

June 27, 2007

Patrick Crawford
Chief Executive
Export Credit Guarantee Department
United Kingdom

**RE: Updated Analysis and Continued Opposition to Financing
for Sakhalin II**

To Mr. Crawford:

The undersigned environmental organizations write to present an updated analysis and renew the call to decline financing for the Sakhalin II oil and gas project in the Russian Far East.

Financing of the enormously risky Sakhalin II fundamentally conflicts with the Export Credit Guarantee Department's environmental policies and carries significant risks to your bank's reputation. Sakhalin II is a threat to the critically endangered Western Gray Whales, hundreds of wild salmon rivers, and fishing communities both on Sakhalin and Hokkaido due to direct project impacts and high risk of catastrophic oil spills. Sakhalin II has also introduced thousands of non-resident workers to Sakhalin Island, resulting in hyper inflated costs for housing and other basic human needs. The project has resulted in increased violence and the spread of sexually transmitted diseases, and many local project-displaced people have not been resettled in accordance with internationally-recognized standards. Russian courts have found the project in breach of a number of local and national regulations.

For nearly a decade local, national and international non-governmental organizations have independently documented severe environmental and social damage caused by the Sakhalin II project and its sponsor, Sakhalin Energy Investment Company, Ltd. These environmental groups have repeatedly submitted analysis to public and private banks providing evidence of violations of these banks' respective policies¹.

¹ For public bank policy violations, see *inter alia*, [Sakhalin II, a History of Policy Violations](http://www.pacificenvironment.org/article.php?id=1481), by Pacific Environment, available at <http://www.pacificenvironment.org/article.php?id=1481>. For private bank policy

An April 24, 2007 submission to the Sakhalin Administration by a leading local environmental organization, Sakhalin Environment Watch,² updates this analysis, and finds policy violations during the 2006-2007 winter construction season, including:

- Disruption of river flows including the reduction of flows necessary to sustain fish, and subsequent excessive flows leading to severe erosion and mud flows;
- The need to alter pipeline crossing of 15 active earthquake faults from below ground to above ground designs;
- The construction of pipeline segments in areas of high mudslide, landslide and erosion risk; failure to institute erosion control measures. Many of these risks have become reality, as the attached pictures of ongoing mudslide and landslides indicate;
- Illegal storing of disposed soils that can lead to erosion into wild salmon spawning rivers and tributaries;
- Failure to adequately assess and compensate project damage to fish resources;
- Construction-related oil spills and the failure of Sakhalin II project sponsors to publicly disclose information on construction-related fuel transport and bunkering, and operations-related oil spill prevention and response plans.

On May 3, 2007, Sakhalin II campaign groups sent a letter challenging Sakhalin II project sponsors' refusal to publicly disclose draft oil spill response plans. The failure to disclose these draft plans deprives citizens of their rights to contribute to one of the most central aspects of the project's overall environmental assessment process and dramatically increases the reputation risks for banks financing the project.

SEIC also continues to demonstrate violations of your bank's environmental policy through its lackluster approach to critically endangered Western Gray Whale. In 2004 SEIC commissioned the International Union for the Conservation of Nature (IUCN) to establish an expert panel of experts to assess Sakhalin II project impacts and to recommend measures to protect the population from extinction.

violations see, *inter alia*, Dodgy Deals, Sakhalin Oil and Gas Project, by BankTrack, available at <http://www.banktrack.org/?show=dodgy&id=44>

² See

[http://pacificenvironment.org/downloads/Sakhalin%20Environment%20Watch%20Letter%20to%20Sakhalin%20Administrati
on.pdf](http://pacificenvironment.org/downloads/Sakhalin%20Environment%20Watch%20Letter%20to%20Sakhalin%20Administrati%20on.pdf)

Adherence to the reasonable recommendations of the panel is required in the Sakhalin II Environmental Action Plan and was a prerequisite of potential financing by the European Bank for Reconstruction and Development. Yet, SEIC routinely ignores both the findings and recommendations of the panel, including;

[E]xisting and planned large-scale offshore oil and gas activities pose potentially catastrophic threats to the population.

The Panel was precluded by a lack of information and specificity from completing a comprehensive review of a number of important Sakhalin II Phase 2 elements.

The most precautionary approach would be to suspend present operations and delay further development of the oil and gas reserves in the vicinity of the gray whale feeding grounds off Sakhalin, and especially the critical nearshore feeding ground that is used preferentially by mothers and calves.³

The failure of project sponsors to take the recommended precautionary approach led the Co-Chairmen of the panel, Randy Reeves and Tim Ragen, to state:

[u]nquestionably, their decision to adhere to their predetermined construction schedule has, in some respects, obviated or undermined the utility of our review.⁴

Subsequently, one prominent panel member, University of Alaska Professor Richard Steiner, resigned from the panel, stating on August 22, 2005:

When Shell becomes interested in being fully engaged partners in a sustainable world - in action, not just word - then I'd be glad to help them along this path. But it is clear that they aren't there yet. To the potential lenders, my recommendation remains for you all to OPT OUT of this project.⁵

Shell's continued failure to follow the expert panel's recommendation led IUCN Director General, Achim Steiner, to state in May 8, 2006:

³ See <http://www.iucn.org/themes/marine/sakhalin/isrp/>

⁴ Pacific Environment, Evaluation of Conformity, 2, Evaluation of Risks and Impacts on Western Pacific Gray Whale, at pg 4. Available at <http://www.pacificenvironment.org/downloads/2%20Whale%20and%20Marine%20Biodiversity%20Impacts%20Evaluation%20o f%20Conformity.pdf>

⁵ See http://www.iucn.org/themes/ceesp/Wkg_grp/Seaprise/Rick%20resignation%20letter.doc

SEIC's commitment to implement the IISG's recommendations "where practicable" is somewhat reassuring but, unfortunately, too vague. Concerns exist within IUCN, and have been expressed to my staff by the independent scientists, that the company may not be taking the IISG process seriously enough. We, the scientists, and civil society all need greater reassurance that SEIC intends to heed the IISG's advice in the 2006 construction season...

Concerns have also been expressed to us by some NGOs and scientists about the inaccurate interpretation of the IISG recommendations by SEIC...such a loose, if not inaccurate, interpretation puts a serious dent in the credibility of the process for the scientists, IUCN and SEIC itself thus diminishing their value to the cause of conservation that brings us together in the first place...⁶

SEIC's failure to follow the reasonable recommendations of the Western Gray Whale Advisory Panel continues to the present. At its April 2007 meeting, the experts repeated concerns that it had expressed since the beginning of the panel process concerning SEIC's unwillingness to respond to the panel's reasonable recommendations from previous meetings in Vladivostok, Vancouver and Prangins:

No full (i.e. covering all five sub-items) written response to the Vladivostok recommendation was available before or at the meeting, although some written information specifically related to a proposed 2008 seismic survey, was received and this is discussed under item 13.2. The verbal presentation of the work plan given in St. Petersburg was brief and limited to a description of planned construction activities in 2007. Given the nature of the information included in the presentation, it is very difficult to understand why even at this level of detail, and allowing for the practical difficulties one company participant encountered in traveling to the meeting, no written information had been provided well in advance. The Panel is extremely disappointed with this situation. Considerable time was spent both in Prangins and Vladivostok explaining what information was needed and why it was important. Indeed, it is difficult to see how the Panel can be proactive and fulfill its mandate if Sakhalin Energy does not provide such basic information in a timely manner. While the Panel was pleased to learn at the meeting that Sakhalin Energy considers the present situation

⁶ See <http://www.iucn.org/themes/business/Docs/IUCN%20reply%20to%20SEIC%20letter.pdf>

unacceptable, this acknowledgement must be translated into action as soon as possible [WGWAP 2/010].⁷

Meanwhile, the Sakhalin II project continues to inflict damage to hundreds of wild salmon spawning rivers and tributaries. Responding to highly publicized reports of this damage, project sponsors introduced independent monitors to observe pipeline crossing of rivers in 2005. Yet, monitoring alone appears to have done nothing to end the damage. Indeed, these independent monitors found a pattern of violations during the subsequent 2005/2006 winter season, including:

- Turbidity measured correctly on only 36% of crossings;
- Total suspended solids measured on only 51% of crossings;
- Temporary erosion control installed on only 55% of crossings;
- Sufficient clean gravel present on only 67% of crossings;
- Spoil handling problems on 41% of crossings.⁸

Project sponsors have only released a fraction of the independent monitoring reports for the 2006/2007 winter crossing season available; as of June 26, 2007 monitoring checklists had been made publicly available for only 2 of the 26 critical oil pipeline crossings and 28 of the 62 critical gas pipeline crossings for the season. However, checklists that were posted showed a continued pattern of violations including mishandling of spoils (which can result in heavy sedimentation of rivers) on 55% of rivers checked, improper temporary erosion control on 17% of rivers checked, and insufficient clean gravel (necessary for the restoration of river banks) on 25% of rivers checked.

These monitoring reports confirm the pattern of environmental violations that has been independently documented on fact-finding missions of Russian and international environmental organizations. These are available at:

<http://www.pacificenvironment.org/gallery.php?gal=12>

⁷See [http://www.iucn.org/themes/marine/sakhalin/meeting_april07/WGWAP%20-%20-%20FINAL%20Report%20-%2010%20May%2007%20\(2\).pdf](http://www.iucn.org/themes/marine/sakhalin/meeting_april07/WGWAP%20-%20-%20FINAL%20Report%20-%2010%20May%2007%20(2).pdf)

⁸ See <http://www.pacificenvironment.org/downloads/EBRD%20september%202006%20final.pdf>

http://www.bankwatch.org/documents/SEW_monitoring_report_July_06.pdf

http://bankwatch.org/documents/Photo_report_21_June__19_July_2006_rus_small.pdf

http://bankwatch.org/documents/photo_appendix_report_03.10.06.pdf

http://www.bankwatch.org/pdfdownloads/photo_appendix_to_report_n2_%2004.10.06.pdf

Questions about ABN financing of Sakhalin II are not limited to environmental issues: In 2006 the Russian Federation initiated environmental enforcement actions against Sakhalin II based on violations that follow the same pattern as those documented by EBRD and other banks, as well as independent environmental organizations. While environmental groups believe that enforcement of Russia's environmental laws is warranted, many Western investors ascribed ulterior motives to the Russian government actions. Consequently, while ABN Amro, and any other bank financing Sakhalin II violate environmental policies, they also provide tacit approval of Russia's heavy-handed move to nationalize its oil and gas sector.

Despite five years of heavy lobbying and pressure, Sakhalin II ultimately failed to win the environmental approval of the European Bank for Reconstruction and Development (EBRD). On January 11, 2007, the EBRD withdrew consideration of the project. Meanwhile, the domestic and international press has chronicled extensively the environmental and social damage caused by Sakhalin II for several years.⁹ Recently, Environmental Finance published an article that is sharply critical of ABN Amro's financing of Gazprom's pending purchase of a share of Sakhalin II.¹⁰

With its long-standing pattern of environmental violations, and its exposure to scrutiny by citizens, public finance institutions and the press, Sakhalin II has become one of the most controversial oil and gas projects in the world. Irreversible breaches of public and private bank policies have now been extensively documented and provided to your bank. The reputation and environmental risks of

⁹ See, inter alia, <http://www.pacificenvironment.org/article.php?id=1485>

¹⁰ See <http://www.environmental-finance.com/onlinews/0426abn.htm>

involvement are self-evident and, given the judicial environment in Russia, legal risks should not be underestimated.

We urge you to protect the integrity your bank's commitment to social and environmental responsibility by declining financing for Sakhalin II.

Sincerely,

Dmitry Lisitsyn
Chairman
Sakhalin Environment Watch
Russia

Dr. Andreas Missbach
Private Finance Program
Berne Declaration
Switzerland

Huub Scheele/Wiert Wiertsema
Both ENDS
The Netherlands

Petr Hlobil
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(For distribution of your response, please reply to James Leaton, World Wildlife Fund, email: jleaton@wwf.org.uk, tel: +44 1483 412 513) and Lauren C. Allan-Vail, Pacific Environment, email: lallan-vail@pacificenvironment.org tel: 415-399-8850 x311)