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Annexe II

SAKHALIN II BACKGROUND INFORMATION

Name	Sakhalin II
Project Type	Oil & Gas infrastructure
Country	Russia
Dates	Construction started and application to ECGD in 2003. Project 90% completed November 2007.
Amount	\$650 million being considered
Supported Description	The Sakhalin II Phase 2 offshore oil and gas project is a US\$ 20 billion project on Russia's Pacific Coast. The Sakhalin Energy Investment Company (SEIC)[10] consists of Shell (the project operator (22.5.5%); Mitsui (12.5%); Mitsubishi (10%); Gazprom (acquired 50% plus one share at the end of 2006, with the other partners halving their stakes). SEIC has undertaken the construction of a new oil and gas platform, offshore oil & gas pipelines, onshore pipelines carrying oil & gas the 800 km length of the island, and a liquid natural gas (LNG) production plant and oil & LNG terminal at the south end of Sakhalin island.
Environmental Impacts	<p>— The offshore components of the project are adjacent to the only known feeding grounds of the critically endangered Western Gray Whale (estimated 120 total population remaining). The risks posed by noise, collisions, and oil spills put the whales at risk of extinction. The winter ice cover poses a huge challenge to cleaning up any oil spills during operation.[11] SEIC has ignored the advice of a panel of whale experts, by installing a platform without keeping to the recommended noise limits.[12] Rick Steiner, an Alaskan oil spill expert quit the whale panel in July 2005 following Shell's refusal to change its plans.[13]</p> <p>— The onshore pipelines crossed over 1000 rivers. SEIC did not identify all of the sensitive rivers prior to construction. The habitat of the endangered Taimen (a type of salmon) was not surveyed prior to construction and damage has resulted.[14] SEIC failed to implement many of its mitigation measures, such as crossing rivers with the two pipelines at the same time and avoiding spawning seasons.[15] The repeated failures have been documented by regulatory inspections, consultant reviews and NGO monitoring. In 2006, SEIC's environmental permit for construction was suspended by The Russian Ministry of Natural Resources.[16] SEIC has proposed restoring southern rivers to compensate for degraded northern rivers, which will not work, as salmon always return to the unique habitat of the river in which they were spawned.[17]</p> <p>— The onshore pipeline construction has also impacted the nesting sites of endangered Steller's Sea Eagles. Construction workers ignored the required</p>

exclusion zone around the nest, with excessive traffic continuing close to it. The nesting pair had no offspring in 2007.[18]

— The dredging of Aniva Bay resulted in material being dumped close to shore, affecting the catches of local fishermen, resulting in a complaint to the European Bank for Reconstruction & Development (EBRD); SEIC eventually paid some compensation. The community has also not been compensated for the loss of the recreation value of the beach in front of the LNG plant.

Social Impacts and Human Rights — SEIC failed to recognise all of the indigenous peoples on Sakhalin Island, in breach of the World Bank policy. As a result an indigenous peoples plan was not prepared until 2006, by which time the project was two-thirds completed. These most vulnerable groups were not able to have meaningful input into the design of the project. The EBRD recognised the timing of this plan did not meet policy requirements.[19]

— Affected communities have not had claims for compensation resolved in a timely manner. As a result poor communities have lost livelihoods on which they depend.

— Local communities made several protests at SEIC sites to raise the profile of their plight.[20]

— A report by CEE Bankwatch documents the harrowing rise of prostitution, trafficking, HIV/AIDS and violence against women in communities affected by Shell's Sakhalin II.[21]

Corruption Allegations — Allegations have been made by a whistleblower of inappropriate relationships between SEIC management and its contractors, in particular Starstroï and its subcontractor SU4.[22]

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10 <http://www.sakhalinenergy.com/en/aboutus.asp> [Back](#)

11 Offshore Oil Spill Response in Dynamic Ice Conditions. 2005, Nuka / WWF. http://www.panda.org/about_wwf/where_we_work/europe/where/russia/sakhalin/news/index.cfm?uNewsID=67420 [Back](#)

12 <http://www.iucn.org/themes/marine/sakhalin/index.htm> [Back](#)

13 Letter from Rick Steiner to Jeroen van der Veer, 14 July 2005. [Back](#)

14 AEA Lenders Review of Sakhalin II, October 2007, p117. http://www.sakhalinenergy.com/en/documents/iec_ddr2007.pdf [Back](#)

15 Mathiason, "Shell Consortium in New Pipeline Dispute," The Observer, May 21, 2006 <http://www.guardian.co.uk/oil/story/0,,1779620,00.html> [Back](#)

16 <http://news.bbc.co.uk/1/hi/business/5355504.stm> [Back](#)

17 Letter from the Wild Salmon Center to SEIC, 5 November 2007. [Back](#)

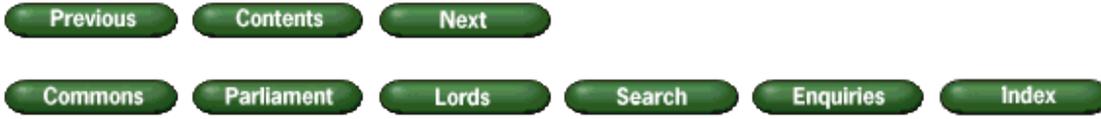
18 AEA Lenders Review of Sakhalin II, October 2007, p160. http://www.sakhalinenergy.com/en/documents/iec_ddr2007.pdf [Back](#)

19 <http://www.ebrd.com/new/pressrel/2005/175dec14.htm> [Back](#)

20 <http://www.sakhalin.environment.ru/en/detail.php?slice=8b4cb37fba47da1c76cf3e44aa940cd2&sitemid=221211> [Back](#)

21 Boomtown Blues, November 2006, CEE Bankwatch <http://bankwatch.org/documents/boomtimeblues.pdf> [Back](#)

22 <http://royaldutchshellplc.com/2008/01/06/the-sakhalin-2-whistleblower-warnings-which-proved-100-correct/> [Back](#)



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Prepared 20 October 2008