

# **Alaska – Sakhalin – USAID Projects**

## **Performance Report July 1, 2000 - August 28, 2001**

**USAID Grant # 118-G-00-00-00115-00**

**Alaska Sakhalin Working Group Projects**

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## Summary / Highlights

- Alaska's technical assistance program for Sakhalin continues to be an integral part of relations between the two regions in both the public and private sector.
- The projects funded by this grant experienced a roller coaster of ups and downs that marked some significant high points and low points in the progress of these projects. Future activities are being planned for all projects, though some projects are proceeding according to plan and others are struggling to overcome obstacles.
- The highly-touted **Sakhalin Development Agency** project soared with a strong supporting decree from the governor to implement the project only to see the Duma subsequently vote down enabling legislation and have the project slip into a state of limbo.
- **The Sakhalin Workforce Development** project came up with the first comprehensive, if preliminary, assessment of the work force that will be needed for the oil and gas projects. The assessment documents what's needed in terms of workforce numbers and skills, what skills are already available and where, and what must be done to ensure that the projects have a trained workforce.
- **The Sakhalin Fund for Future Development** was pushed into law, based on the Alaska Permanent Fund concept, but without taking full advantage of Alaska's offer to help perfect the Sakhalin Fund. Alaska has offered an initial critique of the Sakhalin Fund and anticipates a Sakhalin Duma delegation working visit to Alaska in the fall of 2001 to follow through on this project.
- **The Sakhalin Environmental Management** training project was successful beyond expectations, resulting in an ambitious week of seminars that left Sakhalin eager for follow-up work. Materials documenting the Sakhalin seminars have been compiled into a book and compact disc.
- The Alaska-Sakhalin projects have generated overwhelmingly positive publicity in the Sakhalin media and have triggered healthy debate.
- The Alaska-Sakhalin cooperation has attracted attention beyond the projects themselves, particularly in other Russian Far East regions, as potential models and in spawning other related offshoots.
- The USAID projects, and Alaska's role in the RFE, have garnered attention from Washington, D.C. to Alaska to the other side of the Bering Strait. They caught the attention of Deputy Secretary of State Strobe Talbott, who visited Alaska toward the end of his tenure. Alaska Gov. Tony Knowles brought Alaska's work with USAID to the attention of Secretary of State Colin Powell. Alaska-USAID cooperation was in the spotlight recently in Nome, Alaska, at the Alaska-Chukotka Summit 2001.
- Sakhalin Gov. Farkhutdinov visited Alaska in July 2001, and he discussed these USAID projects with Alaska Gov. Tony Knowles and project leaders.

*All Alaska-Sakhalin project components are summarized individually in the following pages. All financial data covers expenditures processed through August 28, 2001. There have been additional expenditures that have not yet been processed through the accounting network of the various project agencies and the State of Alaska.*

## Alaska - Russian Far East - USAID Projects 2000-2002

### COORDINATION

**Purpose:** Manage and coordinate all project components; general project oversight; assist with logistics; serve as liaison with project principals and agencies; provide reporting and financial accounting; implement program goals.

**Benefits:** Promote RFE institutional infrastructure development; long-term public and private partnerships in the U.S. and Russia, particularly in Alaska and the Russian Far East; create opportunities for business; provide foundations for democratic and free market policies and practices; consolidate projects under the umbrella of a single coordinating agency (the Alaska Division of International Trade & Market Development) to pursue the joint goals of Alaska, Russian Far East regions, USAID, business, project participants and other interested parties.

**Project Management:** Alaska Division of International Trade & Market Development, Alaska Dept. of Community and Economic Development, State of Alaska

**Project components:** Coordination, Sakhalin Development Agency, Sakhalin Fund for Future Generations, Sakhalin Workforce Development, and Sakhalin Environmental Management. *(Each component is summarized below.)*

**Background:** Alaska has long-standing relations with the Russian Far East in many areas. The Alaska Division of International Trade and Market Development is the lead agency in most of the state's dealings with the Russian Far East. The division, which also serves as the coordinator of the Alaska Sakhalin Working Group, managed an earlier USAID grant for Alaska-Sakhalin projects.

**Region:** Alaska and Sakhalin, Russian Far East

**Grant Term:** July 1, 2000 - June 30, 2002

**Total USAID budget – All components:** \$745,835

**Total USAID grant expenditures:** \$236,567

**USAID Coordination Budget:** \$77,370

**USAID Coordination Expenditures:** \$21,296

### **Summary**

Alaska Gov. Tony Knowles announced the Alaska-Sakhalin grant in a press release in mid-July 2000. Alaska-Sakhalin-USAID projects were in the spotlight in both Alaska and Sakhalin throughout the first year of the grant, notably starting with briefings for Deputy Secretary of State Strobe Talbott, who visited Alaska for one week in August 2001, focusing on Alaska-Russian Far East affairs. In September 2000, Alaska project personnel journeyed to Sakhalin to launch these projects and to take part in a USG RFE strategy session organized by USAID. As a result of the Talbott visit and in preparation for the RFE strategy session, a State of Alaska RFE strategy document was drawn up and distributed to USG participants at the session. Alaska Strategy Points included calls for continued cooperation with USAID. At the strategy session, discussions often focused on the Alaska projects as models. Alaska expressed support for U.S.-RFE partnerships and pursuing symbiotic relationships represented by Alaska-RFE/Sakhalin activities.

The September 2000 launch of the Alaska USAID projects took a hiatus during the weeks surrounding the late October Sakhalin regional elections, which saw Gov. Farkhutdinov re-elected, many of his key administration staff reappointed and many new Duma members elected. Sakhalin asked that the projects-in-progress be put on hold until after the new Duma was sworn in and the administration began its second term. Upon completion of his first term, Gov. Farkhutdinov signed a number of "Letters of Gratitude" to Alaskans who have been working with Sakhalin, including those involved in the USAID projects. Following the October-November election season – Sakhalin's and Alaska's – and the Christmas-New Year holidays, project work continued, but with mixed results, as described more fully in each project component section below.

Communications continued to be a vital part of coordination activities – communication with legislators, with the public, with the project directors and working groups, with State Department officials as well as with Sakhalin officials. There were numerous briefings for Alaska legislators, including delegations to Sakhalin, newly elected legislators, international affairs committee members, and finance committee members who must approve receipt of federal grant funds. Additional project briefings were held for the Alaska International Affairs Network, an information-sharing group of federal and state agencies, for government and industry participants at the annual Pacific Rim Construction Oil & Mining Expo held every February along with an RFE business symposium. Gov. Knowles' Deputy Chief of Staff David Ramseur, who oversees international affairs for the State of Alaska, was in Moscow on business in March 2001 and held meetings at the U.S. Embassy, including with USAID.

In May 2001, three dozen U.S. diplomats visited Alaska with the State Department Senior Seminar Program and requested an Alaska-RFE briefing, including USAID projects. About the same time, the Bush administration undertook a review of U.S.-Russia policy, and Gov. Knowles provided a detailed Alaska-RFE briefing paper to Secretary of State Colin Powell. Alaska USAID projects and cooperation figured prominently in this document, which was circulated in the State Dept. and to USAID-Moscow. The paper was publicly unveiled at the Alaska-Chukotka Summit 2001 in Nome, June 13-14, 2001, by Lt. Gov. Fran Ulmer and posted on the state's web site.

Valentin Stobetsky of USAID Moscow attended the Alaska-Chukotka summit and held meetings with USAID project principals in Anchorage. One focus was the Alaska-Chukotka USAID project, and a key element of that project is a proposed Alaska Chukotka Working Group modeled after the Alaska Sakhalin Working Group, which spawned the projects described in this report. Others involved in RFE projects often look to the Alaska-Sakhalin projects to gain from their experience.

In July 2001, Sakhalin Gov. Farkhutdinov made his third official visit to Alaska, meeting with Gov. Knowles and other government and business leaders. The two governors and other delegation members discussed the status of Alaska-Sakhalin USAID projects among other issues.

## SAKHALIN DEVELOPMENT AGENCY

**Purpose:** To implement the business plan for the Sakhalin Development Agency, a financing vehicle for economic and infrastructure development for Sakhalin modeled after the Alaska Industrial Development and Export Authority (AIDEA).

**Benefit:** To bring financial stability to Sakhalin and establish a financing institution that can work with commercial banks, private companies and other institutions in providing funding for economic development using resource development and other income to meet economic policy goals.

**Project Management:** Alaska Industrial Development and Export Authority, with the Sakhalin Development Agency Advisory Council

**Background:** This continues the Alaska-Sakhalin development finance project begun under an earlier grant. That project was conceived under the auspices of the Alaska Sakhalin Working Group as a result of an agreement between the governors of Alaska and Sakhalin to create such a financing entity. It has been endorsed by the U.S. West Coast-RFE Ad Hoc Working Group. SDA was featured at the international symposium "Sakhalin Infrastructure Development in the 21<sup>st</sup> Century" and is seen as a potential model for similar agencies elsewhere in the RFE.

**USAID Project Budget:** \$321,185

**USAID Project Expenditures:** \$110,711

### **Summary**

This project has been a roller coaster ride of ups and downs, highs and lows, optimistic expectations and frustrating disappointments, outlined below in chronological order.

In late summer and early fall 2000, as the SDA Advisory Council prepared for Sakhalin meetings, Sakhalin Oblast Director of Investment Policy and SDA Advisory Council Chairman Oleg Koniukh briefed the governor's collegium (administration department heads), Duma members and the media. Articles appeared with headlines like "*Industrial Development Agency Will Likely Appear on Sakhalin in 2001*" and "*Industrial Development Agency is Future of Sakhalin Economy.*"

The SDA team, Advisory Council members, Alaska officials, bankers and the Progressor Group (which wrote the business plan), gathered in Yuzhno-Sakhalinsk for a week in September 2000 to bring the business plan into the final phase, to brief the Duma and the banking community, and to set the stage for implementation. Substantial materials were prepared for the occasion. The Duma met as a committee of the whole to hear testimony by the SDA team about the project. The two-hour session generated many questions, healthy debate and press coverage, but not the anticipated vote on SDA enabling legislation. The Duma delayed the vote, pending answers to numerous questions and saying that the administration was not prepared to submit it, thus leaving the matter until after the October regional elections for the new Duma to take up. The SDA team also met with Sakhalin bankers to discuss the project.

Also in the summer and fall 2000, a Washington, D.C.-based official with U.S. Environmental Protection Agency's international branch, Gary Waxmonsky whose bailiwick includes Russia and who was interested in finding and funding Sakhalin projects, expressed interest in SDA. He wanted to explore whether SDA could be used to manage so-called eco-funds for environmentally oriented projects, which would be tied to business-based loans and otherwise would have to meet standard SDA financing criteria. Material was provided to EPA and meetings were held. Although Waxmonsky-EPA initiated these discussions, there was no follow through. And while this may have brought an interesting element into the project, it was not central to the creation of SDA.

During the election period hiatus, the SDA team prepared a booklet, fact sheet and SDA questions and answers to address the many questions and concerns raised at the September Duma hearing. Following the Sakhalin elections, Oleg Koniukh sought to reinstate project work by suggesting that SDA come up with some specific government priority projects to fund as a springboard to launch SDA into development financing. This was something that some Duma members also had suggested during the September 2000 discussions. They wanted to tie the creation of SDA to specific projects and their financing. The problem with this, as SDA project director Jim McMillan of AIDEA explained, was that this course of action would compromise the independence and business-based decision-making of SDA. He noted that this would have SDA settling on pet projects and doing so even before an impartial SDA board was in place to consider them on the basis on objective criteria. While the desire to see SDA in the context of financing real concrete projects was understandable, this threatened to compromise SDA at the very outset. Then, on Nov. 14, 2000, the administration submitted the SDA bill to the Duma for committee consideration, though no action was taken until early 2001.

Meanwhile, a web site posted material attacking SDA. It was not immediately clear what prompted the attacks nor where they came from, but the SDA proponents attempted to address them anyhow. It turned out that the posting was by a Sakhalin business consultant with ties to the opposition and the anti-Farkhutdinov media. Unfortunately, the criticism was uninformed. But it managed to raise the specter there of some sort of privatization swindle. Alaska's Sakhalin representative, ABC Director Michael Allen, said this appeared to be a manifestation of a kind of old school skepticism directed at "Koniukh and his Alaskans." This web posting gave new urgency to the SDA booklet as a source of information, answering questions, explaining how SDA would work and generally dispelling fears about SDA.

Then came perhaps the clearest demonstration of support to date for SDA in the form of a decree from Gov. Farkhutdinov on Jan. 9, 2001. The strongly-worded executive order outlined the need and justification for SDA and spelled out the steps for implementation. The decree appeared to be exactly what SDA needed to advance from the drawing board to reality. The decree lifted the flagging spirits of the SDA team into a state of optimism and exhilaration that the project was truly moving ahead with the ringing endorsement of the Administration. But the optimism was short-lived. In mid-February, as the Duma prepared to consider the SDA bill, opposition resurfaced. Critical articles appeared in the opposition press. One highly critical article appeared under a pen name of a well-known

communist critic of Sakhalin development projects. Duma deputies called for returning the proposed law to the administration for further work and to identify sources of financing. In fact, the administration put forth SDA without funding attached to it, despite previously agreeing to a \$3 million capital start-up fund. During this time, an administration opponent of SDA emerged, Vice Governor Novikova, a conservative finance official who was appointed to this post in Gov. Farkhutdinov's second administration. Although SDA would come under the Economics Committee rather than fall into her finance portfolio (or perhaps in part because of that), she expressed her opposition within the administration. Suddenly the tide had turned. With prospects for passage of the SDA legislation looking uncertain at best, some SDA supporters thought the administration should withdraw the bill for further work. And it seemed apparent that the governor and Novikova were unwilling to make available the \$3 million seed money.

On March 1, 2001, with Duma Chairman and SDA supporter Boris Tretyak absent, the bill came before the Duma and was defeated in a split vote. Acting Duma Chair Lyubov Shubina explained the rejection in a letter that essentially blamed the administration for failing to properly back up the measure and concluding that "the Sakhalin administration does not have a common and clear position on the creation and financing of the SDA." She noted that the bill could be resubmitted to address Duma concerns. Jim McMillan notified the SDA Advisory Council on March 2. Under Sakhalin's rules of procedure, the bill could not be returned to the Duma for action for at least six months, meaning it would remain dormant until September 2001.

There has been considerable speculation on what happened and why, covering a range of thinking: behind-the-scenes political maneuvering, internal administration opposition, absence of a strong pro-SDA lobby to shepherd the legislation to victory, administration failure to identify funding sources, lack of money, inability to focus attention and funds on long-term projects while grappling with short-term needs and numerous other theories.

Upon his return to Sakhalin, Tretyak tried to soften the blow by saying that the measure was being amended to garner support from the critics, and he reasserted that there is general support for SDA. Weeks after the SDA defeat, media coverage and public and private discussions continued. The Oblast newspaper even published an article by Pavel Buzysky of Progressor, which wrote the SDA business plan, explaining and defending SDA. Tretyak gave TV interviews in which he still portrayed SDA in a positive light.

In the aftermath of the Duma rejection, in spring 2001, a Duma delegation was expected to visit Alaska at the invitation of the Alaska legislature and to participate in a separate USAID project to provide technical assistance in modeling Sakhalin's Fund for Future Generations after the Alaska Permanent Fund. This offered an opportunity for the SDA Alaska team to discuss the issue with key Duma officials and consider a future course. The Duma visit was put off month by month throughout the spring and summer. SDA went into limbo, unable to be brought up again in the Duma until fall 2001. Several representatives of the Alaska legislature planned a trip to Sakhalin in September, and the Duma visit to Alaska was rescheduled for mid-October 2001. SDA was to be a subject of discussion.

In mid-July 2001, Gov. Farkhutdinov led a 5-person Sakhalin delegation to Alaska on a kind of working vacation. Gov. Knowles, during extensive talks with Gov. Farkhutdinov, asked about the status of SDA, among other issues, since the project was born out of discussions between the two governors in 1997. Farkhutdinov reassured Knowles that he supported SDA. Knowles suggested that perhaps Farkhutdinov needed to generate private sector and public support for SDA through an educational campaign, and Farkhutdinov asked if Alaska would help carry this out. AIDEA Director Bob Poe also met with Farkhutdinov and came away with the impression that Farkhutdinov had not been fully briefed by his staff on key issues pertinent to the creation and implementation of SDA.

Discussions on the status and future of SDA were planned for September between Alaska legislators and Sakhalin Duma officials and also in Buryatia at the annual meeting of the West Coast-RFE Ad Hoc Working Group. And the latest plans for a Sakhalin Duma delegation visit to Alaska focused on October.

**Attachments:**

- SDA Advisory Council letter
- SDA Booklet / Questions and Answers
- Jan. 9, 2001 Decree by Sakhalin Gov. Farkhutdinov
- Letter from Acting Duma Chair Shubina explaining rejection of SDA enabling legislation

**FUND FOR FUTURE GENERATIONS**

**Purpose:** To demonstrate the operation of the Alaska Permanent Fund as a state trust for future generations, using resource revenues; and to show how Alaska established and operates key financing agencies, such as the Alaska Municipal Bond Bank Authority and the Alaska Housing Finance Agency, and how their mission relates to the savings function of the Permanent Fund and the overall health of the economy.

**Benefit:** To help Sakhalin create an infrastructure for managing and saving its resource revenues to plan for economic development and economic security in the future, thus creating a stable financial and economic environment conducive to sustainable economy.

**Project Management:** Dave Rose, Alaska Permanent Capital Management, with Alaska state agencies

**Background:** Sakhalin officials themselves initiated this project and after several briefings on the Permanent Fund determined that they needed a full-fledged project to address their needs. Their interest is such that a bill has already been drafted for the regional Duma to create a "Fund for Future Generations" modeled after the Alaska Permanent Fund.

**USAID Project Budget:** \$18,680

**USAID Project Expenditures:** \$306

## **Summary**

Politics has a curious way of insinuating itself into events. Before this project could even be fully launched to work with Sakhalin on a Fund for Future Generations draft, the proposal found its way into the Duma. The draft legislation was soon law, largely because it was politically untenable to oppose a good idea – despite its problems – on the eve of an election, when it was introduced. Thus, the outgoing Sakhalin Duma passed the Fund for Future Generations law, which no one wanted to oppose, particularly candidates for Duma and governor, despite the work that still needed to be done. It was the Duma chairman, Boris Tretyak, who had personally initiated the request for this project and urged the state of Alaska to seek USAID funding to help Sakhalin craft its Fund for Future Generations.

However, Sakhalin's premature approval of the Fund is not really surprising, coming as it did at election time. And who would want to oppose an idea that calls for saving oil revenues and distributing them to the population, even if it appears to still need some serious crafting to make it work. After all, the Permanent Fund in Alaska, which is the model for the Fund for Future Generations, has become so sacrosanct that politicians vote to tinker with it at their peril, risking political suicide. Still, the Alaska Fund was years in the making before it was developed into the successful institution it is today.

Alaska had provided a Russian translation of the Permanent Fund enabling legislation and some brief tutorials. Some in Sakhalin saw that as the foundation to fashion Sakhalin's Fund for Future Generation. But this foundation became the Fund even without the rest of the building blocks. We consulted Duma Chairman Tretyak on the next steps. He and others characterized the passage of the Fund as an act of political necessity, a kind of populism, but stressed that it did not preclude the task of implementing the Fund through legal amendments or administrative actions to make it work. He vowed that Sakhalin would follow through with the project, with the new Duma installed, and that it would pursue the goals of the project in 2001.

During this time, the "Father of the Permanent Fund," Dave Rose, wrote a short history of the Alaska Permanent Fund, provided a brief account of similar funds that had failed, such as Alberta's, and offered a preliminary analysis of Sakhalin's Fund. This was translated into Russian and provided to Sakhalin officials, who were invited to come to Alaska to take a close look at the development and workings of the Alaska Fund. Planned trips to Alaska were postponed several times. Under ideal circumstances, project director Dave Rose would travel to Yuzhno-Sakhalinsk to conduct the seminars, but his health will not permit him to travel. He is Alaska's foremost expert on the Permanent Fund, its history and formation, and its successful development over the years. He remains ready, willing and able to work with Sakhalin as long as he can do so in Alaska. Meanwhile, his materials have been used to brief others, including delegations from the Sakha Republic and the Republic of Georgia, on the Permanent Fund. The Alaska law, translated into Russian, and the brief history and analysis have been distributed to a number delegations.

The Alaska legislative delegation visiting Sakhalin in September 2001 will probe the interest of Duma members in following up on this project. Current plans call for it to be a focus of the Duma's planned October 2001 visit to Alaska.

**Attachments:**

- *We Are Similar*  
Presentation outlining the similarities between Alaska and RFE regions and the basis for formation of the Alaska Permanent Fund
- *The Alaska Permanent Fund: State of Alaska Investment and Savings Policies – An Introduction and Short History with Brief Commentary and Analysis of Similar Funds Created by Alberta, Kuwait and Sakhalin, Including the Sakhalin Fund for Future Generations*  
Both documents are by David Rose, Father of the Alaska Permanent Fund.

**WORKFORCE DEVELOPMENT**

**Purpose:** To assess the industry needs for skilled workers in the oil and gas developments in Sakhalin with the aim of creating and providing training to meet those needs.

**Benefit:** To provide a comprehensive impartial assessment of workforce needs that industry and government can rely on and that Sakhalin Alaska College can use to develop a training program so that the resource development projects will have a trained workforce and industry will be able to meet its Russian content requirements.

**Project management:** University of Alaska Mining and Petroleum Training Service and Sakhalin Alaska College

**Background:** This project was conceived as a direct result of the disappointments caused by the constantly changing schedule of developments on Sakhalin, i.e. delays, and the strong interests in determining workforce needs in advance of full-scale development based on new, revised timelines. The unexpected delays have dealt blows to the planning process for government, industry and the Sakhalin Alaska College, which was established with USAID support to train the Sakhalin workforce for oil and gas developments. In conducting a workforce needs assessment, this project would also determine the need for training workers and thus put the USAID-funded technical training college to work. Sakhalin Alaska College was spawned by the Alaska Sakhalin Working Group and is a joint venture of Alaska's Mining and Petroleum Training Service, Peak Oilfield Service Co. of Kenai, Alaska, and the Russian Academy of Sciences Sakhalin branch.

**Region:** Sakhalin Oblast will be chief beneficiary and target study area, though the study may assess worker skills and availability in the nearby regions that could also supply workers for the Sakhalin development projects.

**USAID Project Budget:** \$255,100

**USAID Project Expenditures:** \$66,716

## **Summary**

Data collection for this project was heading toward completion before the end of the year 2001. Research was performed with Sakhalin government agencies and all the companies involved in the Sakhalin projects, covering current and future employment. Dennis Steffy, Director of the Alaska Mining and Petroleum Training Service, and Mikhail Krasny, of the Sakhalin branch of the Russian Academy of Sciences, who are partners in the Sakhalin Alaska College, have conducted and overseen this project.

One of the most important aspects of this project was the development of new software designed to create a database of job specifications, skills, and available personnel with their qualifications. Additionally, the software catalogs the labor pool by job classification, skills and available personnel. The database takes into account the differing job categories in U.S. and Russian markets. The database is bilingual and will prove valuable to government agencies, job centers, trade associations, employment agencies, companies, human services and personnel offices, contractors and planners.

Despite the value in the still-to-be-completed product to all those entities mentioned above, some serious and tough questions must be dealt with once this software and database are complete. Since the software is new and the database somewhat unique, who should have access to it? Who is the legal owner? How should it be distributed? Can it be replicated for use elsewhere – including in Alaska, but also in other Russian projects? Can those who might intend to use it commercially for profit, such as employment agencies, have access in the same manner as government or non-commercial agencies? And how should competing companies' access be governed?

In addition to these issues of rights, access and use, this project will also establish the skills needed by the oil industry and the training that must be conducted. This will require training entities, such as Sakhalin Alaska College to gear up for this training based on industry development schedules. However, project producers are likely to contract out for work and workers, and the burden may fall to contractors and subcontractors to get the trained workforce in place. All this raises a lot of logistics concerns and questions.

Data for this project has been compiled from various sources, including the cooperation of oil companies that provided confidential data and briefings on their plans. Other data was obtained by using advertising to solicit Sakhalin workers to fill out a questionnaire about their profession, skills, training, certifications, education and personal contact information. Thousands of these surveys were returned.

Information about 2,697 types of work, 5,436 businesses and 16,097 individuals has been collected and categorized and is becoming part of the database.

One of the most difficult aspects of the project has been reconciling professions that are characterized in conflicting ways, or require different skills and duties, or have training and certifications differences in the United States and Russia. The Sakhalin projects may be in Russia, but the multinational companies often apply their own distinct criteria to job categories, hiring and skills.

Further meetings are being planned for Sakhalin in fall 2001 to brief all interested parties in government and industry and to bring this phase of the project to a conclusion and make the results available. Preliminary results and work products are attached.

**Attachments:**

- Advertisement: *Specialists Will Be Needed*  
Soliciting participation in questionnaire for Sakhalin workforce development
- Interim Report
- Workforce Analysis Data Base

**SAKHALIN ENVIRONMENTAL MANAGEMENT**

**Purpose:** To provide Sakhalin with requested technical assistance in key areas of environmental policy-making, regulatory management issues, waste management, and spill preparation and preparedness.

**Benefit:** To establish a sound basis for development by assuring that environmental policies, the regulatory regime and the safety net -- prevention, preparedness and response mechanism -- are established to the satisfaction of all involved, modeled after the state of Alaska guiding principle of "*Doing Development Right*".

**Project management:** U.S. Minerals Management Service and Alaska Dept. of Environmental Conservation

**Background:** Sakhalin Oblast officials, notably the governor and the director of the Shelf Office, have repeatedly asked that Alaska share its expertise with Sakhalin in the realm of environmental regulations, preparation and response. This project is a product of the Alaska Sakhalin Working Group. Enormous effort has gone into trying to establish the Sakhalin environmental training priorities as oil and gas development goes forward.

**USAID Project Budget:** \$73,500

**USAID Project Expenditures:** \$37,537

**Summary**

This project, which has a long history of coming into being, was carried out in April 2001 in an ambitious and successful weeklong seminar that already has Sakhalin calling for more. Sakhalin has long viewed Alaska as a model for prudent development, and Alaska has not been shy about promoting what has become a state mantra under the Knowles administration – *Doing Development Right*. This project is the realization of exporting this Alaska *Doing It Right* tenet – promoting development and protecting the environment through a process that treats the different elements as integral parts of the whole. Alaska's chief principles of *Doing Development Right* can be summarized as follows:

- Resource management to achieve broad sustained benefit for present and future generations
- Sound science so the best technologies, as well as local knowledge, govern decision-making

- Prudent management that brings environmental quality and community values into focus so that they matter and are an integral part of the process *and* the end result.
- Responsive, meaningful public involvement.
- Communities prosper if their economies *and* their environments are healthy with the strength of each bolstering the other. Environmentally sound development is good business from the economic, environmental and social perspective.

Translating these principles into an everyday management regime is not easy and requires constant attention to policies and process and their concrete implementation. Thus a seminar based on these underlying principles must be geared toward the process of developing and implementing public policy. With that in mind, this project grew out of Alaska Sakhalin Working Group discussions encompassing many sectors and viewpoints, which were incorporated into the project itself.

This project involved Alaska State and federal agencies, the oil industry and non-government citizen stakeholders. The latter element illustrates the evolution of this project, which underwent many changes as Sakhalin priorities evolved during the development process. Early in the planning stages, the Sakhalin administration was reluctant to have these citizen stakeholders, represented by Alaska's Prince William Sound Regional Citizens Advisory Council (RCAC), play a role. Sakhalin officials said they preferred to hear *about* RCAC rather than directly from RCAC. But over time, in the course of discussions, Sakhalin's development climate matured, trust built up between Sakhalin and Alaska and among the various players on both sides, and the successful Alaska model of development stood out as something to emulate. That made this once-controversial element, the citizen stakeholders representing neither government regulators nor industry, an integral part of the overall approach toward environmentally sound resource management principles, policies and practices.

Alaska does not pretend that it has found the magic secret to bringing consensus to the traditional development-versus-environment debate. However, Alaska does claim to have come up with a workable regime that promotes consensus building and that recognizes the integral role of a regulatory regime while encouraging an attitude of partnership with the regulated industries. All of this is aimed at establishing a comfort level for the practical implementation of a regulatory regime and institutionalizing the way it works.

Despite the measure of success achieved in this arena in Alaska, there is undeniably a certain tension between the different players and their distinct roles in the regulatory regime. This was particularly notable in Sakhalin where there was a certain degree of nervousness about the seminar and its potential implications for Sakhalin. After all, just because Alaska has found some workable solutions doesn't necessarily mean they will necessarily be a good fit for similar problems in Sakhalin. This project did not attempt to impose the Alaska model on Sakhalin, but rather to present it and to show how and why it works, and even where it has difficulties. That, in turn, was aimed at generating debate and discussion on Sakhalin about how the government, the industry and the stakeholders might work together, within an established regulatory regime, to achieve common goals in development and environment.

However honorable these goals, the approach and the presentations, of course, had to be concrete, practical and realistic. The question and answer sessions and the roundtable discussion also served to keep the participants grounded in real-world issues, problems and solutions. Many of the topics delved into the highly technical. The Sakhalin participants included technical and lay people, government and industry, various stakeholders and a fairly representative cross-section of Sakhalin. Perhaps the greatest measure of the seminar's success was the almost immediate request by Sakhalin for follow-up seminars.

Sakhalin Gov. Farkhutdinov and Sakhalin Shelf Director Galina Pavlova visited Alaska in mid-July 2001, praised the project in their public speeches, and Pavlova discussed plans for the next stage, which is being considered for fall 2001.

It is worth noting that the original workplan was more modest than the seminars actually carried out. The initial proposal called for four Alaskans to travel to Sakhalin to conduct the seminars. In fact, eight specialists and an interpreter traveled from Alaska to Sakhalin. Thanks to in-kind contributions from industry and other participants, and thanks to some money-saving frugalities (staying at a cheap hotel), this phase of the project managed to stay within budget, spending about half of the total budget allowance, despite the additional people and substantially extra efforts involved to put on a superior event.

Discussions on the next phase of the project are already underway and will be continued at meeting in September 2001 in Ulan Ude at the West Coast-RFE working group. The April 2001 seminar presentations and background materials have been compiled into a book and put on compact disc. The book and CD are included with this report.

**Attachment:**

- ***Sakhalin Seminar: Environmental Management During Offshore Oil and Gas Operations***  
Book and CD: Seminar documents, presentations, questions and other materials, plus follow-up letters and articles



<b>REQUEST FOR ADVANCE OR REIMBURSEMENT</b>		Approved by office of Management and Budget No. 80-R0183		Page 1 of 1
1		a. "x" one, or both boxes <input type="checkbox"/> ADVANCE <input checked="" type="checkbox"/> REIMBURSEMENT		2. BASIS OF REQUEST <input checked="" type="checkbox"/> CASH
TYPE OF PAYMENT REQUESTED		b. "x" the applicable box <input type="checkbox"/> FINAL <input checked="" type="checkbox"/> PARTIAL		<input type="checkbox"/> ACCRUAL
3. FEDERAL SPONSORING AGENCY AND ORGANIZATIONAL ELEMENT TO WHICH THIS REPORT IS SUBMITTED <b>U.S Agency for International Development (USAID)</b>		4. FEDERAL GRANT OR OTHER IDENTIFYING NUMBER ASSIGNED BY FEDERAL AGENCY <b>118-G-00-00-00115</b>	5. PARTIAL PAYMENT REQUEST NUMBER FOR THIS REQUEST <b>1</b>	
6. EMPLOYER IDENTIFICATION NUMBER <b>92-6001185</b>	7. RECIPIENT'S ACCOUNT NUMBER OR IDENTIFYING NUMBER AR's 30693-01, 30693-02 & AR 32641-06	8. PERIOD COVERED BY THIS REQUEST FROM (month, day, year) <b>7/01/200</b> TO (month, day, year) <b>8/28/01</b>		
9. RECIPIENT ORGANIZATION <b>STATE OF ALASKA, DEPT. OF COMMUNITY &amp; ECON. DEVELOPMENT DIVISION OF INT'L TRADE &amp; MARKET DEVELOPMENT P.O. BOX 110803 JUNEAU, ALASKA 99811-0803</b>		10. PAYEE (Where check is to be sent is different than item 9) <b>STATE OF ALASKA, DEPT. OF COMMUNITY &amp; ECON. DEV. DIVISION OF ADMINISTRATIVE SERVICES-FISCAL P.O. BOX 110803 JUNEAU, ALASKA 99811-0803</b>		
<b>11. COMPUTATION OF AMOUNT OF REIMBURSEMENTS/ADVANCES REQUESTED</b>				
PROGRAMS/FUNCTIONS/ACTIVITIES	(a)	(b)	(c)	TOTAL
a. Total program outlays to date (As of date) <b>8/28/01</b>				<b>343,971.30</b>
b. Less: Cumulative program income				<b>0.00</b>
c. Net program outlays (line a minus line b)				<b>343,971.30</b>
d. Estimated net cash outlays for advance period				<b>0.00</b>
e. Total (Sum of lines c & d)				<b>343,971.30</b>
f. Non-Federal share of amount on line e				<b>107,404.00</b>
g. Federal share of amount on line e				<b>236,567.30</b>
h. Federal payments previously requested				<b>0.00</b>
i. Federal share now requested ( Line g minus line h)				<b>236,567.30</b>
j. Advances required by month, when requested by Federal grantor agency for use in making prescheduled advances	1st month			
	2nd month			
	3rd month			
<b>12. ALTERNATE COMPUTATION FOR ADVANCES ONLY</b>				
a. Estimated Federal cash outlays that will be made during period covered by the advance				
b. Less: Estimated balance of Federal cash on hand as of beginning of advance period				
c. Amount requested (Line a minus line b)				
<b>13. CERTIFICATION</b>				
I certify that to the best of my knowledge and belief the data above are correct and that all outlays were made in accordance with the grant conditions or other agreement and that payment is due and has not been previously requested.	SIGNATURE OF AUTHORIZED CERTIFYING OFFICIAL		DATE REQUEST SUBMITTED	
	TYPED OR PRINTED NAME AND TITLE  <b>Jeff Berliner, Trade Specialist</b>		TELEPHONE (AREA CODE, NUMBER, EXTENSION)  <b>(907) 269-8131</b>	

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**Federal Grant Award No. 118-G-00-00-00115**  
**Summary of Financial Report by Project Component**  
**For report period of 7/01/00 thru 8/28/01**

<b>Project/Component</b>	<b>USAID Expenditures AKSAS</b>	<b>DCED Match AKSAS</b>	<b>Alaska Match Per JBerliner</b>	<b>Sakhalin Match Per JBerliner</b>	<b>Total</b>
Coordination	21,296.00	4,000.00	0.00	0.00	25,296.00
Workforce Development	66,717.00	0.00	24,909.00	29,150.00	120,776.00
Development Agency/aka Finance Development	110,711.00	0.00	15,455.00	2,000.00	128,166.00
Environmental Management	37,537.00	0.00	25,066.00	6,300.00	68,903.00
Fund for Future Generation	306.00	0.00	524.00	0.00	830.00

