

**Jean Lemierre, President
and Board of Directors**

European Bank for Reconstruction and Development
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Cc:

Peter Reiniger

Business Group Director
Energy & Telecommunications

Matteo Colangeli

Operation Leader

February, 15th 2008

Subject: financing of Bautino II project and infrastructures related to offshore oil extraction on the Caspian Sea, Kazakhstan

Dear President Lemierre and Members of the Board of Directors,

We, the undersigned NGO representatives, respectfully urge you to consider our request that the EBRD suspend financing of the Bautino Atash Marine Base and refrain from financing further development of the marine base and vessels construction (Bautino II project), to be discussed at the Board meeting on March 4th 2008.

We also urge you to postpone consideration of further financing of infrastructures related to the development of the offshore oil extraction in the Northern Caspian Sea until a complete independent social and environmental assessment of the impacts on the Caspian Sea and health and safety of the local communities is undertaken.

In December 2007, international NGOs released two reports¹, herewith attached, describing the negative impacts of oil extraction in the Northern Caspian area, specifically: environmental and social impacts of offshore extraction; and an economic analysis of the

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).

extraction agreement between the Kazakh Government and international oil companies for offshore extraction in the Northern Caspian. According to the report, the agreement is serving the interests of oil companies more than the Kazakh government and people. The outcomes of the two reports have been presented during a Public Hearing in the European Parliament on 5 December 2007².

Prior to this, NGOs Friends of the Earth Europe and Campagna per la riforma della Banca Mondiale met with the EU Commissioner for Energy Andris Piebalgs on October 17th 2007 to discuss the outcomes of the September 2007 international NGO fact finding mission to Kazakhstan and the conclusions of the Reports.

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

The EBRD is financing the Atash Bautino Marine Base in the Mangistau region, which is especially dependent on the Caspian Sea for access to water. In Mangistau, desalinated water, an extremely precious livelihood resource, is the only available resource in the city of Aktau and in the villages scattered on the semi-desertic territory.

The fact finding mission to the regions of Atyrau and Mangistau in 2007³ visited the villages of Atash and Bautino and the nearby infrastructure developed by Caspian Services Inc. The team also visited the village of Fort Shevchenko, and investigated from a close proximity the Koshanai Cuttings, Oily Water Treatment Facility. This facility, located only a few kilometres from the village, is where the muds and oily water produced on offshore facilities are being transported and treated.

Testimonies gathered in Fort Shevchenko show that people are already suffering from illnesses directly connected with sulphate emissions, including headaches, nose bleeds and child anaemia associated with frequent bad odours released during night from the Koshanai facility.

After visiting the area, it became evident that the EBRD financing of Caspian Services Inc. is not responding to needs and interests of the local populations, bearing in mind of the impacts of construction of the base and related operations.

We urge the EBRD to use its equity in the project to demand a full, independent assessment of the environmental and social impacts of the already completed operations prior to any further construction and decision on Bautino II financing.

Testimonies gathered in the villages of Bautino and Atash raised serious concerns about water contamination due to construction of the marine support and supply base. In the

² "Environmental and social impacts of the extractive industry in the Caspian Area. The case of Kashagan oil field development," public debate convened by MEPs Monica Frassoni, Marie-Hélène Aubert and Marie Anne Isler Béguin. European Parliament, Brussels, Room 1G 2, ASP Building.

³ See the report "Kashagan Oil Field Development, Kazakhstan" by Friends of the Earth Europe Les Amis de la Terre (France), CEE Bankwatch Network, Campagna per la Riforma della Banca Mondiale (Italy), Center Globus (Kazakhstan).

project description, the EBRD has recognized that the main project activities of dredging, wavebreaker and wharf construction, and sea reclamation “may create high significance impact on the marine environment in the Base area”⁴.

Evidence gathered from interviews with local residents and reports by the local and international press⁵ shows that no mitigation measures could restore the ecological balance of the bay to the levels prior to construction. Since the construction started, villagers have witnessed massive deaths of marine mammals in the bay, children suffering from skin diseases which worsened with sea-bathing, and diarrhoea from local fish consumption. Villagers are now alarmed and no longer swim in the Bautino Bay waters, while fishing, the main economic activity of the Bautino and Atash communities, has also significantly declined.

Local NGOs report that while all project documentation - technical assessment of Bautino project, projects for support infrastructure to the base – are based on the assumption that waters in Bautino Bay never freeze, in the last weeks the waters of the Bautino bay were frozen. We urge your institution to verify with the company their evaluation of this unpredicted factor, which increases the concerns of the local population and NGOs about the reliability of the technical, environmental and social assessments already undertaken by Caspian Services Inc. We also urge you to undertake the necessary steps to ensure that this factor is being considered by the constructor and to consider a prompt review of the documentation on which basis the project is being implemented.

We urge your institution to publicly release the full Action Plan detailing mitigation measures of project impacts prepared by Caspian Services Inc. and adopted by EBRD. Further, we urge you to use your equity to demand that Caspian Services Inc. release to the public all the information gathered by the systematic monitoring and reporting on the environmental and health and safety impacts required by EBRD to ensure compliance with Kazakh and EU environmental standards.

In this context, we are of the opinion that the Atash Bautino base is not “an independent, 'merchant' project” as stated in your response of November 21st 2006 to the NGO letter of November 6th 2006 raising concerns on EBRD financing of the project. Also, on the basis of your own declaration on page 4 of the EIA summary⁶, we do not accept your stated absence of relations between the EBRD and Agip KCO operating the construction at Kashagan offshore oilfield.

The Atash Bautino base is a critical support to the offshore construction and future extraction by the international consortium of oil companies that signed the Northern Caspian Production Sharing Agreement. The treatment of oily waters and waste in the Koshanai facility leads to the emissions of the same toxics contained in the oil to be extracted from the offshore fields, and the same problems associated with safe storage of sulphur that interest the Bolashak-Karabatan facility. Local communities in Atash, Bautino, and Fort Shevchenko as well as the hundreds of thousands of people living in Aktau will

⁴ <http://www.ebrd.org/projects/psd/psd2006/36384.htm>

⁵ The Associated Press, April 8th 2007, “Seals Found Dead on Caspian Sea Shores.”

⁶ “The main aim of the Atash Base Project is to provide better, quicker and safer services to the fast increasing fleet of the offshore oil production industry. *The indication of demand for more service bases comes from the main offshore field’s operator AgipKCO.*”[italics added].
<http://www.ebrd.com/projects/eias/36384e.pdf>

bear the impacts of emissions of sulphates and mercaptans and of sulphur storage in the area.

We strongly believe that your institution should refrain from considering further financing to Bautino base until all concerns expressed here and previously by local NGOs and communities are taken into consideration.

We urge the EBRD Board of Directors to consider the demands of the two reports published by international NGOs, and support the request of a complete scientific independent assessment of impacts of offshore operations and onshore facilities being developed in the Northern Caspian Sea.

We urge the Board of Directors to demand further investigation by the EBRD management into the environmental, health and social impacts of Bautino I and II not as isolated projects, but as part of the comprehensive offshore operations in the Caspian Sea.

We ask you not to consider further financing in infrastructures related to the development of offshore oil extraction in the Northern Caspian Sea until such a comprehensive and independent assessment of the impacts on the Caspian Sea and health and safety of the local communities is undertaken.

Sincerely,

Elena Gerebizza, Campagna per la Riforma della Banca Mondiale, Italy
Darek Urbaniak, Friends of the Earth Europe
Manana Kochladze, CEE Bankwatch Network
Gwenael Wasse, Friends of the Earth, France
Paul de Clerck, Friends of the Earth International
Galina Chernova, Center Globus, Atyrau, Kazakhstan
Artur Shakhnazarian, North Caspian Press Club, Atyrau, Kazakhstan
Oksana Martinuk, Center Caspi- Info, Atyrau, Kazakhstan
Svetlana Spatar, Green Salvation, Kazakhstan
Dana Sadykova Karaganda Ecological Museum, Kazakhstan
Samir Isayev, "Ecolex" Environmental Law Center, Azerbaijan
Rustam Murzakhanov, NGO Environmental Law Center "Armon", Tashkent, Republic of Uzbekistan
Mirvari Gahramanli, Oil Workers Rights Protection Organization, Azerbaijan
Sergei Vorsin, EcoCentre of Tajikistan
Dato Chipashvili, Green Alternative, Georgia
Dmitry Lisitsyn, Sakhalin Environment Watch, Russia
Mika Minio Paluello, Platform UK, United Kingdom
Nick Hilyard, The Corner House, United Kingdom
Kate Watters, Crude Accountability, United States
George Holliday, Bank Information Center, United States
Regine Richter, Urgewald, Germany
Lucy Baker, Bretton Woods Project, United Kingdom
Sergio Gurevich, French Sif -Social Investment Forum, France

Jennifer Kalafut, International Accountability Project, United States
Trisha Rogers, Jubilee Debt Campaign, United Kingdom
Daniela Setton, WEED, Germany
Smitu Kothari, Intercultural Resources, New Delhi, India
Filka Sekulova, A Seed, The Netherlands
Huub Scheel, Both ENDS , The Netherlands
Ivan Lesay, FoE-CEPA, Slovakia
Petko Kovatchev, Green Policy Institute, Bulgaria
Pavel Pribyl, Hnutí Duha Friends of the Earth Czech republic
Merita Mansaku-Meksi, EDEN, Albania