

**Report and meeting record of EBRD's
PUBLIC CONSULTATION MEETINGS**

on the

Sakhalin II Phase 2 oil and gas project

London, Moscow, Nogliki, Yuzhno Sakhalinsk, Korsakov and Sapporo

February, March and April 2006

**Prepared by Nigel Campbell Associates
Independent non-affiliated consultants
(on behalf of EBRD)**

Explanation of names and abbreviations used in this report:

European Bank for Reconstruction and Development (EBRD or The Bank)

The European Bank for Reconstruction and Development (EBRD) was set up in 1991 to aid the transition from centrally planned to market economies in Central and Eastern Europe and the Commonwealth of Independent States (CIS). EBRD is owned by 62 shareholders – 60 countries including the Russian Federation, the European Investment Bank and the European Union and operates with a capital of 20 billion Euros. The Bank is committed to applying the principles of multiparty democracy, pluralism and market economics.

The EBRD Task Team for the Public Consultation Meetings (PCMs) was made up of members from the financial, environmental and outreach sections of the bank.

Further details can be found on www.ebrd.com

Sakhalin Energy Investment Company Ltd (SEIC / Sakhalin Energy / The Company)

The Shell led conglomerate consisting of Royal Dutch Shell, Mitsubishi and Mitsui was established to explore for and to produce oil and gas in the designated Sakhalin II fields under the Sakhalin II Production Sharing Agreement (PSA)

Further details can be found on www.sakhalinenergy.com

Other abbreviated names and terms:

Sakhalin II Phase 2 project (The Project)
Public Consultation Meetings (PCMs)
Production Sharing Agreement (PSA)
Indigenous Peoples (IPs)
Sakhalin Indigenous Minorities Development Plan (SIMDP)
Liquid Natural Gas plant (LNG plant)
Onshore Processing Facility (OPF)
Environmental, Social and Health Impact Assessment (ESHIA)
Health Safety Environmental Social Action Plan (HSESAP)

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Introduction

Sakhalin Energy Investment Company (SEIC) has asked The European Bank for Reconstruction and Development (EBRD) to consider financing the Sakhalin II Phase 2 oil and gas project. The project consists of further development of the Piltun Astokhskoye field (PA) (constructed under Phase 1) and the development of the Lunskeye field as well as the Piltun structure of the PA field, the construction of an Onshore Processing Facility (OPF) and a Liquefied Natural Gas Plant (LNG Plant). The project also includes the construction of an onshore and offshore transportation system to deliver gas to the LNG Plant, an onshore oil and condensate transportation system to deliver oil and condensate to the Oil Export Terminal (OET) to be built in the south, next to the LNG Plant.

The Addenda to the Environmental, Social and Health Impact Assessment (ESHIA) along with the Health Safety Environmental Social Action Plan (HSESAP) constitute a body of commitments made by Sakhalin Energy to EBRD in areas relating to environmental, social and legal issues. The documents were deemed by EBRD to be fit for the purpose of public consultation and a 120 disclosure period began on 20th December 2005 and ended on 28th April 2006. The end date was extended by one week at the request of certain civil society bodies.

Objectives of the Public Consultation Meetings (PCMs)

In preparation for going to the Board of EBRD with recommendations on whether or not to lend money to the Sakhalin II Phase 2 project, the Bank announced a series of Public Consultation Meetings (PCMs). The objective of these meetings was for stakeholders in the project, namely civil society associations, residents and the local administration on Sakhalin Island as well as regional and international Non Governmental Organisations (NGOs) to express their opinion on the Addenda to the ESHIA and the HSESAP and the commitments contained therein. It was also a further opportunity for stakeholders to express their opinions on the suitability of EBRD financing the Sakhalin II Phase 2 project (The Project) and for the Task Team of EBRD specialists to get a better feeling of any gaps that might exist between the project as expressed through the documents and the reality on the ground as experienced by the various stakeholders. It would also be an opportunity for stakeholders to ask project related questions directly to the Bank's environmental, social and financial experts.

Planning the Meetings

Nigel Campbell of Nigel Campbell Associates; a non affiliated third party organisation specialising in process and meeting facilitation led and advised on the methodology, preparation, design and running of the Public Consultation Meetings. He also acted as lead independent facilitator at all of the PCMs. Nigel Campbell Associates met with EBRD at the end of January 2006 to commence work on the meetings. EBRD had previously decided that there should be PCMs in London, Moscow, three on Sakhalin Island and one in Sapporo, Japan. There was general agreement that the objectives of the PCMs within the wider context of the disclosure period were as expressed in the above paragraph entitled Objectives of the Public Consultation Meetings.

The following principles were agreed:

- That the broad areas for consultation at the meetings would be the environmental and social matters surrounding the project.
- That it was essential to get the maximum possible stakeholder buy in to the design and conception of the PCMs in order to offer fair, transparent and uniform meeting formats across the board. It was also deemed critical to allow for regional and cultural differences in terms of facilitation tools to maximise comfortable and efficient interaction between stakeholders and the EBRD panel of experts at each PCM.
- Nigel Campbell and the EBRD task team member from the communication department responsible for NGO relations and outreach would visit Sakhalin Island for one week starting the 5th February 2006 to engage with key local stakeholders.
- That Nigel Campbell would be assisted by local experienced non-affiliated facilitators for the meetings in Russia and Japan.
- That the facilitation team would engage with non Sakhalin based international stakeholders by telephone and email prior to the meetings.
- Sakhalin Energy staff would be asked to provide some logistical support for the meetings on Sakhalin Island. If required, and only at the invitation of EBRD Task Team members, Sakhalin Energy would supply technical experts to provide a necessary backup to the EBRD panel at the PCMs to assist them with answering any technical questions posed by meeting participants.
- The PCMs would be hosted by EBRD and designed by them with the assistance of Nigel Campbell Associates and through consultation with representatives of the stakeholder groups.

Nigel Campbell (Independent Facilitator) and Doina Caloianu (EBRD Outreach and NGO Relations) visited Sakhalin Island for one week in February 2006 to:

- Engage with representative stakeholder groups to ensure their input into to the design and format of the PCMs on Sakhalin.
- Determine the key issues with the stakeholder representatives that should be included in the meeting agendas.
- Visit and select suitable venues in Nogliki, Yuzhuno Sakhalinsk and Korsakov based on the discussions with stakeholder groups.
- Meet with representatives of Sakhalin Energy to determine the logistical back up that they would provide in the field for the PCMs.

The stakeholders met during this visit included a variety of civil society including environmental and social NGOs, local fisherman associations, leisure and hunting associations and representatives of the indigenous people of the north of Sakhalin as well of local government officials in the three towns where the PCMs were to take place.

Format of the Public Consultation Meetings

Timing of the meetings

After having engaged with representatives of stakeholder groups on Sakhalin Island in person and with representatives of international stakeholders by phone and by email, EBRD with the assistance of Nigel Campbell Associates agreed on a format for the PCMs. For the sake of transparency it was agreed that each of the six PCMs should have the same format. It was made clear by the stakeholders on Sakhalin that the meetings should not start much earlier than 18.00 in order to allow working people to attend the meetings which had been scheduled to take place during the working week. It was agreed that the meetings should finish at around 21.00. It was therefore agreed that the formal meeting time for all six meetings would be 3 hours, and that this time would be split between environmental and social matters.

A typical meeting format:

17.00 to 17.45 Registration and informal meetings with EBRD experts

17.45 to 19.15 Environmental Matters (plenary)

19.15 to 19.30 Refreshment Break

19.30 to 21.00 Social Matters (plenary)

Responding to a request made by certain stakeholders, the time allocated to the Moscow meeting was extended by a further two hours.

The meetings in London, Moscow and Sapporo were held in the afternoon as they were primarily targeted at NGOs and local administrators who would be attending the meetings during their working day. It was also requested by local fisherman associations in Sapporo that the meeting held there take place during working hours.

Registration period and informal meetings with EBRD experts

In addition to the three hours of plenary time allocated to each meeting, it was agreed that it would be important to add an additional forty five minutes of informal meeting time during the registration period at which there would be “Information Points” in the registration area at the venues. The three information points were headed ‘Environmental Matters’, ‘Social Matters’ and ‘Other Matters’. These information points were manned by EBRD environmental, social and financial specialists who subsequently formed the panel of experts present at the formal plenary sessions. Participants were invited to meet with the specialists once they had registered.

The objective of the registration points was to provide an environment for participants to discuss issues relating to the Project in an informal manner. This was deemed especially important for those who might be shy or uncomfortable speaking in the plenary sessions and for those who wanted to discuss certain issues in more detail. The information points were also manned by the EBRD specialists during the refreshment breaks.

Plenary Sessions

The meeting agendas as published in the information notes prior to each meeting on the EBRD website outlined the plenary sessions as covering both Environmental and Social matters. As a result of further discussions held between the facilitation team and representatives of the various Russian stakeholder groups, the meeting agendas for the Russian meetings became more detailed. The objective of this was to try and ensure that agenda topics were prioritized in terms of the local context at the respective meeting locations.

As a result of discussions with the stakeholder representatives, draft agendas were drawn up and presented to participants as they registered for the meetings in Moscow and on Sakhalin Island. They were invited to indicate which items, if any, they wished to speak on and to add any items that did not appear on the agenda. This information was then passed on to the lead facilitator for each of the meetings and the more detailed issue based agendas was agreed with the participants at the beginning of the plenary sessions.

At each of the meetings the facilitation team made short introductory addresses to give a contextual background to the PCM process and to confirm the agenda with the participants. The EBRD panel members introduced themselves and the role of the Bank. The meetings then took the form of questions, comments and statements from the floor with responses and clarifications where appropriate from the EBRD panel.

Recordings were made of all the plenary sessions at the request of EBRD.

Interpretation

In Moscow, Yuzhuno Sakhalinsk and Sapporo simultaneous interpretation was supplied for the participants and the EBRD panel as well as the facilitators. Due to technical constraints, for the meetings in Nogliki and Korsakov, simultaneous interpretation was provided for the EBRD panel and consecutive interpretation was provided for the participants.

Facilitation

The independent facilitation team consisted of a bi-lingual main Russian facilitator and an assistant Russian facilitator for the Russian meetings and a bi-lingual facilitator for the meeting in Sapporo, Japan. As lead facilitator, Nigel Campbell was present at each of the six PCMs.

Publicising the meetings

Information notes were published on the EBRD website for each of the meetings. For the meetings on Sakhalin Island and in Sapporo advertisements were also placed in major newspapers. There were also radio announcements on Sakhalin. The newspaper advertisements that appeared on Sakhalin invited readers to write any comments they had regarding the Project on a space provided on the newspaper advertisement. They could then cut them out and post them to the EBRD office in Vladivostok for processing. Their comments could then be included into the broader scope of the public consultation on Sakhalin II phase 2.

Media presence at the meetings

The media were invited to participate at all of the meetings. The written media were invited to attend the plenary sessions and to hold interviews during the breaks. Television cameramen were requested not to film during the plenary sessions so as not to disturb the participants; however they were invited to interview participants and panellists alike during the registration periods and during the breaks.

Meeting Records

The transcripts of the 6 PCMs were placed in the public domain on the 12th May 2006 when EBRD published them on their website.

<http://www.ebrd.com/country/sector/natural/projects/sakhalin/>

The meeting records in this report are designed to give the reader an overview of the individual meetings with reference to some of the main issues commented on and discussed at each meeting. They do not constitute a “stand alone” record. Readers are therefore invited to refer to the meeting transcripts for the complete record of the meetings.

London Meeting Tuesday 28th February 2006

Western Gray Whale / Birds

- Lack of coherence in documents relating to the Western Gray whale
- Precautionary approach to the whales
- Finding of emaciated and dead whales
- Impact of the towing out of the PAB platform
- Moving of the off shore oil pipeline

A representative of WWF opened the discussion on the Gray Whale by welcoming the statement by EBRD in December that the project was in breach of its environmental policy with regard to environmental and indigenous aspects. He went on to say that the credibility of EBRD’s environmental policy was at stake if it funded the project. He made reference to the WWF report *Risky Business*. He stated that there seemed to be no link between the various documents produced on the subject of whales and the new ESHIA which he said did not add up to a comprehensive plan. EBRD replied that it was difficult on a project of this magnitude to tie everything down into one document. However, they themselves along with the independent environmental advisers AEA Technology and the Whale panel would be doing everything to make sure that the commitments made by the Company with respect to the whale and other issues are followed through.

Representatives from Friends of the Earth, Campaign Whale and Pacific Environment reiterated the position taken by WWF that EBRD should not finance the project. The reasons they gave for this included the potential links with the project and those Gray Whales that had been found emaciated or dead. Also, that the whale panel had said that the most precautionary approach would be for this project not to go ahead due to the range of pressures, including the project activity, which the whales were subject to. The representative from Pacific Environment also wished it to be recorded that at the last year’s EBRD Annual Meeting Peter Reiniger had said that the Bank had received 7000 pieces of individual input over the years regarding the project. The Pacific Environment representative did not feel that this had been reflected on the EBRD website. He handed over a record to EBRD at the meeting. EBRD responded that there had been no proven link between the recorded

emaciated whales and food supply and any link between emaciation and development projects in the area was not at all clear. Emaciation had been reported in other species such as the Eastern Whale. They also said that they would reflect on the web site the correspondence received in relation to the project.

Other issues concerning the whales that were brought up by the NGO representatives present at the meeting included the towing out of the concrete base for the PA-B platform which they said undermined and obviated portions of the scientists' review. They also mentioned the lack of terms of reference for the Western Gray Whale Advisory Panel. EBRD replied that the terms of reference for the panel had been agreed and that it would be meeting in Vancouver in a few weeks time. They would be relying on the panel to advise them on the impact of the tow-out and related issues. A participant commented that experts had already made reports to EBRD about the shortcomings of the project. The Bank replied that it was an ongoing process and that the Company had agreed to be bound by all reasonable measures suggested by the panel and went on to say that the moving of the off shore pipeline away from the whale feeding ground was a huge progress that had met with the satisfaction of the NGO community as well as other lenders and observers.

The concern was raised that the changing of the pipeline route as outlined in the HSESAP meant that the pipeline would have an impact on a number of bird species including the Nordman's Greenshank, virtually endemic to Sakhalin, of which there were only about 1000 left in the wild anywhere in the world. It was also stated that the pipeline would affect the passage of about one and a half million migrating birds. These included species such as the Spoonbilled sandpiper of which there were only 2500 in the world.

The Bank replied that the route selection involved an assessment of avian fauna along the route and that in a number of areas there were micro alignment changes to avoid particularly sensitive areas. He stated that there has been a lot of engagement with ornithologists from Japan on the Stellar Sea Eagle. He invited the speaker to look at and comment on the preventative and mitigation measures contained within the HSESAP.

Oil Spill Response Plan

- Readiness and completeness of oil spill response plans
- Oil spill excursion envelopes for winter sea ice conditions

The concern was raised by a participant regarding the lack of a comprehensive oil spill response plan, especially given the lack of a track record in dealing with oil spills on ice. The public was being asked to review an ESHIA that did not cover one of the most serious environmental impacts of the project. The Bank's response to this was that it was never their intention to release details of a specific oil spill response plan but rather to provide an overview, an outline of an oil spill response plan. The plans had to be satisfactory to both the Russian authorities and to the lenders which was a requirement of the HSESAP. The Bank's representative went on to say that the Company had committed to complete the plans in a form consistent with international best practice and consistent with the outline of the information presented in the

documentation now in the public domain. He went on to say that if the Company did not modify the plans to be consistent with the advice given to the Bank by the specialists, the Bank had the contractual recourse to require the Company to repay the loan.

Further concerns were raised about the apparent lack of winter oil spill excursion envelopes that would determine how far oil spill spreads in the event of an incident during winter sea ice conditions. The Bank invited Sakhalin Energy's oil spill manager to comment on this and he confirmed that they had winter excursions for Aniva Bay and that they were currently running winter trajectories for Piltun. The Bank went on to say that it had not taken a view as yet concerning the release or not into the public domain of the future oil spill response plans. It was also pointed out that it was very rare to have on going projects with fully developed oil spill response plans in place at the time of funding decisions.

Health Safety Environmental Social Action Plan (HSESAP)

- The meaning of "fit for purpose"
- The definition of "international best practices"
- External scrutiny brought about by public funding
- HSESAP as a draft action plan

A representative from F and P Asset Management and a Shell investor stated that he did not fundamentally believe that oil and gas projects should not go ahead, which was self evident being a shareholder in Shell. He believed that these projects can and should go ahead if they are responsibly carried out to good, adequate social and environmental standards. He said that public funding of the project would be of great benefit socially and environmentally due to the level of external scrutiny that a public body could give. He went on to say that EBRD would be making a decision that would have profound ramifications for the reputation of Shell, the project and for the whole oil and gas sector. He said he thought that the basis on which EBRD had made the assessment that SEIC's documentation was put out to consultation was because it was fit for the purpose of consultation rather than fit for the purpose of running a project. He wished to know from the EBRD experts if they considered the existing action plan to be of an adequate standard and whether they were expecting any changes to be made to it. He also wanted to know if the experts considered the action plan as it stood now actually conformed to international best practice in relation to other oil and gas projects worldwide.

The Bank replied that fit for purpose meant that there was enough information on a project for stakeholders to take a view during a consultation period. It did not mean that the project had all its "i"s dotted and all its "t"s crossed. They went on to say that fit for purpose did in essence mean fit for the purpose of running a project, that the action plan contained all the elements and safeguards to run the project at a performance level that would be expected for a big oil and gas project anywhere in the world. There was a legal definition of what was meant by best international practice. Some of the standards in the action plan were derived from the World Bank group; some from EU legislation and other elements were derived from various industry standards.

The issue of compliance was also brought up which is dealt with later on in this meeting record.

It was confirmed by the Bank that the current HSESAP was indeed a draft action plan and the purpose of putting it out to public consultation during the disclosure period was to elicit comment and feedback on the adequacy of the various mitigation and monitoring measures contained therein. Feedback would allow the EBRD experts to recommend changes to the plan to make a more robust and enhanced set of mitigation and monitoring measures.

Compliance

- “Stop light” compliance mechanism
- EBRD’s ability to ensure compliance
- Compliance during Phase 1 of the project

The Shell investor from F and P Asset Management asked the question how EBRD would ensure compliance with any restrictions it placed on the project once it may or may not decide to proceed with funding. The Bank answered this question by outlining the “stop light” compliance mechanism system contained within the HSESAP which allowed various remedial measures to be taken if there was a breach of some kind. The green, amber and red light system gave a hierarchy to breaches of particular standards and the ultimate sanction was a recall of the loan. They went on to say that the HSESAP laid out frequent lender visits and reporting requirements to monitor performance against various benchmarks with detailed management systems in place.

Concerns were expressed by one participant as to how this system would work. The question was asked whether killing a whale would be a yellow light or a red light. The Bank replied the each issue is assessed in terms of its significance, in terms of the breach and the nature of the environmental and social impact. The speaker was invited to have a look at the system as it was described in the documents and to talk about it in more detail bilaterally.

It was stated by another participant that he thought everyone at the meeting believed in the potential additionality of EBRD to the project. He thought that the question of whether or not EBRD could ensure compliance was one of the most fundamental to whether it should finance the project or not. It was critical to the credibility of the process.

The question of compliance on Phase 1 of the project was brought up by the participant along with the audits undertaken by ENSR Ltd, an independent lenders’ auditor in which six critical actions were defined where “findings indicated an immediate HSE risk”. He said that the report suggested that there had been huge problems in ensuring compliance on the smaller phase 1 of the project. He also referred to EBRD’s evaluation department’s report which was not made public.

The Bank responded by saying that the International Financial Institutions sector had learnt a lot about oil and gas and about how to structure agreements and that things had moved on since Phase 1 had been developed. They went on to say that both the

Bank and the Company felt that the Phase 1 documentation could have been more detailed and that they had also learnt about the stop light system in Phase 2 from other projects.

River Crossings

- University of Birmingham's reports
- Winter crossings
- River classifications
- Past performance

The representative from Friends of the Earth made reference to the University of Birmingham's reports on river crossings and commented on her surprise that in the fourth report they were still raising questions about the classification of river crossings and the definition of winter. The speaker also cited the report's references to river crossings made outside the winter period and the fact that there had been instances when the oil and gas pipelines had not been installed simultaneously. She also mentioned the pictures taken by Sakhalin Environment Watch showing what she described as shoddy practice. She asked whether the Bank would employ Birmingham to review the latest crossings strategy. The Bank expert responded by saying that given that Birmingham University had exceeded the number of days they were permitted to act as consultants they would not be continuing with them. However, they had worked with Birmingham University to resolve every issue that remained outstanding. The Bank was working with AEA Technology to resolve the issues as agreed by all parties.

The Bank expert considered that the main item outstanding in the last review of the university in terms of classification was that the Bank was pushing the Company to recognise that class 1 streams (the least sensitive streams) that flow into a class 2 or 3 would actually be classed as a 2 or 3. The winter definition related to freezing conditions and there had been discussions regarding when the middle of winter is. Less sensitive rivers did not have to be crossed in the winter period. Some of the larger water bodies did not support fish. That is why a large number of rivers were crossed before the report had been completed. The time lag between the laying of the oil and gas pipeline was one of the main mitigation measures proposed.

The Bank conceded that it was a valid point that this research could have been done on the rivers many years ago, however, they were more concerned about how the Company was now dealing with the river crossings issue. Before the regime change at Sakhalin Energy only a very small percentage of sensitive rivers were crossed. The Bank went on to state that the vast majority of sensitive rivers were being crossed under the new regime and that monitors were in place continuously checking how the Company was meeting the performance standards it had set itself.

A participant went on to mention the problem with contractor compliance last year which had been discussed by the President of EBRD and had been acknowledged by John Berry, the Russian President of Shell. The fact that the ESHIA did not mention or address the past violations rendered the document unacceptable in the view of the participant. The Bank responded by saying that all had noted the poor

performance of the contractors last year and that what was now in place was a series of measures that would ensure that that this did not happen again. A significant improvement in performance of the river crossings had been noted. The Bank expert went on to say that the two key commitments that needed to be focused on were that the river crossings were carried in an adequate manner and that there was no net loss of spawning ground.

Social matters concerning the project construction phase

- Demonstration in Korsakov
- Socio-economic benefits to the community
- Russian content in the make-up of project workers
- Investment in communities
- LNG plant safety

A participant made reference to the fact that at the start of the project it was local environment groups and a few civil servants on Sakhalin that were concerned about the project. However, recently there had been a demonstration by a cross section of civil society in Korsakov concerning the LNG plant. He said that this reflected concerns about whether or not the project would bring socio-economic benefits to the community as well as concerns that the project would create significant harm to fisheries and overwhelm the local municipal infrastructure. He also stated that there were signs of violence between the people of Korsakov and the project workers.

The Bank responded by saying that it was normal that the people had expectations with such a large project going on in Sakhalin but that they could not comment on what they were expecting. However there were 700 people from Korsakov who were directly employed by the project out of the 7000 people working on the project. The Bank's representative cited other benefits from the project being the hundreds of millions of dollars being spent on social assistance, infrastructure up grade and sustainable development activities. The participant then asked for a breakdown of the 7000 people employed by the project in terms of where they came from be it the Russian mainland, Sakhalin or else where and asked if there were plans to provide local access to energy. The answer came that roughly 68-70% of the project workers were Russians. It was pointed out that this was an extremely high figure for such a specialised project as it was the first time Russia had seen such an energy facility.

The EBRD social specialist commented that EBRD had worked with the Company to develop social investment funds and there was much more community involvement in the decisions of what sort of projects to fund. She admitted that not every one got their project funded and of course people got upset and cross but that money that had been put into social investment was now being spent in ways that the community wanted. EBRD then went on to say that there were specific aspects on how to deal with people who were more directly impacted by the project in terms of whether their livelihood had been changed or whether their normal activities had been impacted by the project. There were specific aspects on how to deal with this which were described in the documentation currently under discussion during the public disclosure period.

A participant who is a member of the IUCN Commission on Environmental Economic and Social Policy raised the question of the safety of LNG plants and the recommended exclusion zone surrounding such plants in the event of an explosion which he said could be highly dangerous for the local community. He cited the Tangu project in Indonesia which had a 5 square kilometre exclusion zone. He also cited terrorist risks. The Bank response was that the nearest permanent community to the LNG plant was the Dacha community and that there had been an ongoing discussion about the size of the exclusion zone, whether it should be 1 or 3 kilometres. They said that this is dictated by Russian requirements based on safety, risk and hazard assessments. The EBRD panellist went on to say that he was not technically qualified to talk about the inherent risk of LNG plants, however, Stone & Webster were the technical experts that have been looking at those issues.

Indigenous Peoples

- Timing of the Sakhalin Indigenous Minorities Development Plan (SIMDP)
- “Consent” / “Consultation”
- Focus of the Indigenous Peoples Development Plan
- Fish tainting

In response to a previous participant’s question relating to the likelihood of economic benefits for the community, the Bank’s social expert cited the Sakhalin Indigenous Minorities Development Plan (SIMDP) as a good example of not only mitigating perceived impacts to the indigenous people but also providing a programme where they would be able to benefit from the project both in terms of economic and social infrastructure. A participant went on to comment that while it was good that the plan was happening now it had come about half way through the construction phase of the project and that was not best international practice. The word was “free prior informed consent” and that was not happening. The participant went on to say that it was therefore in breach of EBRD policy. The Bank replied that technically it was pre prior “consultation” and not “consent” for an Indigenous Peoples Development Plan. The participant asked if that was the UN version and the Bank replied that their policy referred to the current IFC’s policy. They accepted that it was being developed late but it was now in compliance with their policy and it was being implemented according to best international practice with the involvement of the indigenous people themselves.

A participant continued to dispute the words “consent” and “consultation” and another Bank specialist reiterated that their benchmark was the IFC one which he understood did not contain the word “consent”. They went on to say that the plan focused on specific direct mitigation measures for the IPs but to a greater extent on perceived indirect impacts and also the means of enhancing the livelihood of the community and developing the culture of the indigenous peoples.

A participant raised the issue of fish tainting citing an example from the Niger Delta where he stated that oil pollution in fishing zones had meant that people could no longer use the fish because of tainting. The Bank replied that although the issue of fish tainting had been brought up for a number of years in the north and now in the south of the island, when the question had been raised with the state Oblast fisheries body their view had been that there was no clear direct causal link between the

Project and any perceived fish tainting. The Bank expert went on to say that the authorities had cited industrial activity and industrial pollution on the island and the natural release of hydrocarbons as well as the legacy of poor practice in the past from other oil producers. EBRD would support an investigation into claims of fish tainting.

Economics and Production Sharing Agreement (PSA)

- Unemployment figures
- Average income
- Questions relating to renegotiating the PSA
- Distribution of revenue among the Russian party
- Bonny Island example
- Transition Impact

In response to various comments and doubts expressed by some of the participants regarding whether or not there were socio-economic benefits for the community as a result of the project, the financial specialist on the EBRD panel gave a reply. He said that from what EBRD saw and from the data they were seeing there had been a significant increase in the average income of the workers as well as a significant reduction of unemployment on the island (falling from 20% in 1999 to less than 7.1 % in 2003). A participant raised the question of access to energy for those on the island and the EBRD expert replied that it was his understanding that the Company would provide access points so that the Company could technically deliver energy. It would be up to local businesses to find a way of buying that energy. A participant pointed out that there was also inflation and other factors that were brought about as a result of the increase in foreign investment.

The participant went on to say that while the Bank had mentioned the hundreds of millions of dollars in economic benefit from such things as infrastructure development, the Russian side was not receiving billions of dollars because of the structure of the Production Sharing Agreement (PSA). He then went on to mention the cost overrun when Shell had announced that the project costs had gone from 10 billion to 20 billion dollars. The speaker also said that the Russian government was keeping the revenues from the project in Moscow and that they were not getting to the island. The speaker asked the Bank what their retrospective view was on the PSA. The response from the Bank was that the PAS had been signed in 1994 when there had been a very different political climate in Russia and a very different stage of development on Sakhalin Island. The EBRD natural resources expert went on to say that it was not uncommon in many countries to use different schemes to attract foreign investors. He went on to say that the Russian authorities are currently considering providing tax breaks of between five to seven years for the investment in developing eastern Siberian oil reserves. He said that was very difficult to judge retrospectively what the agreement (the PSA) should have looked like at the time it was signed and that if Russia ever considered renegotiating the deal of 15 years ago it would be very unfortunate for the stability of the investment climate and the perception of Russia as a state.

He went on to say that regarding the division of income from the PSA the Company was required to pay relevant amounts to the Russian party and that nowhere in the PSA was it stipulated which parts should be paid to which regional or sub-regional level. It was entirely a Russian authority decision.

An economist from the Chief Economist's Office was asked to comment. He indicated that the most recent figures showed that the average monthly wage on Sakhalin Island in the first half of 2005 was \$490. The average wage in Russia as a whole was \$290. He went on to say that there were wide discrepancies according to social areas and different cities and between cities and rural areas which was a major concern for the Bank. He recognised that employment was not once and for all because both projects were in construction phase and that when they reached operational level the currently employed 30-35,000 would be reduced to around 3-4,000 which would be a major decline in employment. The Ministry of Economy analysis indicated that this reduction would be gradual and that there would be other developments with major potential for positive impacts on the island workforce including related industries and services to the oil and gas sectors.

One of the participants cited the Bonny Island LNG example where he stated that the poor distribution of wealth had resulted in civil disturbance. The Bank invited the speaker to share with them the social impact assessment work that had been done on Bonny Island.

Another participant asked the Bank to demonstrate what the transition impacts would be of the Phase 2 loan. Another economist from the Office of the Chief Economist at the Bank replied that EBRD had identified three main areas of transition impact for the project: to contribute to the integration of the Russian economy into the world economy; the transfer of modern technology and know-how and finally an increase of transparency within the PSA agreement citing the example of the "publish what you pay" principle which the Company agreed to apply.

Moscow Meeting

Tuesday 14th March 2006

Documents

- Outlining the main areas contained in the addenda of the documents
- Legality of the addenda
- Questions of compensation

One of the EBRD environmental specialists on the panel opened the meeting with a short presentation on the documents under consultation making reference to the ESHIA and its addenda as well as the HSESAP. Following this presentation one of the participants asked the specialist what he thought were the most important gaps that had been closed by the amendments to the documentation and which gaps, if any, remained. The panellist replied that the addenda included the river crossings strategy, western gray whales, soil erosion and geological hazards among others. He felt that the addenda closed the gaps covering those areas. However, with certain issues such as the western gray whale, they had a process that they had agreed to and that the gap was to a certain extent closed but not in terms of paper documents. The interim whale panel would be meeting in April.

A participant went on to state that legal approval had been granted for the 2003 ESHIA. He said that there was a Federal Act that says that the Addenda must be submitted for environmental review and therefore they are not legally valid without it. The Bank replied that through additional information for EBRD above and beyond the original 2003 ESHIA, the Company was not let off its obligations to the Russian Government based on the 2003 review. In addition to everything they had to do to comply with the 2003 approval by the Russian government, they now had to do things for EBRD.

A participant asked whether the commitments contained in the documents included commitments to compensate the damage and losses to date and how it was going to be done. The Bank replied that concerning compensation for damage there were two types of compensation; state level compensation and fees and penalties incurred for breaching permits and so on. There was also a third level of compensation concerning damages paid to individuals.

River Crossings

- Discrepancies between the documents and reality
- Bridges
- Pollutants
- Documentation
- Construction problems in the past
- Government permits
- Horizontal Directional Drilling
- Water flow rate
- Monitoring

A participant stated that the documentation contained statements of intention and said that there were no technical decisions, no description of what was going to be done and no time frame for those intentions. He went on to point out that that a number of rivers had been crossed before the strategy to handle these issues had been developed. He said that inconsistency had regularly been observed between what was said in the documents and what happened in practice. Examples were given of breaches in the simultaneous laying of oil and gas pipelines and the time period permitted for the laying of pipelines. He went on to say that there were gaps in the documentation that still exist. Examples given included the estimation of damage done in the past and the lack of legal analysis. He also said that there was no assessment in the documents about the impact of the bridges which accompany the construction of the pipeline. He then brought up the subject of river mattresses, or mats, and the lack of assessment of them. They were largely made from zinc which is an important pollutant.

The Bank expert thanked the participant for his contribution saying that it amounted to exactly the type of feedback that they were looking for during the consultation period. He thanked him particularly for his input regarding river mattresses. He went on to say that with such a huge project and with such a volume of paper there was a hierarchical layer of commitments and that although the HSESAP was the prime document most of those commitments would refer to another document. For example, very detailed guidelines would be undertaken on exactly how river crossings would work as well as very detailed mitigation measures that would have to be in place before rivers could be crossed. He went on to give the example of the detailed guidance notes on requirements in terms of soil conservation and that EBRD relied very much on the US Federal Energy Regulatory Commission guidelines on erosion control and management of crossings through water. There were many more technical documents underlying the HSESAP. The EBRD panellist admitted that there had been problems with the construction works in the past and that Dmitry Lisitsyn of Sakhalin Environmental Watch and EBRD had all observed these problems in the field. EBRD had been working with the Company to find ways of addressing these. He went on to say that what they now had in place was a robust system to carry out river crossings and a series of avoidance, mitigation and monitoring measures were in place. The Company was committed to not crossing any of the more sensitive class two and three rivers during the summer period but that the category one watercourses, some of which are just drains and have no fishery value at all would be crossed in the summer.

A participant had raised the concern that illegal permits had been issued and the Bank replied that the system the Company was committed to in the documents was more restrictive than the Russian permitting system allowed. The Bank went on to point out that there had been a lot of talk about horizontal directional drilling or HDD. There were now 7 HDDs which take into account 30% of all the salmon spawning habitat of the rivers crossed by the pipelines. He went on to say that there were a lot of places in the documentation where bridges and their potential impact were in fact covered. He said, with reference to past damage seen in photographs that some practices were not up to the standard of the documents that EBRD had released, or international best practice, or the requirements of Russian permits. He added that the documentation would not sit on a shelf and that monitoring mechanisms were in

place by way of reply to a participant that had stated that the Company would never comply.

Another participant raised the point that the monitoring set out in the documents did not include measuring the most important parameter which was water flow rate. He was concerned that bridges had been built without the design documentation being available which was a concern if there were high water or spring floods. He questioned the selection of rivers to be crossed by directional drilling and cited the fact that the Firsovka river had been crossed in this manner. However, the Makarova river was both of much greater fisheries value and much larger and it was going to be crossed by trenching. The Bank replied that they knew the river well and that they would look into it and make sure that there were no adverse impacts associated with this crossing. He reiterated that there was a river crossing strategy document which had been released in December.

A representative from the Ministry of Natural Resources strongly emphasised the importance of monitoring and to get unambiguous answers from the Company regarding flow rates and the concentration of pollutants during the construction period. The Bank replied that monitoring was very important to them and that there were several layers of monitoring. He said that EBRD would welcome discussions with the speaker on an ongoing basis and invited him and people from some of the fishing agencies to join them on one of their monitoring trips. The Bank also said that that they had gained authorisation from the Company to include Dmitry Lisitsyn of Sakhalin Environmental Watch during the spring monitoring trips

Oil Spill Response and Geological Hazards

- Quality of the SEIC documentation on geological hazards
- Active fault rupture
- Other geological hazards
- Positioning of the pipeline above or below ground

A participant brought into question the level of professionalism and good faith of those that wrote the section of the report concerning the geological aspects of the project. He gave the example that in the report it stated that fault displacement was very unlikely over a 30 year period and that seismic events occur once every hundred years. He explained that in reality Sakhalin movements could occur not once every hundred years but he said was literally something that was happening today. An active fault could shift by a maximum of three to five meters. The Bank replied that EBRD took geological hazards seriously and the threats that these phenomena could cause. The Company did not want oil and gas passing through its pipelines to be disrupted by fault activity or seismic shaking. He went on to say that the Bank has investigated these risks with the Company in great detail.

Both the speaker and the Bank expert clarified the fact that they were both talking about active fault rupture. The Bank expert then went on to clarify that only three active faults were crossed on the island. They were crossed numerous times but there were only three that were crossed so it was not difficult to characterise those faults. All the investigations were implemented to characterise those faults in terms of how frequently and likely they were to rupture and when they did rupture, how likely

the offset was likely to be. Once the geologists had completed this information it was given to the engineer. The Bank expert then went on to cite a number of examples of measures to mitigate effect of an offset at these faults. He said that the Engineer in question was the one who had designed the trans-Alaskan pipeline.

Another participant raised a number of concerns including hazardous issue of salt processes, avalanches, river bed evolution, Tsunami, landslides and the complex soils in the Lozovaya and Lesnaya river basins. He went on to say that the Company documents were always understating the parameters of hazardous processes. He also referred to Doug Nyman's doubts last year about keeping the entire pipeline underground. The Bank's expert replied that there was a desire to keep the entire pipeline below ground because it was safer below ground provided you could avoid major landslides and design the fault crossings to safely accept the displacement anticipated. He said that Doug Nyman was now pretty positive he could keep the pipeline underground and when on to list the technical measures that would be required to ensure the safety of the pipeline in the face of potential geological hazards. He finished by saying that the Bank had recognised the issues and that they felt that the Company was taking adequate steps with regard to them.

Western Gray Whale

- Contradiction in the documentation
- Lack of specific definitions in the Company's documents
- Terms of Reference for the Whale Panel
- Off shore construction monitoring taking place in the fog
- Risks to species of impact on one pregnant female whale

A participant who was a marine biologist and marine mammal expert made a presentation in which he made a number of points, some of which are noted here. He said that ships chartered by Sakhalin Energy had been noticed moving close to the whales and not maintaining the distance specified in their documents on the protection of marine mammals. He went on to point out the apparent contradiction in the Company's documentation quoting "Sakhalin Energy's impact prevention/mitigation strategy is based on two fundamental principles: avoidance of biological impact on the population and mitigation of biological impact on the population". The speaker's comment on these principles was that if biological impact was avoided then there was nothing to mitigate. He went on to restate what he said had been the subject of many disputes and criticisms of the Company at previous meetings which was the lack in many cases of specific definitions in the Company's documents. He cited the example "To reduce the impacts to as low as reasonably applicable levels" He asked what "reasonably applicable" meant and what would determine the causes and choice of these levels. He went on to say that these comments demonstrated an inappropriate approach to the assessment of impact underlining the Company's entire strategy for the preservation and mitigation of impact on the Gray Whales.

He went on to draw the Bank's attention to what he regarded as a biased assessment of the available research data in the documents. He cited the example of the research data about the impact of noise on gray whales which had not been discussed in the way in which it had been quoted. He mentioned the fact that there

were still no terms of reference for the reconstituted Whale Panel bearing in mind that there were only two months to go before the Gray Whales arrived in Sakhalin and that it would not be possible to take its recommendations into account during the 2006 construction work. He went on to point out that in the Company's documents it was stated that there had been successful monitoring of the impact on the Gray whales during the 2005 construction work. The speaker stated that it was known that the bulk of the offshore construction which had an emotional impact on the Gray whales had taken place in the fog. As a result there had been no direct observation of the whales as you simply couldn't see them. This contravened one of the key recommendations of the IRSP panel. He stated that a threat to one pregnant gray whale, which according to the available data was 1% of the population and counting the foetus it was close to 2% of the population, threatens the integrity of the population and greatly increased the risk that it would perish.

The Bank assured the speaker that there was a high degree of sensitivity within the Bank and amongst all the stakeholders about this population. It had received a considerable amount of international coverage. The Bank expert characterised the speaker's comments as a reality gap between what was actually said on paper and what was happening in the field. He went on to say that they needed to focus more on what the Company's view was on the adequacy of the various measures proposed. He said that the Bank were not whale experts and it was not really for them to comment on the data; it was for the whale panel to review it and to give their guidance to the Bank. The Company would have to provide the whale experts with information on how it intends to undertake the offshore construction work before the whales returned in a few months time. The experts would meet and give an opinion on the various measures proposed by the Company.

A participant replied that in the terms of reference the Review Group could only put forward its proposals on how certain issues could be addressed and that the recommendations were in no way mandatory for the Company or other authorities or organisations. He went on to say that the Company had been quite flexible in the terminology which forms the basis of its mammal protection strategy and had given itself a lot of room to manoeuvre in how these documents were to be understood and therefore how it should act.

The Bank expert replied by saying that the Company had committed to adopting all reasonable recommendations emerging from the Whale Panel process and that this was a binding commitment. He went on to say that they could discuss what they meant by "reasonable" and who decides what is reasonable and added that the lenders would certainly have a view on what is reasonable and that it was something that could be discussed at the Vancouver meeting of the Whale Panel in April. He added that it had been a logistical nightmare to co-ordinate the disparate group of whale experts around the world and that was the reason why the panel had not been accorded a more formal title.

Aniva Bay

- Soil dumping in Aniva Bay
- Mine clearance
- Transparency and professionalism of Sakhalin based monitoring authorities
- Prioritization of environmental and social issues and funds
- Compensation to fishermen and fish canneries
- Convention on Wetlands

A representative from Green Patrol, a Sakhalin based organisation made a presentation that covered a number of points, some of which are noted here. He referred to the fact that the Company had not responded to requests from the Korsakov administration and the local population backed up by petitions to move the soil dumping away from Aniva Bay. The speaker brought into question the transparency and professionalism of the organisations monitoring the decisions and cited SakhNIRO (Sakhalin Institute of Fisheries and Oceanography) as an example of one of these organisations. He also raised concerns regarding the nature of a contract awarded by Sakhalin Energy to an organisation involved with mine clearance. He questioned the methods used for the location and clearance of mines for the onshore part of the pipeline stating that the idea had been to recruit students to locate mines and that the military would then clear them. He wanted to know if the same thing was going to happen in Aniva Bay for the underwater ordinance which he said would increase the risks many times over.

The speaker then went on to question how the various issues on the project were prioritised and also how the allocation of funds for environmental issues is prioritised. He doubted if the villages of Nogliki, Val or Tumari would have reacted well if they has been told that it was necessary to spend 7 million dollars on the problem of investigating whales and to spend several hundred million dollars on rerouting the pipeline. He wanted to know who made these decisions and said that this led to double standards.

The Bank specialist replied by saying that the Green Patrol representative's comments had been duly noted. Regarding the prioritisation of issues, he went on to say that the Bank did not weigh one issue against the other. What they did was to identify what the EBRD's requirements were according to their policy and to stipulate those to the Company which then had to come up with proposals, involving expenditures, to address these issues and concerns. The Bank's social expert went on to add that while a lot of money had been spent on whales it should not be forgotten that quite a lot of money had also been spent by the Company to address issues relating both to indigenous peoples and to general social development. The Company was committed to spending \$300,000 a year to implement the Sakhalin Indigenous Minorities Development Plan (SIMDP) and had spent about \$4.5 million to date on a social investment programme.

A lawyer representing the fishermen of Aniva Bay made a presentation covering compensation issues for the fishermen and fish canneries in the Aniva Bay area. His presentation covered a number of points, some of which are noted here. He disputed the level of negative impact in the Aniva Bay area as estimated by the Company three years ago based on an area of 64 square meters and its ratio to the area where fish are actually caught. He said that the approach of the Company had not changed in estimating the losses of the fishery companies. He stated that two regular customers had rejected raw fish originating from Aniva Bay. He said that supermarket customers would be disinclined to buy fish caught three kilometres from the central zone of an oil terminal and that this factor had not been taken into account by the Company. He went on to question the practice of paying compensation to government bodies and not to the fishermen directly. The speaker then went on to talk about the Calipso fishing Company's legal case over compensation citing the refusal of Japanese and Western companies to buy the fish caught in all of its fields saying that the only market that was now left to Calipso was the local market where their fish would reach lower prices. He concluded by stating that the new documentation would need to be approved by the Russian Minister of Natural Resources.

Another speaker raised the issue of two areas in Aniva Bay that were covered by the Convention on Wetlands of International Importance. He stated that under the terms of this Convention listed wetlands enjoy special protection and must not be exposed to any impacts.

The Bank replied that it could not comment on the Calipso case as it was currently going through a separate mechanism. He reiterated that the negotiating position with the Company is that if one could demonstrate damage as a result of project activities then one is eligible for compensation. That was in addition to the requirements for payments to the Russian state and would be for damages to an individual company. That was under the resettlement action plan.

Another speaker raised the question of the danger of introducing alien species to Aniva Bay by the transportation of LNG and oil and said that there had been no detailed work on this.

Indigenous Peoples

- Compliance with the World Bank's operational policy on Indigenous Peoples
- Sakhalin Indigenous Minorities Development Plan (SIMDP)

A representative from an association working with IPs stated that it must be concluded that the project mainly does not comply with the World Bank's operational policy OP 4.10 on indigenous peoples which requires the borrower to carry out a Sociological Assessment and to prepare an Indigenous Peoples Development Plan. She went on to say that only one group had been studied and had had a social assessment which was the reindeer herders who represented approximately one tenth of the indigenous peoples whose interests were affected by the project. She went on to say that the action plan did indeed contain specific measures for that group; however everything else in the action plans was promises, intentions and

declarations. A large group of the population engaged in fishing, hunting and gathering had not been studied at all. She went on to say that the Addenda contained a statement that there were questionnaires which had been used to survey this population. She pointed out that the results of these studies had not yet been summarised.

The Bank's social expert confirmed that there had indeed been surveys carried out since 2003. In preparation for the SIMDP, the group had been working on this since June last year and had been in contact with at least 200 people of various IP communities working out what their priorities were. It was sociological work. There had been lots of meetings, discussions and identification of priorities. She did not believe they were in non compliance with their policy, and the IPs themselves had identified their priorities. She went on to say that the SIMDP was currently under preparation and the plans and proposals would be available when they had been finalised which she expected to be within the next month or so.

Legal Matters

- Alleged Breaches of Russian law within the project documents
- Legal validity of the Addenda to the ESHIA

A lawyer from Rodnik, a Moscow based legal organisation, made a detailed presentation in which she stated that having read virtually all the legislation and documents submitted by Sakhalin Energy for Phase 1 and Phase 2 of the project, all the documents contained a large number of breaches of Russian law. She referred to one of the Bank experts that had quoted the English version of a Government Resolution on river crossings which had been translated from the Russian as "should not" whereas the correct Russian translation was "forbidden". The Bank expert replied that the interpretation had come from the Bank's lawyers White and Case who had an office in Moscow and not from the Company.

The Speaker went on to say that her organisation considered that the Company's documentation and project implementation had involved breaches of crucially important laws such as the Environmental Protection Act, the Wildlife Act, Article 37 of the Federal Law on inland Sea Waters, Territorial Seas and the Contiguous Zone of the Russian Federation as well as a series of articles of the RF Water Code. She said that the construction of underground crossings and the crossing of active tectonic faults represented a direct breach of the Building code and trunk pipelines. The temporary jetty in Aniva Bay had already been declared unlawful. She went on to mention that the original ESHIA contained 60 breaches and nearly all of these breaches had been retained in the Addenda to the ESHIA. She then said that the Addenda themselves had not received the approval of the Environmental Review Board which invalidated the approval for the original ESHIA. The Company would need to suspend its operations and submit the entire project for a new environmental review. The Company was not doing this which contravenes article 18. The speaker concluded by saying that it was unfortunate that projects were implemented mainly thanks to permits from government authorities and not thanks to observance of Russian laws.

Another speaker said that the project as it stands is environmentally and socially extremely dangerous and they were forced to appeal to the courts against the favourable environmental assessment of the project. The speaker added that the project as it stands must not be financed by the Bank because otherwise the Bank would be going against all its declarations of its environmentally friendly policy.

The Bank experts thanked the speakers for their detailed interventions and said that the Bank did its due diligence of its own accord to a large extent but also relied on representations and warranties from the Company that it is complying with aspects of legislation. The Bank relied on its own lawyers White and Case that had an office in Moscow. He went on to suggest setting up a meeting in Moscow between the Bank's legal representatives, some of the Bank's task team and the lawyers from Rodnik who had just made presentations, in order to go through these issues in detail. He thanked the speakers once again for their interventions.

Nogliki Meeting

Monday 20th March 2006

Fisheries

- Fish stocks affected by pollution
- Disturbance to fish stocks from the construction of the Lunskeye platform

It was mentioned that there had been evidence to show that fish stocks were being seriously affected by pollution and that the Amur was currently polluted. The example was given of the sturgeon having to move further and further a field to find clear water. It was also stated that there was a need for cleansing of the watercourses and a need for fish breeding. The EBRD specialist responded that it was difficult for senior management in departments concerned with fisheries and fish breeding to trace a connection between the activities of oil companies and the reduction of fish stock. They went on to say that it was the duty of all oil companies to make all possible arrangements to prevent adverse impacts. 11 million dollars had been allocated by Sakhalin energy to the fisheries departments of the regional budget as compensation for the damage which was going to be caused to fish stocks. He added that the fisheries department had resolved to construct new fisheries.

The concern was raised by a participant regarding the effect of the construction of the Lunskeye platform on the salmon migration route and the quantity of waste deposits created by the construction. The Bank responded by stating that any deposits into the sea must comply with Russian legislation

River Crossings and Pipeline Construction

- Disturbance to rivers and pollution from construction methods
- Pollution from chemicals used to mark out the pipeline route
- Recultivation of land around the pipeline construction
- Road damage
- Data collection for impact on fish
- Underground river crossings
- Relationship between contractors and local inhabitants

Concerns were raised regarding the use of low-grade technologies by some SEIC contractors for river crossings and pipeline construction such as bridges made of logs and mud that were laid across the ice and then collapsed into the river in the thaw. This had a detrimental effect of fish stocks. Concerns were also raised about the lateness in getting background data to assess the impact on fish by construction work. The Bank's representatives acknowledged the unpleasant fact of pollution from low grade technologies and stated that the Company had made undertakings to potential lenders that there should be no diminution of an area containing spawning grounds. It was also noted that it was regrettable that insufficient data had not been collected at the outset; however, what was important now was to concentrate on

adopting a correct strategy. It was also stated that EBRD would be constantly monitoring the progress of construction works along with independent experts.

The issue was also raised of the chemicals that were used for marking out the route of the pipeline being pumped into a water-protection zone which is forbidden under Russian law. The EBRD experts replied that that SEIC and its contractors were obliged to comply with Russian Legislation and that the board of directors of EBRD would not be able to approve the project funding in the event of the Company not honouring its obligations.

The concern was then raised about the recultivation of the land around the pipeline construction once the construction phase was completed and the time it would take. The response from EBRD was that the Company had adopted the recommendations contained within the ecological document regarding recultivation of construction. They went on to say that there was usually a certain interval of time between the conclusion of construction works and the start of recultivation in order to allow the land to settle. There was a requirement that slopes should be reinforced and that erosion should be prevented.

The question was raised by one participant that of the 109 rivers with spawning grounds only 7 of these rivers were having the pipeline laid underground. The reply came from the EBRD panellist that although there were 7 cases where the river crossings would be underground crossings, those rivers contain 33% of the salmon spawning grounds. He went on to add that in the remaining rivers only 23% of the spawning grounds were downstream while 77% were upstream and were therefore not be affected by the crossings.

Dmitry Lisitsyn of Sakhalin Environmental Watch made a statement in which he raised a number of issues. He mentioned the discrepancy in the way that different contractor groups interacted with the local population. Some were described as being very helpful to local inhabitants in assisting them with snow clearance and medical aid etc while others were described as entering into exploitative tactics to earn money through the selling of firewood that was normally gathered for free. Large quantities of rubbish and direct pollution emanating from contractor camps were affecting the approach to waterways and the waterways themselves (lakes and rivers). Damage to public roads through the passage of large quantities of heavy construction vehicles was also raised by more than one member of the public. The EBRD panellist replied that road renewal would not take place until all the main construction was completed in order to avoid destroying the improvements. It was pointed out that it was also an issue for the Sakhalin Administration. The panel promised that the matter of road damage would be discussed with the Company and with the authorised state bodies

Oil Spill

- Potential leaks from pipelines and their impact on underground water courses

A participant raised the concern about how the Company was planning to deal with potential leaks from underground pipelines running in seismically active areas which would have an impact on underground watercourses supplying water to inhabited

areas. The Bank specialist stated that the principle aim of the Company was to prevent leaks of oil products instead of having to clear them up afterwards. Globally recognised forefront experience was being used in the design of the pipelines to avoid leaks. They went on to state that the pipeline project documentation had been studied and analysed very carefully by EBRD and that in their opinion the pipeline design was such that it would remain undamaged even in the event of seismic activity or an earthquake. He stated that it was possible to minimise the risks of oil leaks but impossible to reduce them to zero. For this reason it was essential to establish ways of reducing the impact of leaks afterwards. Examples were then given of a strategy for impact reduction such as the routing of the pipelines and computerised systems to identify potential leaks.

Indigenous Peoples

- Justification of foreign presence on ancient lands
- Indigenous Peoples Development Plan
- Long lasting environmental issues
- Transparency in the use of financial resources
- Allocation of grants
- Disturbance to fauna during the construction phase

A statement was made by an elder of the IP community at the start of the meeting in which he expressed the view that Sakhalin belonged to ancient peoples. He went on to point out that the question of the justification of the presence of foreign parties such as Sakhalin Energy and EBRD on Sakhalin had not been resolved. This question, he said, had not been sufficiently emphasised in government circles or by the administration of the Sakhalin Region with whom Sakhalin Energy was in constant contact. The EBRD panel thanked the speaker for drawing their attention to this matter.

Another speaker pointed out that it was only in December of 2005 that the Company conducted the first tender to support projects for the indigenous peoples of Sakhalin. Although a number of grants to successful bidders had been announced, the winners of the national tender had not yet received their grants. He went on to say that if EBRD financed the project under these circumstances it would be in violation of Operating Directive 4.20. He said that the writings about the environmental impact on the island were completely at variance with reality, which is why protests had been organised and would continue if action was not taken.

The EBRD panel thanked the speaker for his comments and assured him that they would be considered by the Bank.

Another speaker mentioned that SEIC had allocated grants and that many people had received grants but that nothing had changed. He also mentioned that there was a conflict between Russian laws and the laws of the countries represented within the consortium of lenders with regard to ordinary (minimum?) wages.

The EBRD panel member reminded the speaker that the policy of EBRD stated that companies collaborating with them should draft a plan for the development of indigenous peoples which among other things should contain arrangements to

distribute fairly the revenues and benefits arising from the implementation of a funded project. It was envisaged that the plan would provide funding to the value of USD 300.000 per annum for projects to be selected by representatives of the IPs. She went on to say that the Indigenous Peoples Development Plan had been drafted jointly by SEIC and representatives of the IP communities for the implementation of projects concerned with education, health and also training as well as cultural initiatives.

A speaker raised the concern that the north south pipeline crossed areas of vital importance to the thirteen tribes of the Nivkh. He went on to outline that in one section of 45 km the helicopters associated with Molikpaq had dispersed all the living creatures and mentioned in particular the deer and bear cub population. This was further compounded when the heavy transport vehicles moved in for the pipeline construction and by the hunting of deer and bears by Sakhalin Energy employees. He said that the Bank had a project entitled “Protecting the Habitat and Preserving Ourselves as an Ethnic Entity” and requested that the panel direct their attentions to the elders’ project of area protection and restoration of the habitat. He went on to mention the importance of preserving the ethnic entity of the people and gave examples of how SEIC had acted positively by taking into account suggestions made regarding the pipeline such as running the pipeline in a tunnel under the Nabili-Ivanzi river.

In response, the Bank stated that specific requirements had been laid down to prevent helicopter flights from violating the habitats of wild animals and birds. They went on to say that the Company had for a long time put requirements in place to prevent their employees hunting in places where the project was being implemented and that the Company would investigate any violations. The EBRD social specialist went on to say that the Bank was well aware of the importance and antiquity of the cultures of the IPs. As far as they were aware work on the pipeline that crossed specific livestock areas was being halted during the period when mothers bring out their young to prevent any interference.

Socio–Economic Issues

- Benefits to the community from SEIC investment
- Terms and conditions for SEIC workers
- SEIC’s payment of taxes

A participant mentioned the contribution made by SEIC to the cultural development of the district citing examples such as the ritual of the feeding of the Spirit of the Water, the festival of the deer breeders and the staging of the district festival of children’s groups of the IPs as well as study visits paid by the Company. She also mentioned the creation of a wide screen cinema in the district leisure centre financed by the Company. Another speaker pointed out that the housing stock of the IPs was very old and in poor condition. The concern was raised about low monthly wages of five to six thousand (rubles) for those working on the project and the fact of being sacked if dissatisfaction was shown. It was also commented that in the past trade unions had been there to defend the interest of worker; however, today there was no one to do

this. The Bank social specialist replied by stating that the Company had undertaken to comply with Russian labour legislation and international employment standards adopted by the International Labour Organisation. She went on to say that EBRD took the matter of unfair relations with workers very seriously as did Sakhalin Energy.

The issue of taxes was raised by a representative of the administration of Nogliki who stated that that SEIC was not in compliance with the Tax Code of the Russian Federation due to the fact that it was paying taxes to the place where it is registered, Yuzhno-Sakhalinsk, and not to the community of Nogliki where its workers operating. The Bank panellist responded that SEIC was paying taxes under the Production Sharing Agreement. Under this agreement SEIC paid taxes and other liabilities to the Russian Party.

Another speaker asked whether the road improvements that were promised at the start of the Sakhalin II project would come about. The Bank replied that road renewal would not take place until all the main construction was completed in order to avoid destroying the improvements. It was pointed out that it was also an issue for the Sakhalin Administration. The Bank specialist confirmed that the Company had agreed to recultivation.

Yuzhno-Sakhalinsk Meeting

23rd March 2006

River crossings and onshore pipeline safety

- Alleged breaches of Russian law
- Oil spill measures
- Safety of the pipeline
- Assess roads and illegal poaching of salmon
- River crossings and salmon spawning
- Authorisation and inspection of the pipelines

After the Bank made a short presentation on the role of EBRD in the project, Dmitry Lisitsyn of Sakhalin Environmental Watch made a statement that covered legal issues and river crossings. He drew the Bank's attention to what he stated were violations of legislation connected with implementation of the project. He gave the example of Russian Federation legislation which forbids pipelines to be built across spawning grounds and went on to say that Russian pipeline construction standards required that crossings over active tectonic faults should be built above the ground, however the pipeline was being buried. He also referred to the Addenda stating that it was not permissible to amend project documentation which had already been approved following assessment. He went on to make reference to the Makarovka river which supplied the town of Makarov with water where the water intake was approximately 2 km downstream from where the pipeline crossed the river and that presently the pipeline was being laid in a trench. The water was turbid. He wanted to know why an assessment of the impact of this had not been done. He also sited problems in Korsakov when the pipeline across the river was opened, and raised the question of pollution of underground water intakes in the event of oil spill. He said that the methods proposed at previous meetings for decontaminating ground waters into which eventual underground oil spills might spread were not reflected in the

environmental impact assessment. He concluded by requesting that no loan be granted to Sakhalin Energy since its project failed to conform with a number of aspects of EBRD's policy.

The Bank's representative responded by saying that there had been a similar discussion of legal matters at the Moscow PCM and that it had been agreed that a meeting would be arranged between the Bank's legal advisors and representatives of NGOs as well as representatives of *Ecojuris* in order to discuss the issue in greater detail. This would deepen the Bank's understanding of the ways that the Company complied or failed to comply with Russian legislation. Another of the Bank's environmental specialists went on to say that the Company was now working closely with the management of the Makarov Canal to prevent pollution of the town's water. He went on to say that the pipeline route did not traverse a single one of the public health protection zones which surrounded sources of water to towns and villages in the vicinity. The Company was using technologically advanced equipment in order to minimise the probability of leaks from pipelines. It was impossible to reduce that probability to zero but it could be minimised. He then said that in the very unlikely event of a leak the plan included the drilling of wells in the path of the spread of oil products so that those products would not penetrate into the wells supplying water to the towns and villages. He added that there would be no need to interrupt the water supply.

A participant introduced the argument that over ground by passes for river crossings would be safer. The Bank specialist responded that when discussing the advantages and disadvantages of underground or over ground crossings, international experience had shown that the majority of leaks from pipelines were due to interventions by unauthorised third parties and that the best way of preventing such interventions was to run the pipes underground. At a later stage in the meeting another participant made the observation that unauthorised connections were easier to hide when the pipeline ran underground as happened in Chechnya.

Another participant stated that due to the tectonic structure it was impossible to build a pipeline on dry land. He went on to cite the dangers of pipelines exploding giving the example of the Novosibirsk-Adler line where an explosion caused 575 people to die. Referring to unauthorised cuts into pipelines he said that if unauthorised people cut into the gas pipeline by mistake there would be many more than 575 victims. He proposed that the pipeline should be rethought and laid on the sea-bed stating that analysis of the Baltic Sea pipeline project showed that marine pipelines had not had a single accident for forty years. Landslide risks were also mentioned.

The Bank specialist responded that both the Bank and the Company were very concerned about the safety of the pipeline and the consequent safety of the inhabitants of the island. A great deal of work had been done to study and estimate the problem and to find an engineering solution that would help deal with it.

Another participant raised a number of issues including the following: the threat to salmon of the onshore pipeline; the fact that individual rivers differed and that some salmon varieties migrate at the beginning of winter when Sakhalin Energy was planning the majority of its crossings; there should be careful monitoring of all rivers and not just those deemed by Sakhalin Energy to be sensitive; oil and gas pipelines

were not being built simultaneously. He went on to say that approach roads enabled access to poachers and that there was as much illegal fishing as there was legal fishing and Sakhalin Energy were not doing anything about it. He finished by requesting EBRD not to grant a loan to Sakhalin II until these questions had been answered.

The Bank expert gave a detailed reply to the speaker which included the following points. He believed that it was not a secret to anybody that there had been anxiety about the methods by which river crossings had been built in the past. The Bank had worked solidly with consultants and representatives of the Company as well as the fisheries authorities of the Sakhalin region to draft a strategy for river crossings which would require a cautious and thorough approach to river crossings. He went on to say that the Company had undertaken that the total area of salmon spawning grounds would not shrink and that there would be no overall damage to the salmon living in those rivers. The Company would take steps to restore and improve spawning grounds and was ready to work on this problem with the Wild Salmon Centre. The Company was also ready to work with experts to restrict access by poachers.

Another participant disputed the fact that in comparison with the last season the quality of the river crossings had improved. He stated that one week ago he was at the crossings points in the Smirnikovski district and the Company were digging their way across the rivers and then covering over. For a number of days the river had been without water and all the clay had fallen into the river. He went on to say that he had witnessed inspectors from the state inspectorate trying to demonstrate that the pipeline was being laid incorrectly and the English-speaking foreman failing to understand them. Once the speaker had interpreted, the foreman said that in the morning three inspectors had been there and had told him he was doing everything correctly. He went on to say that control by state authorities was not possible and that the project was inefficient. Another speaker raised the question of the pipeline crossing old underground workings to which the Bank specialist replied that the Company knew about these workings and that their biological engineers had drafted arrangements.

Another participant made a statement in which he said that Americans had learnt lessons from the big oil spill that resulted from the tanker hitting the reef near Alaska. The trans-Alaska pipeline had been built very carefully after this incident. The pipes were insulated with plastic which could contain a leak for 29 days. Why didn't Sakhalin have such a system?

Another participant raised the fact that Sakhalin Energy had 18 thousand consents related to aspects of legislation of the Russian Federation. These consents related to the Indigenous Peoples, economics, social nature protection and so forth. He said that in principle, having such a wide range of consents there could be no complaints about the project. He said that the speculation over the cases of legislation being violated were unproved allegations. Most of them were then expanded in the mass media acquiring quite a serious social response. He went on to give the example of the question of pollution of the Makarovka river where he said that comparing sediment from the digging of trenches during the high-water period with the ingress of sediment in natural conditions was pointless. He said that these were serious

projects and that nobody would allow them to be altered. He said that Sakhalin Energy should react to complaints from time to time otherwise public would think that they were major offenders ready to disregard everybody and everything.

Socio-Economic Matters

- Foreign workers
- Transparency
- Sustainable development projects
- Cultural and Social Projects

A participant raised the question of the number of foreign workers on the project in relation to the 70% of employees that under the agreement, he stated, should originate from Sakhalin. The Bank's expert replied that according to the terms of the PSA 70% of the employees must be Russian throughout the entire duration of the project.

A member of the social development committee of the council of representatives of the indigenous peoples said that he would like Sakhalin Energy to conduct an assessment of fish in the context of the development plan. The social expert from the Bank said that the issue of fish quality had been raised at the Nogliki PCM and agreed that whatever the cause of the deterioration of fish quality might be, further attention needed to be paid to this.

Another participant, who had served as deputy Governor with responsibility for the economy and finances of the Sakhalin region, made a long statement. He said that he supported the project, subject to the highest degree of compliance with technical and environmental safety and subject to the maximum of profit both for Russia and for the local inhabitants. His main thesis was that there should be more transparency at all levels of the project and by all the players involved with it including both Sakhalin Energy and EBRD with regard to the amount of loan they planned to provide. He added that a lack of transparency had moulded the negative attitude to the project that had been heard at the meeting so far.

The Bank's financial specialist responded by saying that the financing of the project had not been approved yet by the potential lenders and that it was very sensitive commercial information. The three companies (making up Sakhalin Energy) had shareholders and the world's financial markets were very sensitive to any speculation regarding financial information relating to projects such as Sakhalin II. Unfortunately, EBRD could not provide specific information about the financing plan. With regard to the issue of Production Sharing Agreement and economic information under that agreement, the Company, and its potential creditors also had confidential obligations with regard to the Russian side. Another EBRD panellist added that the very fact that they were here being able to discuss the project was a good indicator of transparency given that it would not be possible in some of the countries in which EBRD operated. He added that if EBRD decides to finance the project the Company would have to publish an annual report about its activities in the area of health and

safety, health care and environmental protection and added that all the shareholders of EBRD would read that report.

Another participant made a long statement where he pointed out gaps in what he identified as the expressed will of Sakhalin Energy to improve the life of those on Sakhalin and what he stated was the reality on the ground. He cited examples including discrimination and bullying on ethnic grounds in the enterprises working for Sakhalin Energy and a lack of concrete sustainable development projects despite a Centre for Sustainable Development being opened. He said that nothing had improved for the Indigenous Peoples of the north. The Bank specialist referred the speaker to the SIMDP and the section requiring training and small business loans. Regarding sustainable development, she said that this was a fairly philosophical question that could be discussed for a long time and suggested discussing it with the speaker after the meeting.

A participant asked the EBRD panel to name an instance when the Bank had decided not to grant a loan as a result of a public consultation process. The panel replied that bad projects were weeded out at a very early stage and that EBRD and other international financial organisations decided to fund only a small percentage of the project applications submitted for preliminary examination. He said that the Bank had been looking into funding this project for several years and added that the public consultation was a very important part of the Bank's assessment of the project. Another participant raised the question of the number of foreign workers working on the project and what he stated was the mediocre quality of some of the documents drawn up by consultants who were unused to such complex projects.

A representative from the Department of Culture stated that the social and cultural component of the project could be seen in the implementation of projects for children and those supporting the culture of the indigenous peoples. She said that in future she would very much like such major projects to be implemented and the proportion of the social and cultural components to be increased. Another participant endorsed what had been said by the representative from the Department of Culture and said that it was unfortunate that most of the population of Sakhalin viewed the project as passive consumers. He went on to say that one should always ask the question: what did I personally do to improve our quality of life? He went on to say that the official policy of Sakhalin Energy was a precedent in Sakhalin since there was no other company that gave the people of Sakhalin the level of social assistance that Sakhalin Energy was giving and was the only company in Russia to have a clear and explicit social policy and clear and explicit tenders and procedures.

Production Sharing Agreement (PSA)

- Independent analysis of the PSA
- Procurement and tendering regulations

Another participant raised the question of whether the Bank would conduct an independent analysis of the Production Sharing Agreement. He also asked how the Bank would ensure implementation of the recommendations contained in the new documents given that the additions to the original IEA rendered both the ESHIA and

the new documents invalid until they had been resubmitted to the state environmental assessment service.

The Bank's financial specialist responded by saying that the Bank's legal consultants, a law firm, had checked the legal status of the agreement several years ago and had agreed it. She went on to say that such agreements were usually concluded for very complex technological projects in areas such as the shelf. The PSA had been signed when the investment climate was completely different and the price of oil was also completely different. A PSA was the only available instrument to carry matters forward; otherwise the country would have had difficulty attracting foreign investors to the region. The question might arise as to whether a production sharing agreement should not be reviewed now that the situation had changed. Investor confidence in Russia is based on how Russia honoured its obligations to its investors. What Russia signed 12 years ago must be adhered to.

Another participant asked the Bank if it placed importance on the Company's compliance with the Russian content procurement regulations under the PSA. He went on to ask the Bank to request that Sakhalin Energy publish the results of tenders and contract amounts. The Bank replied that the Company had its own tendering procedures which had nothing to do with the Bank's principles. In this case they could not say anything about the Company's tendering procedures.

Korsakov Meeting

Friday 24th March

Transparency

- Production Sharing Agreement (PSA)
- Acquisition of authorisations
- State Environmental Impact Service

The first speaker referred to what he called the dubious Production sharing Agreement that was signed by the Governor, Director Krastoyarov in 1994 which he said placed the Sakhalin oblast, not to mention Russia, in a very difficult position. He said that the city of Korsakov and the Korsakov rayon had seen no development at all over the past ten years and that the Korsakov economy had got nothing out of this. He went on to say that there was no transparency in the activities of Sakhalin Energy. The PSA was hidden behind a curtain of confidentiality. Russia would have to wait 14 years at best and 20 years at worst before it saw any benefit during the period that the Company recovered all the cost it had incurred with the project. He said that the Bank should impose on Sakhalin Energy a review of the individual clauses of the PSA so that production was shared now. He went on to say that gas would be extracted and reach the rayon in two years time but that he didn't believe that it would get to the people of Korsakov.

The Bank's financial expert responded that the PSA had been signed in 1994 when Russia had been a different country and the investment climate had been different and in order to attract investors Russia had preferred to use a production sharing agreement. This legal instrument had already been used for a very long time in the gas and oil sector. It had proved effective in attracting investment in technologically complex projects. As for reviewing the terms, a country that claimed to be ruled by law did not usually review documents that had been signed 10 years previously and implemented in the form of law. Regarding development of the island she went on to say that in 2004 out of the total foreign direct investment in Russia, Sakhalin had got 43% whereas Moscow got 22%. She added that the pipeline was technically capable of supplying the island with gas. The Russian government would have to decide, to tell the Company, what it intended to do with its share of gas.

The next participant, a representative from the Korsakov based organisation "Knowledge is Power" claimed that the Company informed the public about new plans when permits had already been made out and signatures obtained by exploiting the corruption of the system and went on to say that many had been alarmed about information about the possible construction of a chemical plant. She went on to infer that there had been a lack of transparency in the land rental deal with the Korsakov rayon. The Bank replied by saying that it was not aware of any plans for the Company to build a chemical plant and that if the Company decided to build new facilities the Bank would have to be notified well in advance of any construction and the financing decision would directly depend on whether the Bank approved that decision or not.

The speaker continued and quoted Minpromenergo Rossii as having considered it necessary to carry out an independent appraisal of the increase in project costs. She

then went on to say that the Company had been carrying out the project using the opinion of the State Environmental Impact Service. She stated that the opinion of this service did not meet the requirements of Russian law which meant that the project was being implemented in violation of the law of the Russian Federation. She went on to give an international definition of corruption as the use of official state methods for personal gain and went on to state that the Sakhalin II project and the operations of Sakhalin Energy lacked transparency. She went on to say that if the Bank decided to finance this project it would become one of the participants in this chain. She went on to quote from the ESHIA: recurring complaints indicating the existence of widespread general public dissatisfaction are being transmitted under the grievance procedure.

The Bank's specialist responded that it was nice to see the speaker again and went on to say that they had been looking into legal issues for some time and had been helped not only by their lawyers but also from submissions from NGOs and from the public. He was aware of various court cases that were going on and that they had not taken a view of whether or not the project complied with Russian law. He finished by saying that any project financed by EBRD would have to comply with Russian law. The representative from "Knowledge is Power" then passed to the Bank representatives a series of documents concerning the basis on which an environmental expert opinion was considered favourable.

Aniva Bay and Ecology

- Safety of the LNG plant
- Danger posed by military ordinance
- Sanitary Protection Zone compensation
- Categorisation of Aniva Bay
- Prigorodnoye Beach
- Korsakov fish cannery
- Dredging and disposal work
- Shipping control centre
- Monitoring of impact on bio resources
- Gray Whales

The Mayor of Korsakov said that he had not received clear answers regarding the safety of the LNG plant and stated that the problem should be taken more seriously. He went on to say that he would not be signing the acceptance document when the time came for the plant to start up.

Another participant made reference to the dangers for the people of Korsakov by the Company seeking legal approval to lay the pipeline within 300 meters of military deposits. The Bank environmental specialist replied that there had been a slight realignment of the pipeline to distance it a little further from the munitions factory than was originally planned. He understood that the distance from the munitions facility was consistent with Federal regulations and was also compliant with international standards regarding these issues (Allied Ammunitions and Storage Principles AASTP 1 and 2). He added that there was still some due diligence to be done on this issue.

A representative of the Dacha community took the floor and proceeded to outline the complex background to the disputed sanitary protection zone compensation scenario. The social expert from EBRD said that she fully commiserated with the speaker and said that there had been a lot of uncertainty about the width of the sanitary protection zone which had been unfortunate. She said that the Company was now proposing to compensate people for economic loss within the spirit of the policy of the Bank using a methodology which EBRD considered fair.

The next participant to speak stated that before the project had begun Aniva Bay was categorised as being of the highest standard according to State standards. By the time the project began to be built Aniva Bay had already been downgraded to first category which meant that run-off could be discharged into it and disposal work could be carried out; something, he said, which categorically could not be done to a bay of the highest category. He said that the people of Korsakov were categorically against the dumping point but the Company had ignored this and the decision of the oblast court which had found that the temporary materials off-loading facility had been unlawfully built. He also said that it was now impossible to use Prigorodnoye beach, which was the only piece of coast that the people of Korsakov who didn't have a car could access, due to the continuous stream of trucks.

The Bank responded saying that it had been watching the development of the legal challenges regarding the materials off-loading facility. The Bank specialist said that regarding Prigorodnoye beach, he understood that the Company had consulted with the people of the city to see what alternative recreational resource could be developed to offset the area that had been lost from the beach. The specialist said that there had been a choice of upgrading one of the parks in the city. He then went on to ask the participants at the meeting whether or not this had happened and what the state of affairs was? The reply came back that the money that was supposed to be provided for the restoration of the park was only a quarter of the amount actually needed and that nothing could be done with that amount of money. Moreover the city had not received it. The speaker went on to say that the main thing was that an upgraded park for a beach was not a fair exchange. He said that the city was poverty stricken and that things were getting worse with every passing day and that construction had been going on for five years. He said that Sakhalin Energy had destroyed what little there was, starting with the roads.

A representative of the Korsakov fish cannery said that in 2004 there were 153 people employed at the cannery whereas today there were only 2. He went on to state that they had insuperable problems with Sakhalin Energy. The company which owned the Korsakov fish factory said that unfortunately their fishing grounds were in the LNG plant construction zone but that compensation for economic losses suffered by their company was not being offered or discussed. He asked EBRD to exert some influence on the Company to see that the interests of the fishermen were protected.

The owner of the Yuzhno and the Korsakov fish canning factories made statement covering a number of points, some of which are listed here. He said that previously they had had work such as gathering seaweed; however, for the past two years they had been gathering practically no seaweed because the seaweed no longer met the necessary requirements. Japan, had been a good customer but over the last three years they had been rejecting their products. He also said that the salmon catch from

the fishing grounds had sharply declined and that companies such as Calypso and Contract had stopped providing them with raw materials since the direct proximity of the LNG plant had affected their activities. The Bank specialist replied that he was interested to hear the concerns of the speaker regarding the impact on the quality of sea products and the concerns of the Japanese clients and said that he would like to hear about these issues in a lot more detail another time. He went on to mention the grievance mechanism that the Company had in place. He also added as a general observation that from the information contained in the chapter on Aniva Bay in the documents, it appeared that only a very small percentage of the bay would be affected by the sediment in the water. The dredging and disposal were now finished and the final results on the water quality showed very low concentrations of sediment being dispersed from the dredging and disposal sites.

Another participant who had undertaken work at the request of Sakhalin Environmental Watch made a statement. Some of the points he made are listed here. He said he had examined the material provided by Sakhalin Energy concerning the dynamics of the suspended load, the geomorphology of the seabed in the dumping zone and the determination of the parameters along the sea shore and went on to give his conclusions. He said that after having completed by the 5th of May 2005 about 20% of the dredging and disposal work, according to the information it had provided, the Company had exceeded by a factor of 5 all the limits of the feasibility study for the entire (planned) dredging and disposal work. He went on to say that the observed volume along the shore drift in the LNG area was several times greater than calculated as indicated in the feasibility study. He disputed the Company's statements that further dredging would not be needed.

There was a question from the floor concerning the construction of a shipping control centre which the questioner stated was 20 meters away from existing housing. The Bank specialist replied that they had heard of conflicting plans, one of which had received government approval and a map allegedly showing the actual construction which was different to that which had been approved. He went on to say that he needed to look into this issue with the Company.

Another participant stated that at a public meeting in October a Sakhalin Energy representative had said that data from a monitoring activity carried out in August on the impact on the bio-resources of the activities in Aniva Bay had not yet been processed but that they would present the Spring data. He said that the representative of the institute responsible for research had then intervened at the meeting to say that there had been no research had been undertaken at all in August; no one was paying for it and they only did what they were paid for. The speaker then went on to say that they (the Company) were causing distrust in the region.

The Bank specialist responded by saying that there was a section within the documents that described proposed arrangements for monitoring and asked people to make suggestions to the Bank if they did not think that the proposed monitoring regime was adequate.

A participant made a statement about the research being carried out by the Company on the Gray Whales and stated that the Company had recruited companies that were

not up to the task, in particular the Pacific Ocean Research Institute and the Pacific Ocean Oceanographic Institute of the Far Eastern branch of the Russian Academy of Sciences. He said that although they had fairly competent scientists, they used equipment that was incapable of measuring the necessary parameters correctly. He went on to say that the research was being financed by a single company which he said called into question the objectivity of the research.

The Bank specialist replied that the results of monitoring and observations of the whale behaviour would be discussed at the Whale Panel meeting that would take place the following week in Vancouver.

Economy and Life in Korsakov

- Wages for local workers
- Requirement of English language skills
- State of roads
- Health issues
- Sustainable Development Programme
- Greenhouse effect of LNG plant

A participant brought up the fact that Korsakov residents were being paid half as much as other workers on the Sakhalin II project and that the Bank should make it a binding condition that locals are not hurt or humiliated. The Bank specialist replied that EBRD wanted all employees to be treated fairly and that their policies required that there should be no discrimination in the place of work.

The next speaker referred to the difficulty of finding work on the project if one did not speak English despite the Company stating in the ESHIA that English was not essential. He quoted a display listing job openings where for 31 out of the 33 jobs listed, knowledge of English was essential. He also raised the issue of prostitution associated with the temporary workers camps around the LNG plant which had been mentioned in Sakhalin Energy's documents. He then went on to talk about traffic safety issues associated with the increase in traffic flows.

Various participants made short interventions in which they raised the issues of the state of the roads and also the negative health effects on the citizens of Korsakov which one participant, referring to health issues, stated was as a result of the population of Korsakov being artificially increased on account of the newcomers, including foreign workers and went on to cite increases in infectious diseases compared with last year. He said that EBRD was very concerned about the health of the whales but asked why it didn't care about the people of Korsakov. The question of eventual loan money from EBRD going to the technical secondary schools of Korsakov was raised.

The Deputy Mayor of Korsakov made a statement about what she said was the problem of the implementation of the sustainable development programme for the Korsakov region which was a condition made by the investors in financing the project. It had been confirmed by the chief executive director of the Sakhalin II project that 4.4 million dollars were available, part of which had been spent. She went on to say that they had had certain disagreements and misunderstandings with Sakhalin

Energy about what sustainable development meant and said that unfortunately, much of this money had been spent on financing private businesses, on Company calendars, pens and advertising brochures and settling matters with the Company's contractors and subcontractors with the solving of everyday problems. She went on to say that in the opinion of the mayor's office, sustainable development meant capital investments that concern every inhabitant in the city including the purchase of municipal equipment, street cleaning, litter collection, roof repair and maintenance of the housing fund. She added that one project that her office was proposing was the replacement of the windows in all the schools as it concerned the health of children and teachers. The windows would last 15 to 20 years. She went on to say that Sakhalin Energy had handed over the implementation of the sustainable development projects to the contractor CTSB and added that Sakhalin Energy should finance these projects directly without the middlemen. The main issue was not to spread out the money too thinly; instead it should be lumped together so that something really serious could be done with it.

Another participant raised the question that unpaved roads were not intended for transporting freight. He also considered that evenings called "For anyone over 30" that were being organised by temporary workers at the LNG plant would bring no good to the city and would corrupt the youth. A physics teacher went on to ask the question: if EBRD financed the Project would it finance the talented young children with an interest in physics and technology. He said that their physics laboratory was not well stocked as they had only 20% of the equipment they needed to compete with other technical colleges in the region.

The Bank specialist replied that it had heard a lot of interesting ideas for sustainable development projects and said that any other ideas should be communicated to them through the Bank's website or to civil society organisations in Korsakov. He added that it was an area that they would be discussing at length with the Company over the next few weeks.

A participant then raise the question of the greenhouse effect of manufacturing LNG by cooling gas at a temperature of -161C. He said that in Prigorodnoye 2.5 million tons of carbon dioxide and 2.5 thousand tons of nitrogen dioxide would be discharged into the atmosphere. He said that combined with water these dioxides formed carbonic acid, sulphuric acid and nitric acid which would be transported through the air and fall on the Dacha communities and the city.

Sapporo Meeting

Monday 10th April

The EBRD Public Consultation Meeting was held in the afternoon. In the morning there had been a public meeting in Sapporo organised by Sakhalin Energy. A number of participants at the EBRD meeting had already attended Sakhalin Energy's meeting in the morning.

Oil Spill response plans

- State of the response plans
- Oil spills on ice
- International best practice
- Communication and Collaboration between Japan and Russia
- 3 tiered response plan
- Liability for 3rd party tankers
- Life span of the marine pipeline
- Oil leakage attaining soft soil
- Oil spill and birds

The first participant commented on the fact that SEIC had said at their meeting that morning that their oil spill response measures had not yet been fully developed and therefore the speaker did not consider it justifiable to say that the SEIC measures had actually reached global standards. The Bank specialist responded by saying that the Company was in the process of preparing the detailed oil spill response plans for their various assets, each of which had its own specific oil spill response plan which had to be developed in accordance with the Russian Federation and in accordance with best international practice. He went on to say that they had engaged consultants with considerable experience in developing oil spill response plans. Ultimately, the plans would meet the international best practice standards.

Another participant raised the concern about a lack of international best practice for oil spill on ice and indicated that after 30 years of experience in the North Sea in Europe, there was still no best practice available to control oil spills when the sea was covered with ice. Another participant later stated that in the Barents Sea and in the seas around Finland certain measures were being considered for ice conditions. The original speaker was also concerned that in the event of an accident, certain authorities might try and cover up the truth and cited the Chernobyl accident. The Bank specialist replied that dealing with an oil spill on ice was a challenging prospect but was not one that could not be addressed. He went on to say that one of the beauties of the oil from the Sakhalin II fields was that it was very combustible and volatile and would very quickly lose at least half its volume in evaporation in a matter of hours. Regarding transparency, he said that as lenders were involved in the project there was a high focus on openness and transparency.

A representative from a fishing organisation said that there was no close and open communication between Japan and Russia and gave an example which he said indicated that there was not always a smooth exchange between central or municipal governments. He said that he hoped SEIC would push the authorities to engage in closer communication. He went on to say that as far as they were concerned, as

seaweed and scallops lay only a few miles away from Aniva Bay such measures were indispensable. He wanted to know what leverage measures EBRD would have as a lender with regard to SEIC. The Bank replied that the Company had had a number of exercises with the Japanese coast guard and there was an ongoing commitment to conduct exercises regularly in the field and to further the collaboration with the Japanese authorities in terms of dealing with a regional spill. He went on to elaborate the multi tiered response to oil spills including the memorandum of cooperation between oil companies and the ultimate tier response being the mobilisation of a multinational response, namely from bases in Singapore and the UK. A participant expressed concerns about these measures arriving in time due to their geographical distance to which the Bank responded by saying that the oil companies would put measures into effect immediately in the event of a spill while waiting for the Singapore response to be mobilised if needed.

A representative from the Fisheries Association raised the question of liability in the case of tanker accident in the sea of Okhotsk where a tanker that had bought oil from SEIC was involved. Would Sakhalin Energy excuse themselves from the liability having sold off the crude oil to another company? There was also a question about the lifespan of the marine oil pipeline. The Bank's response was that the life of the pipeline was in the order of 40 years and there would be ongoing monitoring to measure the corrosion rates using a method called "intelligent pigging". An instrument was passed through the pipeline to measure thicknesses at various points in the pipe to monitor high risk areas and if necessary to replace sections of the pipe. Regarding the tankers, there were a number of measures such as the commitment to use double hulled tankers and enhanced traffic management etc. The Company had already said that it would respond to third party oil spills at sea.

A participant raised again the concerns regarding the collaboration between Japanese and Russian authorities and wanted to know what EBRD had been doing regarding trans-boundary notification or communication. The reply came from the Bank that EBRD had considering funding a technical cooperation project that would cover the waters of Sakhalin and neighbouring waters but at the same time the Sakhalin administration decided to pursue the development of its own regional plan. The concern was raised that this meant a toning down of the plan. The reply came from the Bank that whatever regional plan is developed, oil spill response begins with prevention and that there were measures in place to prevent an oil spill as much as possible. He added that the guideline standards that the Company was being held to had been in place for three years.

A participant raised the concern that EBRD might decide to finance the project before solving all of the concerns. The Bank specialist confirmed that an agreement was in place that the Company would develop, and were developing, oil spill response plans that met the standards of the Bank and of the Russian Federation. He added that these plans had to be prepared well in advance of first oil and that this timeframe was proceeding as planned.

The breakdown of the NIMRO tanker and its subsequent towing to Hakodate was raised along with the concern over much bigger vessels being used and whether SEIC had the capacity to deal with this. An SEIC representative present at the meeting confirmed that they had committed to constructing ice class supply tugs, the first of

which had been launched the previous week. It was also confirmed that the next major Ministry of Transport exercise would be held in Aniva Bay in May and it was believed that a Japanese coast guard vessel would be on site.

A participant raised the concern of an eventual oil leakage attaining the exposed soft soil and mentioned Chaivo. He pointed out that when birds are devastated by an oil slick they die immediately and are then consumed by Steller eagles which then also die. The Bank specialist replied that the oil spill response plan contained detailed sensitive coastal mapping that highlights those areas of the coast such as lagoons which are of the highest ecological sensitivity so that measures such as oil booms would be used to prevent oil from entering the bay. He added that there were measures to allow access for clean up and that access was not necessarily such a big problem. The speaker contested this saying that the heavy machinery required for clean up would be difficult to get to the lagoon and would sink into the mud if it did get there. The Bank's representative offered to follow up in more detail with the speaker after the meeting.

Another participant said that the stress on prevention was disappointing because that would be taken care of any way. As a lender, the focus should be more on what could be done in the unlikely case of an accident happening. The Bank specialist replied that indeed prevention was almost a given and that the key issue was how to deal with an oil spill if that happened. There had to be an oil spill response plan for each of the assets of the Company: the LNG terminal, the pipeline, the platforms and so on.

Fisheries and Ecology

- Illegal poaching in the sea of Okhotsk
- Translation of documents
- Salmon

The next participant to speak represented a non specified NGO and raised the issue of illegal poaching in the Okhotsk Sea. The Bank specialist replied that illegal fishing was certainly a concern in the region and was not often mentioned when people talked about depleted fish stocks when assigning blame for falling fish stocks to oil companies and other industrial enterprises.

A participant questioned Japanese translations of the report saying that they were not clear and said he hoped that SEIC would exert effort to provide accurate and precise information when conducting public meetings.

A participant raised the matter of the salmon in Japan and the sensitivity with regard to contamination in the rivers and waterways. The Bank expert replied that concerning the construction of the pipeline on Sakhalin, all construction was a messy business. He went on to say that it was common knowledge that dramatic photos had appeared in the press of some of the construction on the island and that there had been some construction practices that EBRD had observed that were unacceptable and this had been brought to the attention of the Company. In the past two years

there has been a very positive dialogue with the Company over this and things had improved dramatically from what had been happening two years ago.

Social Matters

- Human rights

A representative of a local NGO composed of Hokkaido indigenous people raised the question of JBIC's role in the project as he has heard them say that they were not in a position to take a stand on the human rights of people in another country. The speaker said that as JBIC's money came from the tax revenue that they paid as Japanese citizens he asked if that money was going to be used to violate the human rights of the indigenous people of Sakhalin. He said that according to a news reporter for the local newspaper in Hokkaido, the local indigenous people on Sakhalin were continuing their protest. He went on to say that he considered the \$300 000 allocated to these people was not enough.

The Bank specialist replied that they had not seen evidence of the human rights of IPs being compromised in any way on Sakhalin. He also said that they had a social specialist who had been engaging with the IPs and an independent consultant with vast experience of preparing indigenous peoples' development plans. Regarding the protests he said that we had to remember that it was not simply the Sakhalin II project that had sparked protests. He went on to say that regarding the \$300 000 it was not simply a matter of saying that it was not enough; enough would be made available if required. A representative from JBIC added that in its environmental and social impact guidelines they certainly paid attention to human rights issues.

Birds and sea lions

- Oil spill and birds
- Steller Sea Eagle

A representative of an NGO active in biodiversity raised the question of the thousands of wild birds that had been found dead recently on Kunashiri island because their bodies had been covered in oil, but for which the cause had not yet been identified. He said that the Russian authorities had originally stated that the birds had died from an infection which was proof, he said, that the Russian government's recognition or knowledge level was quite low concerning natural conservation. He said that in the event of oil spill both countries authorities would have to work hand-in-hand, but coordination was yet to be established. He concluded by saying that at this stage it would be unwise for the Bank to provide funding for the project.

A speaker raised concerns about apparent holes in the ESHIA and Addenda regarding Stellar sea lions and birds. The Bank specialist said that they would very much welcome receiving specific detailed comments regarding gaps in the documents and reminded the speaker that the ESHIA was supposed to focus on key issues and was not an academic document. He also pointed out that the HSESAP was a draft document. The speaker went on to question the numbers in the ESHIA and the Addenda to the ESHIA regarding the Stellar sea eagle and went on to talk

about his concerns with his relationship with SEIC citing the need for independence and equality at the meetings. The Bank specialist responded that he did not wish to go into the detail of the alleged discrepancy in numbers and said that this issue highlighted the need for increased cooperation. He went on to give the Whale Panel and the various research groups that had been conducting research on the Western Gray Whale as an example of good cooperation where scientists worked together sharing data in a collegiate manner. He said that this example should be followed with regard to the bird issue as well.

Public Consultation

- Length of the due diligence period
- Level of support for the project
- Decision making process

A participant asked the Bank if they thought that they had underestimated the time of assessment required before they could decide on its participation in the project given that the public consultation meetings were now at an end. The Bank panellist replied that to his recall there was nothing that had arisen during the consultation meetings to date that would require any extension of the due diligence period. There were a number of issues which were open to discussion and finalisation with the Company but in his opinion these did not require them to extend the consultation period. The cut off date for the consultation process did not mean that the Bank would stop listening to civil society or stakeholders.

Towards the end of the meeting a representative from WWF cited the fact that the President of EBRD had confirmed to WWF in November 2005 that he did not feel that the project in its present state satisfied EBRD's principles and criteria. He then referred to a story in a recent Reuters article which had quoted a senior source at EBRD as having said that after much initial scepticism the support within the Bank for the project had grown considerably. He went on to ask the EBRD panel that if it was true that support had grown, could they give some examples of where progress had been made in the project. If the statement was not true; which were the outstanding issues where they would like to see significant improvements. He went on to say that the Reuters article had quoted the same senior source at EBRD as having said that considerable pressure had been brought on the Bank by interested governments to approve the funding. Could the Bank clarify whether that would have included the Japanese Government?

The Bank representative said that a lot had happened since November. The lenders had worked intensively with the Company in developing the river crossings strategy to reach an agreement on a set of measures that the Bank and its consultants were happy with. That was one of the key areas of progress since the President made his statement. He said that the Bank had seen tremendous improvements in terms of river crossings. The Western Gray Whale issue had progressed reasonably well and the report from the recent Vancouver meeting was quite promising. He went on to say that the Sakhalin Minorities' Development Plan was an extremely good one. There were still a few issues that they were addressing, but there were milestones, time frames and processes in place to address those issues. Regarding outside pressure, he said that as the person who was leading the environmental due

diligence team on the project within the Environmental Department, there had been no pressure from any source on them to make any findings in favour of the project.

He went on to say that the decision to extend a loan to a particular project was made by the Board of Directors which comprised representatives of 60 member countries, the EU and the European Investment Bank. Each one of those decisions was a complex one involving input to the Board Directors from ministries of environment, finance, foreign affairs and various government agencies. He added that the process had not taken place yet and that in no way could anyone assume that the project would be approved.

Conclusion

The Public Consultation Meetings exceeded the regular consultation and procedural requirements of the Bank; however, it was deemed essential by EBRD to directly solicit the views of the stakeholders concerned with the project in an open and transparent manner which would include public consultation meetings. As it was pointed out at the meetings, the PCMs were only one tool that was employed in the public consultation process. The task team members from the Bank, made up of environmental, social, financial, economic and outreach specialists were able to go into the field and listen and react to the views and opinions of those directly affected by the Project. The meetings gave the opportunity to these task team members to see for themselves if there were any gaps between the Project as seen through the documents and the reality in the field. All members of the task team had previously made a number of visits to Sakhalin in the course of their due diligence and monitoring work and the PCMs provided the opportunity to meet with a wider range of civil society than had previously been possible. As was reflected in the meeting evaluations filled in by participants at the meetings, the PCMs also gave the opportunity for the participants to increase their knowledge with regard to certain issues concerning the Project.

The EBRD task team and the facilitators would like to extend a thank you to all those who participated in the PCMs and the preparatory meetings on Sakhalin, some of whom had to travel long distances in difficult climatic conditions in order to attend. They would also like to thank the interpreters, especially the lead interpreter on Sakhalin who maintained such a high level of skill in challenging circumstances and all those who provided logistical support.

Annex I

Summary of stakeholder groups represented at the public consultation meetings

The attendance varied from meeting to meeting both in terms of number and mix of participants. Overall, the participants at the Public Consultation Meetings were representatives of NGOs, businesses, research institutes, commercial banks, oil companies other than Shell and Sakhalin Energy, individual consultants, academic institutions, media, affected communities, local government and export credit agencies.

The tables below are based on the registrations forms that participants were invited to fill in at the registration desks on arrival at the various venues. As it was not obligatory for participants to accept the invitation to fill in a registration form in order to attend the meetings, the total number of participants at each meeting may have been slightly higher.

London

NGOs	10
Commercial banks	5
Other oil companies	4
Consultants	3
Sakhalin Energy	2
Academic institutions	2
ECGD	2
UK Government	2
Media	2
Independent	1
Total	34

Moscow

NGOs	17
Companies	1
Institutes	2
Academic institutions	1
Sakhalin Energy	2
Government	1
Media	2
Independent	3
Total	29

Nogliki

NGOs	6
Companies	6
Local administration	4
Schools	5
Sakhalin Energy	2
ECGD	2
Media	2
Independent	10
Total	37

Yuzhno-Sakhalinsk

NGOs	19
Companies	17
Other oil companies	11
Institutes	9
Sakhalin Energy	7
Academic institutions	21
ECGD	2
Local administration and municipal organisations	16
Media	15
Independent	23
Trade union	1
Foreign bodies	7
Total	148

Korsakov

NGOs	5
Companies	22
Other oil companies	1
Schools	13
Local government and Duma	4
Local administration and municipal organisations	14
Sakhalin Energy	5
Cooperatives	8

ECGD	2
Military base	1
Political parties	1
Independent	28
Total	106

Sapporo

NGOs	4
Companies	5
Universities	2
Other banks	1
Sakhalin Energy	2
Local government	1
Political parties	1
Independent	3
Media	1
Fishery organisations	5
Total	29

Annex II

Summary of the public consultation meetings evaluations

The total number of registered participants over the 6 meetings was 383. It is known that the actual number of participants at the meetings was slightly higher than this as not everyone who attended filled in registration forms. The total number of evaluation forms received over the 6 meetings was 134.

Based on these evaluation forms, the overall scores can be summarised as follows:

- The meeting allowed for a free expression of views = 54%
- The meeting was an effective element in the overall consultation process = 36%

Programme and content of the meeting:

- Overall the meeting agenda met the expectations = 31%
- Satisfactory balance between the expression of views from the floor, questions to the bank staff (EBRD) and interaction between the attendees = 52%
- Knowledge has increased with regard to certain issues concerning the project = 62%
- Views regarding the length of the meetings varied from meeting to meeting.

The topics raised under the question “The issues that the Bank should pay particular attention to in their review”:

- Clear and transparent accounting of past practices of the project
- Compliance with Bank’s policies
- Lack of deep and adequate analysis of ESHIA laws
- Observance of the Russian Federation environmental protection laws and compliance with these
- River crossings
- Protection of pipelines against hazardous processes (mud slides, landslides, avalanches)
- Designing of seismic fault crossings
- The proposed methods and planning of the impact of Sakhalin-II on the grey whales
- Violation of the rights of RF citizens and of indigenous peoples

- Absence of adequate response to oil spills and other emergencies
- Insufficient usable water in Nogliki
- Education, culture and ethnography research in Nogliki region
- Reducing to a minimum adverse environmental impact of the construction and operation of the pipeline
- Impact on the rivers, on Aniva Bay and on water supply sources, review the amount of compensation of damage to water bio resources
- Sustainable development projects; creation of industries which will subsequently employ the labour force, creation of new jobs
- The development of Korsakov Region, the safety of Korsakov's population, including environmental safety
- as supply to the Korsakov inhabitants
- Improving the traffic and the transport infrastructure affected by the project
- Preserving the biodiversity and the Western Gray Whale
- Oil spill response and prevention plan
- Efforts to preserve the way of life of the indigenous minority populations

The topics raised under the question “The issues that I would like the EBRD Board of Directors to understand”:

- Compliance with Bank's policies is mandatory
- High reputation risk for the Bank
- The project seems to have been much improved by the involvement of EBRD to date; Many of these improvements should be retained whether or not EBRD funds Phase II
- Observance of the law, condition for granting a loan to the Sakhalin II project
- Pipeline protection methods against hazardous natural processes must be designed and submitted for expert assessment before the construction work is continued
- Develop satisfactory protection measures for the Western Gray Whale and evaluate their effectiveness before proceeding with construction to reduce the impact on the whales to an acceptable level.
- Develop plans for and create a housing stock in Nogliki region and other areas.
- Build a water intake for Nogliki
- Improvement of roads condition
- Training of local people (particularly young people)
- Promote the use of renewable energy sources
- Inadequate involvement of Sakhalin residents in the offshore work and environmental protection work
- Discrimination of Russian workers against foreign workers in terms of earnings
- Impact on the rivers, on Aniva Bay and on water supply sources
- Sustainable development of the island; future generations have the right to inherit an environmentally friendly island
- Creation of jobs for Sakhalin residents

