



## **Progress Report**

**Complaint Regarding the Lukoil Overseas Project  
(Karachaganak Oil and Gas Field) Burlinsky District,  
Western Kazakhstan Oblast, Kazakhstan**

**June 26, 2006**

**Office of the Compliance Advisor/Ombudsman  
International Finance Corporation and  
Multilateral Investment Guarantee Agency**

## **Background**

The CAO visit to Kazakhstan February 20-24, 2006, was a follow-up to a previous assessment and recommendations regarding the Karachaganak Petroleum Operation (KPO) complaint, and subsequent negotiations with the parties since the release of the April 2005 assessment report.

The complaint was brought by the Berezovka Initiative Group – a group of concerned citizens from a village about four kilometers from the Karachaganak oil and gas field. The group claims emissions from KPO are causing a number of adverse health impacts. Of the villages surrounding the oil field, Berezovka lies in closest proximity.

The purpose of the February visit was to meet with complainants to discuss the status of their claim and possible steps toward resolution, and to talk with participants in KPO's Village Council (VC) initiative – a community engagement program launched in August 2005 through a Memorandum of Understanding (MOU) between KPO and local government authorities. The VC is comprised of Public Council members and regional deputies from each of the five neighboring rural divisions of the Burlin District that surround the Karachaganak field, KPO representatives, and members of the Berezovka Initiative Group.

According to the MOU, the VC initiative seeks “to provide a forum for those communities to exchange information and ideas about KPO's involvement in the region's economic, social, and cultural life, and where peoples' concerns and issues related to the Karachaganak Field Operation can be openly discussed and addressed.”

CAO considered the launch of this initiative a positive step towards resolution of the complaint. In the 2005 assessment report, CAO had recommended that such a mechanism be established to improve communication among stakeholders and to engage the claimants and other residents more systematically in the collection and dissemination of information about the project.

Recognizing that the VC initiative was in its early stages during the February field visit, CAO had informal discussions about participants' perceptions of the first four meetings, and the extent to which people felt the process was addressing (or could in the future address) community concerns. Interviewees included mayors or deputies from the five Public Councils, other community leaders, several residents who had not participated in a VC process, and members of the Berezovka Initiative Group. (See Table 1.)

CAO also asked claimants and other VC participants about their interest – and willingness to participate – in the stakeholder-driven air quality monitoring program that was proposed by KPO in January 2006. When presented with this proposal by CAO, the claimants, other council members, and some KPO staff expressed interest in further discussion about how such a program could effectively address people's interests and concerns about the region's ambient air quality.

This report summarizes discussions with the stakeholders and suggests possible next steps for collaborative design and implementation of the proposed collaborative air quality monitoring program.

## Prior Correspondence and Discussions

Prior to the mission, CAO circulated the following memo to complainants, KPO, and IFC. It described CAO's understanding of the VC initiative, and the topics for discussion that CAO planned to focus on during its field visit:

February 6, 2006

CAO supports the aims of KPO's community involvement initiative, which we understand to be:

- Establishment of a Village Council process involving 'consultative groups' in the five rural divisions of Burlin District – Berezovka, Uspenovka, Zharsuat, Priuralniy, and Kyzyltal.
- Distribution to impacted communities of a recently completed air quality study conducted by the Batelle Memorial Institute and commissioned by KPO, which examines the ambient air surrounding the Karachaganak field.
- An offer to those impacted communities and other stakeholders – including Crude Accountability and the Berezovka Initiative Group – to engage in a collaborative partnership that will jointly design and implement an air-quality monitoring initiative. The independence, accuracy, and reliability of the monitoring activities to be agreed upon by all the stakeholders.
- Assurance of an impartial and trusted process in which the scientific activities associated with the monitoring are conducted by a qualified independent, third-party who is commissioned jointly by Village Council members.

These initiatives, as described in a Jan. 30, 2006 letter from Rashad Kaldany [IFC Director for Oil, Gas, Mining and Chemicals] to complainants on behalf of [World Bank Group] President Wolfowitz, appear to respond directly to complainants' requests that IFC "acquire more independent monitoring of its projects" and that IFC "increase transparency and citizen participation in project monitoring" (April 2005 Assessment Report, page 9). In addition, the KPO initiatives as described by IFC appear to respond directly to the following CAO recommendations, which appear in the April 2005 assessment report:

- KPO should continue the process of appointing external independent reviewers for environmental health aspects of its project, and its goal should be that their reports are made public. KPO should consider making the selection process for these reviewers more open and transparent so as to ensure their credibility and build public trust in their findings. KPO and the project-affected people should consider working together to identify appropriate criteria for the selection of these independent experts. (Assessment Report, Page 10.)
- KPO should revise its procedures for disclosure of environmental information to the public ensuring that it has taken into account public concerns relating to the materiality of information released. KPO should be regularly consulting with communities and other affected parties about their concerns and ensuring that environmental & social monitoring activities are appropriate to resolving issues raised. KPO should operate on a presumption in favor of disclosure with respect to environmental monitoring information so that it effectively quells the current level of rumor and potential misinformation that exists in the region. (Assessment Report, Page 10.)

Although there are several outstanding issues raised in the complaint that are not specifically addressed by KPO's new community engagement initiatives, CAO feels these issues could successfully be addressed via the VC process and the proposed Collaborative Air Quality Monitoring program.

For the CAO to endorse what appears to be a meaningful KPO community engagement strategy and good-faith response to complainants' concerns, a CAO staff member will travel to the region in mid-February for informal discussions with the key stakeholders. These stakeholders include people who have attended at least one of the four previous Village Council meetings, KPO staff, and the

complainants or their representatives. The purpose of the face-to-face discussions will be to gain clarity and assurance on the following:

#### VILLAGE COUNCILS

- How are/were Village Council participants chosen?
- Among the Village Council representatives who have attended a meeting, how have they communicated information about KPO from Village Council meetings back to their constituents? (How are meeting minutes and other information relevant to VC matters made public?)
- How does KPO communicate information that pertains to Village Councils and monitoring activities back to Village Council participants and to other stakeholders?
- Among residents with knowledge of these KPO community engagement initiatives, how satisfied are they that activities and information generated through the Village Councils are responding earnestly to their concerns, or would do so as concerns arise in the future?

#### AIR QUALITY MONITORING

- How has the offer been extended to communities to participate in KPO's "stakeholder partnership initiative?" What has been the communities' response to that offer?
- Are there ground rules, or a process protocol, that spells out specifically how parties will review, choose and select the independent scientist and his/her final conclusions?
- In addition to reaching agreement on the independent third-party scientist(s) who will perform the monitoring work, what is the role of Village Council members and other stakeholders (NGO's, Initiative Group, etc.) in the collaborative monitoring initiative?
- How do villagers view and understand the Batelle air quality study?

#### COMPLAINANTS

- To what extent are complainants willing to participate in good faith in KPO's Village Council and collaborative monitoring program?

Recognizing that KPO's new community engagement initiative is in its early stages and subject to changes, the informal discussions and observations of the CAO on its upcoming visit could assist both KPO and the impacted communities in strengthening and building support for this community engagement process.

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Following distribution of this memo, IFC requested a meeting with CAO to discuss the field visit in more detail and to reiterate several previously expressed concerns. Among its concerns was the IFC project team's fear that a CAO visit to Karachaganak at this time would signal a simultaneous grievance resolution process operating in parallel with the start-up Village Council process, causing confusion among complainants and VC participants, and potentially undermining trust and credibility in the KPO-sponsored process. Additionally, IFC felt it was too early in the VC process to accurately evaluate its ability to respond to the concerns of complainants and others.

CAO clarified that its intention was specifically to avoid establishing a parallel process. Rather, its purpose was to informally assess the program's potential for addressing the social and environmental concern of impacted people, and to help the parties explore ways to strengthen and encourage its functionality.

Also prior to departing for Kazakhstan, CAO contacted Crude Accountability, the non-governmental organization representing the complainants, to discuss the purpose and expected outcomes of the mission.

During the mission, CAO met with the following parties:

**Table 1: Meetings in Kazakhstan**

Date	Meeting
Feb. 21, 2006	<ul style="list-style-type: none"> <li>• KPO – Issak Sekeyev (PR and Communications Manager)</li> <li>• KPO – Yelena Rasmukhambetova (Community Relations Section Head)</li> <li>• Salikha Kulmanguzhieva – Priuralnoye Akim</li> <li>• Zhanaz Zhaksigaliera – Priuralnoye School Director</li> <li>• Nikoli and Tatiana – Priuralnoye villagers</li> </ul>
Feb. 22, 2006	<ul style="list-style-type: none"> <li>• Darigul – Zharsuat Deputy Akim</li> <li>• Head doctor – Zharsuat Clinic</li> <li>• Zhanatalap – Deputy Akim and 10 villagers (3 village council members and other residents, including pensioners)</li> <li>• Village Forum Members – meeting organized by KPO, including Akims and Village Council Members from Berezovka, Priuralnoye, Zharsuat, Zhanatalap, Uspenovka; a local government deputy [Burlinsky rayon]; and KPO personnel Yelena R. and CLO Mereke Kurmangali.</li> </ul>
Feb. 23, 2006	<ul style="list-style-type: none"> <li>• Zholtanov Zharas – Uspenovka Akim</li> <li>• Berezovka Initiative Group (Three members, including Svetlana Anosova, a Berezovka nurse, and the director of Berezovka’s community center)</li> <li>• Berezovka Akim</li> <li>• KPO – Steve Pearson (Health, Safety and Environment Manager)</li> </ul>

## Observations

The following observations are based on interviews and conversations with the stakeholders identified in the table.

### KPO

KPO Communications staff described the history and design of the Village Council process. Its intent is to address concerns raised by all the communities surrounding the field, and to offer a forum for dialog and information sharing about the operation’s impacts. The Initiative Group was invited to take part in the process, and since the February field visit KPO has reiterated its continued support of the Group’s participation.

In the interest of building an inclusive, ‘stakeholder-driven’ process, KPO asked VC members at the inaugural meeting to identify priority topics for discussion. It then included those priorities in an agenda-overview memo which was distributed to the VC participants and to CAO. Environmental and health concerns were listed as the key areas of concern. Others included emergency response and community preparedness,

local infrastructure upgrades, youth development, and social/ sustainable development initiatives.

KPO staff said they hope the VC process will help build public confidence in what they believe to be reliable air quality data that are collected and analyzed using state-of-the-art equipment.

As a step toward improving public trust and in its environmental sampling, KPO commissioned a reconnaissance-level air quality study of the Karachaganak field (Batelle, February 22, 2006). The study is a preliminary evaluation of air quality and provides suggestions for KPO to consider in developing a future air quality management study. KPO has translated this report into Russian and distributed it to Village Council members. It is now considering whether to commission the full study recommended by Batelle.

Despite their confidence in the KPO data and their ongoing efforts to keep citizens informed, KPO acknowledges that communities surrounding the field have many concerns about air quality and the health impacts of the operation. KPO staff said they have attempted to engage residents but have been frustrated by low turnout to public events and meetings at which the company presents information and opportunities for dialog. They say they would welcome new ideas for how to involve the public more broadly and productively in environmental monitoring.

#### Berezovka Initiative Group

Members of the Initiative Group, who filed the complaint with CAO, felt that although February 2006 was too early in the Village Council process to evaluate its effectiveness, they saw its formation as a positive step. They expressed skepticism about the degree to which VC members represent the population at large, because Public Council members are not elected, but rather appointed by the local akim. Generally, they perceive that Public Council members – and thus a majority of VC members – have greater access to resources, information and benefits from KPO than the majority of villagers. Because of this, the Initiative Group believes many villagers lack trust in the Public Councils, and therefore may lack trust in the VC process itself.

From previous interactions and a history of mistrust in KPO's operations and data, the Initiative Group has some concerns about a KPO-sponsored forum such as the VC process being a truly neutral convener of stakeholders. They have accused KPO of withholding information about air quality, distributing misleading data, and intimidation of employees, residents, or others who raise questions or attempt to expose environmental and social injustices.

The Initiative Group, with assistance from several non-governmental organizations, continues to refute the validity of health and air-quality studies conducted by KPO and the Kazakhstan government. To support its claims of bias and misinformation in KPO and government air quality reporting, the Initiative Group conducted its own air and water quality sampling, as well as a qualitative sociological survey of people's health concerns and desire for relocation. The Initiative Group acknowledges that KPO in turn refutes the validity of these studies, and that an impasse exists with regard to trust and confidence in the various research results.

Despite their confidence in their own research results, Initiative Group members acknowledge that the prospect for relocation is an unlikely prospect until a health and air-quality has been carried out to the trust and satisfaction of all the parties.

While the question of relocation is a primary concern for the Initiative Group, members agreed during discussions with CAO that a stakeholder partnership to jointly design and implement air quality monitoring, as proposed by the IFC and KPO, could be a productive way forward. They confirmed to CAO their willingness to take part in this proposal.

### Akims and Other Community Leaders

At a meeting in Aksai of akims and deputy akims who had participated in the Village Council process, CAO explained the purpose of its visit and summarized the key points raised in the complaint. Participants then shared their views on the complaint and the issues it raises, and how those issues correspond with those they face in their own villages.

CAO also visited most of those akims and/or deputies in their respective villages to speak one-on-one with them about the VC process and its aims, and to discuss ideas for wider engagement on issues related to KPO. Several other community leaders who have not attended VC meetings also were interviewed.

In both the one-on-one interviews and at the meeting in Aksai, the akims and other residents shared many of the complainants' concerns about the region's air quality and its impact on public health and the natural environment. The smell that emanates from the field into villages, particularly under certain wind conditions, is especially disconcerting; akims say this is a topic of overwhelming concern among residents, and confirms people's mistrust and lack of confidence in KPO's environmental and public health studies.

Most akims and deputies agree that data reliability is the key point of contention between KPO and its critics. While they believe KPO generally has made a good-faith effort to educate residents about air quality sampling, to establish community response systems, and to raise awareness of the available health and environmental information, they also say the company faces mounting mistrust and expectations from a pessimistic, economically depressed population. Akims feel that demands for information and compensation will continue to increase if questions about the true impact of KPO operations on people's health are not addressed more openly and collaboratively.

There is general agreement among akims that the Village Council process is a step in that direction. KPO has conducted tours and presentations to illustrate when, where, and how monitoring occurs; air sampling methodologies; and recent technological upgrades. Some feel, however, that KPO's presentations and VC projects should be extended to a larger sector of the population, beyond the akims and Initiative Group.

Regarding a stakeholder partnership for the proposed joint design and implementation of an air-quality monitoring program, akims agreed that such a process could be a useful way to address the suspicion and conflict around the health impact of KPO operations.

## **Suggested Next Steps**

Based on discussions with the complainants, Village Council members, other residents not connected with the VC, and KPO public relations staff, there is overall agreement that the VC process may be a viable mechanism for collaboratively addressing the environmental and social concerns raised in both the complaint and by residents not connected with the Initiative Group.

The complainants and other VC members have expressed interest in pursuing the 'stakeholder partnership' to jointly design and implement an air-quality monitoring initiative. This initiative, according to Mr. Kaldany's Jan. 30 letter to stakeholders, stipulates that all the stakeholders would agree on the independence, accuracy, and reliability of any such monitoring, and would assure stakeholders of an "impartial and trusted process in which the scientific activities associated with the monitoring are conducted by a qualified independent, third-party who is commissioned jointly by VC members."

Based on discussions with the parties, and on past experience with similar multi-party monitoring initiatives, CAO offers the following recommendations for design and implementation of a collaborative air quality monitoring program:

- To advance a successful collaborative air quality monitoring program, it will be important to identify and secure the involvement of all the appropriate parties, and to reach consensus on the goals, ground rules, and a specific work plan prior to launching a study. Until those steps are agreed upon, any further studies or technical data provided by one of the involved parties likely will not be accepted by the others, nor is it likely to contribute to resolution of the complaint, regardless of the data's timeliness or accuracy.
- Once all the stakeholders have agreed on a third party or parties to conduct the monitoring, they should agree in principle to accept the final results of the technical work, and to continue in partnership to address any concerns or recommendations that may result from the work.
- To implement these recommendations, the Village Council members should consider using a third-party neutral facilitator(s) to assist in the setting of goals, ground rules and scope of work – including selection of any technical experts to perform independent studies or evaluations. A requirement of this approach is that all the involved parties consider the facilitator(s) to be neutral and independent. CAO has offered to provide this assistance, if the parties feel it would be useful. CAO's aim would be to provide the Village Council with process and technical facilitation, not to create a separate or simultaneous collaborative process.

Possible next steps for moving forward with a stakeholder partnership could include:

1. Prior to convening a meeting, the parties work with the facilitator(s), to
  - Identify and invite all relevant local stakeholders who should be part of the process;



- Confirm that those stakeholders understand the intent of the process and are willing to participate in good faith;
  - Outline general concerns of the stakeholders; and
  - Ensure that all stakeholders recognize and accept the chosen mediator/convener.
2. Convene initial meeting or workshop to set objectives. Discussions could include:
- Overarching goals for an independent study, and strategies for financing it;
  - Ground rules for how the stakeholder group will operate;
  - Scope of the study;
  - Expected outcomes and strategies for ensuring that all stakeholders will accept the outcomes;
  - Identification of potential third parties who could undertake such a study, and be trusted by all the parties;
  - An agreement or Memorandum of Understanding on actions to be taken by involved parties as a result of outcomes of the study; and
  - Outline a Request for Proposal (RFP) for third parties to undertake the study.
3. At future or follow-up meetings, the stakeholder group could:
- Present the technical proposals received from third parties responding to the RFP, and agree on the preferred bidders;
  - Present financial proposals and confirm financing for preferred bidder; and
  - Establish a protocol for monitoring and reporting on actions or tasks agreed upon by the involved parties.

Dependent upon the level complexity of tasks and issues raised by the parties, the facilitators' engagement could range from a one-time workshop aimed at defining the scope of work and establishing ground rules, to a more thorough mediated process involving a series of meetings and implementation steps.

This proposal, and the degree of involvement for any outside facilitator, should be discussed and agreed upon by the participating VC members.

Should the parties request that CAO facilitate this process, CAO would seek a Memorandum of Understanding (MOU) stating the parties' agreement to work in partnership and the specific goals and expected outcomes of the partnership. Such an MOU would indicate progress toward resolution of the complaint and would bind the parties a good-faith effort to jointly explore the issues.