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Leicester**

DEPARTMENT OF GEOGRAPHY

Globalisation and Environmental Governance: the Case of Sakhalin-2

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Plan

1. Introduction
2. The Sakhalin-2 Project
3. Global Environmental Networks and Power Geometry
4. Environmental and Social Impacts: Local Impacts / Global Campaign
5. The Role of International Financial Institutions
6. NGO protests against the Sakhalin-2 loan
7. Concluding remarks



Sakhalin Oblast

10 hr flight from Moscow
(7hrs time difference)

87.1 thousand square
kilometers

Population of 538 thousand

3rd in Russia in terms of
cumulative FDI, first in Per
Capita FDI

Fuel Industry is 48.0% of
Industrial production and
55.8% of Exports

2. The Sakhalin Projects

- oil pipelines
- gas pipelines
- gas fields, good structures
- oil-and-gas fields

First Generation

Sakhalin 1- ExxonMobil 30%, SODECO, ONGC & Rosneft

Sakhalin 2- Shell 55%, Mitsui 35% and Mitsubishi 20% (Gazprom @ 25%)

Second (Lost) Generation

Sakhalin 3 Krinski - Exxon Mobil 33%, Chevron-Texaco 33% & Rosneft

Sakhalin 3 Ayashski and East Odoptinski- ExxonMobil 67% & Rosneft

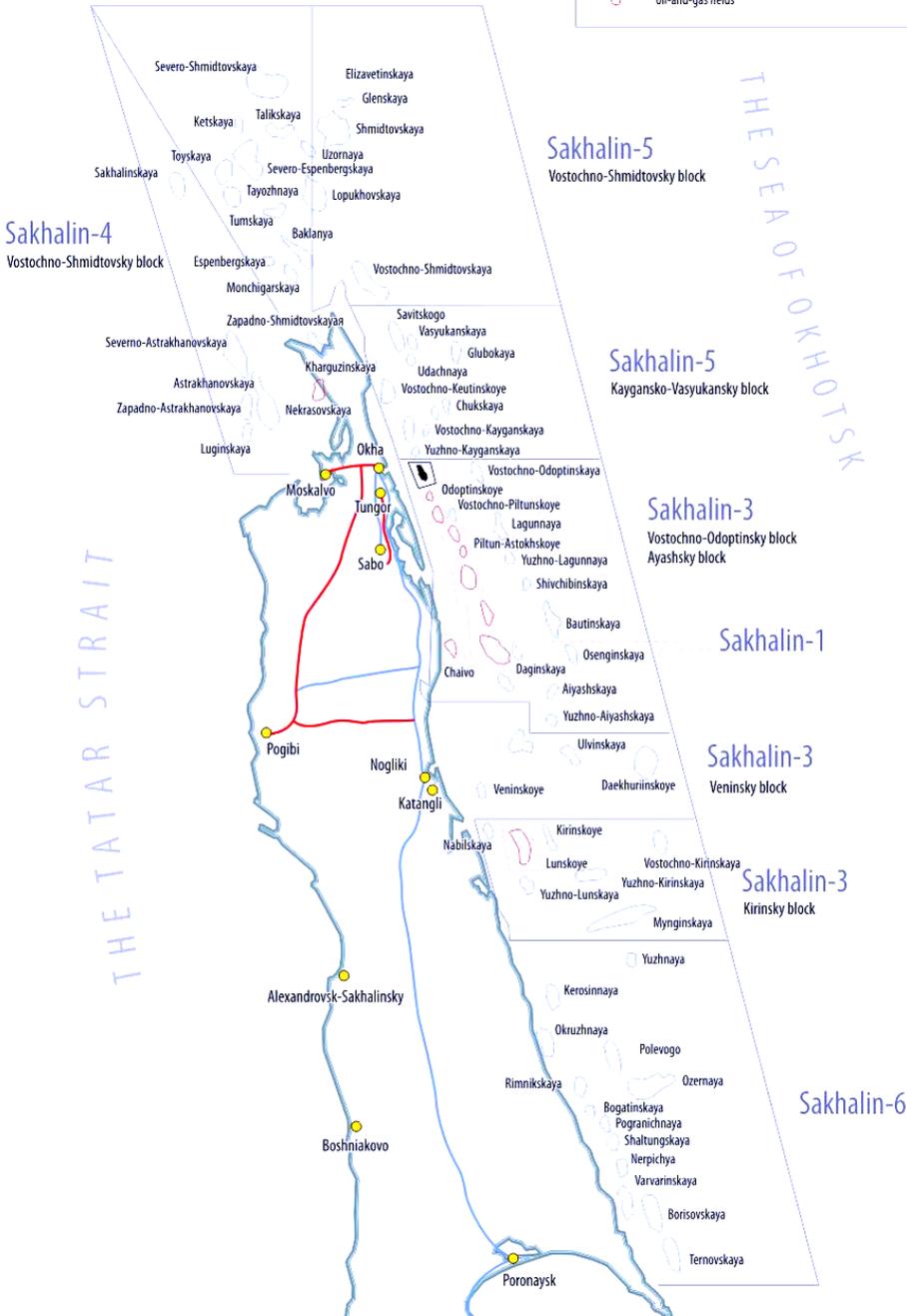
Third (next) Generation

Sakhalin 3: Veninski- Rosneft, SNK, SINOPEC

Sakhalin 4 & 5: BP 49% & Rosneft-51%

Sakhalin 5 Lopukhovski- Sibneft/Gazprom

Sakhalin 6- Urals Energy (Petrosakh)



First Generation Sakhalin Projects



SAKHALIN 1 (PSA)

Expected investment
US \$ 12.8 billion (\$ 2002)
Estimated reserves
307 mt oil
485 bcm gas

PARTNERS

EXXONMOBIL (US) [30%]
SODECO (JAPAN) [30%]
ROSNEFT-ASTRA (RUSSIA) [8.5%]
SMNG-SHELF (RUSSIA) [11.5 %]
ONGC VIDESH (INDIA) [20%]



SAKHALIN 2 (PSA)

Expected investment
US\$ 20 billion (\$ 2005)
Estimated reserves
600 mt oil
700 bcm gas

PARTNERS

SHELL (UK/NETHERLANDS) [55%]
MITSUI (JAPAN) [25%]
MITSUBISHI (JAPAN)[20%]
[GAZPROM 25%]



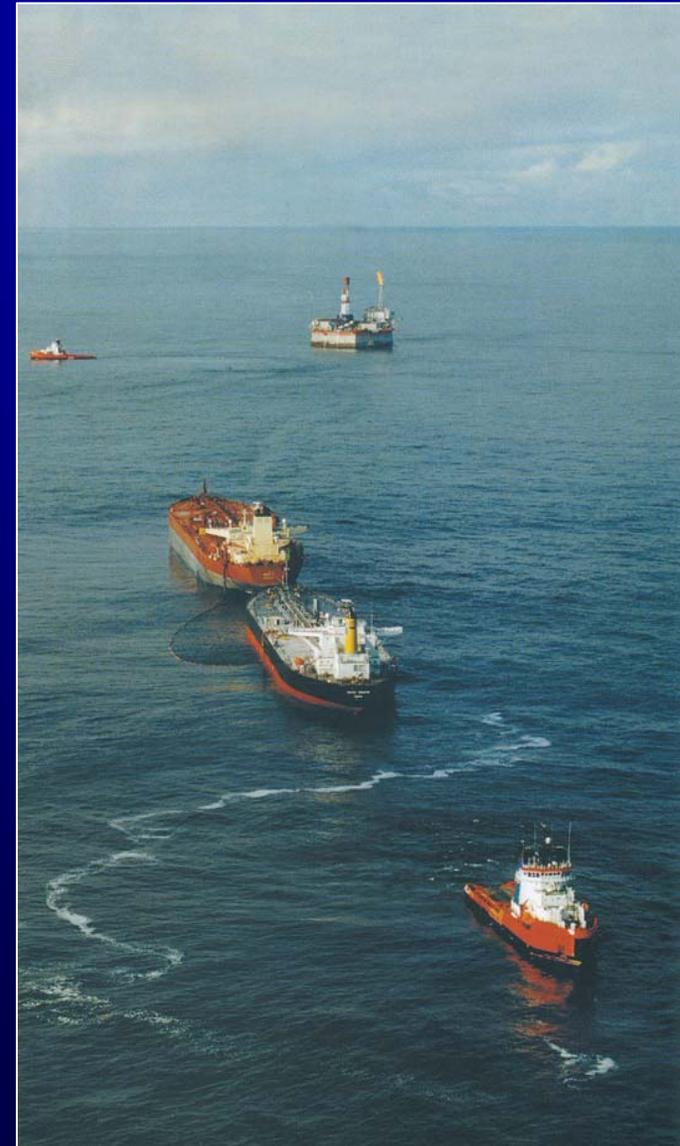
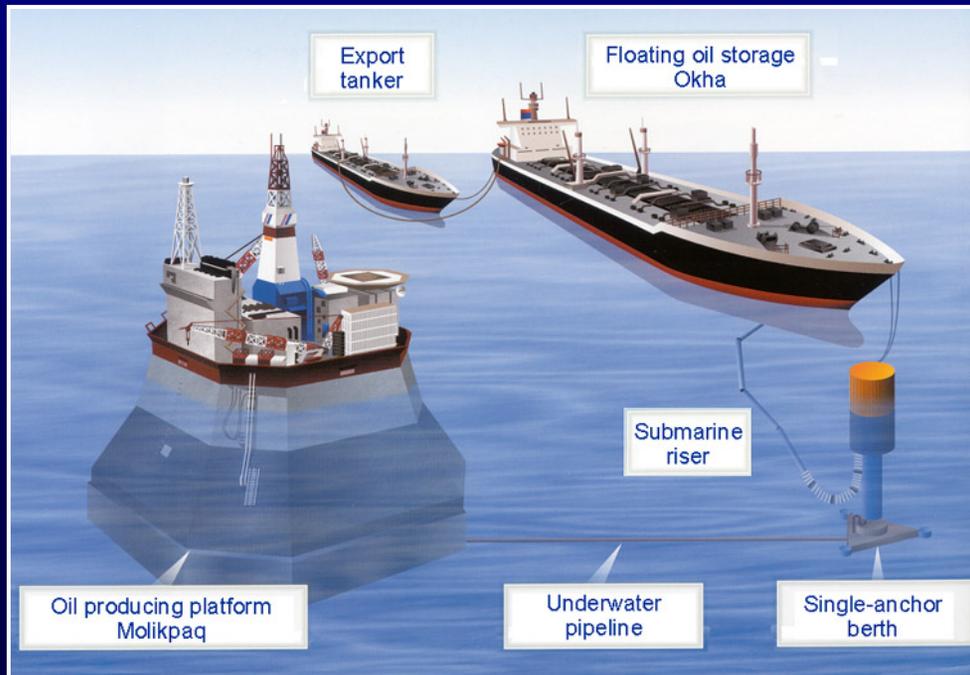
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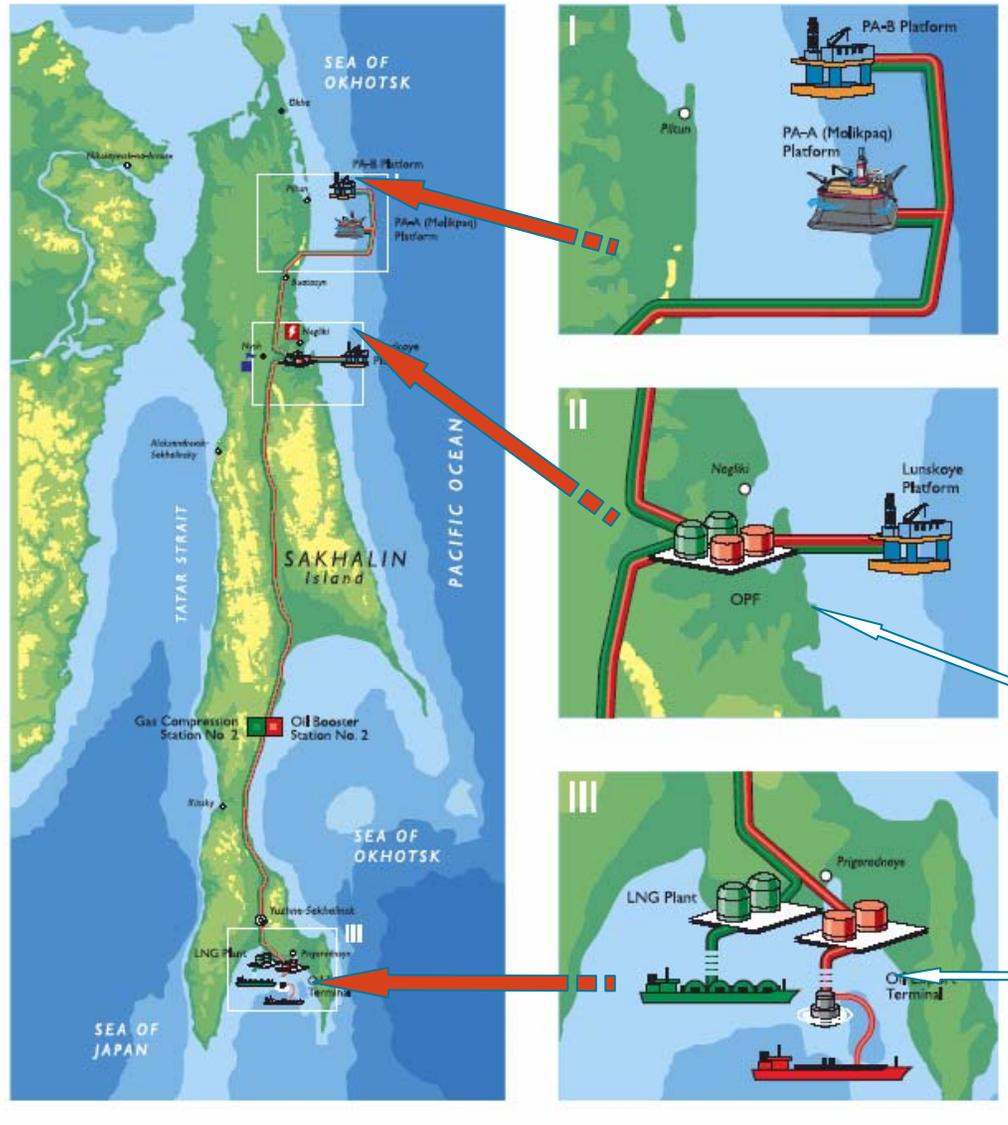
Sakhalin 2: Phase 1 Early Oil

The Sakhalin 2 project produced first oil in the summer of 1999. In 2000 the project saw a full season of development. By the end of 2004 more than 11.69 million tonnes had been exported. The 100th cargo of Vityaz crude was loaded June 30, 2005. Oil is exported to Japan, China and Korea, the Philippines, Taiwan, US West Coast and in 2004 Thailand.



Phase 2 development

- Piltun -B platform.
- Astokh year round production.
- Lunskeye A platform.
- Onshore processing facility.
- Oil and gas pipelines.
- LNG plant and Oil Export Terminal.



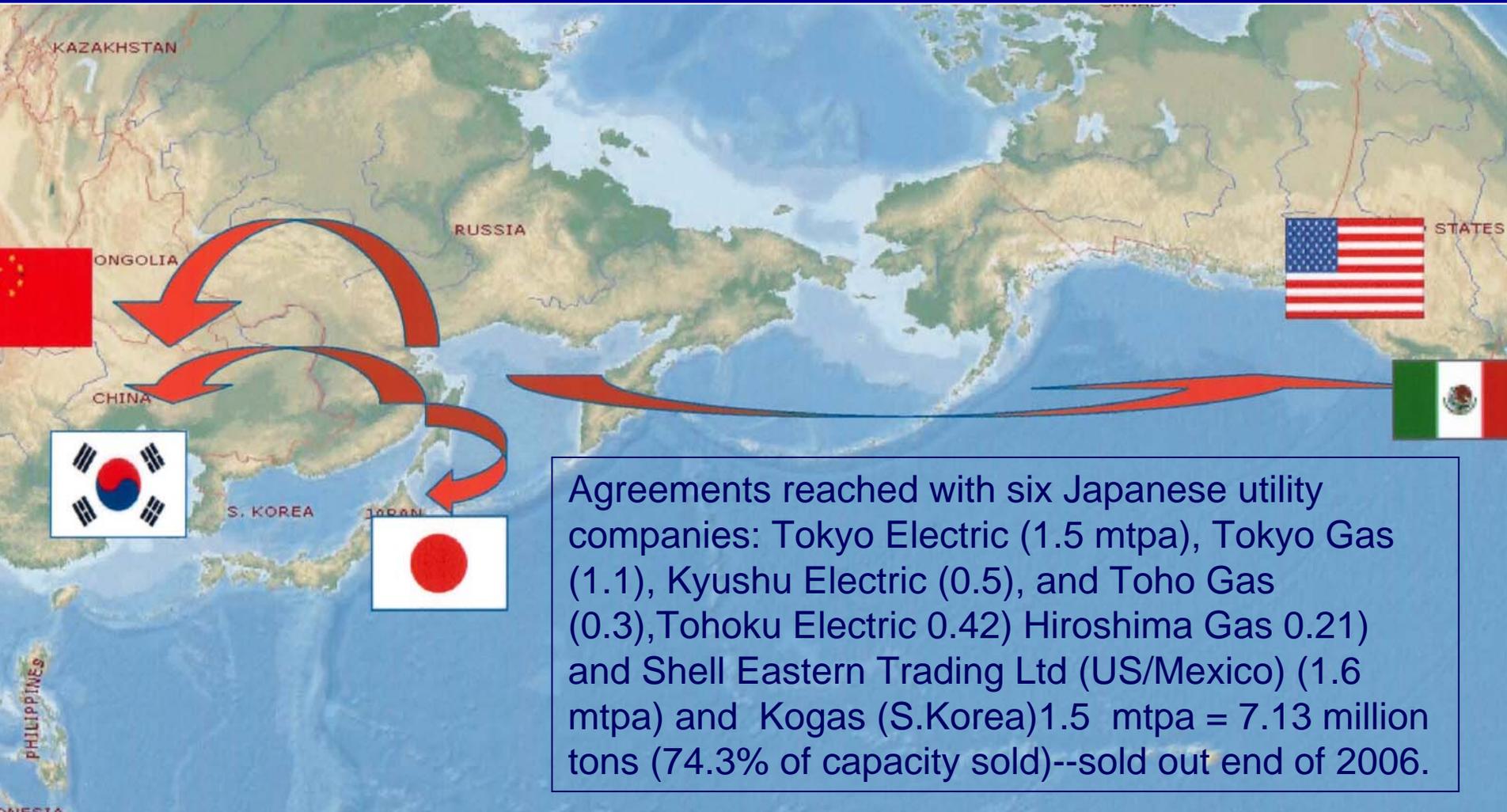
Tow out and installation of Lunskoye Platform (LUN-A)



Pipeline, OPF & LNG Terminal



Sakhalin 2 LNG Markets

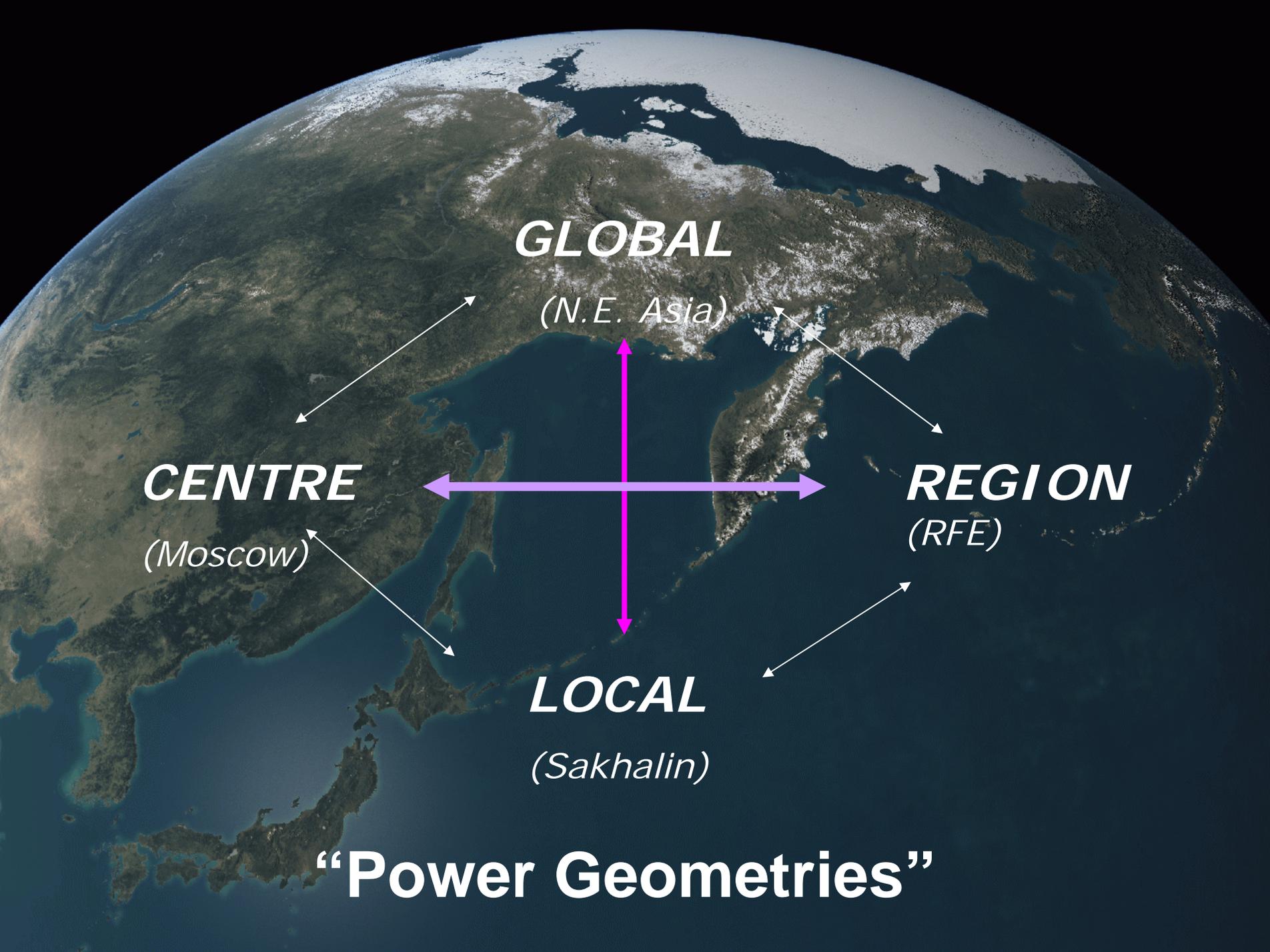


“CREATING A NEW ENERGY PARTNER IN ASIA-PACIFIC”

Vladimir Putin and/or Sakhalin Energy?

3. Global Environmental Networks and Power Geometries

- Transnational advocacy networks, of which ENGOs are a classic case.
- Shifting 'power geometries'--the changing role of the state at the national and local level.
- The 'Scale Politics' of NGO activism--scale jumping, the 'betweenness' of NGOs.
- The ENGO network surrounding the Sakhalin-2 project and its interaction with MNCs and IFIs is an interesting subject for research in its own right.



GLOBAL

(N.E. Asia)

CENTRE

(Moscow)

REGION

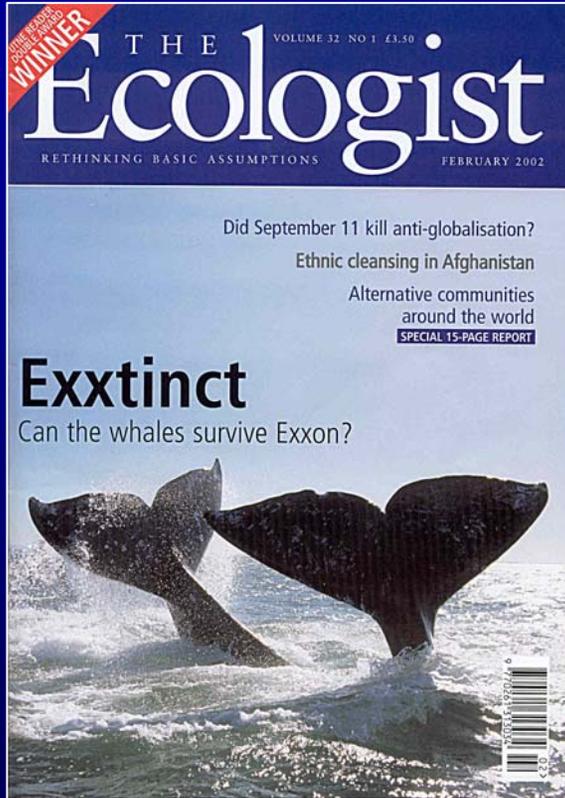
(RFE)

LOCAL

(Sakhalin)

“Power Geometries”

4. Environmental and Social Issues: Local impacts/global campaign

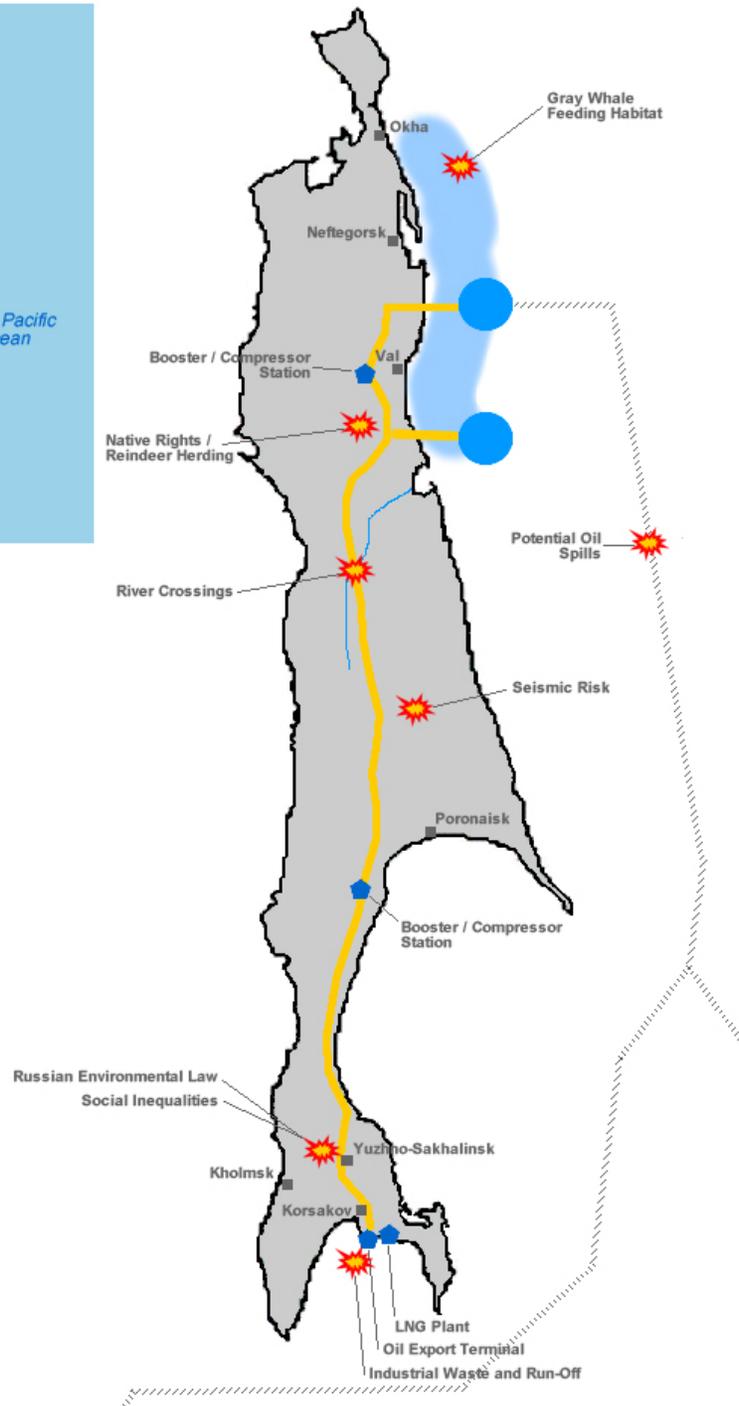
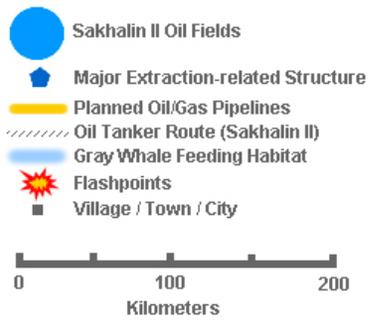


Environmental Issues

- The historical resource-based economic development of the Island has already caused significant environmental degradation, onshore is a far from pristine landscape.
- The individual oil and gas projects (both historically onshore and now offshore) bring impacts (focus on Sakhalin 2 below).
- So far there has been a failure to assess the 'cumulative impact' of the offshore oil and gas development and its associated direct and indirect onshore activities.
- The primary global NGO concern is more 'ideological' and relates to the rights of endangered species, biodiversity, climate change and the role of public financing.
- The primary local NGO concern for the environment is more 'utilitarian' and is linked mainly to the importance of the fishery as the key economic activity, as a source of subsistence and a key element of the indigenous cultures on the Island (1/3rd of population) and the need for compensation.



Environmental Issues Relating to Sakhalin-2



NGO Protests Against the Sakhalin-2 Loan



"Whale, you are the weakest link. Goodbye!"

From: www.pacificenvironment.org



<http://www.sakhalin.environment.ru/en/>

From: www.foe.co.uk

Mapping the Global ENGO Network



Sakhalin Environment Watch--local NGO on Sakhalin
(www.sakhalin.environment.ru/en)



Pacific Environment--California-based US organization and key global link for SEW (www.pacificenvironment.org)



Friends of the Earth (England and Wales)--London-based focus on EBRD & UK Government (www.foe.co.uk)



CEE Bankwatch--Focus on IFIs in ECE and FSU (www.bankwatch.org)



Platform--orchestrated PSA critique and campaign with 'Equator Principle' Banks.
(www.carbonweb.org)

Environmental NGOs Campaigning Against the Sakhalin-2 Loan



Source: Lee, J. (2005) *Squaring Off on Sakhalin: A 'Glocal' NGO Campaign Against Big Oil*, Geneva: CASIN, p.11

5.The Role of International Project Financing

- Sakhalin Energy obtained IFI project financing for Phase 1 from a consortium led by the EBRD.
- For Phase 2 Sakhalin Energy is seeking up to \$ 5 (7) billion in financing from the EBRD, EXIM (US), JBIC (Japan) and ECGD (UK).
- Sakhalin Energy is also talking with commercial banks, these may be signatories to the 'Equator Principles'. (CSFB-advisor).
- Project financing is proving to be Sakhalin Energy's 'Achilles heel' as it is exposing them to NGO criticism and protest, but, by their own admission, it is undoubtedly resulting in improvements to the project.

The Policies of the IFI, ECAs and 'Equator' Banks provide the ENGOS with leverage over lenders.



The EBRD is also directed by its agreements to “promote in the full range of its activities environmentally sound and sustainable development”

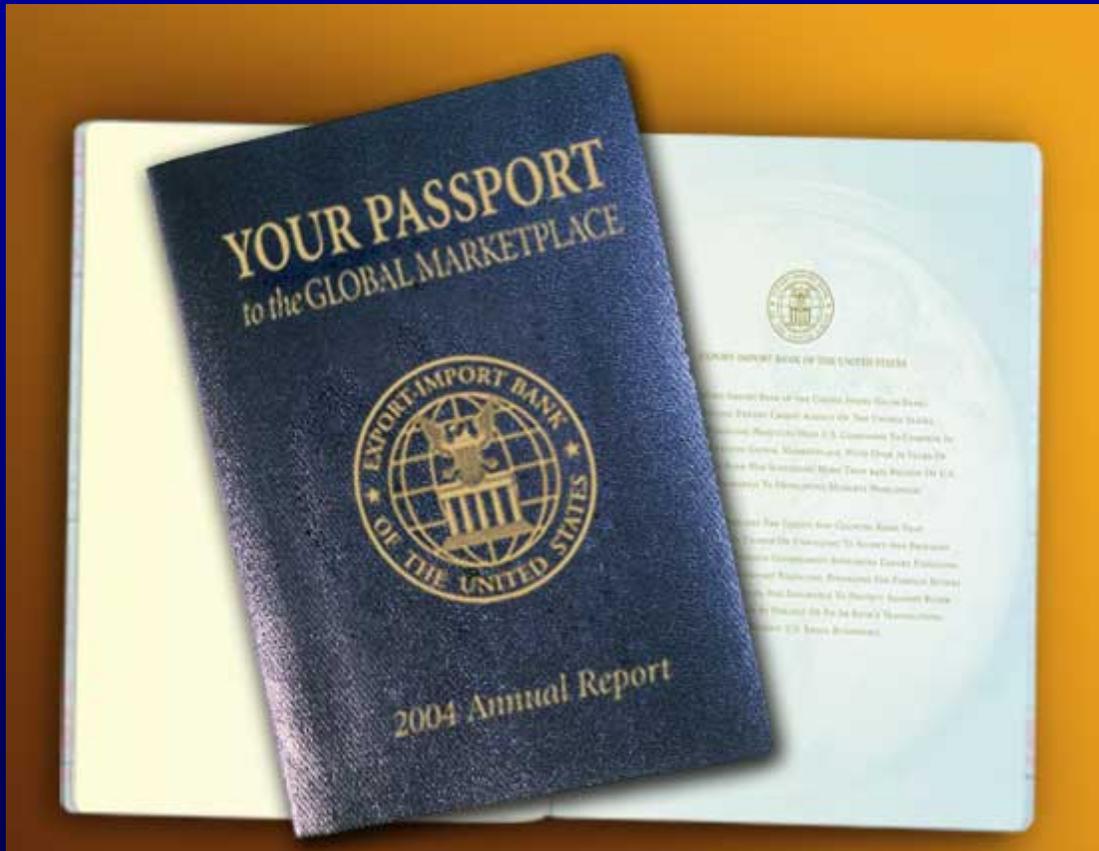
Article 2.1 vii



In the wake of the World Bank’s *Extractive Industries Review* the EBRD is currently reviewing its energy policy (still on-going).

" a set of guidelines developed by the banks for managing social and environmental issues related to the financing of development projects."

US EXIM BANK ENVIRONMENTAL POLICIES



Ex-Im Bank's Charter authorizes the Board of Directors to grant or withhold financing support after taking into account the beneficial and adverse environmental effects of proposed transactions.

<http://www.exim.gov/products/policies/environment/environment.html>



"The UK taxpayer could end up subsidising this project, if loans from the European Bank for Reconstruction and Development (EBRD) and the Export Credit Guarantee Department go ahead. Gordon Brown, as a governor of the EBRD, should use his influence to stop this loan to the oil industry. Without it, this environmentally damaging project might not go ahead."

Nick Rau, Friends of the Earth

"We will promote a responsible approach to business and will insure our activities take into account the Government's international policies, including those on sustainable development, environment, human rights, good governance and trade"

ECGD

ENGO Strategy Against the Sakhalin-2 Loans

1. Environmental impacts (Western Grey Whales, Pipelines, Rivers and Aniva Bay)
2. Impacts on the Indigenous Peoples
3. The terms of the Sakhalin-2 PSA is not a good deal for Russia (a problem compounded by the doubling of costs from \$ 10 to \$ 20 billion).
4. Public funds should not be used to finance oil and gas projects (IFC/EBRD notion of 'additionality').

Mock Whale Funeral at EBRD AGM London April 2004



In 2003 Sakhalin-2's EIA declared 'unfit for purpose'

Protest outside the New York Headquarters of CSFB April 6th 2005





CSFB Shamed For Funding Whale Extinction

Civil society calls on Credit Suisse First Boston to end relationship with Shell's destructive Sakhalin II mega-project

New York – Today in New York City, activists will protest at the New York headquarters of Credit Suisse First Boston (CSFB), calling on the bank to sever its relationship as financial advisor to Sakhalin II, a Shell-led oil and gas mega-project in Russia that independent scientists believe may push the last 100 Western Pacific Gray Whales to extinction. The demonstration follows a community uprising by Sakhalin Island residents yesterday and simultaneous solidarity action at CSFB headquarters in Zürich.

http://www.ems.org/nws/2005/04/06/news_release_csf

Impacts of Sakhalin II Phase 2 on
Western North Pacific Gray Whales
and Related Biodiversity



Report of the Independent
Scientific Review Panel

Impact on the Western Grey Whales

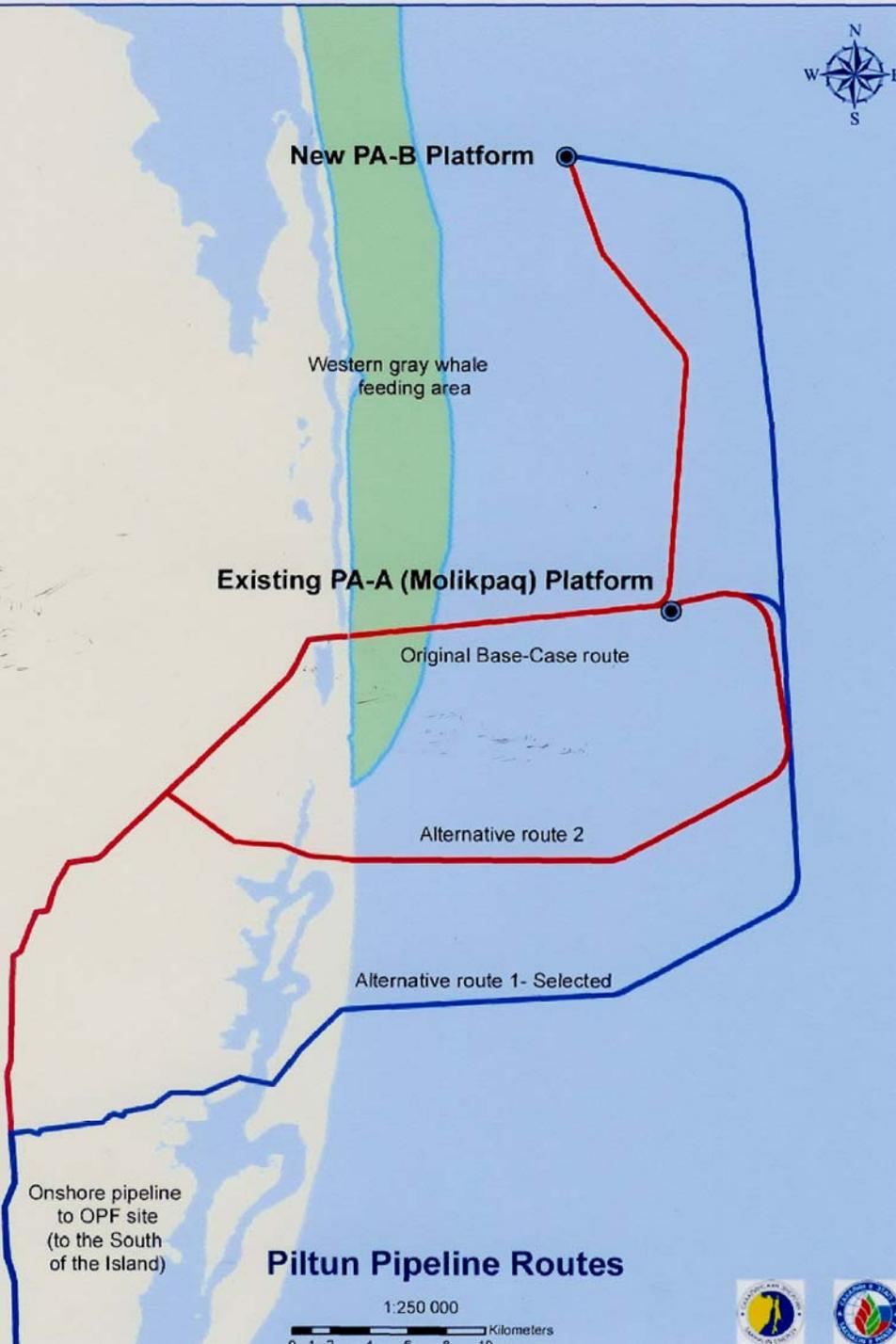
“..the most precautionary approach would be to suspend present operations and delay further development of the oil and gas reserves in the vicinity of the gray whale feeding grounds....”

SEIC sponsored IUCN Report



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"The project is going ahead. I want to be unambiguous about that," John Barry, Country President Shell, 25th February 2005.

"Sakhalin Energy will reroute offshore pipelines...to help protect the endangered western gray whale" SEIC Press Release 31st March 2005

"Shell gas finally admitted the need to move the route of Sakhalin II, but unless Shell moves the oil drilling platform, the future of the western gray whale is still in serious jeopardy."

Friends of the Earth.

Update on Project Financing

- December 14 2005 the EBRD concluded that SEIC's EIA (on SEIC website) was now 'fit for the purpose of public consultation'
- It is now in the midst of a 120-day consultation process with public hearings in London, Moscow, on Sakhalin and Sapporo, Japan (the transcripts will be made available on the EBRD's website).
- The consultation period will last until 21 April, thereafter the EBRD has promised a prompt decision.



Phase-2 Transition Impact?

1. Contribution to the integration of Russia to the global economy--Asia-Pacific markets in particular.
2. Transfer of specialised 'know-how' and new technology.
3. Increased transparency on the part of SEIC within the PSA 'Publish what you pay' in terms of royalties and profit tax.



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What about the money?

The distribution of resource rents is the key issue surrounding resource-based development. On this the EBRD has the following to say:

“It is up to the Russian government how it shares out Russia’s part of future revenue from the project with the Sakhalin Regional Administration. The Production-Sharing Agreement which defines the terms of the deal stipulates that Sakhalin Energy pay the ‘Russian Party’ without a specific separation of how much goes to Russia’s federal authorities and how much to the regional budget.”

7. Concluding remarks

- The Sakhalin-2 project is one of the largest integrated oil and gas projects in the World and by far the largest FDI project in Russia today—critical test of FDI in Russia and the challenges of frontier/offshore development.
- Because SEIC is seeking project financing from the IFIs, ECAs and involving Commercial Banks it is subject to their increased concerns and standards regarding environmental impacts and corporate social responsibility (note: ExxonMobil and Sakhalin-1 are relatively immune from such pressure as they are not seeking project financing).

- These concerns provide the global ENGOs with a new angle of attack in their campaigns against the oil majors--this presents a major challenge to oil companies involved in 'frontier development.'
- The current campaign and the EBRD's notion of 'transition impacts' highlights contradictory concerns for energy security and environmental security, and potential trade-offs between local costs versus regional/global benefits.
- The campaign also empowers local NGOs and community groups because of corporate concerns about reputational risks in home markets--a case of the asymmetrical impact of globalization.
- The 'greening' of the global project finance system deserves further research (Equator Principles started in 2003) and there is much to be learnt for the Sakhalin-2 case--basis for further research!

THANK YOU



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