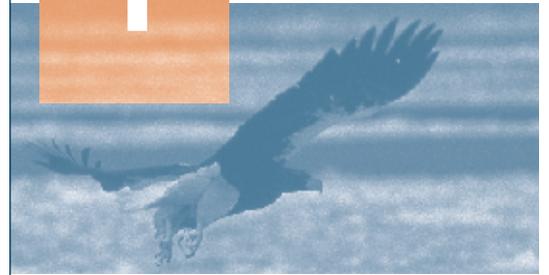


Chapter



Introduction

Chapter 1 Introduction

This Social Impact Assessment (SIA) was prepared for the Sakhalin Energy Investment Company Ltd. (SEIC) for the Sakhalin II, Phase 2 oil and gas development ('Project') on Sakhalin Island, an administrative region of the Russian Federation. Its objective is to present the findings, conclusions and recommendations of this assessment process to Project stakeholders.

SOCIAL IMPACT ASSESSMENT includes the processes of analysing, monitoring and managing the intended and unintended social consequences, both positive and negative, of planned interventions (policies, programs, plans, projects) and any social change processes invoked by those interventions, so as to bring about a more sustainable and equitable biophysical and human environment.

[International Association for Impact Assessment: November 2002]

This assessment will be formally released in both English and Russian in early 2003 for public comment and stakeholder review. These stakeholders include the general public of Russia and more specifically, those communities in the Sakhalin Region that may be affected by the Project, shareholders, potential lenders, governmental authorities, and non-governmental organisations (NGOs).

This document focuses primarily on the potential impacts of construction and operations of the onshore components of the Project. Given the life of the Project and other associated oil and gas field developments on Sakhalin Island, it is difficult to assess the potential impact of Project decommissioning over 40 years in the future.

Based on currently proposed oil and gas development projects, and revenue splits between the Russian Federation and Sakhalin Oblast it is certain, that revenues from oil and gas development will bring benefits to the people of Sakhalin Island. Revenues from the Sakhalin II Project alone would result in almost doubling the region's Gross Regional Product (considered in money of the day).

This SIA is one volume of the four-volume integrated Environmental, Social, and Health Impact Assessment (ESHIA) for the Project. The other volumes are the Executive Summary (ES), Health Impact Assessment (HIA), and Environmental Impact Assessment (EIA). These documents are incorporated by reference.

1.1 SUMMARY OF ASSESSMENT GROUP'S EFFORT

The findings presented here represent the work by the SEIC Social Assessment Group (SA Group). This group was first organised in 2001 with the express purpose of preparing a Project SIA. This group comprised independent international and local experts in sociology, anthropology, economics, indigenous peoples, participatory consultation, compensation, database management, field research techniques. Including translators and students the group devoted over 30 person-years of effort to the Project's social assessment.

SIA is best understood as an umbrella or overarching framework that embodies the evaluation of impact on humans and on the ways in which people and communities interact with their sociocultural, economic and biophysical surroundings.

SIA thus has strong links with a wide range of specialist sub-fields involved in the assessment of areas such as: aesthetic impacts (landscape analysis), archaeological and cultural heritage impacts (both tangible and non-tangible), community impacts, cultural impacts, demographic impacts, development impacts, economic and fiscal impacts, gender impacts, health and mental health impacts, impacts on indigenous rights, infrastructural impacts, institutional impacts, leisure and tourism impacts, political impacts (human rights, governance, democratisation etc.), poverty, psychological impacts, resource issues (access and ownership of resources), impacts on social and human capital, and other impacts on societies.

As such, comprehensive SIA cannot normally be undertaken by a single person, but requires a team approach.

[International Association for Impact Assessment: November 2002]

The original effort was expected to take four months and to be completed in December 2001. Sixteen months later greatly different sets of roles and responsibilities had developed for this group.

During this time the SA Group assumed lead responsibility for local community consultation on the island. In mid-2002 the group became actively involved in finding solutions to community concerns over SEIC land acquisition for construction camps in several communities. In co-operation with the Korsakov administration they are consulting with the public on best-suited proposed alternatives to the beach at Prigorodnoye. They have also developed and implemented SEIC Supplemental Assistance Programme. The indigenous peoples experts have worked with the Uilta Reindeer herders over concerns related to development of areas used for their spring and summer pastures.

Chapters 3 and 6 describe the wide variety of public participation and consultation efforts completed by the group. These included many of the pre-public hearing consultation efforts associated with the TEO-C 2001 Preliminary Environmental Impact Assessment (PEIA) and the provision of ongoing updates to local communities. The results of much of the work completed up to January 2002 have already been made available to the public.

Beginning in early 2003, the role of this group will change to emphases on social impact monitoring and management, expansion of supplemental assistance programme, resolution of grievances and sustainable development on Sakhalin Island. SEIC Community Liaison Officers (CLOs) will assume routine consultation efforts.

In the following chapters, one of the most comprehensive SIAs in international oil and gas development is presented. The document includes information often found in separate reports, but which has been included here for ease of reading and understanding of the Project.³

1.2 REQUIREMENTS, STANDARDS, AND GUIDELINES

Preparation of an SIA, either as an independent report, or as part of an integrated environmental impact assessment is now standard practice in oil and gas development projects undertaken by the major international companies.

This SIA was prepared as a separate document as per the standard practice of the Project major shareholder and was designed to conform with:

- Applicable international conventions and agreements,
- Russian statutory requirements,
- Guidelines and standards of international lenders,
- SEIC policy on health, safety and the environment, and
- Shareholder standards.

Review of legislation and standards can be found in the EIA (Volume 1).

1.3 OBJECTIVES

The primary goal of the SIA was to identify and evaluate Project-related primary and secondary social impacts, assess potential impacts, and develop culturally appropriate mitigation-of-impact measures. Much of the work focused on communities in the Sakhalin Oblast most likely subject to potentially adverse impacts as a result of the Project.

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Over the past year, these communities have been visited on numerous occasions, including for: scoping consultations, environmental presentations, baseline data collection and ongoing consultations related to potential community needs and mitigation measures. The primary objectives of these visits were to:

- Understand the local and regional socio-economic and cultural conditions on Sakhalin Island, particularly those in areas in which the Project will operate,
- Understand and manage concerns and expectations of Sakhalin residents with regard to the Project,
- Identify the potential impact of the Project and develop and monitor mitigation measures,
- Address the expectations of international institutions (such as lenders, environmental NGOs, etc.) regarding the management of the social issues, and
- Identify and optimise opportunities for potential benefits.

As is often found, the opinions of the different communities and the individuals within them have varied as to the potential impact of the Project, and the most appropriate mitigation measures. These opinions have been considered and debated both within the communities, and amongst SEIC Project planning and development staff. In many cases the potential impact and mitigation measures to be taken are clear. In other cases they are less clear, and consequently will be monitored during construction.

1.4 PROJECT OVERVIEW

1.4.1 Definition of Key Terms

This SIA will generally use the following definition of key terms for descriptions of assets, phases, activities, etc.:

An **asset** is a major element of the Project and includes items such as the Offshore Platforms and Pipelines, the Onshore Processing Facility (OPF), Cross-country Pipelines and Above Ground Installations, the Liquefied Natural Gas/Oil Export Terminal (LNG/OET), and Infrastructure Upgrade Project (IUP).

A **phase** is a series of related activities for a particular asset. Together, the activities form a distinct stage in the life of each asset. Phases addressed in the SIA include construction, operation, and decommissioning. The primary emphasis is on the construction phase.

An **activity** is a particular action, which is necessary as part of one of the phases. For example, the 'right-of way clearance.'

1.4.2 Project Description

The Sakhalin II, Phase 2 Project is being developed under a Production Sharing Agreement (PSA) concluded in 1994 between the Government of the Russian Federation, Sakhalin Oblast Administration and SEIC, the Project operator. SEICs shareholders are Royal Dutch/Shell (55%), Mitsui (25%) and Mitsubishi (20%).

The Sakhalin II licence area comprises two fields approximately 15km off the northeastern coast of Sakhalin Island in the Sea of Okhotsk. The Piltun-Astokhskiye field is mainly oil and condensate. The Lunskiye field is primarily gas. Together, the fields contain approximately 600 million tonnes of crude oil and over 700 billion m³ of gas or about one-year of Russia's current crude oil exports and nearly five years of its gas exports to Europe.

Phase 1 of Sakhalin II, an oil-only development, went into production in 1999. It is developed around the Molikpaq offshore production platform and produces oil during ice-free months (about 180 days/year). The oil is transported by tanker to the Asian-Pacific markets.

Phase 2 is an integrated oil and gas development that will allow year-round oil and gas production. It will involve construction of two offshore platforms, oil and gas pipelines to shore and onshore processing facilities. The oil and gas will be transported to processing and export facilities in Prigorodnoye, 800km away in the south of Sakhalin. These include Russia's first liquefied natural gas (LNG) plant (Figures ES-01, 1-01 to 1-04).

Phase 2 is due to come on stream from 2006. Peak crude oil/condensate production will be about 180,000 barrels/day (about 8.2 million tonnes/year). LNG production will be about 9.6 million tonnes/year for more than 25 years. Oil and gas will be shipped to markets in the Asia Pacific region and beyond. The Project can supply gas locally.

Sakhalin's current infrastructure is unable to support the planned level of oil and gas development implementation. SEIC plans to invest several hundred million dollars in infrastructure improvements, including road, bridge and culvert upgrades and replacements. Ports and railways will also be upgraded where required.

At the end of Phase 2, SEIC will have invested more than US\$ 10 billion in Sakhalin II, making it the largest single foreign investment project in Russia. The Project is expected to play a major role in Sakhalin's future development, through direct revenue to the Russian Federation and Sakhalin Oblast, employment opportunities during construction and operations, and other direct and indirect benefits. Most labour and many materials will be sourced within the Russian Federation.

Detailed information on Project land needs is included in Chapter 7. A more comprehensive Project description is in Appendix F.

1.4.3 Project Schedule

For the purpose of this SIA, the following four stages in the Project life-cycle are considered: pre-construction, construction, operations and decommissioning. However, given that the Project's duration will be at least 40 years, the first three phases are given emphasis in this SIA.

TABLE 1-01: LIFE-CYCLE STAGE

Phase	Description
Pre-construction	<ul style="list-style-type: none"> - This work is still ongoing. It involves the final technical design and the environmental and social work needed to meet conditions identified in the PSA and by Project shareholders. - The IUP started in late-2002 and is in place to upgrade the existing infrastructure, and is part of the pre-construction process.
Construction	<ul style="list-style-type: none"> - Construction activities include the LNG/OET, OPF; onshore pipelines, and installation and commissioning of the offshore platforms and commencement of drilling operations.
Operations	<ul style="list-style-type: none"> - Year-around oil production from the Molikpaq and other platforms will begin when the oil pipeline system and OET are complete. Gas production will commence when the first train of the LNG plant will be commissioned in time for the first LNG cargo in 2006. The second LNG train and associated OPF train will be installed and commissioned in 2008.
Decommissioning	<ul style="list-style-type: none"> - This will occur at the end of the economic life of the Project, estimated to be not before 2040.

The exploitation of the hydrocarbon reserves off Sakhalin Island is considered crucial for the future economic development of eastern Russia. Demand for oil and gas is expected to rise throughout Russia including on Sakhalin Island. The Project is being designed to meet these needs and will also export the hydrocarbons to wider geographical markets.

The proposed Project will also play a significant role in contributing to the future prosperity of the Sakhalin Region. Besides the direct revenue and employment opportunities that arising from construction, operations, and maintenance of the Project, there will also be indirect employment, revenue and other benefits. It is the aim of the Project that the majority of labour and a significant proportion of materials will be sourced from within Russia.

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1.5 SCOPE OF THE SIA

The process adopted for this SIA has involved a number of ongoing, and overlapping, non-sequential activities. These are listed below and are described in greater detail in Chapter 3. They include:

- Initial scoping and consultation activities, including collection of publicly available information,
- Consultation related to the TEO-C 2001 PEIA and further refinement, identification of community concerns,
- Community consultation and collection of community-specific information,
- Specific consultation focused on indigenous peoples,
- Development and implementation of a programme of supplemental compensation and assistance for individuals affected by Project land needs,
- Assessment of the impact of the Project and mitigation measures and ongoing public consultation related to these measures, and
- Development and implementation of social management and monitoring plans.

1.6 SUPPORTING STUDIES AND ENVIRONMENTAL DOCUMENTS

1.6.1 Documents Incorporated by Reference

The following documents are considered incorporated by reference:

- Sakhalin II, Environmental Impact Assessment (2003),
- Sakhalin II, Health Impact Assessment (2003),
- Sakhalin II, Preliminary Environmental Impact Assessment (2001), and
- Sakhalin State University Social and Economic Baseline Study for the Sakhalin II Project.

1.6.2 Publicly Available Websites with Additional Information

For additional information on the Project and on Sakhalin Island the following two websites are useful.

TABLE 1-02: WEBSITES

Website Description	Russian	English
SEIC website. It includes a description of the Project and will be the site of future updates. This site also contains links to other Island websites, as well as to Project shareholders.	www.sakhalinenergy.com/index_ru	www.sakhalinenergy.com
General website on Sakhalin Island with information on communities, weather, news, recreational events.	www.sakh.com	www.sakh.com/english

A complete list of websites consulted for data and other information relevant to preparation of this SIA are included in References-Internet Sources.

1.7 KEY RESULTS TO DATE

To date there have been five major phases of work in the SIA. These phases and key results are summarised below.

TABLE 1-03: STEPS IN THE PHASE 2 DATA COLLECTION AND CONSULTATION PROCESS

Step	Key Activity	Time Frame	Key Results
1	Initial scoping/statistical data collection for TEO-C 2001 PEIA	Oct. 2001-Dec. 2001	Background information was collected and pre-public hearing activities were conducted in 52 communities potentially affected along the right-of-way. About 1,500 people were interviewed or attended small group meetings. Key scoping issues were identified for later consideration, follow-up, and analysis. These include concerns such as jobs and job advertising, potential damages to the environment, fish and berry picking.
2	Public consultations for TEO-C 2001 PEIA	Dec. 2001	Public hearings were held and afterward-environmental presentations were given in communities expressing interest in the Project. About 1,500 people attended these meetings.
3	Baseline data collection/community consultations for EIA/SIA	Jan. 2002-Apr. 2002	This data collection effort focused on communities where temporary construction camps, laydown yards, support bases, and/or permanent Project facilities might be sited. Just over 600 detailed questionnaires were completed as well as about 200 interviews with key community leaders.
4	Consultations on impacts/mitigation measures for EIA/SIA	Jun. 2002	Twenty-seven consultations were held in over 25 communities. Over 600 people attended.
5	Ongoing consultation	2002 onwards	There is now a programme of ongoing consultation related to supplemental assistance and continuing consultation on impact and mitigation measures.

1.7.1 Commitments, Policies, and Procedures

During the time period the SIA was being conducted SEIC adopted a number of policies, procedures, requirements, and made commitments to management of construction activities.

Policies, requirements, and plans are designed to meet the spirit of international standards and to meet SEIC Health, Safety, and Environment (HSE) and Sustainable Development (SD) commitments. In addition, this SIA describes major commitments through a variety of impact assessments and recommended mitigation measures. Major SEIC commitments are described below. These are further cross-referenced in other sections of this SIA.

The following policies and procedures apply to the Project.

TABLE 1-04: SUMMARY OF MAJOR SEIC SOCIO-ECONOMIC COMMITMENTS AND POLICIES

Topic	Goal	Chapters
Supplemental Assistance Policy (Compensation) and Programme	To ensure Project land needs do not adversely affect the economic status of current land users. People will be the same or better off post-Project.	8 and 12
Commitment to Russian Jobs and Business Development	To maximise Russian Content. To provide to the extent practicable and possible, a preferential approach for hiring workers and utilising businesses of the Sakhalin Oblast and Project-affected communities providing the workers are suitably qualified and the businesses are capable of providing the required goods and services to the Project regards to price, quality, reliability, availability, and delivery terms.	11
Policy on No Fishing, Gathering, and Hunting	To limit/minimise potential impacts to subsistence fishing, gathering, and hunting during construction.	4 and 12
Code of Conduct Policy	Establishes code of conduct for construction workforce. Establish basis for which monitoring of activities will take place.	16
Uilta Reindeer herders	To minimise impacts/inconveniences though continuous consultation. Requires Contractor Management Plans for activities in reindeer grazing areas.	14
Policy on Discovery and Decontamination of Unexploded Ordnance from SEIC Land Allocations	To minimise potential risks that are associated with the discovery of unexploded ordinances during construction, after completion of the Sakhalin Energy Mine Action Standards Programme.	13

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Topic	Goal	Chapters
Policy on Discovery of War Dead During Construction	Provides for the appropriate treatment of war dead during construction, in the event that they were not found during the Russian Federations pre-construction programme.	13
Treatment Plan for Objects of Cultural Heritage	Sets minimum standards of data recovery and support of archaeological monitoring and mitigation programme throughout construction.	13
Contractor Socio-Economic Plan for SEIC Review and Approval	The Plan will describe how individual contractors intend to adopt, implement, and manage socio-economic mitigation measures and commitments made by the Project.	16
Requirement for Contractor Community Liaison (CLO) staff	Requires contractors maintain CLO staff and interactions with SEIC CLO staff and communities.	16
Camp Management Policy	Establishes minimum standards for health and safety of the workforce. Establishes minimum camp standards in such a manner as to minimise the potential for stress on local community infrastructure.	16
Ongoing Community Consultation	Provides for long-term consultation and interaction with communities.	17
Monitoring of Potential Social and Economic Impacts	Establishes SEIC CLO and Social Assessment consultation and monitoring programme.	17
Grievance Procedure	Establishes low/no cost grievance process as per international best practice.	17
Sustainable Development Policy	Establishes SEICs long-term commitment to assist sustainable development on Sakhalin Island.	17
Public Consultation and Disclosure Plan	Describes SEICs commitment and plan for ongoing consultation and disclosure with stakeholders.	SEIC Website

1.8 ORGANISATION OF THE DOCUMENT

The report is organised as follows:

TABLE 1-05: ORGANISATION OF THE DOCUMENT

Chapter	Name	Contents
1	Introduction	Provides an introduction to the SIA as well as a list of the key commitments and policies made by Company related to management of social and cultural issues.
Chapters 2-8 describe much of the consultation and baseline data collection effort.		
2	Methodology	Details of the capacity building efforts of, and general methods used during consultation and data collection.
3	Steps in the Scoping and Assessment Process	Description of consultation and data collection efforts, which took place over one year and included initial scoping, consultation around the TEO-C 2001 PEIA, baseline data collection and consultation with communities on impacts and mitigation measures. Other ongoing efforts are also described.
4	Sakhalin Region and Potentially Affected Districts	Summary of the social and cultural context of the Project, based on publicly available and largely statistical data. It also contains a discussion on the sustainability of Sakhalin rural communities in relationship to the economic declines, loss of businesses, and migration of young people to Yuzhno or District Centres.
5	Potentially Affected Communities	Intensive consultation and data collection was conducted in communities potentially affected by the temporary construction camps and the permanent Project facilities. This chapter summarises information collected during the consultation and baseline data collection efforts. It also describes needs and concerns of communities consulted.
6	Indigenous Peoples Consultation Programme	A consultation and socio-economic data collection programme was conducted, focusing on indigenous communities in the Nogliki and Tymovsk Districts. The results of this programme are summarised in this chapter.
7	Project Land Needs	Description of temporary and permanent plots of land needed by the Project, land classifications, and number of temporary and permanent access roads.
8	Compensation and Gap Analysis	Summary of the compensation process in the Russian Federation (RF) with particular emphasis on compensation to individuals and households. The chapter includes a gap analysis of differences between common international standards and Russian Federation standards and describes the supplemental compensation assistance policy adopted by the Project, and the work done to evaluate and provide such assistance.

Chapters 9-15 focus on impacts and mitigation measures on a variety of topics. They include descriptions of the major impacts identified at regional, district and community level as well as the basis for the identification and analysis of the potential impacts and the mitigation measures. Each chapter includes mitigation/monitoring to be implemented by SEIC; measures to be incorporated as part of Project construction contracts; and an analysis of residual impacts.

9	Assessment of Impacts	Describes the process used to assess impacts and development of mitigation measures. Provide definitions of how common descriptions of impacts terminology is applied in the SIA.
10	Economic Impacts	Focuses on the Production Sharing Agreement (PSA), Direct Foreign Investment and Multiplier Effects, and the Provision of Take-off Points to Enable Gas Supply to Sakhalin island and/or Russian Far East. Describes the financial basis of the PSA and expected financial benefits to the Sakhalin Oblast.
11	Russian Content, Employment and Business Opportunities	Focuses on expected employment and opportunities during construction and operations. As part of the discussion it provides information on contractor expectations concerning local work forces and recruitment of construction personnel. The work of the Joint Committee is described.
12	Impacts on Sakhalin Communities	Describes numbers of households/enterprises, which may be affected by land acquisition activities, and the implementation of the SEIC Supplemental Assistance Programme. It also describes results of consultation and the importance of subsistence fishing and gathering in rural communities and SEIC response. Finally, community socio-economic impacts are assessed.
13	Heritage Resources	Focuses on the archaeological and historic resources of the island, including the remaining legacy of WW II unexploded ordnance and remains of soldiers killed during battle.
14	Uilta Reindeer Herding	Focuses on Uilta Reindeer herding north of Val and potential Project impacts on spring and summer pastures.
15	Cumulative Impacts	Describes other industrial projects on Sakhalin as well as other proposed oil and gas projects.

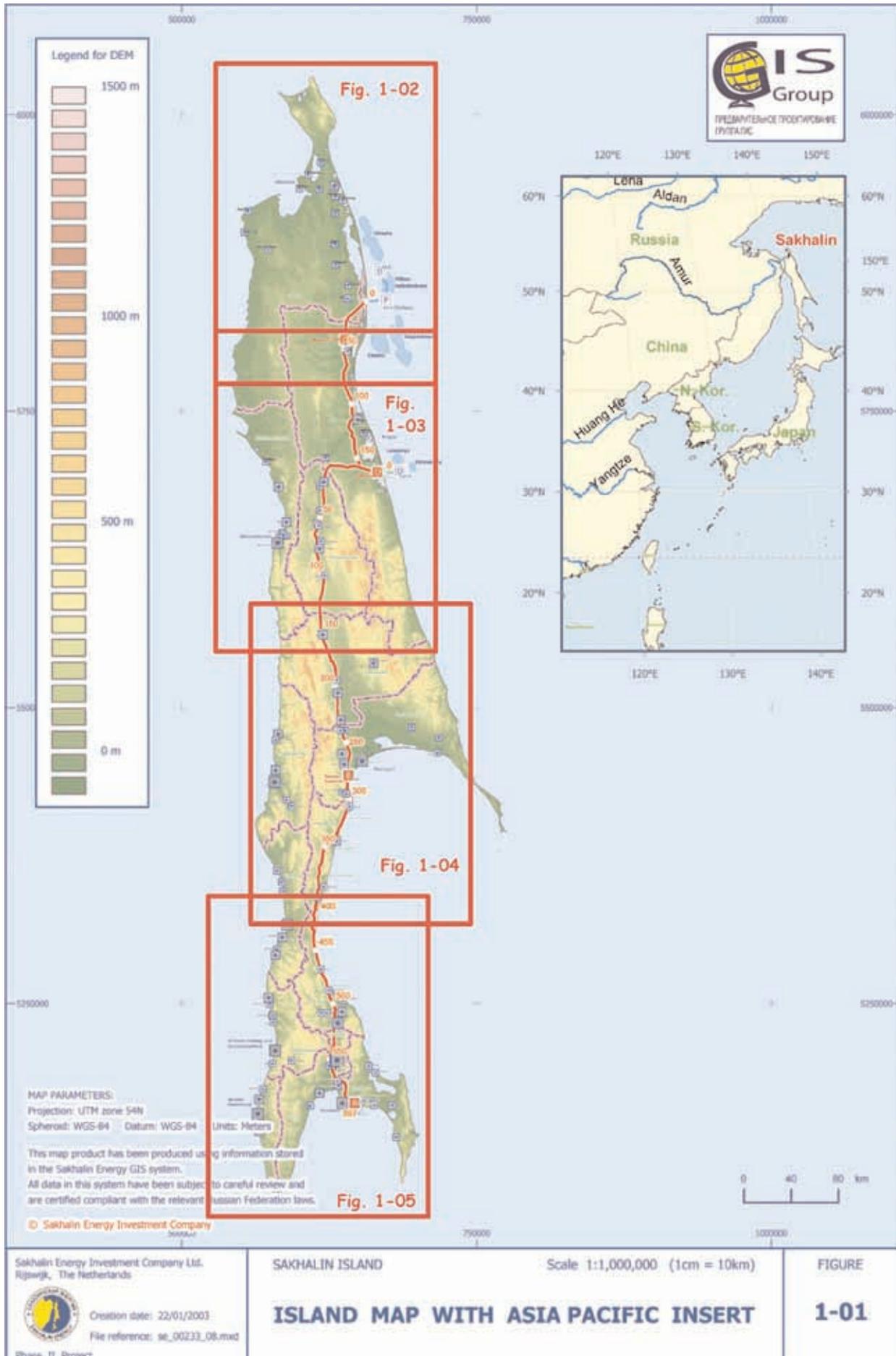
The following Chapters describe social impact monitoring and management measures.

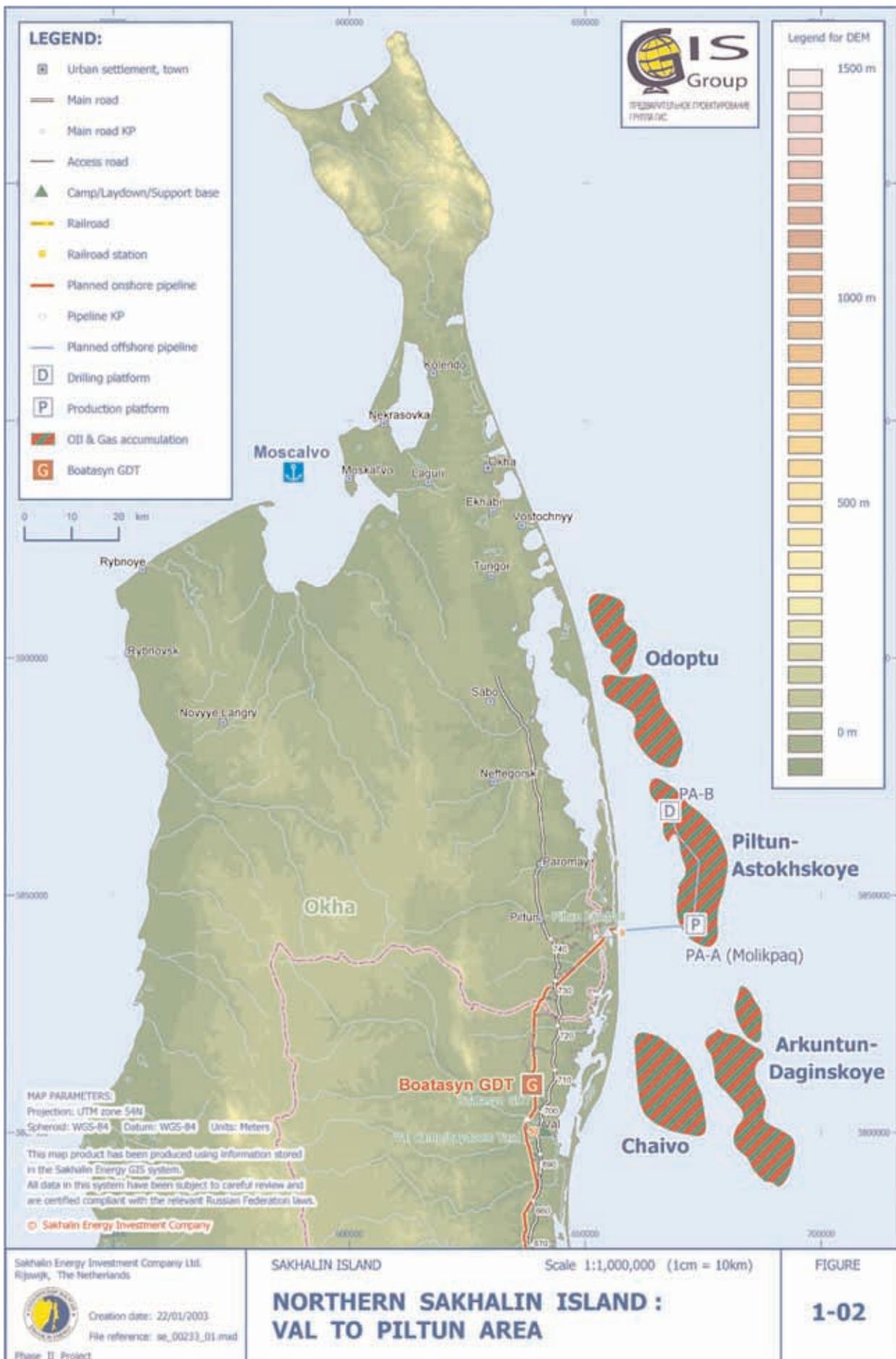
16	Construction Contractors and Management of Socio-economic Issues	Describes process used to identify and manage potential contractor-related impacts through the contractor bidding and award process. An approach to assessment of impacts of camps and facilities sites is discussed.
17	Social Management and Monitoring	This chapter describes the roles and responsibilities of the social mitigation and monitoring group, community liaison group, and the Project's low/no cost grievance process. It also describes the set of indicators, which will be used to monitor the Project.
18	References	Provides list of references in the text as well as web sites consulted. It also lists some useful background reference materials about Sakhalin Island.

The following Appendices provide supplemental information.

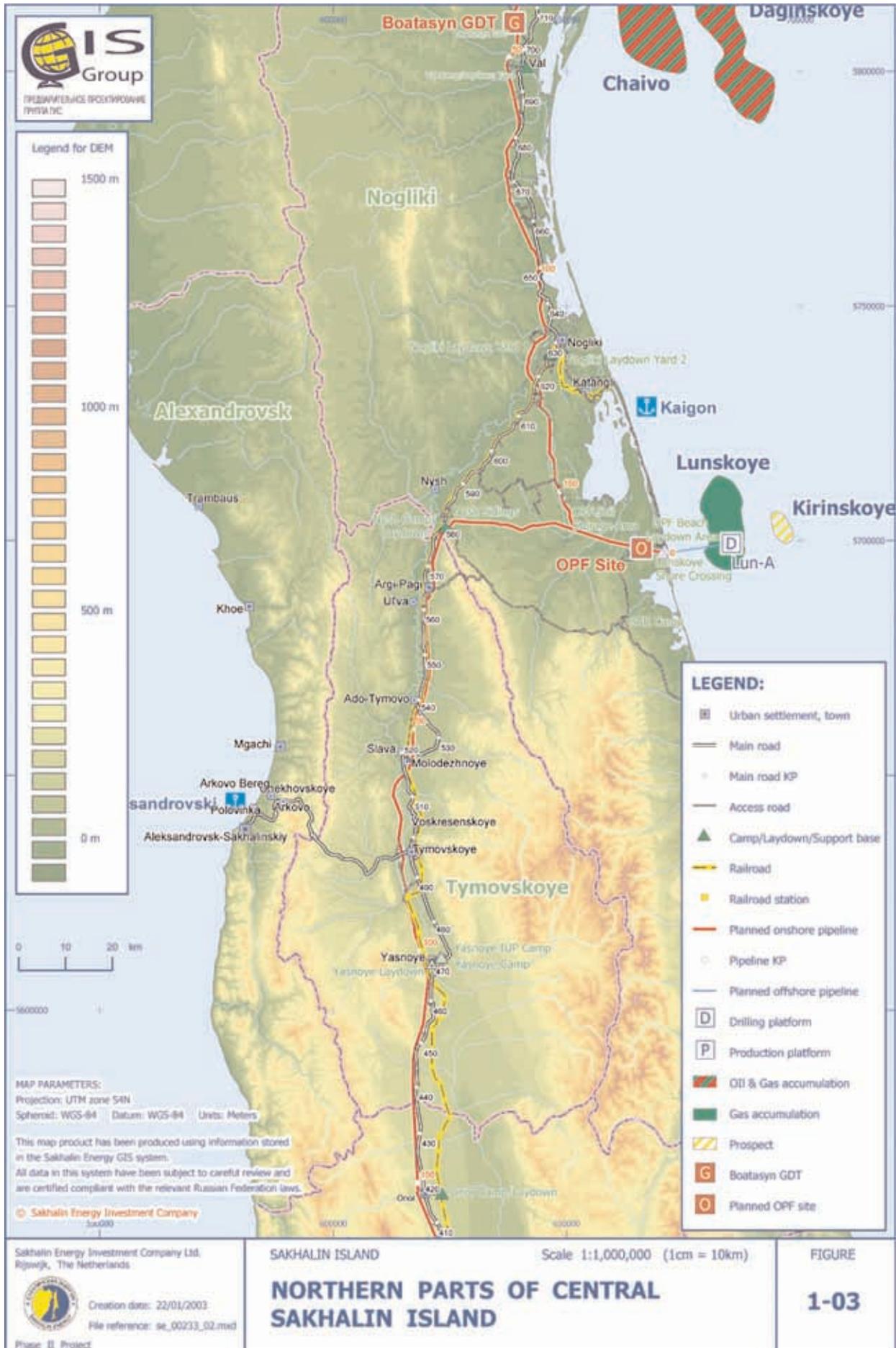
A	Examples of Questionnaires and Other Data Collection Instruments	Includes a list of questionnaires and survey instruments used during the assessment. Selected key questionnaires are included for reference purposes.
B	Social Assessment Group	Describes responsibilities and professional qualifications of participants. Includes biographies of core staff.
C	Socio-economic Baseline Tables	Supporting tables and graphs for information contained in Chapter 4.
D	Community Profiles	Includes detailed summaries of the socio-economic characteristics of potentially affected communities studied by the SA Group.
E	Indigenous Communities	Provides additional information on the Indigenous Peoples consultation programme.
F	Project Description	Includes a more detailed description of proposed Project facilities.
G	Maps and Photographs	Includes maps and photographs of communities consulted.

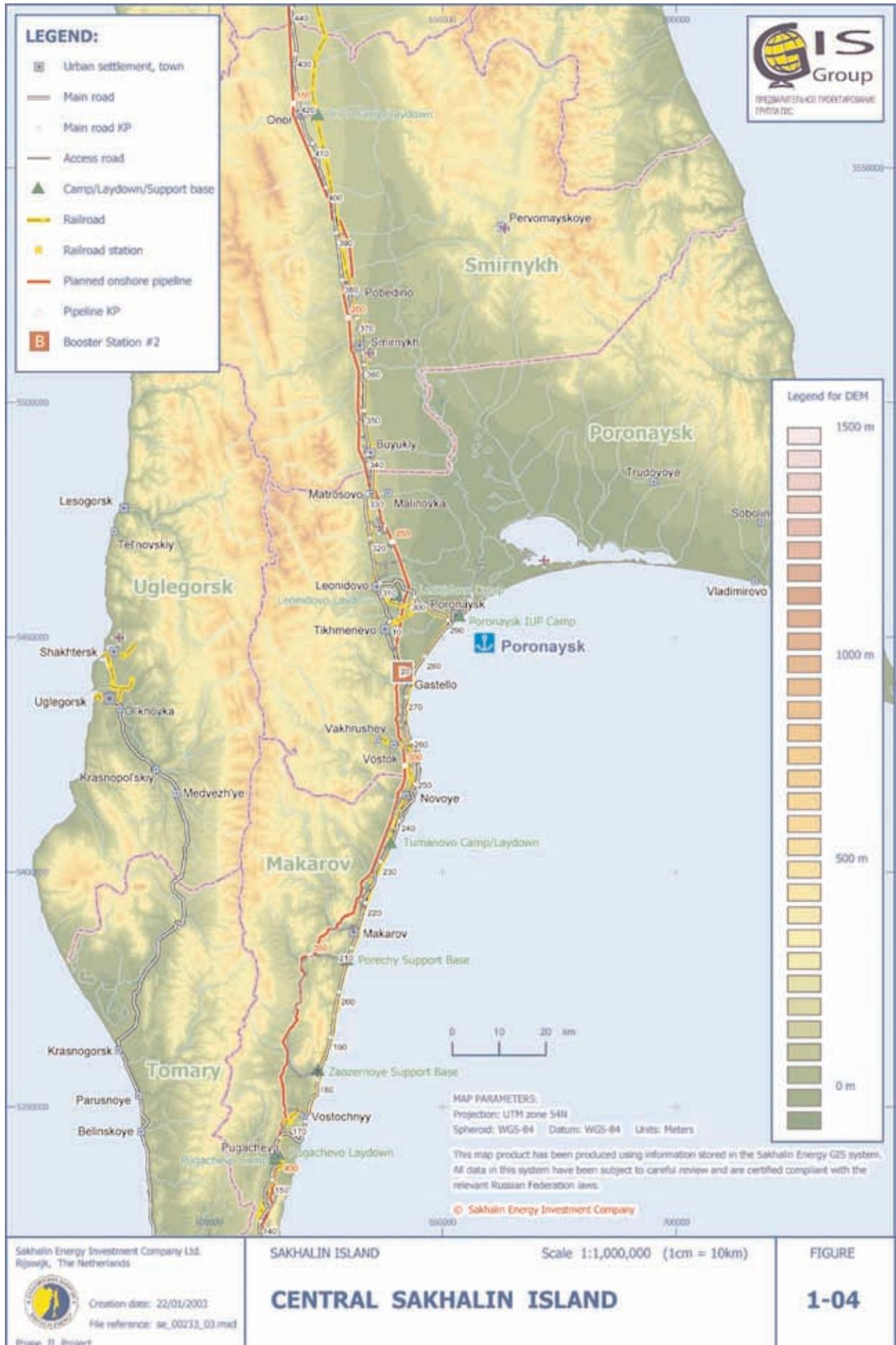
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