), and others as set out in the company's Human Rights Policy (see Human Rights Policy on the company's website).

The company's specialists and experts studied the experience of more than 50 industrial projects which had developed similar resettlement plans.

Besides, additional public consultations and surveys were carried out (e.g. assessment of the potential impact on ancillary fishing industries, hunting, etc.)

Prepared in 2003 through 2004, the Resettlement Action Plan was agreed upon with the lenders in 2005.

Some of the actions involving physical resettlement (relocation) and compensations were started in 2001 as part of the social impact assessment.

The Plan's implementation was successfully completed in 2011.



In the course of implementation of the Resettlement Action Plan, the company was acting in line with the RF laws and the World Bank's principles and policy which at the time of preparation of the Plan (2003–2005) included the best international practices in the involuntary resettlement. See the said policies and standards in the brief summary in the table below.

The World Bank / IFC Policy and Guiding

Programme or guiding document	Applicability to Sakhalin-2 project
World Bank Operational Directive 4.30 (OD 4.30) "Involuntary Resettlement"	Defines the goals and guiding principles to be met in projects involving involuntary resettlement
World Bank Operational Directive 4.20 (OD 4.20) "Indigenous Peoples"	Defines the goals and guiding principles to be met in projects impacting indigenous peoples
International Finance Corporation Handbook for Preparing a Resettlement Action Plan	Defines guiding principles for preparation of a resettlement action plan for private sector
International Finance Corporation Good Practice Manual "Doing Better Business Through Effective Public Consultation"	Defines guiding principles for information disclosure and public consultations with stakeholders for private sector

Legislation of the Russian Federation includes a comprehensive regulatory legal framework which defines the principles of assessment of loss and different types of damage. Many principles secured in legislation coincide with the OD 4.30 provisions. For example²:

- compensation for long-term losses through land allocation;
- compensation for the lost profit;
- priority attention to the issues of restoration of the lost means of production.

However, there were some gaps. For example:

- the Russian laws did not call for preparation of special resettlement action plans and compliance with certain procedures, such as social and economic analysis, consultations and monitoring;
- some of the land user categories eligible for compensations under OD 4.30 did not have the right for compensation under RF laws (e. g. the land users who did not have title documents for the land in use);
- unlike RF laws, OD 4.30 called for targeted types of support to project-affected people;
- OD 4.30 called for compensations based on the full replacement value principle, whereas the RF laws called for compensation on the basis of market value of the equivalent land or property;
- the RF laws did not require to pay special attention to the vulnerable groups;
- the RF laws did not call for a corporate grievance procedure.

Taking these gaps into account, the company developed its own concept of compensations and resettlement (see the Plan Methodology Section).

² Analysis of legislative requirements included in this brochure relates to the legislation existing as of November 2005

6 PLAN METHODOLOGY

6.1 CONCEPT AND GENERAL PRINCIPLES OF THE PLAN

To minimise project risks, including the risks associated with the withdrawal/acquisition of lands, in 2001 through 2003 the company performed a Social Impact Assessment and developed the principles, actions and programmes for land allocation impact management. These were subsequently supplemented and detailed in the Resettlement Action Plan.

The Resettlement Action Plan is a package of actions to manage impacts on the project-affected groups in the course of land withdrawal/acquisition for the purpose of construction and operation of the Sakhalin-2 project facilities, including the actions for compensation for any lost property or land.

CONCEPT

- Develop an effective mechanism to ensure that all people whose interests are affected in connection with land withdrawal/acquisition receive compensation for any lost property or changes in their social and economic conditions.
- Provide an opportunity to the land users to recover their living standard and a level of income at least to the level that existed before the project, or bring it to a higher level.

OBJECTIVE

- Minimise the negative impact and ensure that the project-affected groups receive compensation for any lost property and/or change of social and economic conditions as a result of land withdrawal for the project needs.

TASKS

- Minimise land withdrawal, thus minimising the impact on personal income sources and the scale of physical resettlement.
- Acquire the land and perform resettlement and payment of compensations in compliance with RF laws and international standards.
- Pay compensations before commencement of construction works.
- Consult the people whose interests were potentially affected in the course of land allocation and resettlement.
- Pay special attention to vulnerable groups of the affected land users and maintain targeted interaction with them.
- Perform internal and external monitoring of the Plan implementation process.



Workshop with reindeer herders as part of the Social Impact Assessment, the Piltun bay area



Special attention is paid to vulnerable groups (an interview with elderly people), Nogliki

This concept:

- defines the grounds and criteria of compensation, supplemental assistance and other actions to mitigate the impact of land allocation;
- describes the affected groups and their eligibility for compensation;
- calls for implementation of the Supplemental Assistance Programme (see the Supplemental Assistance Programme Section);
- includes the associated compensation calculation procedures which take into account the conditions in which the project was implemented and the OD 4.30 requirements.

In provision of compensations and performing the resettlement, the company was guided by the following principles:

- payment of compensations in line with the RF laws, except where OD 4.30 contains stricter requirements and calls for additional payments;
- in the event of physical resettlement, provide alternative dwelling premises and land as well as access to infrastructure and public utilities of equal or better quality as compared with those existing before resettlement;
- compensation payments are based on the full replacement value principle. The full land/property replacement value is the value equal to the amount of payments required for relocation of land/property in the existing condition;
- view the owners, eligible users and non-eligible users as the persons eligible for compensation except where the use is illegal or prohibited by the RF laws;
- pay special attention to the vulnerable groups. For this purpose, the concept of vulnerability was defined and targeted interaction with vulnerable households which lost the land, property or subsistence was provided;
- consultations with project-affected local community to discuss compensations and mitigation actions;
- establish a grievance procedure so that the project-affected people could use it, among others, to resolve the issues related to compensations, resettlement and recovery of their social and economic conditions;
- pay compensations in line with the terms of compensation agreement;
- negotiate compensations payment before commencement of construction works.

6.2 GROUNDS FOR COMPENSATION

Grounds for compensation and supplemental assistance to the project-affected people included:

- loss of dwelling premises, land or property to the extent requiring resettlement;
- loss of land or property impacting the level of income and subsistence;
- impact on the common property resources, such as grazing lands, gathering, hunting and fishing grounds.

Where the project-affected households were not eligible for compensation under the RF laws (e.g. non-registered users), they acquired the right for compensation under the Supplemental Assistance Programme (see the Supplemental Assistance Programme Section). The ground for this could include the following conditions:

- the impacted land plot had been used by the household for subsistence or dwelling for at least one year before the preliminary land allocation date, i.e. the cut-off-date (see Appendix 1: Glossary);
- the need for physical resettlement of the household or the loss of more than 25% of the land plot (even for the period of construction works) was viewed as a severe impact. Such households received compensation as vulnerable groups;
- in the event of traditional dependence on the land as the source of subsistence. At least one member of the household was to earn living by a traditional method (reindeer herding, hunting, etc.) in the project area. Such households were viewed as project-affected ones.



Hay field used for construction of pipelines, Voskresenovka

6.3 SUPPLEMENTAL ASSISTANCE PROGRAMME

To handle the cases where compensations stipulated by the RF laws were insufficient, Sakhalin Energy developed a Supplemental Assistance Programme (hereinafter referred to as the Programme) in order to meet the OD 4.30 requirements. The Programme was financed from a designated fund generated by the company.

The Programme allowed for a flexible interaction with the project-affected people, especially vulnerable groups such as non-registered land users, poor households, reindeer herders and senior people (see the Special Assistance to Vulnerable Groups Section).

Criteria of eligibility for supplemental assistance

The company developed a number of criteria to identify the potential recipients of supplemental assistance.

Criteria of eligibility for supplemental assistance

Criteria	Substantiation
The amount of compensation stipulated by the RF laws is insufficient to cover the actual losses	If the amount of compensation for losses is found to be insufficient to cover the actual costs because individual land users do not normally take into account all of their expenses. This includes, in particular, the expenses incurred by individuals for recovery of the land quality.
Land user belongs to a vulnerable group	<p>Vulnerable groups include:</p> <ul style="list-style-type: none">households and individuals whose principal income source relies on the state pension;households whose dwellers have disabilities (disabled people);poor households with an average monthly per capita income below the minimum subsistence level;non-registered land users;reindeer herders and their households. <p>The decision on whether or not a land user belongs to a vulnerable group is made in the course of preliminary analysis of social and economic position of the affected people.</p>
Difficulties with restoration of subsistence to the pre-project level	The need for supplemental assistance may be defined in the course of socio-economic survey and monitoring based on the needs for restoration of means of subsistence.



Consultations with land users, Vostok

Supplemental Assistance procedure

The supplemental assistance procedure included the following phases:

- based on the results of a preliminary socio-economic assessment of each household, experts of the Social Assessment Group (see the Organisational Structure Section) made recommendations for supplemental assistance to the Land and Compensation Board;
- following the review of the materials and based on the established criteria, the Land and Compensation Board (see the Organisational Structure Section) made a decision whether or not the household was eligible for supplemental assistance and defined the scope of supplemental assistance if applicable;
- experts of the Social Assessment Group prepared a supplemental assistance package;
- the form, type and scope of supplemental assistance were finally agreed with the land users.



Assistance in transportation of cattle stock during the resettlement from the former village of Prigorodnoye

Forms and types of supplemental assistance

Supplemental assistance could be provided in monetary form, in kind or as a combination thereof.

Monetary supplemental assistance was paid as follows:

- resettlement allowance for the physically resettled people. This is a lump sum payment which also covered the costs of property transportation;
- payment in the transitional period (within 6 months) to vulnerable households which could experience difficulties in recovering their subsistence sources;
- additional compensation to meet the OD 4.30 requirements for compensation for damage to land plots and agricultural crops on the basis of full replacement value principle which takes into account a compensation for investments in the development of the land plot (including fertilisers, labour input, seeds

and use of agricultural equipment) and the lost crops assuming their maximum market value and maximum yield (in one year);

- compensation for the expenses associated with registration of the land plot and other costs associated with its acquisition.

Practice shows that land users are often unable to realistically assess their dependence on agricultural activities: once the monetary compensation is received, they spend it for other needs, with hardly anything invested or left as a reserve. This may degrade their economic status and bring about the need for supplemental assistance and assistance in restoration of the household economy.

To avoid such potentially negative consequences, recommendations were developed for provision of compensations and supplemental assistance in kind (see following table).

Types of supplemental assistance in kind

Type of supplemental assistance	Description
Physical relocation of property	<p>Transportation of personal property and domestic utensils, agricultural equipment and cattle stock.</p> <ul style="list-style-type: none"> • Example: relocation of household property from the land plot allocated for construction of Prigorodnoye Complex.
Assistance in concurrence and execution of new lease contracts for land and equipment	<ul style="list-style-type: none"> • Assistance to project-affected people in the course of interaction with local administration or potential lessor regarding the terms and possibility of land and equipment lease contracts. This assistance is provided in the form of legal advice and/or information about the quality or availability of a land plot.
Support in registration of land use and associated rights	<p>Registration may be accomplished with involvement of a third-party specialised organisation which may provide various services, in particular:</p> <ul style="list-style-type: none"> • topographic survey of the new land plot; • registration of the new land plot with cadastral authorities; • registration of the land rights with the registration chamber and transfer of all applicable administrative fees and duties.
Short-term provision of reliable transport means	<ul style="list-style-type: none"> • Allocation of transport vehicles on various occasions such as negotiating, receipt of compensation or examination of the new dwelling premises. • Allocation of transport vehicles for travel to other fishing, hunting or gathering grounds during construction.
Support in improvement of crop yield in farming areas that were not impacted by the project or other agricultural lands owned by a project-affected household	<p>Involvement of a third party to provide consultations to project-affected land users regarding an improvement of crop yield and use of seeds, including:</p> <ul style="list-style-type: none"> • technical consultations; • provision of high-quality seeds; • provision of fertilisers, agricultural chemicals, etc.

6.4 SPECIAL ASSISTANCE TO VULNERABLE GROUPS

According to the international standards, special attention is to be paid to the so-called vulnerable groups that are affected in the course of project implementation.

The company has developed vulnerability criteria, including subsistence ability and loss of subsistence sources by the project-affected households, etc. (see the table below), and conducted the applicable studies.

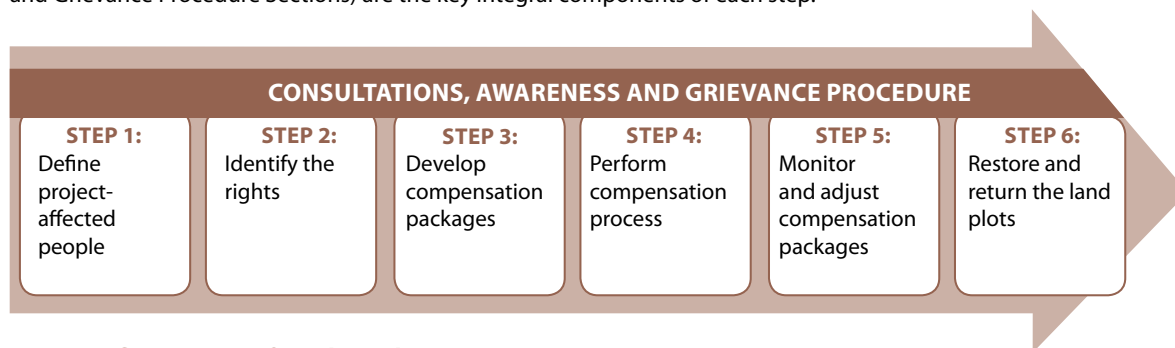
According to the results of the studies, 89% out of the 125 project-affected households belonged to one or more vulnerable group. The project called for special types of assistance to be provided to these groups of households (see the table below). The need of the households for special assistance was identified in the course of consultations and monitoring.

Assistance to vulnerable groups

Vulnerable groups	Reasons why this group is vulnerable	Measures
Households having elderly people and households living on pension	Low mobility level. Private garden is one of the basic subsistence sources. Pension is below the minimum subsistence level.	Careful assessment of socio-economic situation of each household and generally in the district. Development of supplemental assistance actions with account of the needs and preferences of each household with respect to preservation of the sources of subsistence and subsistence ability.
Poor households	Private garden is one of the basic subsistence sources. High unemployment rate in the localities where such households normally reside.	Assistance in relocation. Confirmation by a third party (independent consultant) of sufficiency of compensation packages. Corrective actions or additional actions may be taken based on the results of the life quality recovery monitoring.
Non-registered land users	According to RF laws, they have no legal rights for compensation. They sometimes use the land as the source of subsistence (e.g. dairy cattle breeding, agriculture, reindeer herding).	Provision of temporary manpower for various works. If possible, actions may be taken to ensure that the authorities formally recognise the non-registered land users' rights for the land use and compensations. If this is impossible, ensure payment of compensations from the Supplemental Assistance fund.
Indigenous people, in particular reindeer herders and their households	They have no formal title and rights for the land used as spring and summer pastures.	Support in transportation of property to reindeer herder camps, procurement of fuel, lubricants and combined feed for reindeers, etc.

6.5 STEPS

The process of provision of compensation and supplemental assistance in connection with physical and economic resettlement includes six steps. Consultations with the affected people and Grievance Procedure (see the Consultations and Grievance Procedure Sections) are the key integral components of each step.



Step 1: Define project-affected people

Step 1 in the compensation process is to identify and detect land users, generate a list of such land users, define the number of potential project-affected land owners and users, and perform a preliminary assessment of compensation requirements.

The list of the persons having the title to project-affected land plots in line with RF laws shall be generated based on the information provided by authorised state authorities.

Any non-registered land users shall be identified through:

- project documentation review;
- consultations with experts of local self-government bodies and rural administrations;
- on-site examination of the land plots allocated for project facilities to check whether or not they are used by anyone (e.g. a land plot is used as a vegetable garden or hay-field, but authorised state authorities are unaware of it);
- consultations with potential project-affected land users or people who may know who is using the land plots allocated for project facilities, and in what way).

All these actions are aimed at identification of all the potentially affected people.

The potential project-affected land users will be notified about the allocation of their land plots for project facilities, compensation process and grievance procedure.

Step 2: Identify the rights

Step 2 is to assess eligibility of the project-affected parties for compensation. This step calls for preliminary identification of their rights (if any) as provided by RF laws and subsequent identification of the required supplemental assistance according to international standards.

Eligibility for supplemental assistance is identified through preliminary interviews and processing of questionnaires regarding the socio-economic situation of the affected people. Further details on the Supplemental Assistance Programme are provided in the Supplemental Assistance Programme Section.

The company or the contractor experts perform a topographic survey and inventory of the land plot, along with a detailed assessment of the socio-economic situation of the project-affected household.

A package of actions including interviews, identification of the socio-economic situation of households and topographic survey help identify the rights of the project-affected people.

Step 3: Define compensation packages and make agreements

Compensation package is defined based on the Step 2 results.

Such package includes compensation required by the RF laws and, if required, an additional compensation to be provided under the Supplemental Assistance Programme.

Compensation packages may be provided in monetary form, in the form of equal value land and property, or using other types of support in kind.

Compensation package is defined with participation of the affected households.

Once defined, compensation package is approved by the company's Land and Compensation Board (information about the Committee is provided in the Organisational Structure Section).

Compensation agreements are then be made with the affected land users.

In the course of preparation and conclusion of compensation agreements, the company explains to the land users their rights and responsibilities, compensation/supplemental assistance calculation methods, and the grievance procedure.



Development of compensation package, Firsovo

Step 4: Perform compensation process

Upon conclusion of compensation agreements, the company transfers monetary compensation to the land user's bank account. If there is no bank in the locality where the land user resides, the company assists such user in reaching the nearest bank branch and coming back home.

In the event if compensation is provided in kind, the company bears all associated costs: transportation, delivery, payment for services, goods, etc. (see examples in the Supplemental Assistance Programme, Physical Resettlement and Economic Resettlement Sections).

Step 5: Monitor and adjust compensation packages

Internal and third-party monitoring was established to monitor the actions and enhance the effectiveness of the Plan (information about monitoring is provided in the Internal and External Monitoring Section). Monitoring was performed during the implementation of measures and for three years from its completion.

Step 6: Restore and return the land plots

Reclamation of the project-affected land plots is the key component of the sustenance recovery strategy under the project.

The company has developed and is pursuing an integrated Land Reclamation and Anti-Erosion Plan for the lands whose use regime was temporarily impaired in view of construction works under the project.

The monitoring programme was used to identify satisfaction of the land users with the land plot reclamation quality.



Meeting with the land users as part of the monitoring programme, Gastello

The actions under the Plan were performed by experts representing a number of the company's departments. The key role in performing the actions for provision of compensations and additional support in view of physical and economic resettlement was played by the following organisational units of the company:

- Central Approvals Team (the team responsible for approval of the materials regarding land allocation, etc.);
- Legal Department;
- Social Assessment Group;
- Community Liaison Officers;
- Project teams (the teams responsible for the construction of project facilities, including Prigorodnoye Complex, onshore pipelines, etc.);
- Land and Compensation Board (a special body of the company comprising the heads of some of the departments to approve the strategy and the budget of compensations and additional support in view of physical and economic resettlement, as well as certain compensation packages);
- Finance Department;
- Contractors.

General coordination of the interaction between different units for an effective performance of the Plan and for ensuring compliance with international standards was accomplished by the Social Assessment Group.

A special role was played by the Community Liaison Officers (CLO) — a special team of the company specialists established before the commencement of the construction works (12 CLOs at pre-construction and construction phases). The said specialists worked directly in the project-affected localities and stayed in the temporary accommodation camps of the project facilities. The primary task of the CLOs was to ensure prompt interaction and resolving problems on site. In international practice, CLOs are called project's "eyes and ears".

The role of the units in certain works is shown on the scheme below.

Functions and roles of the company and contractor units in implementation of involuntary resettlement measures

- ▲ – responsible party
- – participation
- ◆ – consultations
- – control

- CAT** – Central Approvals Team
- LD** – Legal Department
- SAG** – Social Assessment Group
- CLO** – Community Liaison Officers

- PG** – project groups
- LCB** – Land and Compensation Board
- FD** – Finance Department
- C** – Contractors

Functions/units	CAT	LD	SAG	CLOs	PG	LCB	FD	C
STEP 1: Define project-affected people								
Review project documentation review and information received from authorised authorities, description of the land plots required for project facilities, including their legal status	▲	◆						
Identify non-registered land users	■		▲	■				
Generate a list of the land users	▲	◆	■	■				
Send the land allocation notices to the project-affected land users	▲			■				
Develop a compensation calculation method according to international standards			▲					
Inform the community about the compensation process and grievance procedure	▲		■	■				
STEP 2: Identify the rights								
Perform a socio-economic assessment, including a topographic survey and an inventory of the land plot if required			▲	■				■
Identify eligibility for compensation as provided by the RF laws	▲	◆						
Assess the need for compensation and identify the rights as provided by international standards			▲					
STEP 3: Define compensation packages and make agreements								
Perform an independent assessment for calculation of the compensation amount	●	◆	●					▲

Functions/units	CAT	LD	SAG	CLOs	PG	LCB	FD	C
Hold consultations with the project-affected land users, authorities, etc.	■		▲	■				
Define a compensation package and calculate the compensation amount as provided by the RF laws	▲	◆					◆	
Define the type and scope of supplemental assistance			▲					
Define compensation package and calculate the compensation amount as provided by international standards			▲					
Select alternative solutions for physical resettlement	▲	◆	■					
Agree and approve compensation packages	■		■			▲		
STEP 4: Perform compensation process								
Formalise compensation packages	■	◆	■				▲	
Follow up transactions involving real estate and land plots	▲	◆					■	
Conclude agreements with third-party organisations for construction of dwelling premises, etc.	■	◆					▲	
Handle the issues of construction of dwelling premises and household outbuildings	●							▲
Handle the issues of registration of the land users' rights for real estate allocated in view of resettlement	▲		■					
Transfer monetary compensation							▲	
Provide support to households: provide transport vehicles, pay for goods and services, etc.	■		●	■	■			▲

Functions/units	CAT	LD	SAG	CLOs	PG	LCB	FD	C
STEP 5: Monitor and adjust compensation packages								
Monitor the compensation process			▲	■				
Develop corrective actions	■	◆	▲	■				
Approve corrective actions	■		■			▲		
Implement corrective actions	■		●	■	■		■	■
Perform follow-up monitoring after provision of compensations, supplemental assistance and resettlement			▲	■				
STEP 6: Reclaim and hand back the land plots								
Ensure that the land plots are reclaimed					●			▲
Ensure that the land plots are handed back to the land users					▲			
All steps								
Consult with potentially and actually project-affected land users, authorities, etc.	■		▲	■				
Grievance addressing	■	◆	●	■	■		■	■

8

IMPLEMENTATION OF THE PLAN

8.1 GENERAL ACTIONS OVERVIEW

The actions for resettlement and provision of compensations and supplemental assistance were started in 2001 in the course of Social Impact Assessment (see the Social Impact Assessment Section) and ended in 2011 with the final external assessment (see the Internal and External Monitoring Section).

The table below contains a brief description of works for implementation of the actions under the Plan depending on the project phase: pre-construction, construction, and operations³.

Phase	Asset	Period	Activity
Pre-construction	All project facilities	2001–2002	Social Impact Assessment. Development of compensation principles and criteria, development of the Supplemental Assistance Programme.
	Prigorodnoye Complex	2001–2003	Physical resettlement of six households from the Prigorodnoye Complex construction site (3 permanent households, 1 farm enterprise and 2 dachas), including payment of compensations and supplemental assistance.
		2004	Physical resettlement of a fishing enterprise, including the payment of compensation.
	Onshore pipelines and above-ground installations	2002–2004	Physical resettlement of two dachas, including the payment of compensation and supplemental assistance. Economic resettlement of 115 households (including non-registered ones), including the payment of compensation and supplemental assistance.
		2002–2007	Payment of compensations to 66 project-affected enterprises.
Construction	Prigorodnoye Complex	2005–2006	Physical resettlement of a farm enterprise from the sanitary protection zone, including the payment of compensation (with an assessment of rights and socio-economic status accomplished in 2003 through 2004).
		2003–2007	Monitoring and adjustment of compensation and supplemental assistance packages for the resettled households.
	Onshore pipelines and above-ground installations	2005–2007	Physical resettlement of a household from the onshore pipeline protection zone, including an allocation of a land plot, construction of a house, and provision of compensation and supplemental assistance (with an assessment of rights and socio-economic status accomplished in 2003 through 2004).

³ Years may coincide because construction of assets was accomplished in steps.

Phase	Asset	Period	Activity
Construction	All onshore assets	2005–2008	External and internal monitoring of the Plan implementation process, impact during the construction works, and economic recovery of the project-affected households.
Commissioning - operations	All onshore assets	2008–2011	External and internal monitoring of the Plan implementation process, economic recovery of the project-affected households, and the process of reclamation and handing back of the land plots used for the project needs. Final external assessment was accomplished in 2011.

8.2 CONSULTATIONS

The company started consulting with the land users potentially affected by the land plot withdrawal/acquisition process in 2001, before the start of construction works in the course of Social Impact Assessment.

Sakhalin Energy's engagement with stakeholders is based on its commitments as set forth in the key corporate documents, which include:

- Sakhalin Energy Statement of General Business Principles;
- Code of Conduct;
- Sustainable Development Policy;
- Human Rights Policy;
- Commitments and Policy on HSES and Social Performance;
- Social Performance Standard;
- Public Consultations and Information Disclosure Plan (updated annually).

The above-listed documents define the engagement strategy, principles, mechanisms and tools and are widely accessible.



Meeting with Makarov district residents

The choice of the most effective mechanisms and tools was made based on the interaction goals and tasks. In particular, in the course of interaction for compensations and supplemental assistance in view of physical and economic resettlement, the most effective interaction mechanisms included:

- individual and group consultations;
- questionnaire surveys;
- provision of verbal and written information.

For the purpose of transparency, in the course of consultations land users received full information about the compensation process (rights and obligations of the parties, compensation forms and types and calculation methods, compensation agreement procedure, forms of supplemental assistance, grievance procedure, etc.). In view of a large number of matters to be discussed, with some of them being rather complicated, repeated consultations had to be held with the same land users (especially with vulnerable groups). Each meeting lasted for at least one hour.

Land users voiced their preferences and participated in the planning of resettlement and compensation processes. This approach enabled to select the optimum and coordinated compensation packages and to minimise the risks for the company, conflicts and discontent of the land users.

Compensation process was followed by regular consultations in the course of internal and external monitoring (see the Internal and External Monitoring Section).

The process of consultations and taken decisions were recorded and documented.

8.3 COMMUNITY GRIEVANCE PROCEDURE

Community Grievance Procedure (hereinafter referred to as the Procedure) is the key mechanism used by the company to address issues and find the solutions, and is also an important and effective tool to identify the potential and actual problems and risks to the Plan.

According to the Procedure, grievance process includes six steps.

A grievance is an expressed discontent or concern of one person or a group of persons with respect to the activities pursued by Sakhalin Energy or by its contractors. A grievance may arise out of a real or alleged problem.

All issues are addressed confidentially in line with the confidentiality principle of the Procedure. Moreover, identification details of the complainant and the subject of grievance is not to be disclosed to any third parties without a complainant's written consent thereto.

45
WORKING
DAYS



2
WORKING
DAYS

7
WORKING
DAYS

During each meeting with the land users the company specialists explained that the company had established the Grievance Procedure and the land users could contact Sakhalin Energy on any problems associated with project implementation.

The company established an effective mechanism to resolve grievances before commencement of construction works, and has held regular Procedure awareness campaigns during public meetings, via mass media and leaflets distributed in the communities, etc. Besides, a brochure was prepared especially for the project-affected land users, explaining in a simple and clear way how the Procedure works and how to send a grievance or a complaint to the company.

Over the Plan implementation period, the company has logged and resolved about 100 Plan-related grievances, which makes some 30% of the total number of grievances received by the company in 2003 through 2011. The grievances concerned various problems such as restricted access to the land plots, damage to the land plots, discontent with the quality of land restoration works, and a compensation package.

In the course of meetings with the land users during the construction works the company was made aware of the cases of restricted access to the land plots during the agricultural season. Such cases were logged in line with the Procedure.

To correct the existing cases and to avoid them in the future, the company and the onshore facilities construction contractors have jointly developed a package of actions which included the following:

- mandatory participation of CLOs in the weekly meetings of the construction project teams and review of grievance resolution progress;
- strict control of land users informing process;
- coordination of the works timeframe with the land users;
- arrangement of passages across the pipelines, and other actions.

These actions minimised the number of such cases.

In 2009–2011, Sakhalin Energy was elected as one of the five companies in the world for participation in testing the Ruggie Principles⁴ with respect to corporate grievance mechanisms. The company's experience was highly recognised among the participants of this project.

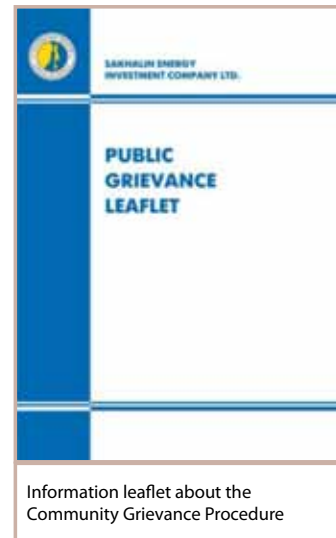
"The participation of Sakhalin Energy in the pilot project demonstrated the applicability of the SRSG's (Special Representative of the Secretary-General) Principles in a corporate context where a grievance mechanism had already been fully developed and tested.

As the Sakhalin Energy grievance mechanism is among the more comprehensive and well-resourced in the industry, the project helped identifying opportunities for applying the Principles in practice and across multiple grievance procedures.

At the same time, opportunities were identified to improve guidance regarding implementation of the Principles. Despite the existence of a wellfunctioning grievance mechanism, the company went through the effort to grapple with new questions and was willing to push the boundaries of its grievance procedures. For this, and its dedication to its stakeholders, we commend the Sakhalin Energy teams in charge of the various grievance procedures".

Report by John Ruggie, Special Representative of the UN Secretary-General on human rights and transnational corporations and other business enterprises

*"Piloting principles for effective corporate/stakeholder grievance mechanisms"
(17th session of the United Nations Human Rights Council, 2011)*



The number and the nature of grievances received by the company in connection with the Plan varied and depended on a number of factors, with the key ones as listed below:

- particular features and intensity of construction works and, consequently, impacts on the social situation;
- awareness about the Procedure, ability to use grievance-lodging methods and readiness to contact the company;
- attitude of contractors to resolving grievances and generally to the management of social issues.

⁴ UN Guiding Principles on Business and Human Rights (full name: UN Guiding Principles on Business and Human Rights: the United Nations "Protect, Respect and Remedy" Framework), or the so-called Ruggie Principles today are the key standard for business in the context of human rights. These principles were developed by Professor John Ruggie under his mandate of the Special Representative of the UN Secretary-General. In June 2011, the Guiding Principles were approved by the UN Human Rights Council and were recognised as the first standard for international business community in the field of human rights.

Most of the grievances came in 2006 and 2007, in the peak construction. All of them were addressed through corrective and preventive actions, with additional interaction maintained with the contractors to prevent any repeated grievances in the future.

Upon completion of construction and onset of operations phase the number of grievances in connection with the Plan decreased significantly. This is explained both by a significant reduction of impact and by preparation of timely actions that enabled to reduce the number of situations causing grievances.

8.4 PHYSICAL RESETTLEMENT



Construction of the house for the resettled household, Firsovo

The company paid special attention to the cases of physical relocation (resettlement) of households (10 cases) and exercised individual approach in each case.

The 10 households resettled under the project included:

1) resettlement from Prigorodnoye Complex construction site and its sanitary protection zone (SPZ):

- three permanent households on the territory of the former settlement of Prigorodnoye;
- two farms;
- two dachas.

2) resettlement from the pipeline right-of-way and its safety zone:

- one household;
- two dachas.

Six out of ten resettled households did not have registered rights for the land plots and real estate. The company accomplished their resettlement under the Supplemental Assistance Programme (see the Supplemental Assistance Programme Section).

Resettlement from Prigorodnoye Complex construction site and its SPZ

In the course the Sakhalin-2 Social Impact Assessment in 2001 it was found that the territory allocated for the construction of Prigorodnoye Complex and its SPZ accommodated seven households.



Prigorodnoye before the construction of Prigorodnoye Complex

This territory included the land of the former settlement of Prigorodnoye. The locality was removed as long ago as in 1973, and at that time people received dwelling premises in other areas, mostly near Korsakov. However, in early 1990s a number of households returned to the former settlement because of adverse economic situation as they found it difficult to live in Korsakov due to financial problems.

SPZ is a protective barrier ensuring safety of people during the normal operation of the asset.

In Russia the size of SPZs of industrial facilities and assets is defined in steps: estimated (preliminary) sanitary protection zone, defined on the basis of the project with account of air pollution dissipation and physical impact; and established (final) sanitary protection zone, defined based on the results of the field studies and measurements to confirm estimated parameters.

According to the Social Assessment Group data information, five out of seven households had no rights for the dwelling houses, dachas and land plots they were using.

On Sakhalin Energy's initiative, in September 2002 the Korsakov District Administration established a committee which officially confirmed the fact that the households were residing on the territory allocated for the construction or were using the land plots as dacha households, which enabled to launch the resettlement process. The committee included representatives of the Korsakov District Administration, the head of the local village administration and a local non-profit organisation.

The company made a decision that, according to the commitments made, all of the affected households, including the non-registered ones, should receive compensation and/or supplemental assistance.

The company's contractor assessed the replacement value of the households' property and prepared the reports.

Listed in the table below are the examples of compensations and supplemental assistance to the resettled households.

Examples of compensations and supplemental assistance to the resettled households

Before resettlement	After resettlement
Decrepit wooden house (hut), furnace heating, no shower/ bathroom, no water supply and sewage, toilet in the backyard	Comfortable stone house, indoor toilet and bathroom, central water supply/ heating/sewage or individual heating (boiler) and sewage (septic system)
Decrepit household outbuildings	New household outbuildings
Garden land plot without a house; no electrical power or water supply	Large garden land plot with a dacha house, convenient access by car, centralised electrical power supply, and regular delivery of water



Physical resettlement of all households residing on the territory allocated for the construction of Prigorodnoye Complex was completed in March 2003. In 2006 the household that resided within the Prigorodnoye asset SPZ was resettled.

The households that resided on the territory allocated for the construction of Prigorodnoye Complex were resettled before the construction works. The company specialists carried out a detailed study of the project-affected households, which enabled the company to take into account their needs and identify the best resettlement scenario for each of the households.

The company specialists continued to regularly meet with the resettled households for four years from the completion of resettlement. According to the monitoring results, targeted engagement with the households enabled to timely and successfully accomplish the resettlement and ensured a better adaptation of the households to the new conditions.





Previous house of the pensioner, Prigorodnoye

Example: Physical resettlement of a household from the territory of Prigorodnoye Complex construction site

A 73 year old pensioner A. resided in the former settlement of Prigorodnoye. One could call her an old-timer of the village. She remembered the times when Prigorodnoye was a large settlement with five thousand residents, three stores, a kindergarten, a school, a timber industry enterprise, an agar factory and a fishery mill. When the residents were resettled in the 1970s, A's household, like many other households, received a flat in Korsakov.

However, she did not feel like living a life of a town dweller. Besides, in the years of economic crisis many pensioners found it difficult to live on pension. A significant source of income for many senior people was to run an individual household plot, and the town pensioners found themselves in disadvantageous conditions.

In 1990 pensioner A. returned to the settlement of Prigorodnoye and moved in a house vacated by the owners. The dwelling was without conveniences, very old and shabby. The elderly woman lived alone in a small room next to the kitchen. The furnace in the kitchen was used for heating and cooking. The house had neither sewage nor water supply, and during winter snowstorms the house was often left without electrical power. The nearest hospital and food store were in Korsakov. She also had to go to Korsakov to collect her pension.



New house of the pensioner, Korsakov

At first the pensioner worked for a local farmer, tending for poultry and cows. When the farm wound up, she procured cows and poultry of her own.

In August 2002, pre-resettlement works commenced, including a number of awareness meetings and a socio-economic study of the households residing on the site of the future LNG plant by Sakhalin Energy's Social Assessment Group.

According to the results of the study, running a household plot was the main source of income for pensioner A. Yet she had no formal right to reside in that house and to use the land. Therefore, she was not eligible for compensation under the RF laws.

Sakhalin Energy specialists held a series of meetings with pensioner A., and made a detailed socio-economic assessment. Based on the results of those efforts, the company defined the amount and form of supplemental assistance and discussed with her the resettlement scenarios. She was offered to choose from six private houses in Korsakov. The pensioner chose a house in Korsakov not far from where her children lived, as she intended. In February 2003, Sakhalin Energy allocated funds for preparation of household outbuildings to accommodate three cows.

In March 2003, pensioner A. signed an agreement with the company for compensation for the losses and damage caused by withdrawal of the land plot. According to the agreement, a comfortable three-room house with household outbuildings was purchased for the elderly woman. The new dwelling premises featured all conveniences: centralised water supply, sewage and individual heating. The funds allocated by the company were also used for preparation of the cow shed: a large barn on the household plot was modified for warmth-keeping, and a cow stall was built. On top of that, Sakhalin Energy paid the pensioner a compensation for the lost crop and covered her relocation costs.

In March 2003 she moved into the new house. The company assisted her with a transport vehicle to deliver her property.

The company, jointly with an international expert, performed a follow-up monitoring for four years.

After the resettlement the elderly woman obtained a warm and spacious house, good household facilities and a vegetable garden. Her children and grandchildren live nearby and visit her more often than before. Her living conditions are much more comfortable than before the resettlement. Pensioner A. was satisfied with the job done by the company.

Resettlement from the territory of pipeline safety zone

According to the data collected in the course of the Social Impact Assessment in 2001 through 2002, there were two households in the Dolinsk District located within the pipeline safety zone. Consultations with those households were started in 2003, along with an assessment of their rights and their socio-economic status.

The pipeline safety zone is established to prevent damage to the pipelines. The safety zone is established along the oil and gas pipelines in the form of a land plot limited by conventional boundaries running parallel to the pipeline 25 m off the pipeline centreline on both sides.

Pipeline safety zones may not be used for any activities that may disrupt normal operation of pipelines or cause any damage to them.

In 2005, the pipeline route in the said district was changed. The changed route affected one household whose house was located just 36 m off the gas pipeline centreline.

In view of the existing regulatory requirements, it was decided that the household should be resettled before the pipelines were commissioned.

It was also found that the household had no rights for the house and the land plot they were using. That is why physical resettlement and compensation payment were carried out under Supplemental Assistance Programme.

At the initial phase of the consultations regarding the need for resettlement, the head of the household flatly refused to discuss this issue. Following a series of meetings the household agreed to resettle to a new location on the condition that they were provided with new dwelling premises within the locality where they were residing.

In autumn of 2005, the company's contractor assessed the replacement value of the household property and prepared a relevant report.

In winter of 2005, the company and the household signed an agreement for compensation for losses and resettlement, and defined the location where the household would resettle.



Pensioner's household in the new house, Korsakov



Pipeline protection zone

With all permits obtained and construction contractor defined, works were started for construction of a new house on a new land plot.



Previous house of the resettlers, Firsovo



New house of the resettlers, Firsovo

In summer of 2006, the pipeline construction was in proximity to the place of residence of the household. Construction caused inconveniences, and the household lodged a grievance about the following issues:

- the construction works impacted the land plot that was used by the household for growing potato;
- access to the house was limited, and it was impossible to bring coal to the house;
- the household was concerned about the construction noise.

Based on the consultations regarding the first issue, the household was paid compensation and provided with assistance in procurement and transportation of potato. Other issues were addressed with an involvement of a Community Liaison Officer and the construction subcontractors:

- a passage was arranged across the pipeline route under construction;
- the construction works were completed within a shorter period.

The use of the Community Grievance Procedure and the CLO's efforts enabled to promptly resolve the emerging problems.

According to the agreement, a dwelling house, household outbuildings and a bath house were built for the household, and a land plot was provided. All documents for the land and real estate were executed as required. The household was also paid a compensation and allowance for adaptation to the new place of residence.

In December 2007 the household moved into the new house.

The company specialists were holding regular meetings with the household to monitor the economic recovery of the household for four years from resettlement.

The monitoring revealed that the household was experiencing some difficulties. Following the consultations with the household, corrective actions were defined and supplemental assistance was provided.

8.5 ECONOMIC RESETTLEMENT

From among the total number of households (125) that lost their land plots (either temporarily or permanently) as a result of project implementation, 97 lost the land plots used for growing potato and as hay fields, 2 lost the land plots used as seasonal dacha households, and 13 lost the land plots used for farming. For five reindeer herder households, the project potentially impacted the land area used as pastures.

All compensations prescribed by the RF laws were paid before construction works.

Where a project-affected household was not eligible for compensation under the RF laws or the amount of compensation allowed by the RF laws was insufficient to cover all losses suffered by such household, the land users were provided with supplemental assistance.

Supplemental assistance was used proactively, on the basis of a socio-economic analysis of the needs of affected households' and the identified legal status of such households.

A special numerous group of the impacted land users included those land users who had no registered rights for their land plots and/or property. An example of interaction with this group of affected people is described below.

Interaction with non-registered land users

About 50% (out of 125) of the affected households were not entitled for compensation under the RF laws (non-registered users), but were entitled for compensation under OD 4.30.

Compensation and the required support were therefore provided to them under the Supplemental Assistance Programme.

Non-registered land users are those who had been openly using the land plots for years but did not have any registered rights for such land plots. Those were mostly the residents of country areas who had previously worked in collective farms. They joined their efforts to till large areas of land which were split into plots assigned to individual households.

To identify non-registered land users, the company specialists interacted with the heads of village administrations, questioned the villagers, visited the land plots to define the boundaries of each household's plot, prepared maps, detailed descriptions and the history of land plot use, etc.

Based on the acquired information, the company prepared reports on generation of a list of those households whose land plots were going to be withdrawn, including information on the size of the plots and a map. The reports were signed by the heads of village administrations and by the land users.

The Supplemental Assistance Programme included the development of compensation calculation method to pay compensation for withdrawal of land plots and lost crops. According to this method, compensation accounted not only for the lost crops but also for the lost investments associated with the development of a land plot (based on the maximum indicators). Thus, the amount of compensation was sufficient for the development of a new land plot and getting crops as early as the following year, i.e. compensation was provided on a full replacement value basis as required by OD 4.30.

Following provision of compensation and supplemental assistance, the company specialists continued, for four years, to hold regular meetings with the land users as part of the follow-up monitoring programme. The monitoring showed that the amount of compensation and supplemental assistance was generally sufficient to restore the socio-economic level of the impacted households, and no extra actions were required except for just a few cases.



Vegetable garden of a non-registered land user, Prigorodnoye



Hay field of a non-registered land user, Roschino



Identification of non-registered land users, Novoye

8.6 COMPENSATIONS TO FISHING ENTERPRISES

The construction and operation of Prigorodnoye Complex impacted three commercial fishing enterprises.

One of them lost the land plot due to construction of Prigorodnoye Complex. The land plot accommodated a fishery mill and a fishing ground in the Aniva Bay.

Two other enterprises were impacted by the port of Prigorodnoye operations. The fishing areas that had been allocated to those enterprises overlapped the port water area, which resulted in that they were prohibited to deploy the nets.

Sakhalin Energy paid the impacted enterprises a commensurate compensation, namely:

- compensation for the lost income as calculated and confirmed on the basis of the value of catch or the amount of losses from reduced operations;
- compensation for dismantling and relocation of equipment.

Consultations with the enterprises were held in 2003 through 2004, and compensations were paid in 2004 and in 2007. Upon receipt of compensations, all of these enterprises continued to run their businesses.

8.7 SPECIAL CASES

Stroitel Non-Profit Gardening (Dacha) Community

The Stroitel Non-Profit Gardening Community is located 1,200 m off the boundary of Prigorodnoye Complex, and the company has been holding consultations with its members since 2004 till today. In 2004 Stroitel NPGC included 73 members, and as of late 2010 it included 37 members.

Consultations helped identify issues related to construction and operations of Prigorodnoye Complex that raised concern and discontent of the Stroitel NPGC members. The key issue involves their request/demand for resettlement.



Stroitel Non-Profit Gardening Community

According to Russian legislation, there are no grounds for resettlement of the Stroitel NPGC members. Despite this fact, the company had actively engaged with the Stroitel NPGC members for several years. In cooperation with them, the company has voluntarily developed and implemented an integrated programme that provided for the following:

- compensations:
 - for voluntary waiver of the rights for the dacha plot (in favour of the Korsakov City District Administration) against compensation in the amount of the land plot's market value at the time of valuation;
 - for the loss of market value of land plots;
- measures to minimise inconveniences related to the construction of the Prigorodnoye Complex.

This programme was agreed upon with the dacha owners and project lenders, and was reviewed by representatives of lenders and by an independent resettlement expert within the framework of the Resettlement Action Plan implementation monitoring. Relying upon the World Bank OD 4.30 "Involuntary Resettlement", the company has paid compensation to all dacha owners. Only two dacha owners, who failed to express their interest in compensations, did not receive compensations.

Dacha owners were proposed either to receive 50% of the cost of property as a compensation for the loss of market value, or to receive 100% of the property market value and abandon their rights in favour of the municipal authorities. Evaluation of property was carried out by an independent appraiser with direct participation of dacha owners in 2006. The compensation payment process started in September 2006 and was completed in April 2008.

28 members of the Stroitel NPGC used an opportunity to receive a compensation in the amount of 100% of the market value of property, and voluntarily waived their rights for the dacha plots, while the remaining members received a compensation in the amount of 50% (information about compensations is provided in the 2009 Sustainable Development Report, Appendix 2, page 99, Item No. 5).

From the Lenders' Independent Environmental Consultant Site Visit Report, May 2009:

"...AEA (lenders' independent environmental consultant) analysed valuation of dachas' market value made by a local independent agency GAKS, specially engaged for this purpose. AEA considers the compensation offer proposed by Sakhalin Energy to the affected Prigorodnoye dacha owners, including the 50% loss of value, to be adequate." (www.sakhalinenergy.com/ru/documents/IEC_May_2009_Site_Visit_Report_rus.pdf).

Currently (2012), the company continues implementation of the air quality and noise level monitoring programme in the dacha community territory. Air sampling and noise level measuring are conducted by a licensed organisation during the dacha-related period from May to October. The said Programme has been implemented since 2005.

Despite the actions taken and being taken by the company for the purpose of compliance with its obligations for minimisation of the impact, payment of compensations and monitoring which were found by independent experts to be sufficient and effective, the Stroitel NPGC members continue to express discontent.

From the resettlement expert's report within the framework of Resettlement Action Plan implementation monitoring, December 2010:

"...issues of compensation payment for dacha owners are deemed to be closed after dacha's owners have received compensations for value reduction or the rights abandonment package has been provided..." (www.sakhalinenergy.com/ru/documents/Sixth_RAP_external_monitoring_report_rus.pdf).

Measures aimed at minimisation of inconveniences related to the construction of the Prigorodnoye asset included: provision of a bus during the dacha-related period, improvement of an internal road, assistance in water transport, installation of a bus stop, etc.

The company continuously provided information and answered questions relating to any aspects of the Sakhalin-2 project that aroused concern of dacha owners.

The company will continue its engagement with the said community within the framework of the existing RF laws and international practices.



Lenders' Independent Environmental Consultant Site Visit Report, May 2009



The External Monitoring Report under the Resettlement Action Plan, December 2010



Reconstructed road near Prigorodnoye Complex

The beach in the area of Prigorodnoye asset

Construction of Prigorodnoye asset required withdrawal and closure of a part of the beach. Although the beach had no formal status of the recreation area, it was popular among the residents of Korsakov and the nearby areas. In summertime people continue using the remaining part of the beach for recreation.

In 2002, the company made the decision to pay compensation in the amount of US\$800,000 (the amount subsequently rose to US\$ 930,000) to the Korsakov Administration for the lost part of the beach. This compensation was supposed to be used for arrangement of a new recreation area for the residents of the Korsakov District.

Local residents selected the new recreation area following a series of consultations through questionnaire forms, a hotline and talks with the Korsakov

Administration about potential scenarios of compensation for the lost beach near Prigorodnoye Complex.

For the purpose of discussion and adoption of the alternative solution, an initiative group was established, comprising public representatives elected by the Korsakov residents through a dedicated voting procedure.

In 2003, as an alternative to the withdrawn beach, it was decided to develop and improve infrastructure in the Korsakov park.



Beach in the area of Prigorodnoye Complex

This process serves as an example of how local residents are taking part in the decision-making process.

For the purpose of the Korsakov park infrastructure development and improvement project, the company funded the following works:

- pavement of pedestrian roads in the park, vehicle parking area and park's access roads;
- reconstruction of the steps leading to the park;
- arrangement of internal illumination in the park;
- installation of garbage bins and benches.

In addition to paying compensations, the company performed the following actions:

- Sakhalin Energy shortened the fencing line around Prigorodnoye Complex;
- in the course of construction, garbage bins were installed on the beach and the territory was regularly cleaned; and
- as part of the reconstruction of the motor road Korsakov—Novikovo, a new road route near the beach was concurred, vehicle parking area was built, and the road was paved.

In 2009, the park modernisation process was completed in line with the obligations set out in the Plan.

Relocation of burial sites from Prigorodnoye Complex construction site

In late 1940s – early 1950s, the north-western part of the former village of Prigorodnoye accommodated a cemetery where the first migrants were buried. This cemetery had no formal status.

In early 1950s, the cemetery was relocated because of the regular floods of meltwater and rainwater. A new official burial site was allocated on a hill near the active dacha community, 1 km west of Prigorodnoye Complex.

However, according to the local residents, some burials were left in the initial cemetery, with two graves regularly visited by the relatives.

In the course of data collection process the company specialists identified a relative of those two buried. Those were the graves of her father and sister.

A meeting was held with the relative of those buried, and a new acceptable burial site was defined for relocation of the remains of her relatives.

Information about the burials was communicated to the Korsakov District Administration. In late February 2003 a company's contractor reburied, at the Korsakov city cemetery, the remains of all those buried in the former village.

In the course of construction works in 2003, one more burial was discovered. The company's contractor relocated this burial to the Korsakov city cemetery as well.

8.8 INTERNAL AND EXTERNAL MONITORING

Another effective tool and a mandatory condition of the project lenders was performance of an internal and external monitoring of the Plan implementation and its results.

Internal monitoring was accomplished by the company specialists. External monitoring was performed with involvement of an international expert in the field of resettlement. The expert was recommended by the project lenders. The role of the international expert comprised the following:

- audit of the company and contractors for compliance with the Plan requirements;
- monitoring of recovery of socio-economic conditions of the project-affected people;
- follow-up monitoring of grievances review results that were received by the company under the Plan, etc.

The Independent Monitoring Programme included the development of special performance indicators to track the progress in implementation of compensation and impact management measures and assess satisfaction of the land users covered by compensation processes, compensation packages, etc.

Internal and external monitoring included:

- performance of field works (meetings with and interviews of the affected land users, gathering socio-economic information about the project-affected households, identification of actual and potential problems, visits to the land plots, etc.); and
- analysis of collected information, preparation of analytical report, and development of recommendations and corrective actions (where required).

Where internal or external monitoring revealed any potential or actual problems, the company carried out targeted investigations to identify the causes of such problems. This was followed by the development of corrective actions or problem management actions.



Survey of the affected land users under the Internal Monitoring Programme, Novoye

Example: identification of problems in the course of monitoring

According to the internal monitoring results, some land users were not satisfied with the results of reclamation of the lands they were handed back upon completion of pipeline construction. To identify the scale of this problem, the company performed a field examination of the land plots and identified the problem plots. As a result, the company developed a corrective action plan and regularly monitored the condition of soil. Those of the land users who elected to perform additional soil reclamation on their own were provided with monetary compensation.

Besides, for the purpose of tracking the socio-economic restoration of the affected households, information was collected among the affected groups of land users and non-affected (reference) groups of land users. According to these studies, the amount of compensations and the additional support was sufficient for socio-economic restoration of the affected households.

16 internal monitorings and seven external monitorings were carried out under the Monitoring Programme from 2003 through 2011. All external monitoring reports are available for public access on the company's website.

The company fulfilled its commitments toward all those whose interests were impacted by project activities in line with the RF laws and World Bank OD 4.30.

While acting under the Resettlement Action Plan, the company:

- paid compensations and provided supplemental assistance to all of the project-affected households, including individual land users, farmers, dacha users and reindeer herders (a total of 125 households) and enterprises (66);
- resettled 10 affected households, whose living conditions improved as acknowledged by an international resettlement expert and by the lenders;
- paid compensation for a partial loss of the beach in the Korsakov District;
- reviewed and resolved about 100 grievances associated with the Plan implementation;
- carried out 16 internal audits and 7 external audits under the Monitoring Programme.

As a result, the company complied with lenders' requirements and received a positive opinion of the international resettlement expert regarding the fulfilment of the company's commitments under the Plan.

One of the most remarkable achievements under the Plan (together with other company's social programmes) was the fact that during both the construction and operation phases the company avoided any significant social conflict that would stop the progress of the project works.

The Plan was successfully implemented, and the practices that were learnt in the course of the Plan implementation transformed into the company's Resettlement Management Standard, a part of the company's integrated Health, Safety, Environmental and Social Action Plan. The company will use this Standard in the event of project expansion, allocation of new lands and new construction works.

Besides, in 2012 the company successfully completed its changeover to the new international standards of IFC and ISO 26000. For this purpose the existing company's standards were harmonised with the new requirements. The company's Resettlement Management Standard was revised, too.

Listed below are the key factors that enabled to implement the Plan successfully:

- performance of a comprehensive social impact assessment at the early project phase with involvement of the stakeholders;
- development and use of an integrated Resettlement Action Plan;
- use of international standards and the best practices during preparation, planning and performance of physical and economic resettlement;



Moving into a new house, Firsovo



Resettlers receiving documents for the new dwelling premises, Firsovo



New dacha, Vtoraya Pad



New dacha, Vtoraya Pad

- development of the company's own concept and standards of compensations and land allocation impact management, adapted to the project conditions;
- timely and regular consultations with the affected households and their participation in resettlement and compensation planning processes;
- use of flexible individual approach to the issues of resettlement, compensation and supplemental assistance, with a special focus on vulnerable groups;
- transparency of the processes and approach for definition of the amount of compensations;
- use of the Grievance Procedure;
- internal and external monitoring.

Excerpt from the report on the final external monitoring under the Resettlement Action Plan:

"Obligations under the Plan with respect to resettlement, payment of compensations, supplemental assistance, improvement of welfare, and reclamation of lands have been fulfilled. Soil reclamation monitoring programme is in progress. The external monitoring process served as a mechanism to assess the adequacy of the Plan-related measures, reliability of the external systems to control and solve the identified issues, and as the company's obligation to perform communication and hold open consultations on a regular basis.

The company's activity generally complies with the Plan and with World Bank OD 4.30; measures for recovery and improvement of the level of life and welfare of the project-affected people have been implemented, and the level of welfare has effectively improved".

The Plan and the external monitoring results are available on the company's website.

Appendix 1: Glossary

Term	Definition
Compensation	<ul style="list-style-type: none"> • Payments made in the monetary form or in kind for the property or means that are procured or impacted in connection with the project at the time when such property is to be compensated for. • Compensation is established in line with the RF laws and OD 4.30 principles. • The company developed the Supplemental Assistance Programme in order to pay compensation to project-affected people who are not eligible for compensation under the RF laws but should receive compensation under the OD 4.30.
Cut-off-date	<ul style="list-style-type: none"> • Date of completion of the count and inventory of property of the project-affected people. • Those people who will occupy the land needed for the project after the registration completion date will not be eligible for compensation and/or assistance during resettlement. • Likewise, no compensation will be paid for the real estate (e.g. completed houses, agricultural crops, fruit trees and forest lands) claimed after the registration completion date.
Dacha	Summer house
Economic resettlement	Loss, by affected groups, of assets or access to assets as a result of project implementation, leading to the loss of sources of income or subsistence.
Fishing industry and enterprises	Industries and enterprises which have economic links to the fishing industry, such as fish processing enterprises, shipping companies, and suppliers of equipment and technical services.
Full replacement value	Full value of replacement of the impacted property, being equal to the value of its replacement in the existing condition.
Grievance Procedure	Grievance procedure under the project for ensuring timely and effective review and resolution of the grievances filed by the project-affected residents.
Involuntary resettlement	<ul style="list-style-type: none"> • Physical or economic resettlement of households, enterprises, etc. in connection with the withdrawal/acquisition of lands for project implementation. • Resettlement means economic and/or physical relocation of people. Resettlement is deemed to be involuntary if it is carried out without conscious consent of the resettlers or if they have no right to refuse from resettlement.
Life quality indicators	Specific indicators to measure the impact of the project activities on the project-affected people.

Term	Definition
OD 4.30	World Bank Operational Directive on involuntary resettlement.
Physical resettlement	Loss of home and property as a result of land allocation in connection with the project requiring relocation of the affected people to another place.
Project-affected person/household/land user	All participants of the household, whether or not in kinship, acting as a sole economic unit, or any individuals who, as a result of the project implementation, lose, in full or in part, permanently or temporarily, the right of ownership or use of, or can no longer derive other benefit from, the completed building, land (in a locality, agricultural land, or grazing lands), annual or perennial agricultural crops or trees or other real estate or movable property.
Resettlement Action Plan (RAP)	A document in which the project sponsor or another responsible party defines the procedures to be observed for the purpose of mitigation of the adverse effects, compensation for losses and provision of the additional support to the individuals, households and enterprises impacted by an innovative project.
Resettlement assistance	<ul style="list-style-type: none"> • Assistance provided to people in physical resettlement under the project. • This assistance may include transport, food products, dwelling premises and social services to be provided to the project-affected people in the course of their resettlement. • The assistance may also include monetary payments to compensate for the inconveniences suffered by the project-affected residents in connection with resettlement, covering their expenses for relocation to a new place (e.g. transport expenses), and for the wage lost in the days when they were unable to come to work.
Stakeholders	Any individuals, groups, organisations and institutions which have any interest in the project or are potentially affected by the project or can exert an influence on the project.
Vulnerable groups	People who may, on account of their gender, ethnic appurtenance, age, physical- or mental disability or social status, suffer from a more severe impact as a result of resettlement compared with other people, as well as people with limited capability to request support or use support during resettlement and derive the associated benefit.

Attachment 2: Acronyms

Full name	
IFC	International Finance Corporation
IP	Indigenous Peoples

Full name	
ISO 26000	ISO: International Standardisation Organization for Standardization ISO 26000:2010 Guidance on social responsibility
LNG	Liquefied Natural Gas
NPOs	Non-profit organisation
OD 4.20	World Bank Operational Directive 4.20 "Indigenous Peoples"
OD 4.30	World Bank Operational Directive 4.30 (OD 4.30) "Involuntary Resettlement"
Prigorodnoye Complex	Prigorodnoye assets
PSA	Production Sharing Agreement
SIA	Social Impact Assessment
SPZ	Sanitary Protection Zone
Stroitel GNCC	Stroitel Non-Profit Gardening Community
UN	United Nations organisation

Appendix 3: Useful Links

Document Title	Link
International standards	
ISO 26000:2010 Guidance on social responsibility	http://www.iso.org/iso/ru/home/standards/iso26000.htm?=
International Finance Corporation's Handbook for Preparing a Resettlement Action Plan	http://www.ifc.org/ifcext/enviro.nsf/AttachmentsByTitle/p_resettle/\$FILE/ResettlementHandbook.PDF
UN Guiding Principles on Business and Human Rights (Ruggie Principles)	http://www.ohchr.org/Documents/Issues/Business/A.HRC.17.31_ru.pdf
IFC Performance Standard 5: Land Acquisition and Involuntary Resettlement (2012)	http://www1.ifc.org/wps/wcm/connect/3d82c70049a79073b82cfaa8c6a8312a/PS5_English_2012.pdf?MOD=AJPERES
IFC Performance Standards on Environmental and Social Sustainability (2012)	http://www1.ifc.org/wps/wcm/connect/115482804a0255db96bfdd1a5d13d27/PS_English_2012_Full-Documents.pdf?MOD=AJPERES
World Bank Operational Directive 4.20 "Indigenous Peoples"	http://www.ifc.org/ifcext/enviro.nsf/AttachmentsByTitle/pol_IndigPeoples/\$FILE/OD420_IndigenousPeoples.pdf
World Bank Operational Directive 4.30 (OD 4.30) "Involuntary Resettlement"	http://www1.ifc.org/wps/wcm/connect/322d9d80488559f584b4d66a6515bb18/OD430_InvoluntaryResettlement.pdf?MOD=AJPERES

Document Title	Link
Documents of Sakhalin Energy	
Code of conduct	http://www.sakhalinenergy.com/en/documents/Code_of_Conduct_Eng.pdf
Grievance Procedure	http://www.sakhalinenergy.com/en/aboutus.asp?p=whistleblowing
HSES Commitments and Policy	http://www.sakhalinenergy.com/en/aboutus.asp?p=health_safety
Human Rights Policy	http://www.sakhalinenergy.com/en/documents/HRPolicy.pdf
Information on the company and the project	www.sakhalinenergy.ru
Public Consultation and Disclosure Plan	http://www.sakhalinenergy.com/en/library.asp?p=lib_social_shelf&l=lib_social_campaignplan
Resettlement Action Plan	http://www.sakhalinenergy.com/en/documents/doc_lender_soc_2.pdf
Resettlement expert's report within the framework of Resettlement Action Plan implementation monitoring	http://www.sakhalinenergy.com/en/library.asp?p=lib_social_shelf&l=lib_social_relocationreports
Resettlement Management (a specification of Social Performance Standard)	http://www.sakhalinenergy.com/en/documents/65_Resettlement_Management_E.pdf
Sakhalin Energy Statement on General Business Principles	http://www.sakhalinenergy.com/en/documents/Statement_of_General_Business_Principles_June%202010_ENG.pdf
Social Impact Assessment for Sakhalin-2 Phase 2	http://www.sakhalinenergy.com/en/library.asp?p=lib_social_shelf&l=lib_social_impactdocs
Social Performance Standard	http://www.sakhalinenergy.com/ru/documents/61_Social_Performance_Standard_Overview_E.pdf
Sustainable Development Policy	http://www.sakhalinenergy.com/en/documents/SD_Policy.pdf
Sustainable Development Reports	http://www.sakhalinenergy.com/en/library.asp?p=lib_social_shelf&l=lib_social_report_2011

