

To: Michel Pébereau
Président BNP-Paribas
3 rue d'Antin
75078 PARIS Cedex 02

Cc: Vikram Pandit, CEO Citi
Daniel Bouton, Président, Société Générale

Natixis
DZ Bank
HSH Nordbank
KfW
ING Bank
Bank of Tokyo-Mitsubishi UFJ
Mizuho Bank
Sumitomo Mitsui Banking

Concerning: Financing the Kashagan offshore oil field, Kazakhstan

October 8th, 2008

Dear Mr. Pébereau,

We write to inform you about recent developments regarding the Kashagan oil project in the Northern Caspian Sea, Kazakhstan, and to request that you take immediate action to resolve the environmental problems caused by offshore exploration and construction around the Kashagan field. We also call on you to ensure that an adequate and transparent plan for mitigating the project's environmental and social impacts is in place before any construction continues, and to make compliance with this plan a central and enforceable condition for any financing to the Kashagan project in the future.

For more than a year, civil society groups have been raising concerns with BNP Paribas and other financial institutions about the environmental and public health dangers associated with Kashagan. An international Fact Finding Mission in the Northern Caspian region, conducted in September 2007, found evidence of extremely high environmental and social impacts and risks, and violations of international standards, including the Equator Principles and IFC Performance Standards, in the development of Kashagan's offshore and onshore operations¹.

In September 2007, BNP Paribas arranged a further 15 months financing of US\$1.05 billion to KMG Kashagan, without any apparent serious attempt to address the severe environmental and social problems of the project. We consider this decision to be highly irresponsible in the light of the mounting evidence of problems.

1 "Kashagan Oil Field Development, Kazakhstan" published by Friends of the Earth Europe (Europe/Belgium), Center Globus (Kazakhstan), Les Amis de la Terre (France), CEE Bankwatch Network, Campagna per la Riforma della Banca Mondiale (Italy); and "Hellfire Economics. Multinational companies and the contract dispute over Kashagan, the world largest undeveloped oilfield" published by Platform (UK), Center Globus (Kazakhstan), CEE Bankwatch Network, Friends of the Earth Europe (Europe/Belgium), Campagna per la Riforma della Banca Mondiale (Italy), Crude Accountability (USA), Les Amis de la Terre (France).

Due Diligence & Equator Principles

On March 1st 2007, many of the undersigned organizations wrote to BNP Paribas, Citi and Société Générale with our concerns about Kashagan. In BNP Paribas' response of March 6th 2007, it was stated that "BNP Paribas takes its commitment to the environment very seriously" and "that the financing to be put in place [...] to include provisions for the project to be compliant with the Equator Principles, which entail the preparation and public disclosure of a full Environmental and Social Impact Assessment (ESIA) and associated Action Plans to comply with IFC Performance Standards and World Bank/IFC Pollution Prevention Abatement standards". The Citigroup response, dated March 20th 2007, confirmed that the banks involved consider Kashagan a Category A project.

It has now been more than a year since BNP Paribas wrote to us, "The independent review of environmental and social documentation has only recently commenced". We have not received nor have we been able to find any update or information on the review undertaken. We therefore call on you to make the independent review public and available to local communities and nongovernmental organisations monitoring the project.

Evidence gathered during the September 2007 Fact Finding Mission indicated that your institution failed to apply proper due diligence prior to its US\$1.05 billion financing. The project is in violation of the Equator Principles and corresponding IFC performance standards, as the Kashagan consortium has failed to:

- **Address the relevant social and environmental impacts and risks of the proposed project, mitigation and management measures relevant and appropriate to the nature and scale of the proposed project (Principle 2):** Kashagan is an extremely challenging project, with very high technical complexity due to natural circumstances, including extreme temperatures (from +40C in summer to -40C in winter, with the shallow waters around Kashagan completely frozen from November to March); a deep reservoir - 5,000m; high reservoir pressure - 800 bar; and high hydrogen sulphide content (16-20%). Eight years after operations started, no clear plan for mitigating the impacts of construction or of emissions - including a response plan to offshore accidents - has been made available to the public by the operating consortium. The Environmental Impact Assessment is still not available to the public in Kazakh, Russian or English. Official requests for information filed to Agip KCO and ENI by *BankTrack* members CRBM and Friends of the Earth Europe since 2006 have been ignored.
- **Consult with project affected communities (Principle 5):** Interviews undertaken in the city of Atyrau and the villages near the Kashagan onshore facilities (Karabatan complex) showed that local people are not informed of the high risks and impacts of the project. There is a high level of fear amongst the region's top medical staff that, in the event of an accident at the Kashagan field, tens of thousands of people living in Atyrau and its vicinity could be severely impacted or killed by toxic gas emissions, such as mercaptans. The risk of such a catastrophe happening would be increased by the proximity of the Kashagan platform (70km), the very windy climate of the Northern Caspian, and the fact that the heavier-than-air gases would concentrate in the lower layers of the atmosphere. Atyrau lies in a valley, about 30 meters below sea level, which facilitates such concentration. Relocation of the entire population of Atyrau (220,000 inhabitants) has been raised by regional government officials as a possible option, but local communities have not been adequately consulted with about either the catastrophic risks they face or any risks or plans regarding their possible relocation.
- **Comply with IFC performance standards, in particular PS 1.9, with reference to the management of highly toxic emissions including sulphates and highly dangerous mercaptans, and to the storage of sulphur.** The operating consortium has not presented a

clear Emissions Management Plan. Also, it is not clear how the consortium intends to store sulphur waste safely. H₂S concentrations of 18-20% of volume extracted from Kashagan's wells are amongst the highest encountered in the offshore industry. According to Agip KCO, production of this gas will reach 14 million tonnes per year. The consortium is planning to re-inject most hydrogen sulphide gas into high pressure reservoirs offshore, which, according to scientists at the Atyrau Institute of Oil and Gas, amplifies the threat of technogenic earthquakes. Open air storage of sulphur near Tengiz has already contaminated air, ground and groundwater in an area of 60km around the field, making human life impossible and forcing relocation of thousands. According to Prof. Diarov, prominent Kazakhstani scientist and Director of the Ecology Department of the Atyrau Institute of Oil and Gas, improper treatment of sulphur can lead to severe environmental and health consequences, including acid rain over Europe. The regional dimension of potential impacts calls for respect of the highest environmental and social standards, which Agip KCO has alarmingly and irresponsibly not undertaken.

Fragility of the North Caspian

The Caspian Sea is a closed aquatic ecosystem with unclear international and legal status. The absence of clear governance regulations makes it difficult, if not impossible, to identify responsibilities connected to oil-related activities. Such a legal vacuum increases the risk and vulnerability of the local populations in the event of accidents or oil spills in the sea.

Since offshore operations started at the Akiok well in the Kashagan field in 1999, local NGOs have registered **alarming impacts on biodiversity** in the Caspian Sea, including:

- **massive death of marine mammals. Particularly the Caspian Seal**, an endangered IUCN red-listed species for which the Northern Caspian Sea serves as a whelping ground. According to a non-comprehensive investigation by local NGOs, in the year 2000 over 2,000 dead animals were found on the Northern Caspian Sea shore. Since then, every year several hundred animals have been found dead on the Northern Caspian coast, with increasing numbers in recent years. In 2006, over 300 marine mammals were found dead on the Northern Caspian Coast. According to testimonies of local communities and NGOs monitoring the project, it is likely that Caspian seals and other species are being poisoned by emissions of sulphates and other pollutants contained in Kashagan oil and continually released into the Caspian Sea.

- **a sharp decline in fish stock**. This concerns particularly the endangered Caspian sturgeon species, like the Beluga Sturgeon, listed in the IUCN Red Book, for which the Northern Caspian Sea remains one of the last spawning grounds. It concerns also many other commercially valuable species, on which the majority of local population rely. Local NGOs registered a massive death of sturgeon and other species of fish in 2002, 2004 and 2005. In May 2006, on the Kazakh coast alone, over 2,000 sturgeon were found dead.

- **massive death of migrating birds**. Hundreds of species of birds forage on the wetlands along the Northern Caspian coast on their migration route. Local NGOs gathered evidence of massive bird deaths in October 2003, when hundreds of migrating birds were burned while flying over an Agip KCO plant that was testing its chimneystacks, which were located along the birds' migratory route. According to specialists of the Botanic Institute of the Kazakh Academy of Sciences, which investigated some of the carcasses, the birds suffered from the high concentration of hydrogen sulphide in the air.

According to Prof. Diarov, there is a strong risk that the development of the oil industry could result in a **total biological death of the Caspian Sea in the coming decades**, mostly due to the high levels of toxic pollutants that are contained in Kashagan oil.

Climate Change

The BNP Paribas 2006 CSR report stated, “The recent conclusions reported by the IGECC in Paris reinforce BNP Paribas’ commitment to combating climate change”. Developing Kashagan will lead to the consumption of about 513 million barrels of oil per year and to the production of 224 million tons of CO₂ per year. The extraction of Kashagan oil will count also emissions of ‘sour gas’ with one of the highest levels of H₂S encountered in the offshore industry and to the production of about 110 kg of sulphur per tonne of extracted oil. **Thus, financing Kashagan carries significant climate consequences and undermines the positive outcomes of any financing in the renewable energy sector.**

The absence of a public EIA, a clear Emissions Management Plan, an oil-spill response plan and any information on the broader environmental impacts of the project, in violation of the Aarhus Convention on Access to Information and Public Participation in Decision-making on Environmental Matters (to which Kazakhstan is a signatory), raises questions about the ability of Agip KCO to manage such a technically complex and extremely risky project. Further, your financial support to Kashagan’s development and the manifest failure by the Kashagan consortium to meet the Equator Principles creates doubt as to the credibility of your commitment to environmental and social sustainability.

We urge your institution to, at a minimum:

- **Take immediate action to resolve the environmental and public health problems caused by the offshore exploration of the Kashagan oil field in the Northern Caspian Sea, Kazakhstan, in particular by supporting the request of local and international NGOs for a complete independent scientific assessment of the social and environmental impacts of Kashagan’s development.**
- **Disclose and make available to the general public – in Kazakh, Russian and English languages – the Environmental Impact Assessment of onshore and offshore operations connected to Kashagan exploration and all relevant information’s development in compliance with EP 5, including the independent review of the documents requested by your institution and reported above.**
- **Make further drawdowns of loans to Kashagan (and any future provision of financing facilities) conditional on an adequate and transparent plan for addressing the project's environmental and social impacts.**

We look forward to hearing from you.

Sincerely,

(Signatures)

Galina Chernova, Center Globus, Kazakhstan

Elena Gerebizza, Campagna per la Riforma della Banca Mondiale, Italy

Yann Louvel, Les Amis de la Terre, France

Mika Minio Paluello, Platform UK, United Kingdom

Nick Hilyard, The Corner House, United Kingdom

Darek Urbaniak, Friends of the Earth Europe

Kate Watters, Crude Accountability, United States

Regine Richter, Urgewald, Germany

Andreas Missbach, Berne Declaration, Switzerland
Heike Drillisch, World Economy, Ecology & Development (WEED), Germany
Gustavo Pimentel, Amigos da Terra – Amazônia Brasileira, Brasil
Paul De Clerck, Friends of the Earth International
Noriko Shimizu, Friends of the Earth Japan
Johan Frijns, Banktrack, The Netherlands
Rebecca Tarbotton, Rainforest Action Network, United States
Manana Kochladze, CEE Bankwatch Network
Doug Norlen, Pacific Environment, United States

For contacts:

Elena Gerebizza, Development Finance Campaigner, Campagna per la Riforma della Banca
Mondiale (CRBM), via Tommaso da Celano 15, 00179 Rome, Italy; tel. +39 06 7826855; fax +39
06 7858100; email: egerebizza@crbm.org; www.crbm.org