

## **Transcript of public consultation meeting in London Tuesday 28 February on the environmental and social issues associated with the Sakhalin II Phase 2 project**

*Moderator: Mr Nigel Campbell*

THE MODERATOR: Welcome, ladies and gentlemen. I would like to introduce myself. My name is Nigel Campbell. I am the independent facilitator that has been appointed by EBRD to facilitate the public meetings, the first of which here is in sunny London, and it is actually quite sunny today. This meeting is principally for international NGOs. We have another meeting in Moscow on 14 March, which is principally for the Russian NGOs. We then have three meetings on Sakhalin Island itself: one at Nogliki on 20 March; one at Yuzhno Sakhalinsk on 23 March; and one at Korsakov on 24 March. We finish the public meetings in Sapporo in Japan on 10 April.

As it is difficult to find trilingual facilitators (unfortunately my linguistic skills are limited to English and French), I will be working with translators and facilitators both for the Russian meetings and also for the meeting in Sapporo. Obviously, notetakers will be taking down notes in those languages for the meetings, which will then be translated for the Bank's needs.

I am an independent facilitator, having worked extensively with organisations such as the OECD in Paris, DfID (for those of you who do not know it is the British Ministry for International Development), the IEA, and the United Nations, principally UNDP. This is a task with which I am familiar.

I will just say a little about the background and my implication in this project. I spent a week on Sakhalin Island with a representative from the Bank in February. I was there to meet with stakeholders, to solicit input into the design and conception of these public meetings, and to find out for myself what their key issues are and how they see this public consultation process. Some of them asked me why we were having these meetings.

You know very well our issues. We have been working with the Bank for many years on this subject. As we pointed out, this is an opportunity to discuss new documentation that came out in December, which we will be talking a little bit about later. The objective of these meetings is to consult the public on the project as proposed through the documentation and specifically with regard to the draft HSESAP (Health, Safety, Environmental and Social Action Plan). We very much want to consult. The Bank wants to consult on these documents and to have your input, your recommendations, and so on.

These meetings are one element of the public consultation process but only one element. The process finishes on 21 April. Obviously there are other channels for people to put forward their comments and views on documents or other matters related to the Sakhalin II Phase 2 project, whether that be via the EBRD website or through consultation with experts from the Bank.

There are outputs from these meetings. Transcripts will be prepared, which will be available to members of the Bank. I will also be writing a record of the meeting. Obviously I am not present to write any conclusions or anything such as that. It will be simply be a record of all of these public meetings, as I will be the common facilitator throughout. That will be a record available on the EBRD website. Sakhalin Energy will then be asked to respond. This will all constitute a total public consultation in itself, which is a genuine consultation. No decision has been made by the Bank yet whether to finance this project or not. The public consultation will obviously be a major factor in the decision of the Board of Directors as to whether to finance this project or not.

There are just a few elements here before I ask the task team to introduce themselves from EBRD. We have tried, in designing this meeting, to separate the discussion and to have, first, the environmental discussion from 2.45 until 4.15 and then discussion of social matters from 4.30 till 6. There are obvious links in many ways. The only reason for doing that is that some

people are unable to attend the whole meeting. We can try to guide the discussion with regard to that timing.

Any members of the press who are here, as we have asked them before, would you kindly keep questions until the break when the press representative from EBRD will be able to guide you to the people to whom you wish to speak. You may also ask questions afterwards.

I would like everybody to turn off their mobile phones or put them on to vibrator mode at least so that we are not disturbed by them.

My role here is also to ensure that we have an equitable share of voice throughout these proceedings.

To make clear who is here, we have members of the Environmental and Social Expert Panel from EBRD. There are some technical advisers from Sakhalin Energy who are here purely to advise on particular technical points in the answers that members of EBRD will be giving to questions you may wish to ask. Any members of Sakhalin Energy present in this room are simply there in that capacity. It is very much an EBRD meeting and so we will not be taking questions directly to members of the company.

This is the moment to hand over to the members of the EBRD panel. Would you like to introduce yourselves?

MR JETER: I am Jeff Jeter from the Environment Department of EBRD.

MR KING: Mark King from the Environment Department.

MS BERGMAN: I am Michaela Bergman, also from the Environment Department.

MR CLARK: Alistair Clark from the Environment Department.

MR RYJENKO: Andrey Ryjenko from the Banking Department of EBRD.

THE MODERATOR: Jeff, could I ask you to start us off with a brief overview of the documentation we are here to consult on before we throw it open to the floor?

MR JETER: I will just say a word or two about the documents that are out in the public domain. I think most people realise that in 2003 the company released the international style Environmental, Social, Health Impact Assessment. We have been involved in our due diligence assessment of that work in the project since that time. We, the EBRD, and the other financial institutions looking at this project, had several questions about the data and information presented in that report. We have been working with the company since that time to resolve those issues. Those issues have been resolved in documents called addenda. There are 16 environmental and five social addenda to the original EIA that were released in December 2005. Through that time period from 2003 to 2005, not only did we look at paperwork on the project but we had several field trips to the island to investigate various issues in depth. We have been up and down the length of the island seeing every kilometre of the right of way, many more than once.

Another document that has been released into the public domain, as Nigel mentioned, is the HSEASP (Health, Safety, Environmental and Social Action Plan). This document is a summary of all the commitments that the company has made in the original EIA, through the EIA addenda and through discussions and negotiations that we have had with the company over the last three years. This is the document that will be part of our loan agreement with the company and the company will be contractually bound to comply with the provisions and the commitments of the HSEASP. These are the documents that have recently been released and the documents that represent the project as we see it now and as we have seen it over

the last three years. These are the commitments made by the company in terms of mitigation measures and monitoring. We hope that a lot of the discussion today will be focused around these documents.

THE MODERATOR: I hope this up to you now. As we have mentioned the Health, Safety, Environmental and Social Action Plan. Perhaps we could have a question or comments on that. What am I expected to read from this silence? Is it that people do not want to comment on this? There is someone. Please say who you are and where you are from.

PARTICIPANT: I would like to make an opening statement in response to that. WWF welcomes the statement by EBRD in December that the project was in breach of its environmental policy with regard to environmental and indigenous aspects. We do not believe that you cannot solve that with pieces of paper. We say that EBRD should therefore see it as not in compliance and not fund it and that the credibility of its environmental policy is at stake if it does go ahead now.

We summarised our position in December last year in the report Risky Business, which outlines a number of areas where we feel there are shortcomings in the project that cannot be rectified because they are either irreversible or they have been done already as the project is half-built. I will not recap on those now but just reference that report. We understand that EBRD now wants further reasons not to fund the project. We say that we will follow the spirit of that in the meeting today.

THE MODERATOR: So you have no specific question on the documentation?

PARTICIPANT: I have many specific questions, if you would like them.

THE MODERATOR: We would be interested to hear them.

PARTICIPANT: First, I would like to note that the gray whale population is now even more vulnerable, given that there were three deaths last year. We would like to make sure that EBRD takes into account the risks Shell is exposing that population to which are now even more unacceptable.

On that note, I would like to question the links between the various documents, as you are on documents. We now have the Marine Mammal Protection Plan, the various Whale Panel documents and chapters in the new document you referred to, the new EIA on oil spill, yet there seems to be no link between these. In the chapter on oil spill there is no mention of the Whale Panel's recommendations not to use dispersants, for example. Previously there have been gaps when the company installed the platform without waiting to include recommendations from the panel. To me, there are just so many documents now that do not add up to a reassuring, comprehensive plan; they are just making things worse by contradicting themselves.

I would question, through EBRD, what the value of this now ex-panel is if Shell can choose to ignore its recommendations.

THE MODERATOR: If I understand correct, you feel that there is a discrepancy in the documents and you ask what the point is of them.

PARTICIPANT: The documents are not linked to each other; they are not linked to procedures; they are not linked to the operations on the ground; and they are not linked to the decisions the company has made in the past.

THE MODERATOR: Would somebody like to respond to that?

MR KING: I have just a few points of comment, James. You have made a wide range of points. I do not think it is appropriate to go through them all in detail now because that would dominate the entire meeting.

First, on the documentation side, there is a number of documents. It is always difficult in a project of this magnitude to tie everything down in one document and maintain a degree of specificity that allows us to monitor the implementation of the project. Rest assured that through the work of ourselves and our independent environmental advisers, AA Technology, and also the panel, we will be doing everything to make sure that the commitments made by the company with respect to the whale and other issues are followed through.

With respect to the Western Gray whale, the panel process, as it were, is still ongoing. We have a number of meetings coming up, one of which is in Vancouver, to carry on the review of the company's proposed preventative and mitigation measures with regard to the whale. As you know, that panel is made up of some of the world's leading experts on the whale. We are very mindful of the comments of that panel. This is still an ongoing issue. I would not want to draw any conclusions as to the outcome of the panel process. I repeat that it is an ongoing process in which the panel is reviewing the company's proposed mitigation and monitoring measures.

THE MODERATOR: Are there any other questions leading on from that?

PARTICIPANT: I represent all the international members of an NGO called Campaign Whale. My question is a specific environmental one. Some of these Gray whales have already been found dead and emaciated in the area. They were reported to the International Whaling Commission. Surely these whales are already victims of the existing plant at Sakhalin I, which is already disturbing their feeding grounds? Why then is the EBRD considering funding Sakhalin II which renowned international scientists believe will push this critically endangered population of whales to extinction? I would suggest that European taxpayers would not like their money spent in this way. Our members certainly would not.

THE MODERATOR: Do you feel you can add anything to that in terms of an answer at this stage?

MR KING: I would only comment that the link between the emaciated whales and any development project in the area is not clear at all. Emaciated whales have been reported in other populations such as the Eastern whale. There is certainly no direct proven link, as I understand it, to food supply. Indeed, given that the area used to support tens of thousands of the Western Gray whales, the food supply is probably not the limiting factor and probably not the factor that is causing emaciation in the whales. This was discussed with the panel. There is no clear view on why there are emaciated whales. I think the issue has been dealt with in the various transactions of the panel in its meetings. I would refer you to those documents for a more comprehensive addressing of that issue.

PARTICIPANT: I start by saying that Friends of the Earth is really fundamentally opposed to this project. It is fossil fuel extraction; it is in a sensitive eco system; and there is no strategic environmental assessment being carried out.

With specific reference to the Western Gray whales, which of course are an important part of this eco system, but only one part of it, as I recall, the panel actually said that the most precautionary approach would be for this project not to go ahead. The Western Gray whales are extremely vulnerable. They are subject to a range of pressures. Clearly, this project will simply add to that. We do not think that public finance should go towards this project.

THE MODERATOR: Is there a specific question there?

PARTICIPANT: It is really about the justification of adding to the pressures on this vulnerable whale population.

THE MODERATOR: While we are thinking about that, are there any other new questioners at this stage with regard to the issue of whales?

PARTICIPANT: Pacific Environment has been following this project and working with our colleagues and professionals on Sakhalin since 1996. We have seen this project since the inception of construction clearly up to today.

I want to reiterate what James and Mary have said about the imperative that EBRD not finance this project if it is to retain its credibility. It is very clear that this project violates EBRD's policy. EBRD has said so itself on numerous occasions. It is obvious that, as construction is occurring on the ground, we are seeing more violations that we did not anticipate. It is clear that the project is threatening the Western Gray whale population with extinction.

I am sure we will go on to some of the other issues but, as a preliminary note, I wanted to respond to the facilitator's mention that there have been many previous discussions. At the Annual Meeting of EBRD last year Peter Reiniger informed us that there were in fact 7,000 pieces of individual input to the Bank. I would like to see those incorporated into the record, now that the public comment period has begun, to ensure that EBRD takes into consideration all the comments it has had over many years. If you look at EBRD's website, it looks as though there have been two or three letters sent; that is simply not true. We would certainly like to see all the input that we have provided and the thoughts of other groups which have been given to EBRD, all the letters, included in the public record during the comment period.

Also, on EBRD's website it gives the indication that there might have been perhaps one or two press articles written about the project lately. I would like to introduce into the record a compilation of over 100 stories that deal with the environmental, social and economic impacts of the project in general, dealing with cost-overruns, EBRD's consideration of the project, indigenous people, private bank consideration, wildlife issues and Aniva Bay, et cetera. I think that to give the public an accurate view of what has happened over the years with the project you should at least enter this into the record and reflect on the website what has happened over the years.

THE MODERATOR: What is this document?

PARTICIPANT: I am submitting that for the record.

THE MODERATOR: I pass this to Doina Caloianu to make a record of that to make sure it reaches the appropriate person.

MR KING: Alistair may want to respond and then I will get into the whales a little bit.

THE MODERATOR: Let me assure you that we will summarise all inputs. Obviously it is a challenge when you have had 7,000 emails. When we are summarising this, we will do it in a thematic sense but we will address all the issues raised by the public, civil society and the NGO community.

PARTICIPANT: Thank you. I appreciate that.

With regard to the Western Gray whale, there is much to discuss when a population is threatened with extinction and I am sure we cannot get into all of it at this meeting. Mary mentioned the precautionary approach. As we saw last summer, Shell towed out the concrete base for the PAB platform in an action that the whale scientists said undermined and obviated portions of their review.

The fact that there is a whale review that EBRD has helped to create is good and EBRD should be proud of that achievement. However, this is only going to serve the interests of the whale and the public if Shell actually responds to the inputs, questions and concerns raised

by the scientists. This is an instance in which there are marine mammal observers apparently on board but Shell did not even wait long enough for the fog to clear before it installed the concrete base, thus rendering the marine mammal observers' actions and abilities to perform the mitigations measures moot.

We noticed a certain lack of stated concern about that action by EBRD after that happened. In fact, we have heard nothing publicly from EBRD about the tow-out of the PAB platform. Personally, I have heard nothing from EBRD publicly about the lack of response to many outstanding, very important issues that the whale scientists have raised.

There are two questions there. What is EBRD's public official view on the tow-out and installation of the concrete PAB platform base? Do you think that that complies with your policies? Secondly, do you think that the company's response to the ongoing concerns of the scientists demonstrates compliance with your policies?

THE MODERATOR: Before that is answered, are there any other supplementary questions that move that on with regard to the whale? Once all the questions have been asked, they can be grouped together.

PARTICIPANT: In the past few years we have seen that scientific information from other sources than Sakhalin Energy can be helpful in monitoring the impact of the project Sakhalin II on the West Pacific Gray whales. WWF and IFAW, with the support of the Russian Academy of Science, have undertaken such an investigation in the past few years, for example, on the construction of the concrete gravity base in July 2005. The construction work has caused a huge impact on the whale habitat and behaviour in the construction area.

Currently there are no terms of reference fixed for the Western Gray Whale Advisory Panel. If this panel is created to provide advice on the industrial activities at Sakhalin, will EBRD insist on the information and results of this information, other than from the scientists paid by Sakhalin Energy, being taken into consideration and action taken on that?

THE MODERATOR: Will the non-company input be considered?

MR KING: On the last point, yes, any information collected by other independent parties will be taken into account to be reviewed by the Bank but also, more importantly, by the whale panel. The terms of reference for the panel have been agreed. Even if the panel has not formally been in place, the panel is informally in place, as evidenced by the Vancouver meeting which is coming up in a few weeks.

We have not issued any formal comment on the impact on the whales of the tow-out and related issues, Doug, because we are not whale experts. We are relying on the whale panel; they have agreed to work with us and advise us on this issue. They are looking at the information collected by independent parties last summer and they will be looking at the information collected by the company. When the panel has taken a view, they will advise us and then we will take a view, but at the moment I am not prepared to make any comment on the whale data until we have advice from our experts.

In terms of the structure of the project and the whale panel, you should be aware that the actual formation of the whale panel is one of those performance benchmarks. If that panel does not operate or is not formed and its recommendations are not taken on board by the company, then this project does not go to our Board. We are relying heavily on the formation of that Western Gray Whale Advisory Panel.

THE MODERATOR: Is that a useful answer? Could we capture the next question as the final one on the whale before we move on? There is a time consideration. It is important that specific questions are answered within this forum. We can come back to that but we have to make sure that other issues are addressed as well.

PARTICIPANT: Mark, you said that until the experts tell you, you cannot take a view. The experts have told EBRD in several reports about the shortcomings of the project and problems ranging at the start from the lack of data to, as of late, the tow-out of the PAB platform. In several reports they have told the Bank their concerns. As you said, it is time for the EBRD to take its view. What is your view? Has Shell demonstrated compliance with EBRD policies with regard to measures to protect the Western Gray whale over the entire course of the scientific panel process?

MR KING: As I mentioned earlier, the panel has been intimately involved in the review of this issue and a review of the way forward by the company. The panel has agreed to continue to work on this project as part of the ongoing process. The ongoing work involves them looking at the adequacy of the monitoring and mitigation measures for this summer's work and working with the company. The company has agreed to be bound by all reasonable measures suggested by the panel to safeguard the whale population.

A lot of progress has been made on the issue but perhaps not as much as we would all like to see. We have to remember that some huge things have been done, such as moving the pipeline from the whale feeding grounds. I recall that there was a lot of satisfaction expressed, if I can use those words, by the NGO community, ourselves, other lenders and other observers of the project that that was a good move. A lot of progress has been made in addressing the issues, perhaps not to everybody's satisfaction, but the key point is that the whale panel, the experts, involved and engaged by us continue to work on the project and to want to work on the project to ensure that the whale population is safeguarded.

THE MODERATOR: I would like to move on. I appreciate this is a very important issue and that you have many concerns about this. That is understandable. The environmental section of this meeting goes on until 4.15. I do not know what other issues people would like to raise. I would like to move on but we can certainly come back again.

PARTICIPANT: (off microphone)

THE MODERATOR: My intervention lasted probably three or four minutes. We can certainly put back the coffee break to encompass that time. Could I have an indication of other environmental issues that people would like to ask questions on, specifically with regard to the documentation mentioned? I know that the Bank is keen to hear comments and recommendations with regard to the documentation and the commitments made by the company, whether people feel that is adequate or inadequate, and recommendations on taking that further.

The issue of the whales is obviously a very important one. Could I have an idea on other environmental issues from people here in the room?

PARTICIPANT: I think you need to appreciate that as the largest integrated oil and gas project in the world with all the elements involved, there are dozens of issues that are extremely serious and that need to be dealt with. With all due respect to the time constraints, I know we do not want to be here until 9, but these are rather serious issues and they need to be discussed. These are the same issues we have discussed for several years with, in our view, an inadequate response. Do you want a list?

THE MODERATOR: Clearly these meetings are designed specifically to ask questions, primarily about the documentation. As I said in my introduction, the public consultation process goes way beyond these meetings. Any questions or statements that people wish to make for the Board to take into consideration can be addressed to the website. My role is to try to get as much as we can out of the meeting with the people here. I presume that the pipeline is a concern on the environmental issue and Aniva Bay. Obviously these are things that came up in my meetings on the island. Have we missed anything out?

PARTICIPANT: Even my list is incredibly cursory and incomplete. Oil spill response plans, river crossings, Aniva Bay, Korsakov, the production sharing agreement, public information disclosure policies, compliance issues, social impacts: the list can go on and on.

THE MODERATOR: What about oil spill as that is obviously a clear concern? Is there anybody else in this room who would like to ask a question about oil spill?

PARTICIPANT: The lack of a track record in dealing with oil spills on ice is obviously a huge concern. My colleague James can elaborate more on that. It is quite disturbing to see that the elements of a comprehensive oil spill prevention response plan are still not present. Oil spills are among the most central and most serious potential environmental impacts of any oil and gas project. To see that we have gone through an environmental impact assessment process for several years and the comprehensive elements are still not in that plan is extremely alarming, especially since this is a project that has already had an oil spill. It is hard to elaborate much more on the elements of the oil spill response plan because they are not there.

THE MODERATOR: That is a fair point. As far as you are concerned, the oil spill response plan is not represented in the documentation that we are consulting on today.

PARTICIPANT: Yes, and the implication of it is that this is a project that may reach some point of decision at the Bank and, after that point, you have committed yourself without knowing how good that plan is and how it is going to be implemented.

THE MODERATOR: That is a fair question. Would somebody like to comment on the oil spill response plan that does not apparently seem to be in the documentation at present?

Mr KING: It was never our intention to release details as specific oil spill response plans, but rather to provide an overview, an outline, of an oil spill response plan indicating the anatomy of such a plan. The plans that are developed for each asset have to be not only satisfactory to the Russian authorities but also satisfactory to the lenders. The lenders have engaged oil spill experts, including experts in oil and icy conditions, to evaluate the adequacy of the oil spill response plans asset by asset and to provide a view to the lenders. It is a requirement of the Health, Safety, Environmental and Social Action Plan that the oil spill response plans have to be satisfactory to the lenders. That more or less equates to there having to be best international practice.

Consultants have been engaged and are beginning that process. Again, that is another issue which will feed into the ultimate Board decision – not only the consultation process but also how the whale issue proceeds, how the oil spill response plan proceeds, river crossings and so on.

PARTICIPANT: Just to add a little to that, it is important to note that the agreement with the company is not only that an oil spill response specialist will be retained to review these plans and provide comments to the lender group. The issue is about comments from this international expert reviewing the plans. Those have to be taken on board and addressed by the company. At the end of the day, the independent specialist has to make the comment that these plans are up to international standards.

THE MODERATOR: How do you feel about that?

PARTICIPANT: I do not like it when somebody tries to dictate to me what our issue is and so when you say "this is the issue", I do not agree with that. It still gets back to the same fact that the public is being asked to review an environmental impact assessment that does not cover one of the most serious and potential environmental impacts of the project.

THE MODERATOR: As far as I understand it, that will be part of the consideration of the Board when they make their decision. Although it may not be within the plan concretely at the moment, that will be there for them to make their decision upon.

PARTICIPANT: Just to clarify, the documentation that is in the public domain currently has an outline of the elements that will be addressed in the oil spill response plans. The oil spill response plans will not be completed in time for the Board decision. What we have from the company to address oil spill response plans is the commitment to complete the plans consistent with international best practice and consistent with the outline of information presented in the documentation in the public domain now.

THE MODERATOR: So that commitment has already been made then?

PARTICIPANT: That is correct.

THE MODERATOR: The commitment has been made. What happens if the company then does not stick to that afterwards? Then I presume there is a monitoring process. Is that right?

PARTICIPANT: The commitment from the company is to take on board the recommendations and comments from the international expert we retain to review the plans and to make the plans consistent with various standards, which we have agreed with the company as representing international best practice. If the company does not modify the plans to be consistent with what advice the specialists give to us, we have contractual recourse that is extremely heavy-handed on the company to deal with that situation. Basically, it can lead to a default of the loan, which would require the company to repay the loan, working through to the ultimate end point.

THE MODERATOR: Are there further comments or questions on that? It seems quite clear that although maybe the detailed oil spill action plan will not be available to the Board before they make their decision, the company will be contractually obliged to ensure that it meets international standards. If that is then not met after the loan has been given or not given, depending on what the Board decides, contractually they have to give the money back.

Are there any other questions to clarify that?

PARTICIPANT: (off microphone) .....contradict the statement that starts that the company has answered the questions as part of its due diligence. We have just heard that the panel still has questions on the whales. They still have questions about oil spill. There are still many unresolved issues, yet they have gone to consultation. With all these conditions that might be in place, why are we going ahead at this stage?

Whilst we are on oil spill, the panel member who was responsible for oil spill, Rick Steiner, quit last summer and has not been replaced. I would say there is a gap in knowledge on the whale panel on that. At the last Vancouver meeting we asked for maps of winter oil spill envelopes. Those still have not been provided.

I still have not seen anything that shows that in all conditions the company can respond to an oil spill. Until I get that guarantee, I am not happy to wait for a promise on experimental techniques because all the advice I have had from industry and other sources states that there is not a comprehensive solution out there.

THE MODERATOR: Your concern is that the Board of EBRD would be making decisions on whether to go ahead with a loan or not without all the answers.

Are there any other questions with regard to oil spill from anyone else?

Korsakov is a city I visited fairly recently. Are there questions on that?

PARTICIPANT: (off microphone)..... provide next winter oil spill maps, please?

THE MODERATOR: You have been asked whether you will provide winter oil spill maps.

PARTICIPANT: I believe it is part of the terms of reference from the last Vancouver meeting of the whale panel that they still want to see winter oil spill excursion envelopes – how far an oil spill spreads in the event of an incident during winter sea ice conditions.

Mr JETER: Can I ask somebody from the company to deal with that? John Wardrop is the oil spill manager and an expert from the company.

MR WARDROP: We have got winter excursions for Aniva Bay. We are currently running the winter trajectories for Piltun.

PARTICIPANT: Is that all?

MR WARDROP: And we do have them for Aniva Bay, yes.

THE MODERATOR: Mark, are you happy with that response from the company?

MR KING: Some scenarios are being re-run and the information is being provided to the panel as these things come in.

PARTICIPANT: I would like to ask: if EBRD goes ahead and makes a decision on this project without the full documentation, without the full analysis of the oil spill problem, will the review of those plans be available in the public domain? We have only just seen the Birmingham Report. There was obviously a tussle about releasing that into the public domain as far as I can make out.

THE MODERATOR: Will this come into the public domain once it is available?

MR KING: We have not taken a view as to whether we would release.....

[Side 2 tape starts, gap on turn over]

There is one generic comment I want to pick up here and it is this perception that we are moving forward without all the answers and without all the action plans in place. It is quite usual in large construction projects to have plans to deal with issues moving forward and to have a good degree of comfort about those plans being rolled out and then to proceed. It is very rare that you have projects going forward with fully developed oil spill response plans in place at the time of funding decisions, because that is not the way these companies work. It is just not the way things develop. The fine detail comes along later. The Russian authorities recognise that and have a schedule for the delivery of very specific asset plans for the LNG plant, the platforms and so on. That dictates when those plans are developed and finalised by the company. It is not that everything is ready on day one when EBRD begins the disclosure period. We have to be comfortable with the process for developing those plans and delivering plans that our consultants regard as best international practice. That is the issue on the oil spill element. On the element of concern about the whale issue, we have in place a robust process to ensure that the panel reviews the adequacy of the monitoring and mitigation measures going forward.

PARTICIPANT: I am from F and P Asset Management. We are an investor in Shell. I was struck when you gave your introduction and also on trying to get into the meeting that there was a sense that this was a consultation for the public and NGOs but not the wider community. I do think it is important that you involve the wider community, including shareholders, in these kinds of debates and that you should view the public consultation as

including a broader spectrum of people. I say that as an introductory remark because it is clear that we will have a very different perspective to some of our colleagues from NGOs.

We do not fundamentally believe that oil and gas projects should not go ahead. I am sure that is self-evident as a shareholder in Shell. In fact, we believe that these projects can and should go ahead, but they should go ahead if they are responsibly carried out to good, adequate social and environmental standards. So I do have a few questions to EBRD about what those social and environmental standards are.

One of the reasons I would like to put those as a shareholder in this meeting or forum is because the EBRD, as I am sure it is aware, will be making a decision that has profound ramifications, both for Shell's reputation but also for the reputation of this particular project, and indeed in some respects for the whole oil and gas sector. I think it is important that EBRD understands the profundity of that decision for a wide group of stakeholders and not simply NGOs and the narrow definition of the public.

THE MODERATOR: You are entirely right that this is a public meeting, and I am sorry if I seemed to restrict it. That was logically how we were splitting up the meeting. It is a public meeting. What is your direct question then?

PARTICIPANT: In fact, I have three questions. They all relate more or less to the action plan. The first is that the EBRD's decision to put this out to consultation was based on, I think, an assessment that SEICs documentation was fit for the purpose of consultation rather than fit for the purpose of running a project. What I would really like to know from EBRD is whether they think that the action plan is of an adequate standard or whether they are indeed expecting changes as a result of the action plan and how substantial they are expecting those changes to be.

The second question relates to this notion of international best practice, which the EBRD representatives have mentioned a couple of times. It is clearly extremely difficult for somebody like me, sitting in a tower block in the City, to know what is really going on at Sakhalin and what is international best practice, apart from reading the documentation and comparing that to documentation that comes out from similar projects. I would like to know from the EBRD's perspective whether they believe that the action plan, as it stands at the moment, actually conforms to international best practice, how it compares to other action plans from other oil and gas projects worldwide, and whether indeed it is the best of the best, which I think is what we might be looking for.

THE MODERATOR: It is, at this stage, a draft action plan and obviously the public consultation is to make sure that that moves forward as an action plan that people are comfortable with. Perhaps you would like to comment on what is at the moment a draft action plan?

PARTICIPANT: Could I come to my third point before that? My understanding was that it was an action plan and not a draft action plan.

THE MODERATOR: It is a draft action plan.

PARTICIPANT: The third point comes, in a sense, to what one of the NGO representatives was saying about whether a public body should or should not fund this project. It seems to me that there is a strong argument that a public body would be of great benefit socially and environmentally if it does fund this project because of the level of external scrutiny that a public body can give that would not necessarily be there if EBRD or others were not able to fund the project for various reasons, but that does come down to this issue of compliance. I am very interested to know how EBRD would actually ensure compliance with any restrictions it places on the project once it may or may not have decided to proceed.

THE MODERATOR: Basically, what sort of state do you think this draft action plan is in at it stands at the moment and what compliance measures can one put in place to ensure that that goes ahead as planned?

MR KING: The first question related to fit for purpose and whether fit for purpose actually means fit for the purpose of running a project, I guess.

Basically, fit for purpose means that we believe there is enough information on a project for stakeholders to take a view during a consultation period. It does not mean that the project is word perfect and that every "i" is dotted and every "t" is crossed. As I have said, we have processes going forward with regard to the whales, river crossings and so on, that allow us to evaluate how performance is proceeding in a number of specific areas, which we will monitor during the disclosure period.

Fit for purpose does, in essence, mean fit for the purpose of running a project. It means that we feel, within the action plan as Jeff referred to it earlier on, there are all the elements, the safeguards, to run this project at a standard or performance level that would be expected for a big oil and gas project anywhere in the world.

As regards the standards and what we mean by international best practice, or best international practice, there is a legal definition which I cannot recall exactly here. The general concept it is meant to convey is that the project is to be held to the best standards expected for various elements around the world, and so what would be the best practice expected in terms of health and safety issues, in terms of managing social issues, and so on. In the action plan we have an annex that lays out the various standards. Some of them are derived from the World Bank group; some from EU legislation; and then there are various odds and sods derived from different industry bodies and so on. It is a mixed bag but collectively it is a body of standards, benchmarks, safeguards, that you would expect to see on an oil and gas project in the world today. It is what you would consider to be best international practice.

The third element is the compliance element. Within the loan agreement, there is a compliance mechanism which allows various remedial measures to be taken if there is a breach of some kind, a breach of a particular standard of Russian law or whatever. It involves different responses to different levels of significance of the misdemeanour, if you like. It is basically like a stop light system: green, amber, red. To take a simple example, let us say a litter violation, which could be a green issue: if that is not dealt with over a period time (and there are prescribed periods) then it elevates in significance. In terms of elevating the significance, the response from the lenders elevates also. As Jeff said, in terms of the ultimate option, then it is calling the loan, for example.

There is within the ESAP a basic description of this stop light system. It will be enforced through the various consultants we have in place, the reporting mechanisms we have in place in the project, which are quite intense. Not only does it involve frequent lender visits to the project but a high degree of consulting input and reporting requirements to monitor performance against the various benchmarks. The company is also obligated to report, through its own health, safety and environmental management systems, any breaches. Let us remember that this is not simply the lenders coming along and imposing something over nothing. Whatever people around the room might think of the company's performance on various issues, there are management systems in place and they are very detailed. We review those and consultants have reviewed them. They deliver, as far as we can see, a good, effective means of monitoring enforcement within the company. There are various internal and external checks and safeguards besides those imposed by the lenders themselves.

Does that more or less answer your question? We can always talk about this offline if you want.

THE MODERATOR: Are there any other direct questions with regard to the Health and Safety Environmental Action Plan? This document is available and also, I believe, on the company's website. Are there any comments from those who have read it and feel that it is incomplete, could be better or altered?

PARTICIPANT: This is a question about the birds. The Environmental and Social Impact Assessment makes it very clear that the changing of the route means that the pipeline passes through breeding territories of something called the Nordmann's greenshank, of which there are only about 1000 birds left in the wild anywhere in the world. The bird is virtually endemic to Sakhalin. It also involves going through important bird areas that are home on passage to about one and a half million individual birds migrating up the West Pacific flyway, including species such as the spoonbilled sandpiper, of which there are only 2,500 in the world. It makes it very clear that the building of the pipeline and the construction of roads associated with that is going to lead to increased hunting pressures on those species. I wondered what the Bank was doing to protect and make sure that this construction activity does not lead to damage to these important bird areas or take up territories of what is an incredibly rare bird, because it certainly would not happen in this country.

THE MODERATOR: Is there any reply to that?

PARTICIPANT: (off microphone)

MR KING: I am just trying to note down the various elements of the question and remind myself of various elements of the response.

In general, the route selection involved an assessment of the avian fauna along the route and in a number of areas there were micro alignment changes to avoid particularly sensitive areas. The flagship species to demonstrate how that has been taking place has of course been the Stellar Sea Eagle, and there has been a lot of engagement with ornithologists from Japan and also from the island on that species, and indeed also on the greenshanks and other species.

What I would like to say to you is: have a look at what is in the package of released information; have a look at what is covered in terms of preventative measures, mitigation measures and monitoring measures in the HSC SIP and provide us your view on the adequacy of those measures. That is what we are interested in having here – feedback on the adequacy of various issues.

An earlier question was whether this was a draft action plan or a finalised action plan. This is a draft action plan. The whole point of having a draft action plan out during the disclosure period is that we elicit comment and feedback on the adequacy of the various mitigation and monitoring measures contained therein. It gives us specific feedback to allow us to recommend changes to the plan to make a more robust and enhanced set of mitigation and monitoring measures. Could I ask you to look at that and give us some specific feedback? That would be very valuable.

THE MODERATOR: That is a very important point. This is obviously a rather large document. I do not know necessarily how easy it is to navigate one's way around it. However, any specific comments can be recorded at this meeting but the public consultation process finishes on 21 April and any comments or specific recommendations to this are extremely valuable before it becomes a concrete document.

MR KING: There is one point to which I forgot to respond and that is the issue of increased access because of the construction of roads. We are very aware of that as a group of lenders, as is the company. We have been discussing with the various authorities what to do about that issue. In some cases the authorities, whether forestry authorities or whatever, have expressed a desire for a particular road to be left open. We have to try to work around that and find ways of limiting access. We also have to find ways of highlighting where the most

sensitive areas are in order to focus effort. Again, we would very much welcome any specific comments you have in that respect, and this applies to fisheries as well as hunting.

THE MODERATOR: In the list of issues, certainly when I myself was on the island, in terms of the environment one item was the city of Korsakov, which was mentioned earlier at this meeting. That was seen to be particularly of concern on the environmental impact of this project. Are there any specific questions or comments with regard to Korsakov?

PARTICIPANT: Can I follow up on the stop-go system that you mentioned? I am still not clear how that would work in terms of how many red lights Shell have already gone through that are taken into account and what it takes to lose your licence. If you kill one whale, is that a yellow light or a red light? If you kill five, what is it? When do you stop and what financial penalty can you impose for killing a whale?

THE MODERATOR: There may be a recommendation that you would put to the client.

PARTICIPANT: How would it work in that instance? If you collide with a whale and kill it and CSIC are found to be responsible, what would EBRD do?

THE MODERATOR: Is this something you would like recommendations on to make sure that the draft document is more specific within that area? Is that something that you can do?

MR KING: The stop light system, and that is a simplistic way of describing it but let us call it that, is described within the HSE SAP in general terms. Each issue has to be taken on its own merits. There are specific definitions about the significance or the seriousness, if you like, of specific issues. I cannot generalise because that would be pointless. Needless to say, each issue is assessed in terms of its significance, in terms of the breach, the nature of the environmental and social impact and so on and a level of significance is attached to that issue. From that is derived a level of response by the company and ultimately a level of response from the lenders. Have a look at the system as it is described and let us talk about it in more detail bilaterally.

THE MODERATOR: Are you happy with that?

PARTICIPANT: I just do not see how you can apply it..... (off microphone)

THE MODERATOR: The point is that this is something that they obviously want to discuss perhaps bilaterally.

PARTICIPANT: (off microphone)

THE MODERATOR: As a remark has come back from Mark, I think it does require a clear reading of this and then coming back with a concrete proposal about how you would define that, and then you can set up a meeting with them and discuss it.

PARTICIPANT: My proposal is that they should not accept that. (off microphone)

THE MODERATOR: That should be noted.

I would like to move on to Korsakov now, as this was brought up. Could we have a question on that, please?

PARTICIPANT: Either now or later I would like to address the compliance issue. As we are still on the compliance issue, it is your choice but I would like to come back to what I think is a very important point that you made. I did not get your name. It is an important point and I want to follow up on a couple of things there.

THE MODERATOR: It is an important point, there is no doubt about it. How would you like add further to the compliance issue here?

PARTICIPANT: I think you made a couple of very important points. One is the additionality or potential additionality of EBRD. I think we all believe in that, otherwise we would not have engaged in good faith for very many years. I think the question, though, of whether or not EBRD can assure compliance is one of the most fundamental to whether or not it should finance this project; it is critical to its credibility in this process, and, for that matter, to the credibility of all the other financing institutions that may depend on EBRD's judgment about whether to go forward.

I do not want to put this all on Mark but Mark was the one who said it. We have heard from EBRD in general that there is a great degree of confidence that even though not all issues are worked out, you feel very strongly that you will be able to achieve compliance over time. We are asked to trust that judgment, but, if we would like any sort of test of how it has gone, we should look at the first phase of the project, which was begun in 1997. EBRD's Evaluation Department did an evaluation of that, but unfortunately they concealed it; they have not publicly disclosed it and so we could not ever understand what is in that report and how the institution evaluates itself.

There is, however, an independent lender's auditor, ENSR Ltd, which has been doing audits of phase I for very many years. They issued a report in December 2005, so that is some seven or eight years since this project was begun, and the conclusions are quite startling. The audit looks at 90 different kinds of factors, and out of 90 factors or 90 things considered, less than one-third were positive while over two-thirds called for some kind of remedial action. Of that two-thirds, most were in the two lowest categories; 45 were what are called advisable actions defined as "those that indicate a weakness in current operating procedures and/or practices that could result in leading to a high risk situation"; six were critical actions defined as "where findings indicate an immediate HSE risk". This is for the much smaller phase I of the project and if after seven years that is what the audit report of compliance indicates, it suggests that there are huge problems, even with this small phase, in assuring compliance. We were also quite startled to find out that it was revealed in this audit that last August – I believe it was on 11 August – there was an accident and ship called the Pompeii collided with the Monarch platform.

Most of the critical and advisable actions outlined in this report concern marine operations, which in turn have direct implications for potential impacts on the Western Gray whale and, if bad enough, could lead to the extinction of the population. There is no public disclosure of this Pompeii accident. I do not think they said anything about it to investors; I do not think they said it to the private banks. We found out about it through this report.

I wrote to EBRD to ask for more information about this accident and the response I received was that it was a minor scraping incident, which is rather alarming. Even if it was just a minor scraping, you have a ship which collided with the platform, and it resulted in a critical action and very stark concerns being expressed by the auditors. I am trying to think of an apt analogy, but to me it feels like somebody driving home drunk has a minor scraping accident with a telephone pole and then they tell everybody, "Don't worry, it is a minor scraping incident". It actually has the potential to become an extremely serious event.

Since these stark findings are just on phase I, this gives me and my organisation, and I know others, extremely high concerns and no comfort whatsoever that ultimately EBRD will have any either ability or political willingness to hold this company in compliance once that financing is provided for phase II.

THE MODERATOR: I can obviously understand the compliance issue. It is a genuine concern. When I was on the island myself people asked me what leverage the Bank ultimately has over the company. Mark has given an answer with regard to the fact that, due to the complexity of the company and the project, if a loan is decided by the Board after this public consultation process, there is a mechanism in place for compliance. If the company

does not comply, the loan can be brought back. Those are the measures that Mark has mentioned.

Obviously it is a concern and it was something mentioned to me constantly when I was on the island: if the Bank is monitoring, what leverage does it have? You have given your answer. Are you able to say anything else at this stage?

MR KING: I do not want to get too much into the phase I issues, apart from making just a few remarks. I would be very unsurprised if any auditor doing an audit did not find something on which to comment. That is their job. Many of the comments that you refer to were not necessarily about misdemeanours; they were recommendations for improving things. That is the beauty of having audits; they pick up potential problems before they happen and they pick ways of improving things. It was not 90 specific points that were being looked at. A range of comments was picked up. There were no terms of reference that said, "Go and look at these 90 issues".

In terms of the accident, as Liz said in the email, and we can go on talking about this later and maybe the company will comment on it then, it was a minor scraping; it was just a bump. It was not a reportable accident. It was of very low significance. If it had been of high significance, then it would have to have been reported, and specific measures would have been taken, but it was a very minor issue.

In terms of enforcement, the only general comment I will make is that we in the International Financial Institutions sector have all learnt a lot about oil and gas and about how to structure agreements. Things have moved on since phase I was developed. We all have views on the phase I documentation. Both ourselves and the company felt to a large extent that it could have been more detailed. That is something we picked up on phase II. We have also learnt about the stop light system in terms of phase II from other projects.

All in all, I can only reinforce what I said earlier on that we believe there is a robust mechanism to monitor and enforce measures on the bigger project, phase II, and phase I is rolled into phase II.

THE MODERATOR: I would like to move on to Korsakov now. Would anybody like to ask a specific question with regard to the documentation or to raise any issues on Korsakov which, in the experience of my visit to the island, would seem to be, in terms of the city population, the one that is most affected by the current construction phase of the project?

PARTICIPANT: Are we still doing environmental?

THE MODERATOR: We are still doing environmental and we are now specifically moving on to Korsakov, which came through as one of the issues outlined when I asked the question about what issues people would like to talk about. If it is a Korsakov related question, I would like to hear it. I am purely going by the list mentioned earlier in the meeting.

PARTICIPANT: It was a general list.

THE MODERATOR: Yes, it was a general list. If there are no questions on Korsakov, we can move on to another environmental issue. Are there any other specific environmental issues that anybody would like to ask or consult on with the expert panel here? Are there any particular comments with regard to the Health and Safety Environmental Action Plan, such as the pipeline?

PARTICIPANT: In terms of your asking us for more information about these impacts, on some of the rare birds I wanted to get a feel from you on an issue. Certainly in this country, and I think in many other European countries, there comes a point when the public authorities decide: look, we can move this here or that there, but ultimately it is going to hit something. At that point, you have to make a decision on whether you go ahead. I wonder whether that was

a possibility, because it seems to me, from looking at the map, that whatever happens here, we are going to hit something. The idea that maybe these pipelines should not be funded at all has not even really been considered by EBRD. I want to get something from you about your views on that and whether that is a serious option or not.

MR KING: I understand that you want to know whether the Bank has considered whether they would not fund the project at all. Is that what you are asking?

PARTICIPANT: (off microphone)..... designed are going to be backed?

MR KING: Personally, from my understanding, no decision has been made to finance and certainly the Environmental Action Plan is a consideration with regard to this public consultation as to whether the Bank will lend money or not. I do not know whether you are talking specifically with regard to the pipeline.

BANK STAFF: I would just like to make some comments. The consultation period is absolutely real; it is not a fait accompli. We have not presented this information to the Board as saying it is a done deal, just wait for the consultation period to be over and then it will be fine. The Board is adamant that this still remains a very challenging project. They themselves have definitely not made up their minds. Certainly the people sitting at your table are very intimate with our Board. Perhaps I should not have said that! I will rephrase that. The discussions with our Board have been long; they continue. We fully expect the NGO community to continue their engagement with our Board and it is not a done deal, I can assure you of that. That is the viewpoint of the President, management and the Board.

THE MODERATOR: Does that answer your question? It is not a done deal and they may decide that ---- That is an answer.

Are there any environmental issues that we have not covered which people would like to ask questions about or to comment on with regard to the documentation?

PARTICIPANT: I have to raise the question of the river crossings, of course. The Birmingham report, or reports I should say, were only released late last Friday, so I have not been through all of those reports in detail. I would note that the last report, the fourth report I believe, was still quite critical. The University of Birmingham had already looked at six versions of the river crossing strategy. I believe there is now a seventh version, which was produced fairly soon after the University of Birmingham's fourth report.

I know that AEAT has tabled the issues and tried to list responses and resolution to some of the outstanding issues. This is quite surprising: we have been hearing about international best practice and yet I recall that in that fourth Birmingham report they are still raising questions about the classification of salmon rivers on Sakhalin. How many years into the project is this? They are still discussing the definition of winter. I am quite incredulous that this project could be at this stage and these things not be nailed down.

I have also looked at Sakhalin Energy's website where they list a number of crossings; they all grade 2 and 3 crossings on the list that I saw. I counted through: 109 river crossings are listed. Indeed, I believe 500 river crossings have already taken place. That is going by the Birmingham report. Out of 109 crossings listed on Sakhalin Energy's website, around 40 appear to have been installed outside the winter period by the definition that the Birmingham report was proposing. Far from installing the two oil and gas pipelines simultaneously, many seem to have been installed weeks apart, even months apart, which I do not believe is best practice. Also, many of us have seen pictures from Sakhalin Environment Watch, of course, of which I am sure you are very conscious, showing extremely shoddy practice.

There are 500 crossings already installed. A lot of the bad practice on some of those crossings is not going to be able to be undone. Does this count as an amber light or a red light for you? I do not know. I also note that Birmingham University asked for various other

bits of evidence; they have asked for satellite pictures and hard evidence on the extent of silt plumes and so on. They seem to think that some of that information either should be or is available. I think this raises a lot of questions. Can this really be regarded as best practice? What about further evidence to Birmingham? Will you employ Birmingham to review the latest crossing strategy?

THE MODERATOR: There is a concern there that a lot of these crossings have already taken place under standards that it would seem, according to this lady here, do not meet international standards of best practice. This Birmingham report we understand has come out rather late. Are you going to invite the Birmingham University to review this and do you feel comfortable about the fact that these river crossings have already taken place?

MR JETER: There are a lot of questions there. Let me start with the last one regarding employing Birmingham to review the final version of the river crossing report. The answer to that is: no, we will not. The problem is that they have exceeded the amount of days they can act as consultants and so we have a contractual difficulty with them. We have taken, as you have seen in the information released on the internet, the last University of Birmingham review and we have worked with AEA and the company. In fact, we even worked with the University of Birmingham to identify how to resolve every issue that remained outstanding. We had agreement with all parties on how to resolve every issue. That is how we have moved forward. We have moved forward unfortunately without University of Birmingham but with our own review and that of AEAT to ensure that those issues are resolved as agreed by all parties.

You mention that there are a lot of very pertinent issues left unresolved until the very last version of the report and the last review of the University of Birmingham. Regarding classification, the classification scheme is very complex. The reason it is complex is to reflect the complexities of the local environment.

I think the main item outstanding in the last review from the University of Birmingham in terms of classification is that we are pushing the company to recognise that class 1 streams (the class 1 streams are the least sensitive) that flow into a class 2 or 3 would actually be treated as a class 2 or 3. In fact, if you look at the final version of the river crossing report, that is how those streams are dealt with. The class 1s that flow into a 2 or 3 are dealt with as the higher sensitivity rivers. I think that was the issue in terms of classification.

In terms of the winter definition, this primarily related to freezing conditions, and there were discussions regarding when is the middle of winter. This issue, yes, was being discussed as late as December, but in fact the company has adopted the recommendations made by the University of Birmingham in terms of defining winter and even further defining winter in terms of deep winter. The intention there is to work on the most sensitive rivers within those groups 2 and 3 in the deep winter to avoid any possible thawing period because the concern there was: what if you are in the winter period but it is near the end of winter and you get an early thaw and that would cause unacceptable impact? The intention was to take those most sensitive rivers out of that time period.

There is a lot of discussion about rivers that were crossed prior to this whole process being completed. I think the number 500 was mentioned. The situation here is that the less sensitive rivers do not have the time restriction that they can only be crossed during the winter. The less sensitive rivers (and some of these are extremely small drainages, ephemeral creeks, et cetera) can be crossed during the summertime. Some of the larger water bodies that do not support fish life and have been classified by (Sakhribvad) as not important for the fish industry can be crossed in the summertime. That is why we have a large number of rivers that were crossed before this document was completed.

Regarding the lag time between the installation of oil and gas pipelines, this is one of the main mitigation measures proposed. The intent is to get these pipelines in directly one after the other. The real mitigation measure pertains to getting them in within the same season so that

the oil and gas crossings can get in within the frozen period and you are not working on the banks of the river when soil is not frozen.

I think the main problem here is that last winter some of these crossings were put in with only one pipeline. The majority of the work with the single pipeline this year is in catching up after what happened last year. Having said that, not all crossings are going in at the same time. Sometimes there are several weeks between them.

I think that goes through most of the pertinent questions, unless my colleagues recall, something I did not address here.

THE MODERATOR: There was a comment that it had taken three years to get to this stage. Was that part of the question answered?

PARTICIPANT: For a world class company to take several years to sort out the classification of this or to define winter or mid-winter really astounds me, I have to say.

THE MODERATOR: It is pretty cold there most of the year. I can understand that myself. It is easy to define an English winter. My experience over there is that it may be a bit more difficult to define. I do not know. I am certainly not an expert on that.

PARTICIPANT: Given the ecological sensitivity of these rivers and indeed their pristine condition and so on, this should have been sorted out before they did 500 crossings, it seems to me.

For the record, I want to reiterate that the Sakhalin Energy website is listing grade 2 and grade 3 rivers, and some of these appear to have been crossed, if I understand this right, outside the winter period.

MR KING: I just want to make one clarification in regard to the University of Birmingham. To clarify what Jeff said, there is a finite limit to the amount of private sector consulting British academics can do. The issue on the contract was that they had then just exceeded that. Their university department said, "That's it; you cannot do any more". That was the issue.

THE MODERATOR: We are now on to the concern by someone that my opening address was eating into the environmental time. That has now been covered and so we will be breaking for coffee soon. There might be more environmental questions than social questions. When we come back, we can split that equitably.

We will take a final question or comment before we break for coffee, which is now already 10 minutes overdue.

PARTICIPANT: Can that be about river crossing?

THE MODERATOR: Yes, let us try to finish on river crossings before coffee. We can certainly continue afterwards, if that is necessary.

PARTICIPANT: Just to follow up Mary's points, she was indeed referring to less sensitive rivers, Jeff, which is the problem. That also relates obviously to the definition of salmon seasons. Let us not forget that Sakhalin Energy has been there for over a decade now, and so they have had a bit of time to work on this.

In terms of this process, you are aiming at meaningful consultation and yet the project is half built. We are not clear now whether you are asking for our comments on past performance and whether that is meaningful or you want our comments on what we think will happen in the future? For me the most important thing is what has happened in the past. My question is: is

EBRD just going to forget about all those indiscretions and the damage done to which Mary has just referred?

MR KING: There does seem to be a concern. A certain amount has already been done on Sakhalin II Phase 2. It is a justified question: is this consultation purely about the stage that is going ahead or are we here to look at what has already happened and will the Board be making a decision based on past performance, current performance and future expectations?

On the river crossings issue, I would like to make a few points. It could be said that this research could have been done on the rivers many years ago; and that is a valid point. However, if research had been done on the rivers ten years ago, we would have been begging the question why is the company not doing more up-to-date research on the rivers to reflect current circumstances. I am not too worried about when the data was collected within a ten-year horizon; I am more concerned about the way in which the company is now dealing with the river crossings issue.

Last year, before this new regime came out, only a very small percentage of sensitive rivers were crossed. The vast majority of so-called sensitive rivers are being crossed under the new regime, which is a very robust way of dealing with river crossings. We have monitors in place continuously checking how the company is meeting the performance standards it has set itself, and that has come out in the Birmingham report and the recommendations from AAT; and that again is something we will report to the board as part of their decision-making process.

The important thing is that what is happening now in terms of the management system and the standards is a very robust, satisfactory way of dealing with the river crossings.

THE MODERATOR: Perhaps we will have one final questions on river crossings before the break. It is obviously a major issue and we can extend questions until after the break if necessary.

PARTICIPANT: We all know there was a huge problem with contractor compliance last year: it was discussed by the President of EBRD; it was acknowledged by John Berry, the Russia president of Shell at the time; and there were pictures in the press. It was widely understood and widely accepted.

There is nothing about those past pros in the Environmental Impact Assessment that I could find. That assessment is supposed to accurately analyse current and future environmental impacts; and the fact that it did not even address those gross violations demonstrates to me that it is an unacceptable document.

THE MODERATOR: Which document are you referring to, please?

PARTICIPANT: The current document that we are reviewing.

THE MODERATOR: So your concrete recommendation to approve the draft document would be what – because it is a draft document.

PARTICIPANT: My statement is that it is an inadequate document because it does not even refer to very serious problems that we all have acknowledged are part of the project. It does not address that particular issue.

THE MODERATOR: So concretely what would you add to this document, because that is what I understand the Bank is interested in finding out? What do you concretely recommend should be put into this draft document before it becomes a non-draft document?

PARTICIPANT: I have noted the concern, and the adequacy of it is your challenge, not mine.

THE MODERATOR: Does the Bank feel that the response there is adequate enough to ameliorate this draft document, or do you want something more specific?

PARTICIPANT: We all noted the poor performance of the contractors last year. As lenders, as NGOs on the ground, as the company itself, as you have remarked – what is in place now is a series of measures to make sure that does not happen. The contractor issue has been addressed in a number of ways, which included increasing their environmental awareness on these issues, making sure that they used best approaches and practices, taking the precautionary approach, financial incentives and financial penalties.

What we and our consultants noted is a very significant improvement in the performance of the river crossings, and that is the issue that we need to focus on; there has been a significant improvement in the way in which the river crossings are carried out.

There is an implicit assumption there were problems in the past. We do not need to document in the EIA that there were problems; we all know there were problems: the issue is, how we deal with those problems. The problems are being dealt with.

There are two key commitments that we need to focus on here. One is the precautionary approach to ensure that the river crossings are carried out in an adequate manner; and the second is no net loss of spawning ground, which is the key issue to ensure there is no residual impact from the project.

PARTICIPANT: To close on my part, it is not enough for us to say informally we all know there were problems and therefore they do not have to be described adequately in the EIA; that is not what an EIA is supposed to be.

On what date did the new strategy take effect?

PARTICIPANT: It was early December. Do you want an exact date? We will give you

PARTICIPANT: You can e-mail.

PARTICIPANT: The exact date when the new regime took effect.

THE MODERATOR: To summarise that particular point, although past performance is not specifically detailed in the current plan, certainly part of the consultation process is that that has been logged. Although it is not specifically in the plan, one would certainly hope, and I would believe that the decision-makers on this will take that into account.

If we break now for 15 minutes, any members of the press that would wish to ask questions of the EBRD panel, would they please make themselves known to the press officer. We will reconvene to address social matters.

(Short break)

Social Matters

THE MODERATOR: We now move to the social matters with regard to the project. We have our social expert here from EBRD, but obviously there will be questions that the whole panel will be able to answer.

I would like to throw it open to the floor for comments or questions on the health, safety, environmental social action plan, and for any concrete recommendations whether with regard to the indigenous people's plan or with regard to Korsakov or whatever.

We can perhaps start with Korsakov. Are there any particular questions or comments in regard to the social action plan for the city of Korsakov?

PARTICIPANT: A quick observation: when the project started some of the local environmental groups might have been the only ones on the island that were concerned about the project, or a few foresightful civil servants; and there were discussions about how good this project would be for the social benefit of the people on the island. Then you fast-forward to the present, when there was recently a demonstration in Korsakov having to do with the LNG plant with the diversity of people in the communities from school teachers to police officers, to average citizens, to the mayor of the town, to the governor of Sakhalin oblast, speaking out about their very serious concerns about the project. I have a simple observation, which I think many of you now involved with the project understand: there are serious concerns about whether or not this is not only not going to greatly benefit the people socially and socio-economically but rather whether it will create very significant harm to the fisheries – the overwhelming of the local municipal infrastructure, whether it is the medical infrastructure or the roads or the housing.

There was a meeting that Alistair, Andrey and others at the Bank attended on February 1 in Korsakov, and one of the comments was very interesting and struck me very strongly, whereas earlier on in the project when the company did not construct adequate housing for the thousands of incoming workers and they spilled out into the local areas and created very significant social and security problems, including at the time reports of violence – one person in the meeting, at least in the transcript that I have seen, stated “actually, yes, there is continued violence, but it is the other way round now; it is the people of Korsakov becoming increasingly violent with the workers.” That is just an indication of how dissatisfied islanders are with the lack of social benefits and the very high social costs of the project.

THE MODERATOR: Specifically the violence you are referring to is in Korsakov, or are you referring regionally in the whole island?

PARTICIPANT: I refer to the meeting, the notes of which I read, which was a public meeting in Korsakov.

THE MODERATOR: Is there a specific question to the panel on that? The observation is noted.

PARTICIPANT: Do you have any different feelings now about the project's benefits to the people of Sakhalin than when you started doing the project seven years ago?

MR CLARK: It is a hard question to answer, but let me give you some of my personal observations.

If we look at the actual scale of the project – and let us discuss what is really going on – you have three platforms, a pipeline going to the LNG facility. The LNG facility is under construction and will be completed in 2007. It is currently employing about 7,000 people. They are in a construction camp right next to the LNG facility.

For the inhabitants of Korsakov, yes, there is a very large construction project going on right next to their town – that is a given. Their expectations; I cannot comment on what they were expecting, but we certainly know that there were approximately 700 people from Korsakov directly employed. There is also the spin-off in terms of the income that is being generated just from services and transport et cetera. Is it as much as people want? Well, probably not. There is probably more that can be done.

In terms of the construction project, there are large numbers of lorries going past; there are dust issues and environmental issues. There are all of those issues that have been addressed in the social impact assessment, which perhaps Michaela could comment on later.

In terms of the benefit of the project to the island, my colleagues can comment better than I can, but there has been a considerable amount of money spent on the island for social assistance, for infrastructure upgrade, for sustainable development activities. If you look at the sums of money involved it is hundreds of millions of dollars just on those three programmes on the island.

In terms of whether people are happy with that, there is obviously a large project going on in Sakhalin, and people are looking for opportunities for getting more out of it – which is normal. It really is a case of asking whether people are being affected by the project; are they being directly impacted? We have designed in the resettlement action plan a process for which those issues can be assessed. Grievances can be examined in a fair, transparent manner. We are doing the best, using the mechanisms we have at our disposal, to ensure that those issues are being addressed.

Can we make everybody happy? No, absolutely not.

THE MODERATOR: Are there any further questions specifically with regard to either Korsakov or the indigenous peoples?

PARTICIPANT: To go back to this local benefit aspect, can EBRD explain how they ensure that locals do benefit either from a sustainable development programme so that it goes towards projects that locals benefit from rather than construction workers' housing?

I am unclear on the figures here. Alistair has said 700 people are employed. The EBRD figure on its briefing says the project employs 17,000. Can the Bank provide a breakdown of where these people come from in terms of overseas Russian mainland, Sakhalin Island, and what types of jobs those are, to help us understand that?

In terms of the development benefit, which is the remit of the Bank, there are other projects that EBRD is doing, which are good and which are not tied to this project. We support that role of the EBRD in terms of those local projects that they could still do without funding the oil projects. We would like them to concentrate on those rather than spending their whole time looking at Sakhalin and monitoring Shell.

In terms of access to energy, as you have said, it is very cold on Sakhalin. There are still no firm plans to provide local access to energy.

THE MODERATOR: Can you specify which projects of the EBRD you do support?

PARTICIPANT: I do not have that in front of me, but I can look it up. I mean just in terms of the more local – in terms of services for the local people.

MS BERGMAN: There are more local benefits that have accrued perhaps by the communities there; and then Andrey can talk more about the greater picture of the benefits for the country as a whole, that reflect back into Sakhalin.

We have worked with the company to develop the social investments funds, which are now more community focused, and there is much more community involvement in the decision of what sort of projects to fund and how they want them funded. Not everybody gets their ideas funded, and of course people get upset and cross, but the money that has been put towards social investment funds is now being spent in ways that communities want; so that is a benefit.

In terms of the development impact that EBRD can offer or support the project, what we have done with the Indigenous Peoples Development Plan is a good example of not only mitigating perceived impacts to the indigenous people but also providing a programme where they will definitely be able to benefit from the project, both in terms of economic and social infrastructure.

Andrey is a better person to speak about the Russian content.

MR RYJENKO: Michaela covered issues related to people who are more directly impacted by the project in terms of whether their livelihood has been changed or whether their normal activities have been impacted by the project, and there are specific aspects on how to deal with that; and they are described in the documentation we are trying to focus on today.

There are probably two other categories: the ones that benefit directly by employment, directly with the company, or possibly by employment with sub-contractors and things like that; and then the second category, which is probably not directly inputted by the project but which might not have found an opportunity directly to benefit from employment with the company with sub-contractors; and that is probably also an area of which everybody should be conscious and concerned about.

However, in terms of general economic conditions on the island, from what we see, and data we saw, it is certainly improving. We see a significant increase in the average income of the workers. We also see a significant reduction of unemployment on the island. The figures I have show that unemployment fell from about 20 per cent in 1999 to less than 7.1 per cent in 2003.

The general economic situation is improving due to the project; and obviously for any oil-producing region it is a great challenge to find better ways, and an opportunity to capture this economic activity and try to build on it. The EBRD would certainly be very keen to support projects in this area. We are talking to local authorities and to the companies, trying to identify them so that we can promote those benefits which the project generates.

In terms of access to energy, my understanding is that the company will, in terms of infrastructure, provide certain access points so that if the raft (inaudible) the island, the company could technically deliver that. From that moment, it is up to the local businesses to find a way of buying that and for the local government to see how it is going to resolve its energy situation in the island; whether it prefers to use coal and therefore provide employment for the coal miners, or whether it wants to use gas, and how it should address that.

We are trying to be in touch with the government to see if there would be opportunities for the EBRD to support, let us say, upgrading of their power stations. However, we have still not heard specifically from the government how they want to do that.

I guess that it would encourage your communication with the authorities so that they can identify their preferences, and we can take it from there jointly.

On the local content, there are a huge number of contracts that are going to the Russian contractors and sub-contractors. You asked which of the 17000 are Russians; I do not have specific figures. Off the top of my head it is probably about 68 per cent if I recall correctly or 70 per cent. We should bear in mind that it is an extremely high figure for a project that is so specialised, and it is a very first energy for facilities in Russia. Just a personal observation: when our Secretary General was on the island visiting Sakhalin II energy construction site, he was shown the construction and refrigeration facilities, and was told that the German manufacturers are having a hard time in producing adequate capacity of certain specific units. You can guess how specialised the equipment is and how difficult it is to build the capabilities in the island and draw skills and technical capacities in the island. The company is doing an incredibly thorough job in trying to attract as much of that as possible.

PARTICIPANT: I am a member of the IUCN Commission on Environmental Economic and Social Policy, and I am co-Chair of the working group on extractive industries.

I would like to ask a question about safety. My colleague is Professor Richard Steiner, who was on the panel and resigned. He has warned me that liquid natural gas plants are actually

highly dangerous for communities if an accident occurs. Bearing in mind what happened recently in this country, I wonder to what extent you are worried about safety. He tells me that the exclusion zone should be 5 square kilometres around liquid natural gas plants, but I understand that accommodation is being built very close to them. The Tangu project in Indonesia or West Papua has a 5 square kilometre exclusion zone. He tells me the real problem is the explosion; it is not so much vertical as horizontal, and that the dangers are quite severe, particularly if it happens when a tanker is connected to the plant.

Bearing in mind rising terrorism risks now, can you tell us what your appraisal is of the risks to the population?

EBRD STAFF: I can only partly answer your question myself unfortunately. The accommodation which is in proximity to the plant at the moment is construction related and will disappear. The nearest community then would be the dacha community, and there has been some ongoing discussion about the size of the exclusion zone, whether it should be 1 or 3 kilometres, and that really is dictated by Russian requirements, which are based on safety assessments, risk assessments, hazard assessments.

I am not technically qualified to talk about the inherent risk of LNG plants. Unfortunately, we do not have with us somebody from Stone & Webster, the technical experts that have been looking at those issues. If you want to give me a card or drop me an e-mail, I am sure we can give you a response on that.

THE MODERATOR: Are you happy with that?

PARTICIPANT: Not really, no, because I think it is such a major issue that somebody here should have had the answer to that. I will accept that you can send it later. I am actually known to your colleagues as well, but it seems to me that it is quite an important issue and there should have been a definite answer available.

EBRD STAFF: Unfortunately, there is such a range of issues associated with this project that we cannot staff a meeting with an expert on everything; and that is quite a technical element.

THE MODERATOR: The point is noted. It is obviously an extremely important issue, and Mark will do everything he can to come back to you with that technical information. Are there any further questions or comments with regard to the social issues, the Indigenous Peoples Plan for instance?

It has been very quiet in this part of the room. I want to make sure everybody – it is not that they are shy and timid but perhaps they are concentrating on other things.

PARTICIPANT: With regard to the Indigenous Peoples Plan, I would like to reiterate that whilst it is good it is now happening, EBRD's intention that this will become international best practice is just not possible because you are doing it half-way through construction, and that is not international best practice. The word is "free prior informed consent" and that is not happening. It is therefore in breach of your policy.

THE MODERATOR: Is that a comment or a question?

PARTICIPANT: If EBRD wants to explain how it is international best practice, that would be good.

MS BERGMAN: Technically it is pre prior consultation, not consent.

PARTICIPANT: Are you sure about that?

MS BERGMAN: It is free prior consultation for an indigenous peoples development plan.

PARTICIPANT: Is that the UN version?

MS BERGMAN: No, it is not the UN version.

PARTICIPANT: That would be an international standard that I would refer to.

MS BERGMAN: Well, our policy refers to the IFC's -----

PARTICIPANT: The new one or the old one?

MS BERGMAN: No, the current one, the one that has been hitherto in force. Yes, we take on board that it was developed late, but I think that you will find it is being implemented according to best international practice. There has been a lot of consultation. The indigenous people themselves have been involved in both defining measures to be taken and the programmes that they want for themselves afterwards. It is a bit late, but in the end we are there and in compliance with our policy.

PARTICIPANT: The key word in the Indigenous Peoples Development Plan is "plan". It is a plan to help the indigenous peoples develop in a way that they see appropriate. It has cultural, economic and health elements; and, most importantly, it has been developed in consultation with them.

THE MODERATOR: Are there any more questions on the Indigenous Peoples Plan?

PARTICIPANT: I am sorry to go back to this point about it being produced half-way through the process, but that really strikes me – and I have come to this issue relatively recently – as being hugely problematic. Developing an impact assessment means that you should be able to take avoidance, for example, and change your plans. It will be quite hard to do that when the pipeline is half built or various elements of this project are so far advanced already.

I have said this at a previous meeting but I do not see how this project can really integrate environmental and social factors into the whole project and really even approach sustainable development, which is the mandate, the remit, of EBRD. If you do not bring those three elements together and properly integrate social, environmental and economic, then this has to fail the sustainable development test.

MS BERGMAN: Actions were taken by the company for those indigenous people that were directly affected, such as the reindeer herders. The Indigenous Peoples Development Plan, which has been developed recently, addresses the needs of the indigenous people who are indirectly affected by the project.

THE MODERATOR: There is the Indigenous Peoples Plan; there is the impact on the people of Korsakov; are there any other social issues here that people would like to comment on or ask questions on, or get specific clarification on?

PARTICIPANT: I am sorry, but we are sitting here, still a bit shocked with the playing around with these words "prior informed consent". They are a basic human right. They are in UN Conventions. There is no way you can change the words around; the words are "prior" and "informed" consent.

THE MODERATOR: Do you have anything further to say on that?

PARTICIPANT: All we can reiterate is that our benchmark in terms of the social policy applicable here is the IFC one. It does not contain consent as far as I can recall, but I can be corrected.

The key element to point out here, which Michaela mentioned, is that those people who have been directly affected by the project have been consulted and involved in compensation, resettlement measures to address their needs from an early stage. Three years ago we remember sitting down with reindeer herders talking about specific direct mitigation measures for them, and specific measures to enhance their livelihoods.

This plan has focused on that to some extent, but to a greater extent the perceived indirect impacts – not necessarily actual but perceived indirect impacts and also means of enhancing the livelihood community development culture of the indigenous peoples. That is what needs to be focused, not so much on the semantics of the wording but what is being delivered. If you look at the plan in detail you will see that it is a fairly robust one, and it has been developed in consultation, I re-emphasise, with the IPs and the IP representatives on the island, according to their priorities.

PARTICIPANT: The issue for me is timing. The word therefore is “prior” which is common to both. We are not arguing about this.

This also contradicts the statement you made in December when you announced going to consultation; you said that the timing of consultation with indigenous groups was not in compliance with the letter of your policy.

PARTICIPANT: In terms of what we said in December, we said there were certain elements that we were developing. One of the issues was the Indigenous Peoples Development Plan. It is a consultative process, and we were working with the company and the company was working with the IP groups – it has been a collaborative effort. All parties have agreed that this has been a very fruitful and positive experience in development opportunities for the indigenous peoples.

THE MODERATOR: It is quite clear that I am in no way a social expert. I did go to the island as part of my role in soliciting opinion for their input into the design of the public consultation meetings. Certainly some of the indigenous people and their representatives that I met were very enthusiastic about this plan, and some of them clearly were less so; and it is important that the future meeting is designed in a way that they feel comfortable to express their opinion and views on the plan as it exists at the moment, and that will be fed back into the report that is to be presented. I hopefully will feel comfortable that that will be representative.

In terms of the social matters with regard to this project, are there any others such as reduced catch or potential for reduced catch for fishermen?

PARTICIPANT: There is an existing claim, as we all know, before – the accountability office of EBRD has a claim before it based on this, so we will have to see where that goes.

THE MODERATOR: We can come back to environmental questions if there are any outstanding issues there, or we can carry on with this.

PARTICIPANT: Can we return to this question of impact on livelihoods? The problem is not just reduced catch; it is the tainting of fish; the fact that whole areas go out of operation and fishermen do not fish in those areas. I am just dealing with that in the Niger delta at the present moment, and it is a very, very serious problem, oil pollution in terms of the fishing zones; and people can no longer use the fish because of tainting. I hope that that has been fully covered.

I am sorry, I have not covered all these documents because Professor Steiner took over doing this, and I left it to him.

THE MODERATOR: There is a concern there raised about that.

PARTICIPANT: The issue of fish tainting is one that has been brought up for a number of years, firstly in the north and also now in the last year in the south. We raised this issue with the state oblast fisheries body, and their view was that there is no clear direct causal link between the project and any perceived tainting. They cite industrial activity and industrial pollution on the island; natural releases of hydrocarbons; and they cite other oil and gas producers, particularly onshore ones, and the legacy of poor practice in the past by some of those producers. There is no clear causal link. What we have said is that we should support an investigation into claims that there is tainting to see if there is any way in which it can be traced to a source and what can be done about that source. At the moment I reiterate that there is no direct link perceived by the authorities or by our consultants between fish tainting and the project.

PARTICIPANT: As Nigeria has just come up, Shell has a very bad record in Nigeria. They have just been forced to pay compensation of \$1.5 billion there. They are having trouble within Mackenzie Valley in Canada, in the Cormorant Pipeline in Northern Ireland. Has EBRD done any due diligence on Shell's ability to manage projects of this size, and the history of their relations with environmental and social issues and relations with indigenous groups?

PARTICIPANT: the issue is to focus on the project and the way the project is being managed from a health, safety, environmental and social perspective. What is happening in all the areas you cite – it is in the papers and is obviously an issue, but the people managing those issues are not the same people managing the issues on Sakhalin. We have been concerned, as a group of lenders, over the last few years is to work with the company to raise the bar in the way it addresses health, safety and environmental issues. We have seen significant improvement in the way it addressed those issues over the years.

THE MODERATOR: In terms of employment, increased or ----

PARTICIPANT: I thought it was interesting that he described mostly if not exclusively the positive economic benefits, but there are also things like inflation and other factors with the increase in foreign investment that has created some losers in this instance; but on balance this project was supposed to be financially wonderful for Russia. Earlier on, EBRD included part of its justification for financing the first phase as the production sharing agreement for the project. Independent analysis commissioned by several organisations and an internationally recognised PSA expert has found that this production-sharing agreement greatly disfavours the Russian side of the equation, and results in 49 per cent less revenues than would be the case under a normal PSA.

While you are talking about hundreds of millions of dollars in economic benefit from infrastructure development and things like that, in this case we are talking about billions and billions of dollars that the Russian side is not getting because of the structure of this production-sharing agreement, which is not favourable to the Russian side.

Then you have the cost overrun of when Shell announced overnight that the costs had gone from 10 billion to 20 billion, which means that the Russian side will get even less and even later. This is a contract in which most of the costs are recovered before most of the revenues are shared, and it is such a serious concern that Russian President Putin, when he paid his state visit to the Netherlands, paid a site visit to the head of Shell to say that this is totally unacceptable.

This has implications for the (tape changeover) .... impacts.

Another level of concern that the islanders have expressed is that whatever diminishing sliver of revenues the Russian Government is getting, they are hoarding it in Moscow, and it is not getting to the island – a Russian government decree.

I would like to ask EBRD to take a retrospective view on this production-sharing agreement: given the great praise you gave to this agreement several years ago during the first phase, what is your view of it now?

MR RYJENKO: On the production-sharing agreement, the negotiations of that agreement were conducted in the early nineties, and it was signed in 1994. It was a very different climate then in Russia politically, and there was a very different stage of development of Sakhalin Island, the project itself, as well as the certainty of the project being conducted at that time.

It is not uncommon in oil-producing countries to enter into a production-sharing agreement to encourage investors to invest. It is also not uncommon in many countries to use different schemes and incentives for the investors to facilitate the investments into certain regions or certain countries. For example, in the energy policy debate in Russia, the Russian authorities are considering providing tax breaks of between five to seven years for the investment in developing eastern Siberian oil reserves. This is now in a situation, 15 years on, when Russia is at a great investment rating and things like that, so it is very difficult to judge retrospectively what the agreement should have looked like at that time.

Certainly Russia had a negotiation. There is an agreement which was meant to encourage investments, and now that is coming through, and Russia will see a lot of benefits from the money spent in Russia as well as the revenues and parts of the revenues as negotiated for the agreement.

The EBRD did consider PSA when it considered phase 1, and at that time the EBRD Board of Directors made a decision to support the financing, and felt that PSA is one of the schemes that would encourage further investments into Russia. Now we see Phase II, being a lot more advanced than we ever could have considered in 1997 when we looked at Phase I.

Your question, bluntly, is whether Russia or the EBRD should even consider renegotiating a deal of 15 years ago. That certainly would be very unfortunate for the stability of the investment climate and perception of Russia as a state and how it wants to present itself to the international community.

In terms of the cost overruns, I believe there is a process that is ongoing within the Russian Federation, and the company is facilitating that process and providing information on the costs, how and where they were incurred; and the Russian authorities are looking into it with a view to taking a decision on what their opinion would be.

I personally have not seen any formal position of the Russian authorities in connection with a very specific statement of the cost overruns. Of course there were expressed concerns and surprise and the need for consideration of this matter; and I believe this has been done.

In this context, obviously there are the concerns of President Putin, which were reported from his trip to the Netherlands, and the Russian authorities are considering that issue.

In terms of diminishing return to the island, in accordance with the PSA, the company is required to pay relevant amounts to the Russian party. Nowhere in the PSA is it stipulated which parts should be to which regional or which sub-regional municipal level; it is entirely a Russian authority decision as to how they would like to separate and manage their budgetary revenue within the Federation. It also probably links a lot to a more global budgetary process, and which region is a recipient of funds from the Federation, which are donor funds, which may also impact on the split of revenues between different authorities. As of today we feel that it could be a very complex and unfortunate process to try to interfere in the system which the Russian authorities feel is appropriate to manage and support how they see poorer regions within the Russian Federation.

I think I have covered the majority or all of your four key topics.

THE MODERATOR: You seem to be very quiet over here. I am not quite sure who you are. I just want to make sure that the people that haven't spoken are not doing so because they don't have anything specific to say rather than – do you have any comment on? I am not forcing you to, but ....

Okay, let's come back to the usual suspects – no, I should not say that!

PARTICIPANT: It is just a question about the composition of this meeting. I mean, we are actually quite interested to know who is here.

THE MODERATOR: Okay. Who is here? Who are you? We are not going to force people. Is it a justified question, that people should say who they are? Who are you?

PARTICIPANT: Could you try it another way and see how many civil society representatives are present?

THE MODERATOR: Put your hand up if you class yourself as a civil society representative.

PARTICIPANT: It is a bit worrying really to concentrate on -----

THE MODERATOR: Nobody has said that you could not come. Have you had any indication that civil society has not been allowed into this meeting?

PARTICIPANT: I was kept outside the door because I was late.

THE MODERATOR: That is a different issue.

PARTICIPANT: I heard a conversation between somebody trying to come in and – they also had to wait (off microphone)

THE MODERATOR: As far as I was concerned – and I should entirely take responsibility for this, as the independent facilitator – my concern was that those people who are here to consult on the documentation and the process were allowed in first; then people who had more than an observatory role were asked to wait until we made sure that those who had a more specific input into the process of consultation were in present in the room. Those who had to wait were waiting either because they were part of a body that was already represented in the room. It was basically to try and ensure that we had an equitable share of voice within the room. I hope you accept that.

PARTICIPANT: You offered earlier to provide a list of those invited by the company to the meeting.

EBRD STAFF: What I said, James, was that we are going to provide a list of the participants at the meeting. Sure.

THE MODERATOR: I certainly feel that no people have been excluded from this meeting who wanted to take part.

PARTICIPANT: Can you move beyond civil society and raise a hand how many people are with the Bank and how many people are with a company, and which company.

THE MODERATOR: Let me make this quite clear; that the people from the Bank at this table are simple those that are here to advise and give technical support in terms of the questions that are answered by members of the Bank; that is quite clear.

I just want to make sure that everybody is happy about what we are doing here.

EBRD STAFF: Nigel, can I clarify? This is a public meeting; anyone could attend this meeting. Some people in this room are from the Bank and some people are consultants, some people from the company and some people from NGOs, consulting firms, financial institutions and so on and so forth. It is an open meeting. There is no limit to the number of people that can come in; there is no limit on who can ask a question. There were 30 people outside with civil society earlier on. I do not see them all in the room. It is open to anyone. There is no limitation whatsoever. The fact that there may be a lot of people in here who are not obviously NGOs or whatever is not a reflection of the fact that people have been prevented from coming to this meeting. It is important to emphasise that.

THE MODERATOR: Are you happy with that answer?

PARTICIPANT: No, my point really is that a distinction was made at the door to this meeting between people. In fact in practice now there has been open access, but people were making a distinction. Somehow I was recognised as an NGO, but there were other people – possibly an asset manager for one – who seemed to be -----

THE MODERATOR: Let me make this quite clear. This is my responsibility; and my instructions were very clear. It was my responsibility to ensure that there was an equitable voice within this room. I did raise concerns that there had been concerns in the past; that there had been perhaps more people from the company than people felt comfortable with. This was totally recognised by the company, and I can genuinely say that. They expressed to me that the panel sitting here are to advise and any other members of the company that wanted to be present as observers would only be allowed into this room when we felt that the stakeholders who wanted to participate in the consultation had places.

You were allowed in straight away because obviously you are known and you are a valid person for the consultation. Any of those people in a merely observing role – I wanted to make sure that they were not allowed in until everybody who was involved in the consultation process had a place. Then those who were observers were allowed in on the basis that there was still room for them to be here. That was purely done to ensure that there was a shared equity of voice within the room. I am trying to be as transparent as – in other words, I did not want the company to take up your places!

PARTICIPANT: No, that is fine. I absolutely accept that, and I think that is good; but you know more about the constitution of the people in this room than I do. Are they all observers from Shell? I do not know.

THE MODERATOR: Who are the people from Shell? Who are the observers from Shell? There is one man over there. We still don't know who these guys are, but still.

This is important. Maybe they are a bit shy – okay! We still have 15 minutes and can carry on with further social matters. What about employment? I have visited the island. We went to the employment exchange and met with all sorts of different strata of society. It is quite clear that certain members of the society there do not seem to feel that they have had any positive impact; and there are others that did.

Do you want any clarification on that?

If there are no more questions with regard to the social matters we can return to environmental matters.

PARTICIPANT: I am sorry, I am feeling guilty because we do seem to be talking a lot and our colleagues over here are not saying anything.

I have 45 years of experience of Nigeria and listening to the discussion on distribution of revenue on Sakhalin, my hair started to stand on end. If there is one thing that went wrong in Nigeria, it was the failure to distribute revenue to the local population. We have already had

one war – and I was there for the entire civil war. We now have a semi-war going on down in the delta. We have whole platforms out of operation, pipelines closed down, et cetera and a large part of that was because of the failure to distribute revenue to the local population, which are still in utter, absolute poverty.

When I listen to the statement, “we cannot interfere with the Russian Government” I get extremely worried. Unless you sort that out –and you do have to sort it out with banks, because you are the guys that have the power and influence with the governments – you can talk to them and work out a system – you have got to find a way of getting an equitable distribution of that revenue to the population affected by the oil operations. If you do not, you will repeat Nigeria all over again.

THE MODERATOR: What measures are in place that could prevent that happening on Sakhalin Island?

EBRD STAFF: Can I ask a representative of our Chief Economist’s Unit to comment on how the Sakhalin region fits into their overall economic situation within Russia, and whether it is the poorest region or whether it is somewhere between, or whether it is a better-off region, and where the comparison with the delta is relevant in this respect.

MR SZEGVARI: I am the economist in the Office of the Chief Economist in relation to Russia. We are following the project from different perspectives. Best practice is an important area; to what extent the project is promoting transition of Russia from a central planning, well-functioning market economy, and the other one is the economic impact on Sakhalin II and the oil and gas projects in the region and the economic and social situation.

We knew from day one that a 10 to 20 billion mega project will have an enormous impact, both bad and less favourable, on the economic and social life of the region, with gross regional product of less than 3 billion. Since 1999 we have seen, as shown in the official economic and social data, significant turn-around in the economic development of the island. In every single year since 2001 investment has increased by between 40 and 90 per cent. This is the highest increase in terms of investment in all of the Russian regions.

With the increasing investment activity, the average income of the island has substantially increased. Unfortunately, we do not have reliable GDP or gross regional product data in the period after 2003, but we have an average income data for the first half of 2005. This is the most recent figure; and according to this the average monthly wage in Sakhalin Island in the first half of 2005 was \$490. The average wage in Russia as a whole was around \$290. The average income in Sakhalin Island in this period was higher than the average income in Moscow.

In this sense, Sakhalin Island is already among those regions that are relatively rich by the standards of the average Russians.

We know that this data and other aggregate data are averages, and averages are never true; and there are wide differences and discrepancies according to different social areas and different cities, and between cities and rural areas. Of course, it is a major concern for us.

Two relatively favourable developments in this sense are encouraging. The first one Andrey has mentioned: the unemployment level has been greatly reduced – this is not only Sakhalin II but Sakhalin I as well. From 2000, when the total number of unemployed was more than 60,000 – at the end of 2004 it was 22,000. The current level of unemployment, at the end of 2004, was 7.1 per cent, lower than the 7.4 per cent average for Russia.

The other equally encouraging development over the years, influenced largely by the two mega projects, was the social situation of the relatively less well endowed part of the population has also increased. The ratio of those who are below the poverty line in 1999 was

42 per cent; in 2003 it was 26 per cent. It is still huge and still unacceptable, but the trend is clear and encouraging.

It has been mentioned several times that the projects, including Sakhalin II, have negative impacts in economic terms. We are the first to recognise that even the employment impacts are not necessarily once and for all because both projects are in their construction phase. In a few years' time, when they reach operational level – they currently employ 30-35,000; and that will be reduced to around 3-4,000. This will be a major decline in employment.

There are two considerations, which are reflected in a recent analysis produced by the Ministry of Economy. The first is that this reduction will be a gradual one, roughly by 2008/2009, when the construction phase will be concluded; and in the meantime there will also be other developments with major potential positive impacts on the island workforce, including in related industries and services to the oil and gas sectors.

The other relatively negative development is the impact on the price level. When we made this comparison of average income, we realised that it was exaggerating to some extent the real difference. In Sakhalin Island, as in other regions of the Far East, the price level is higher than in the average Russian regions; it is roughly 50 per cent higher.

The impact of the two projects on the general inflation process in the macro-economy of the island does not come out from the official data. In every year since 2001 the consumer price index for Sakhalin Island has been increasing roughly in line with the Russian average. Of course, there are places, especially around the construction sites, where there are local major price increases, especially for those services that are not tradable; and there are temporary tensions even in the supply of certain goods and services.

PARTICIPANT: Listening to this reminds me that I am the one from the environmental community that recommends that there be a support of the Bonny island LNG plant. I made one of the biggest mistakes of my life: I underestimated the social impacts of that project. I went down there last year. The total fabric of the island has been destroyed. If you look at what has happened, many of the workers did not leave afterwards; they stayed there; prices went up; there is violence and corruption. To give you one example, the nuns in the local school have increased the height of their walls by 2 metres to stop the girls from selling their services to oil workers outside.

It has absolutely destroyed the social fabric of the island, and one has to look at that very carefully. There are many reports on the Web and you can read them about Bonny Island from the chiefs, the social workers, the Catholic churches and so on, as to what actually happened at the end of the day.

We thought it was an LNG plant; nobody told us everything else that was going in. If we had known, we would have re-done that review much more carefully.

The island is now not a fraction of what it was as a viable economic community in the old days. It has a lot of poor people and a lot of rich people, but it is a mess.

THE MODERATOR: What key learning points can you give – I do not want to reduce it to three – that you would like the social experts here to take note of?

PARTICIPANT: I think that outside workers come in with very high salaries, so they can hire anybody and everybody for any purpose they want, which tends to upset the social life. They price local people out, and so quite a lot of them have to leave. tribal relationships and family relationships are upset by this group of people who come in. They do not go home at the end of the day; they stay, and they compete with the local people. I will give you an example. Because they have got money they can go and buy a big fishing boat, and they undercut the local people. They also buy a faster boat than the local people, so they take on the ferry operations, and the local people cannot compete on price. There is a whole series of

issues there. It would be worth the EBRD looking at what actually happened on Bonny Island and talking to the people who have lived there all their lives.

To me, it was a shock, going back. One of the reasons we supported it was that we had to stop the gas flaring; 86 per cent of the associated gas was being flared in the delta, and that was causing massive social problems all over the delta because it was incomplete flaring and the droplets of oil were going on everything.

At the end of the day I have to say I am ashamed of the fact that I did not pick any of that up.

THE MODERATOR: That has been taken on board, I presume. Would you consider Bonny Island as a benchmark?

Before anyone answers on that, there is an evaluation form in the packs, and it would be very interesting for me as we obviously have these other meetings that are coming up. Your evaluation of this particular meeting will be read with great interest so that we can refine our design for those meetings. I know it is always irritating having to fill in these things, but if you could fill it in before you leave and leave it on the table there, or hand it to Georgina who is in the corner here, that is a point for me so that we can ensure that the following meetings are as effective as possible.

PARTICIPANT: The issue is that it is not the project that we have looked at, so we take on board what Clive is saying about his personal experience. If Clive could then look at the social impact assessment work that has been performed, please feel free to come back and ask if we have estimated this or that correctly, and we will take on board those issues. Obviously, we cannot discuss Bonny Island when we know nothing about it.

THE MODERATOR: Is that something you could do, provide a list of key learning?

PARTICIPANT: At the moment we are looking at Mauritania, the whole of West Africa and the whole of East Africa and ... I am a little bit occupied but I will see what I can do.

THE MODERATOR: You are obviously a valuable resource, and that is something that should be drawn upon.

We are coming to the close of the meeting. We have not heard from this table, so that will be exciting in itself.

PARTICIPANT: I guess I want to have a chance not to give them the last word!

When it comes to the box on the loan form if you ever get to that stage, what will you write about the transition impact of phase II? If you remember in relation to phase I, it was supposed to be the working example, a demonstration effect of a PSA; and there are no new PSAs, although there is talk of differential tax regimes. I suspect the other one was something to do about positive demonstration effect in terms of environmental management. What will be the demonstration effects, the transition impacts of the phase II loan? It is not a trick question; it is something that has got to be filled out. I have heard various suggestions as to what they might be because this issue of the resource rents is central to this whole notion of the resource curse(?) and I just do not see it being addressed. It is also central to the extractive industries review.

That is the transition impact of lending this money to Sakhalin Phase II?

MS FALCETTI: I am Elisabetta Falcetti; I work for the Office of the Chief Economist with Ivan on this project. We have to evaluate the transition impact associated with the project – and this is just for those who are not familiar with this concept. It is just a standard procedure that is undertaken whenever the Bank invests in our countries of operations.

Our task is to assess the contribution of the projects to the development of market structures, institutions, policies or market oriented behaviour by the agents involved in the project.

In this project we have identified three main areas of transition impact. The first one, in line with the Russian Strategy that was approved in 2003, is to contribute to the integration of the Russian economy into the world economy, in particular by opening up the entire South Pacific, Asian area, to be Russian energy. This has implications that go beyond the energy sector for Russia because it will support and contribute to strengthening the trade relationships between Russia and neighbouring countries in Asia.

This is key for the development of the Sakhalin region within the Russian context that Ivan has described.

The second important source of transition impact that we have identified here is the transfer of know-how and the introduction of modern technologies. This, as you know, is a very complicated project which involves the introduction of a complete new technology in Russia, which is the LNG production. Therefore, we see the transfer of skill and know-how as a key component of the transition impact associated with Sakhalin phase II.

The third element is an increase of transparency within the PSA agreement. You may already know that the company has agreed to publish the payments that will be made to the Russian parties, and this is in accordance with the principle of "publish what you pay". These will include payments in terms of royalties that the company pays, profit tax when it kicks in, and any other payment that is made to the Russian parties.

I believe that those are the three main areas. I will be happy to discuss it further after this meeting.

THE MODERATOR: It is now five past six. Are there any final questions or comments?

PARTICIPANT: EBRD referred to a number of conditions that they want to see before the Board makes a decision, or which they might attach to the loan. Would it be possible for them to disclose what these conditions might be in a full version?

Given the EBRD's commitment to apply their precautionary principle, do they have scientific proof that SEIC's operations did not affect the gray whales last summer?

EBRD STAFF: In terms of your first question, the document next to you on your chair has all those commitments. You will see the specific requirements of the company. It is there.

In regard to the second question on scientific proof, I believe your organisation and IFOR have put together the research programme. You have submitted that to the Whale Panel and it is currently undertaking scientific peer review by the independent scientist of that Whale Panel. They will have to come back to ourselves and to the company. If we think about the construction schedule, I do not believe there will be any activity on the top sides on those gravity-based structures in the summer; so it gives us a little window for the Whale Panel to look at the information and come back to us all, including yourselves.

THE MODERATOR: Are there any other final comments?

PARTICIPANT: I am sorry we have been asking a lot, but this is a simple process question. Do you have a transcript of today, or have you or Shell or somebody taken a written transcript? How will this result in ----

THE MODERATOR: Certainly, as I mentioned at the beginning, there is a written transcript of this; and there is a recording of this, which is for the Bank's and for my use in writing this up, absolutely, yes.

Good, there we are. We can probably close this meeting now. As I say, I would encourage you to fill in this evaluation form. It is my responsibility to see that these meetings are designed in the most effective way. Any comments on facilitation or answers or anything would be valid, so that we can be sure that the meetings in Moscow and on the island of Sapporo are the most effective possible for the objective.

I would like to thank all of those that have come for their rich and very interesting input. Thank you.