

October 11, 2007

Koji Tanami
Governor
Japan Bank for International Cooperation
1-4-1, Ohtemachi, Chiyoda-ku
Tokyo 100-8144 Japan
Fax +81 3(5218)3955

RE: Review of Environmental and Social Standards of Sakhalin-2 and NGO Concerns about Project Financing

Respected Mr. Koji Tanami:

We, representatives of Russian, Japanese, and international public environmental organizations, wish to focus your attention on the current unacceptable situation with the Sakhalin-2 project and express our grave concerns about the potential that the Japan Bank for International Cooperation may provide public financing to Sakhalin Energy Investment Company, the project operator. Our intervention is based on documentation demonstrating that the principal design of the project and its primary technical decisions do not comply with JBIC Guidelines for Confirmation of Environmental and Social Considerations (Environmental Guidelines); that the project still violates Russian law in several instances¹; and that the project creates a serious threat to the environment, including to rare and endangered species as well as to the fisheries resources of Sakhalin and Hokkaido. The environmental violations committed by Sakhalin Energy have led to major government actions in 2006 to require Sakhalin Energy to improve its behavior and to a change in the majority shareholder of the project; however, the environmental and social conditions associated with the project have not improved or come into compliance with Russian law, and the Russian government is continuing its inspections. The current problems with construction of the Sakhalin-2 project demonstrate that Sakhalin Energy is not capable of minimizing its negative impacts and that the company continues to violate Russian environmental legislation and requirements as well as the policies of your bank.

1. Irreparable Impacts to Aniva Bay: Sakhalin Energy designed and constructed a permanent jetty in shallow areas of Aniva Bay for exporting LNG, which required an enormous amount of dredging and dumping of dredging waste. More than 1.5 million cubic meters of seabed was dumped into the central part of the bay, which is a critically important area for the spawning and rearing of a number of valuable marine biological resources. As demonstrated by the attached photos (attach dumping photo), Sakhalin Energy's dumping of dredged waste in the Aniva Bay has been devastating for underwater marine life. All of the dumped waste is continuously subjected to various marine currents, which means that this underwater dump has become a source of continuous pollution of the bay waters in the form of by suspended solids (ilovye otlozheniya-thin sediments) (cite: Mitina²). Meanwhile, since the jetty is located on an open shoreline in a zone of active water currents, the artificial dredged basins for oil and LNG tankers will quickly be filled by marine deposits. As a result of this, the company will be required to continue its dredging on a regular basis, likely to be approximately once every five years, which along with the dumping of dredging materials, will lead to significant continuing negative impacts to the ecosystem of Aniva Bay (cite: Mitina review of expert evaluation by Denisov). These chronic long-term impacts have not been considered in environmental evaluations of the project that have been subject to the Russian government's and JBIC's

¹ For instance, Russian Government point out the violation of standard SNiP 2.05.06.-85 for pipeline construction...

² Please see the attached report dated on April 10, 2007. The report is a part of expert review ordered by Sakhalin Court during a court case which was brought by Sakhalin Environment Watch. The case is still under consideration.

due diligence. As a result, the project cannot demonstrate compliance with Russian law and JBIC environmental Guidelines³.

2. Inadequate Baseline Information: Throughout the construction of the project, Sakhalin Energy has been plagued by problems due to inadequate collection of baseline information. For example, lack of adequate information about fisheries has made it difficult to assess impacts to fisheries. There were practically no information in Sakhalin Energy's project design materials about salmon spawning grounds on rivers crossed by the pipeline, about rare and endangered (red list) species in waterways, or about the distribution of all fisheries resources in Aniva Bay. They had some information about resources in Aniva Bay but very limited and inadequate. Furthermore, Sakhalin Fisheries Research Institute, under contract to Sakhalin Energy, carried out scientific research to gather baseline information about the condition of Aniva Bay prior to dredging activities and spoil dumping, and also carried out environmental monitoring during and after dredging and spoil dumping in Aniva Bay. However, Sakhalin Energy refuses to provide the reports about the results of this research to the public. On October 30, 2007, a judge in Yuzhno-Sakhalinsk will review a lawsuit filed by Sakhalin Environment Watch to require Sakhalin Energy to provide reports about baseline data and the results of environmental monitoring in Aniva Bay.

3. Inadequate Evaluation of Biodiversity Impacts: When evaluating the impacts to spawning rivers from pipeline construction, Sakhalin Energy significantly underestimated the fisheries significance of more than 400 waterways. In the project materials of Sakhalin Energy it is stated that spawning beds of salmonids are found only on 150 rivers, while data from the Sakhalin Fisheries Agency demonstrates that there are about 600 such rivers. Sakhalin Energy did not at all evaluate its impacts to Sakhalin Taimen, a rare and endangered species listed in the Red List. Sakhalin Taimen habitat is found in many rivers crossed by the pipeline, along with habitat for such valuable salmonid species as masu (cherry) and coho salmon. Sakhalin Energy has not done an evaluation of its impacts to fauna along the pipeline.

4. Impacts to Western Gray Whales: Sakhalin Energy's on-going threats to critically endangered Western Gray Whales clearly violate public banks' environmental standards in general and specific conditions committed to on this specific project. For example, public lenders including JBIC have committed to conditioning financing upon adherence with the project's Environmental Action Plan, which in turn requires the project to comply with all reasonable recommendations of the Western Gray Whale Advisory Panel⁴. However, Sakhalin Energy has failed to implement many of the Panel's reasonable recommendations. Despite the Panel recommendation to either halt the project or move the PA-B Platform further from the whale feeding ground, Sakhalin Energy proceeded with its ill-advised siting of the PA-B Platform in close proximity to the Western Gray Whale feeding ground. In 2007, Sakhalin Energy rejected the Panel's recommendation to use noise criteria that would be protective of Western Gray Whales; as a result, according to an independent monitoring group⁵ on Piltun Bay, noise from construction of the PA-B platform pushed western gray whales from their vital feeding grounds near to the platform. Unless Sakhalin Energy follows the Western Gray Whale Advisory Panel's recommendations, these whales will continue to be threatened with population decline and eventual extinction. Sakhalin Energy plans to continue seismic testing near to the whale feeding ground, including in 2008, which further increases the likelihood that the Sakhalin-2 project will have irreversible negative impacts on the Western Gray Whale population.

5. Pipeline in Danger: Sakhalin Energy's oil and gas pipelines cross through extremely complex and dangerous geological zones, including the Makarov Mountain Range. The pipeline is already experiencing increased landslides, debris flows, mud flows, erosion, and liquefaction of soils. These impacts are a result of poor design and route choices by Sakhalin Energy and are not easily fixed. Indeed, it is likely that the

³ Under the Guidelines, project operator is required to examine derivative, secondary and cumulative impact as scope of impact. JBIC Guidelines also say that it is desirable that the impact which can occur at any time during the duration of the project be continuously considered throughout the life cycle of the project.

⁴ The Western Gray Whale Advisory Panel was established under the World Conservation Union (IUCN).

⁵ The group consists of members from WWF, International Fund for Animal Welfare (IFAW).

pipeline will require regular excavations, repairs, and even re-routing as a result of landslides, debris flows, and mud flows. These events endanger the safety of the pipelines and the communities that live along the pipeline route. (cite: Kazakov) The pipeline is constructed underground through active seismic faults, which is directly forbidden by Russian law (cite: GOST). The primary construction standard in Russia – the SNiP for “Main Pipelines” – requires pipeline construction above ground in areas that cross active seismic faults. Burying the pipeline under ground in seismic areas threatens ruptures and leaks of oil during earthquakes.

6. Impacts to Salmon Spawning Streams from Pipeline Construction: Although NGOs, public financial institutions, and the Russian government have regularly expressed concerns about the pipeline’s impacts to salmon spawning streams, Sakhalin Energy’s efforts have failed to improve. The construction of the pipelines without due consideration of active changes in stream flows leave the pipelines particularly vulnerable to damage as a result of strong typhoons or flooding, and such damage to the pipeline will likely lead to massive river pollution from oil ruptures and leaks (cite: Kazakov). Sakhalin Energy failed to anticipate migrating river channels, which will lead to continuous and ongoing pollution of salmon spawning rivers by sediments. (cite: Kazakov⁶) Construction of the pipeline through salmon spawning beds directly violates Russian law (cite: SEIC and Rules for Protection of the Animal World...). As demonstrated by the attached photos, which were taken in summer and fall 2007, Sakhalin Energy has failed to resolve its on-going problems with erosion and impacts to salmon spawning streams. Violations of Russian registrations have been still continuously pointed out by Sakhalin administration inspections⁷, and it is failed to follow JBIC Environment Guidelines which require the project to comply with environmental laws and standards of the host national and local governments.

7. Lack of Adequate Pipeline Monitoring and Response to Leaks: Due to the pipeline’s construction design underground, it will be impossible in the future to adequately locate and respond to small but long term oil spills and leaks near river crossings, which will lead to significant pollution of salmon spawning rivers. Sakhalin Energy does not have adequate plans for continuous monitoring of such pipeline conditions along the route. Instead, Sakhalin Energy plans to use long-distance approaches that have severe limitations for their use, including time of day, weather conditions, and snow cover. The lack of a permanent access road will severely complicate monitoring of the pipeline’s conditions and effectively responding to emergency situations that could occur in winter or during strong floods.

8. Lack of Oil Spill Prevention Measures: Sakhalin Energy has refused to implement a range of measures that would reduce the risk of oil spills at sea that could impact the territories and marine resources of both Russia and Japan. Such reasonable measures, which have been used successfully in other parts of the world, include a vessel monitoring system for all vessels in Aniva Bay and Soya (La Perouse) Strait, mandatory shipping lanes for tankers through Aniva Bay and Soya (La Perouse) Strait, and escort tugs to escort tankers through dangerous parts of Aniva Bay and Soya (La Perouse) Strait. Furthermore, Sakhalin Energy does not have a completed plan for how it will prevent or respond to spills from tankers and refuses to accept financial liability for spills that would occur from tankers carrying Sakhalin-2 oil along the coastline of Sakhalin and Japan. We strongly urge JBIC to take this more seriously as a public institution not to threaten the life of fisher folk both in Sakhalin and Hokkaido. Sakhalin Energy’s complete oil spill response plan has not yet been approved by the Russian government; meanwhile, Sakhalin Energy refused to release the draft oil spill response plan to public organizations in Russia and Japan that are concerned about the risk of oil spills. Sakhalin Energy’s failure to release its oil spill response plan is a direct violation of Russian citizens’ legal and constitutional rights to environmental information, as well as international rights and norms guaranteeing peoples rights to access to information.

⁶ Please see the attached report.

⁷ Committee for Natural Resources and Environmental Protection of Sakhalin Region sent a letter to Rostekhanadzor and Rosprirodnadzor to point out the problems regarding pipeline construction and violations of Russian legislation in July, 2007.

9. Inaccurate and Deceptive Information: Upon numerous occasions, Sakhalin Energy has misled and provided inaccurate information to interested stakeholders. Examples of such unacceptable behavior include the gross misrepresentation of reports submitted to the company by independent observers regarding construction of river crossing, deception of the State Environmental Impact Review commission in Russia, and the misleading of inhabitants of Korsakov District about the Sanitary-Protection Zone around the LNG plant. Sakhalin Energy hid information about the sanitary-buffer zone around the LNG plant from the local population and from the expert commission that carried out the State Environmental Impact Review. Instead, the company wrote in its project design documents that the sanitary-buffer zone would be 3.5 km wide; this area was confirmed during the State Environmental Impact Review. However, after the project had been approved, the company stated that the sanitary-buffer zone would be limited to 1 kilometer and that a dacha village located near the LNG plant in Prigorodnoye would not be resettled. Thus, the dacha owners have suffered for several years from living near the construction of the largest LNG plant in the world and are extremely fearful of the LNG plant's operations and expected large-scale air pollution.

10. Lack of Public Acceptance or Free Prior Informed Consent: Sakhalin Energy has constructed its project despite the lack of adequate public consultations and acceptance by key stakeholders. For example, Sakhalin Energy has refused to re-settle dacha inhabitants from dangerous areas around the LNG plant. Sakhalin Energy refused to conduct an independent Cultural Impact Assessment to assess impacts of the project to indigenous peoples and their subsistence resources, despite the fact that this failure led to indigenous-led blockades of the project in 2005. A number of families whose land is crossed by the pipeline have not received compensation and Sakhalin Energy has failed to pay compensation to a fishing company⁸ whose commercial fishing area is impacted by the LNG plant and the oil and LNG export terminals.

Conclusion: Sakhalin Energy has failed to design and construct a project that meets basic social and environmental standards; clearly, Sakhalin-2 cannot be considered to be a project that meets international standards. Most importantly, Sakhalin Energy's failures to properly design and construct the Sakhalin-2 project greatly increases the likelihood of major accidents in the future that could lead to significant pollution of both Sakhalin and Japan's shorelines and fisheries resources. The Sakhalin-2 project clearly does not meet the common approaches to social and environmental standards agreed to by Export Credit Agencies and does not meet the social and environmental standards of the Japan Bank for International Cooperation. The failure of Sakhalin Energy to resolve its severe environmental and social problems led to the withdrawal of the European Bank for Reconstruction and Development from the project. Given the above, it is clear that a decision by the Japan Bank for International Cooperation to support the Sakhalin-2 project in its current form would represent a dramatic violation of the bank's policy and significantly harm the respected reputation of your bank. We urge you to uphold your social and environmental standards by rejecting financing for the Sakhalin-2 project in its current form. We also urge that your bank fulfill its accountability for these issues and we look forward to receiving your response on each issue.

Respectfully,

⁸ Korsakov cannery factory – is one of companies which submitted the filed a complaint to EBRD.

Dmitry Lisitsyn
Sakhalin Environment Watch
of. 310, 27a, Kommunisticheskiy st.,
Yuzhno-Sakhalinsk, 693007 Russia

Naomi Kanzaki
Friends of the Earth Japan
3-30-8-1F Ikebukuro, Toshima-ku,
Tokyo 171-0014 Japan

David Gordon
Pacific Environment
311 California Street, Suite 650
San Francisco, CA 94104-2608
USA

Bruce Rich
Environmental Defence
1875 Connecticut Ave, NW, Suite 600
Washington, DC 20009
USA

Antonio Tricarico
CRBM,
Via Tommaso da Celano 15
00179 Roma
Italy

Tove Selin
Finnish ECA Reform Campaign
c/o Suomen luonnonsuojeluliitto/Finnish
Association for Nature Conservation
Kotkankatu 9, 3. krs/fl.
00510 Helsinki
Finland

Janneke Bruil
Friends of the Earth International
1000 gd Amsterdam
The netherlands

Titi Soentoro
Campaigner of Nadi
Rawajati Timur V/no. 10 A - Kalibata
Jakarta 12750 –
Indonesia

Regine Richter
Urgewald
Prenzlauer Allee 230
10405 Berlin
Germany

James Leaton
WWF UK
Panda House
Weyside Park
Godalming
Surrey GU7 1XR
UK

Nicholas Hildyard,
The Corner House
Station Road
Strumminster Newton
Dorset DT10 1YJ
UK

Peter Bosshard, PhD
Policy Director
International Rivers Network
1847 Berkeley Way
Berkeley, CA 94703
USA

Sophie Green
Friends of the Earth Australia
PO Box 222
Fitzroy VIC 3065
Australia

Johan Frijns
Banktrack
Boothstraat 1c
3512 BT Utrecht
The Netherlands

Judith Neyer
FERN
4, Avenue de l'Yser
1040 Brussels
Belgium

Thomas Wenidoppler
ECA-Watch Austria
c/o GLOBAL 2000 Umweltschutzorganisation
Neustiftgasse 36
1070 Wien

Wiert Wiertsema / Huub Scheele
Both ENDS
Nieuwe Keizersgracht 45
1018 VC Amsterdam
The Netherlands

Monica Vargas
Observatorio de la Deuda en la Globalización
(Debtwatch)
C/Colom, 114. Edifici Vapor Universitari. 08222-
Terrassa
Catalonia, Spanish State

Petr Hlobil
CEE Bankwatch Network
Jicinska 8, Praha 3,
Czech Republic

Anne van Schaik
Friends of the Earth Netherlands
Nieuwe Looiersstraat 31
1017 VA Amsterdam
The Netherlands