

Chapter

10



Economic Impacts

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10.1 INTRODUCTION

At the national (Russian) level, the Sakhalin II, Phase 2 Project impacts and benefits will be primarily economic. Significant financial revenues and benefits will also accrue to Sakhalin Region as a result of PSA agreements. The Project is a fully commercial venture extracting natural resources with the objective of generating revenues for SEIC and for the Russian Federation from hydrocarbon sales.

In the following sections the primary economic impacts and benefits of the Project to the Russian Federation and Sakhalin Region will be discussed. Impacts and mitigation tables related these topics may be found at the end of the section.

10.2 PRODUCTION SHARING AGREEMENT

10.2.1 Background

The Sakhalin II Production Sharing Agreement (PSA) of June 22, 1994, between the Russian Federation and SEIC, is the legal basis for the development of the Piltun-Astokhskoye and Lunskeye oil and gas fields off the northeastern coast of Sakhalin Island. It is a legal framework, which describes how the revenues derived from the investment by SEIC from the exploitation of the Sakhalin II oil and gas fields are distributed between SEIC and the Russian Party, the signatories of the PSA.

This Agreement was concluded before the enactment of the Federation Law *On Production Sharing Agreements*.

The PSA states in Sections 24 (on laws and regulations) and 25 (on the protection of the environment and safety of personnel) that the activities will be conducted in accordance with:

- Laws, regulations, decrees and other governmental acts applicable on the territory of the Russian Federation, officially enacted, and publicly available, and
- Environmental standards generally accepted in the international oil and gas industry. Such standards are subsequently defined in the PSA as 'construction and operation codes, standards and industry practices, and environmental, health and safety norms, policies and practices, generally accepted in the international oil, gas, pipeline, and LNG industries'.

It also includes reference to HSE and social norms and standards.

10.2.2 Phase 1 Development

To date SEIC is operating only the Molikpaq platform on a seasonal basis and is the company's only source of income. The revenue received from selling oil from the Molikpaq is first subject to a royalty charge of 6%, which is paid to the Russian Party. The remainder of the revenue is used to cover historic and current development/operational costs.

In an average year royalties paid to Russia from the Molikpaq production varies between US\$10-12 million annually, depending on actual price and production levels. These royalties will continue throughout the life-of-the project. As of September 30, 2002 US\$55.6 million has been paid in royalties and over US\$20 million¹³ in various tax payments.

In addition to the royalties, SEIC has paid US\$30 million in bonuses and US\$100 million for the Sakhalin Development Fund. SEIC is also reimbursing the Russian Federation for the historic exploration costs of which US\$52 million will have been paid by December 31, 2002.

¹³ Income tax, single social tax, withholding tax and environmental tax.

TABLE 10-01: PSA PAYMENTS TO RUSSIA FROM PRODUCTION SALES (NOT INCLUDING ROYALTIES)

Payment	Total (US\$)	Paid Date (US\$)
Commencement Date Bonus	15,000,000	Fully paid in 1996
Development Date Bonus Piltun-Astokhskoye	15,000,000	Fully paid in 1997
Development Date Bonus Lunskoye	20,000,000	Planned to be paid in 2003
Fund for Sakhalin Development	100,000,000	Fully paid in 2001
Reimbursement of prior Russian Exploration Expenditure made before the date PSA was signed*	80,000,000 – 160,000,000*	52 (as of December 31, 2002)

* Payment of 80 million of 160 total is dependent on future project profitability. These costs are divided 50/50 between the Russian Federation and Sakhalin Oblast.

Using the currently estimated 50/50 split of royalties between the Sakhalin Oblast and the Russian Federation, the Sakhalin Oblast will be receiving about US\$5-6 million per year in royalties from the Molikpaq production.

10.2.3 Future Phase 2 Development

Under the Phase 2 Development the Piltun-Astokhskoye and Lunskoye assets will be developed. Once completed and fully in operation additional revenues will be generated for the Russian Federation as described below.

10.2.3.1 Estimated Phase 2 Revenues Between Start-Up (2006/8) and 2010-2015

During this time period royalties from increased production will be paid to the Russian Federation and SEIC will recoup the company's investment costs as follows:

Russian Federation Royalties	There will be an increase in royalties as described for the Phase 1 Development as a result of increased revenue from the additional oil and gas sales.
SEIC Development Costs	The remainder of the revenue, called 'Cost Oil' will be used by SEIC to recover the company's cost to develop the hydrocarbons (both oil and gas) resources. Depending upon the price of oil and gas SEIC is not expected to recover the company's full development costs until about 2015.

This situation is forecasted to last until about 2010-2015 when it is anticipated that SEIC will have recouped its investment in the Project. Given that Phase 1 development commenced in 1996, the time between first investment to recovery of costs (without profits) is anticipated to be a period of 14 to 15 years, reflecting the relatively high costs to carry out this greenfield development.

10.2.3.2 Estimated Phase 2 Revenues Starting about 2010-2015

After this period, the annual cost, still repaid as Cost Oil, is less than the income. The difference between these two, the profit, called 'Profit Oil' is split between the Russian Party and SEIC. This split is agreed in the PSA. Note that the words Cost Oil and Profit Oil are used, but in fact it is Cost Hydrocarbon and Profit Hydrocarbon as both oil and gas are sold.

The Russian Party share of the profit is 10%, 50%, or 70% depending upon the rate of return the Company will make upon its investment. The remaining profit is paid to SEIC. The Russian Party then levies a 32% tax on SEIC's profit. This is also the maximum cap put of all taxes.

The following examples describe the potential benefits to the Russian Federation and the Sakhalin Oblast assuming a 10/90 profit split between the Russian Party and SEIC, current estimated reserves and money of the day totals in US\$.

Under a US\$16 to US\$20/barrel oil price scenario, the Russian Party would be due about US\$39 to US\$49 billion respectively. The breakdown of the US\$39 billion is as follows: US\$7 billion in royalties (6%), US\$8 billion in Profit Share (10%), and US\$24 billion in Profit tax (32%). Russian party bonuses average about US\$0.2 billion.

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Using the 50/50 estimated split between Sakhalin Region and the Russian Federation ***the part attributable to Sakhalin Region varies between US\$18 to \$25 billion depending on the oil price scenario.***

10.2.4 Russian Party Oversight of Development Under the PSA

The PSA is overseen by a Supervisory Board consisting of six members appointed by the Russian Party and six appointed by SEIC. This Board meets quarterly and is responsible for review and approval of:

- Development plans,
- Work programmes, budgets, and expenditures,
- LNG sales agreements,
- Long term natural gas sales agreements,
- Annual Reports,
- Procurement Procedures, and
- Employment and training of Russian Nationals.

It should be noted that all Project expenditures are subject to review and approval by both parties. This serves as an effective means of ensuring funds are:

- Spent appropriately, and
- That undue expenditures subject to cost recovery provisions of the PSA are minimised.

10.2.5 Changes in Revenue Stream of Sakhalin Region due to Oil and Gas Development

10.2.5.1 Revenue Flows to the Region as a Result of the PSA

Revenues from the Sakhalin II Project have formed a significant proportion of the annual budget of Sakhalin Region. As described above, revenues from production include:

TABLE 10-02: SOURCES OF REVENUE

Phase	Source of Revenue*
1	About US\$5 to \$6 million per year from seasonal production of the Molikpaq. This percentage would increase during year-round production.
2	About US\$18 to \$25 billion based on Money of the Day. The actual amount will depend upon the oil price scenario.

* These estimates are based on the estimated 50/50 split in revenues between the Sakhalin Oblast and Russian Federation. This ratio may change in the future.

Additional payments to the region, such as bonus payments and recovery of past exploration costs are discussed below.

10.2.5.2 Development Dynamics of the Sakhalin Oil and Gas Industry

10.2.5.2.1 Background

The Russians and Japanese first developed oil and gas fields for commercial purposes starting from the beginning of the 20th century. Following WW II Sakhalin oil production jumped dramatically. New fields continued to be added with the due to improvements in exploratory drilling lead in the 1970s. As on-shore fields played out in the 1970s total production peaked at about 2,473 th. tonnes. Production continued to vary between about 2,500 to 1, 600 th. tonnes until 1999 when start-up production of the Molikpaq resulted in a substantial increase in production (Table 10-03).

TABLE 10-03: DEVELOPMENT DYNAMICS OF SAKHALIN OIL AND GAS INDUSTRY IN 1950-2000

Development Indicator	1950	1960	1970	1980	1990	1995	1996	1997	1998	1999	2000
Total industrial production (millions of roubles)*	297	539	1,208	1,985	2,908	4,748	6,009	6,196	7,116	16,262	30,166
Total oil and gas production (millions of roubles)*	11	12	37	39	103	813	1,030	1,509	1,142	4,286	17,350
Industrial oil and gas production Index (%)	...	112	97	104	89	111	98	103	98	107	173
Oil and gas as share of overall industrial production (%)	4	2	3	2	4	17	17	24	16	26	58
Oil production (th. tonnes)	617	1,600	2,473	2,519	1,918	1,724	1,662	1,720	1,696	1,836	3,362

* 1995-1997 - figures given in billion roubles.

Sakhalin's recoverable off-shore oil and gas reserves are estimated at 1 billion tonnes of oil and three trillion tonnes of gas; among the largest in the world.

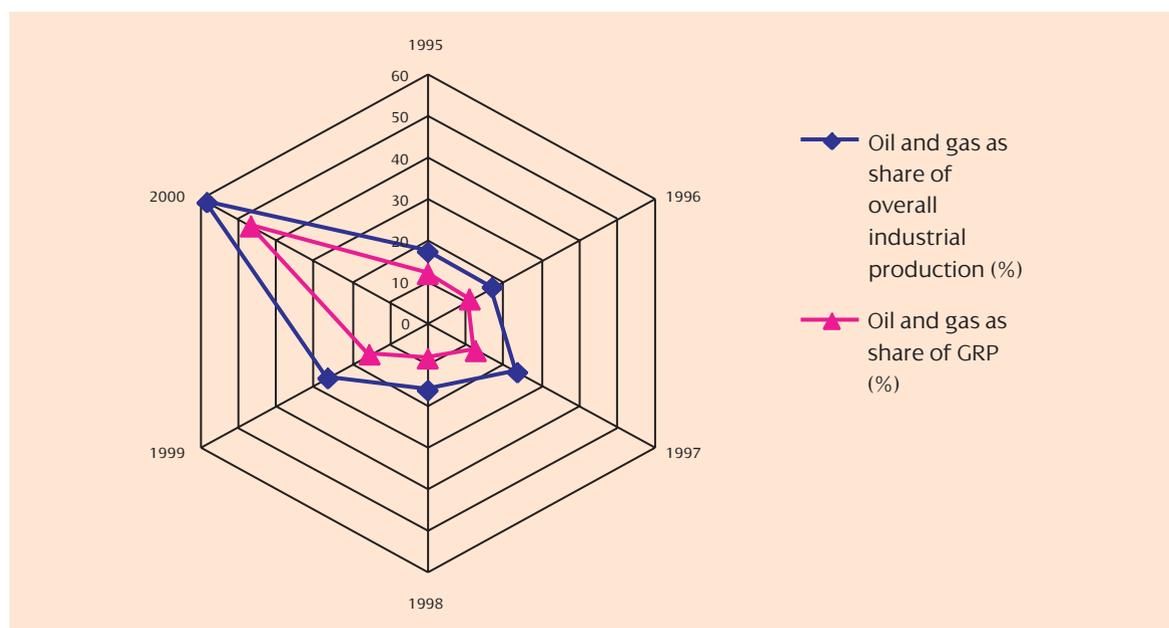
10.2.5.2.2 Role of the Oil and Gas Industry in Sakhalin Oblast of GRP and Consolidated Budget

The oil industry is one of the leading sectors of the Sakhalin Region. In recent years it has become increasingly important as reflected in the share of the:

- Gross Regional Product (GRP),
- Total volume of industrial production of the Sakhalin Oblast, and
- Taxes of the consolidated budget of the Sakhalin Oblast.

In 2000 this share of oil and gas industry in GRP and industrial production was 47% and 58% respectively (Figure 10-01).

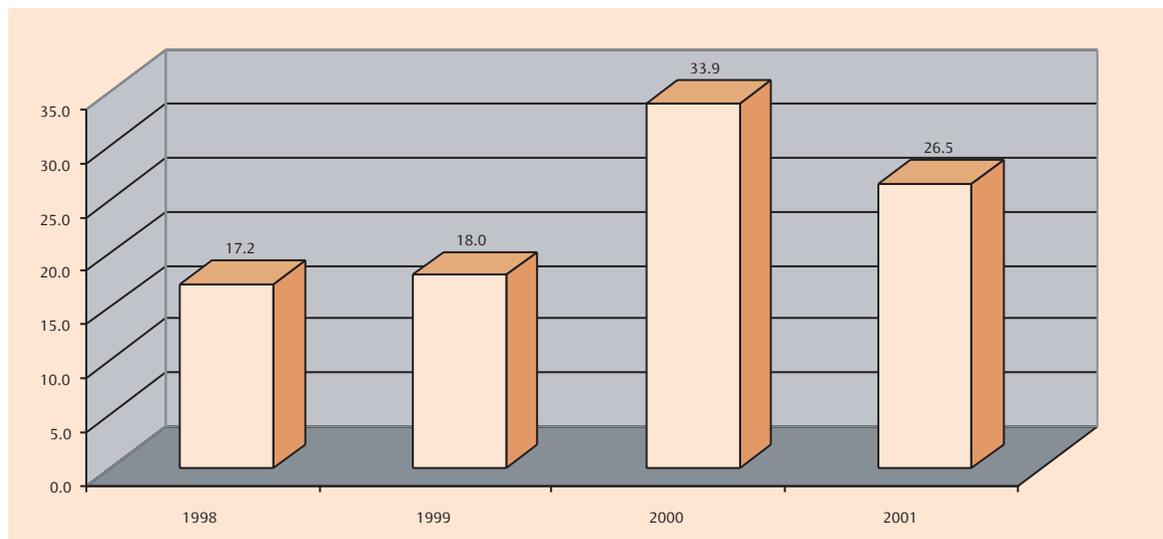
FIG. 10-01: OIL AND GAS INDUSTRY SHARE IN GRP AND INDUSTRIAL PRODUCTION OF SAKHALIN REGION IN 1995-2000



In 2001 the share of oil extracting industry made up 26.5% of tax revenues to consolidated budget of the Sakhalin Region, which is significantly more than any other branch (Figure 10-02).

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FIG. 10-02: OIL AND GAS INDUSTRY SHARE IN GRP AND INDUSTRIAL PRODUCTION OF SAKHALIN REGION IN 1998-2000, %



The taxes paid by Sakhalin oil and gas industry are presented below (Table 10-04).

TABLE 10-04: TAXES PAID BY SAKHALIN OIL AND GAS INDUSTRY IN 1998-200

Budget Level	1998	1999	2000	2001
Taxes paid into budgets of all levels, (millions of roubles)	605	914	2,179	2,946
Included in the consolidated budget of the Sakhalin Region	312	475	1,278	1,32

Source: Adventure of the Century or Paradoxes of the Sakhalin Shelf: Report Materials of the Accounting Chamber of the Russian Federation, Moscow, 2001.

10.2.5.3 Impact of SEIC Revenues on Sakhalin Regional Budget

Sakhalin Region has two budgets, the Sakhalin Regional Budget (or 'consolidated budget') and the 'Extra-Budget Fund'. The latter is made up of various sources including income from the offshore oil and gas projects. In a press-conference in July 2001, Sakhalin governor, Igor Farkhutdinov, stated that every tenth rouble in the regional budget comes from the Sakhalin II Project (ref: 'Argumenty I Fakty', No.29, July 2001). Income from the Sakhalin II Project constitutes up to 97% of the Extra-Budget Fund.

The distribution of both budgets is managed by the Regional Administration and the Regional Duma (elected legislature). The two budgets are illustrated in the table below. Allocation of monies may not directly correlate with the year they were paid by SEIC due to the fact that SEIC made payments to the Federation government which in turn allocated portions of these funds to the Sakhalin Oblast.

TABLE 10-05: SAKHALIN REGIONAL CONSOLIDATED BUDGET AND EXTRA-BUDGET FUND

Income	1990	1996	1997	1998	1999	2000
Sakhalin Regional Budget (Consolidated Budget')						
Total income (billion roubles until 1998, since then million roubles)	630.9	2,797.8	3,380.4	3,017.0	4,933.8	7,334.1
Total expenditure (billion roubles until 1998, since then million roubles)	507.2	2,892.4	3642.9	2,924.9	4,627.5	7,186.1
Of which:						
Socio-cultural (billion roubles until 1998, since then million roubles)	302.8	674.9	1,083.5	1,317.9	1,019.4	1,569.6
Socio-cultural as share of total expenditure (%)	59.7	23.3	29.8	45.1	22.0	21.8
Sakhalin Regional Budget (Extra-Budget Fund)						
Total income (million US\$)	-	21.9	32.4	22.7	28.6	29.8
Income from Sakhalin II (million US\$)	-	15.0	30.0	22.0	22.0	28.0
Of which*						
Commencement Bonus	-	15.0	-	-	-	-
Development Date Bonus (Piltun-Astokh)**	-	-	10.0	2.0	-	-
Sakhalin Development Fund***	-	-	20.0	20.0	20.0	20.0
Repayment of Russian expenditure on geological exploration work	-	-	-	-	2.0	8.0

Source: Adventure of the Century or Paradoxes of the Sakhalin Shelf: Report Materials of the Accounting Chamber of the Russian Federation, Moscow, 2001.

Sakhalin Region at the Turn of the __I Century. Jubilee Collection. Yuzhno-Sakhalinsk: Sakhalin Regional Statistics Committee, 2001.

Law on Approval of the Budget Estimate of the Extra-Budget Fund of the Sakhalin Region for the year 1999 No.123.

Law on Approval of the Budget Estimate of the Extra-Budget Fund of the Sakhalin Region for the year 2000 No 186.

* In 1996 the Ministry of Finance of Russian Federation transferred in full the commencement bonus of US\$15 million to the administration of the Sakhalin Oblast. The money was entered on the account of the Finance Department of the Sakhalin Oblast administration on June 27, 1996.

** Development Date Bonus (Piltun-Astokh) was divided in the following way based on the address of the Governor of the Sakhalin Oblast to the Russian Federation Government Chairman: US\$10 million were entered on the account of the Finance Department of the Sakhalin Oblast administration on December 31, 1997; US\$2 million were entered on the accounts of the administration of the Sakhalin Oblast in 1996 as a target payment for construction of the Nogliki Gas Power Station; US\$3 million were entered on the account of the State enterprise Institute of Geology and Development of Caustobioliths in 1998.

*** In accordance with the Sakhalin II PSA, by the of December 31 of each financial year, starting from the date of development of Piltun-Astokh or Lunskoye licenced fields, SEIC pays US\$20 million to the Sakhalin Development Fund until the cumulative sum of payments equals US\$100 million.

A considerable portion of Extra-Budget Funds is invested in development or improvement of energy enterprises. Every year from 1996-1998 between eight to nine million US\$ was spent on this sector. Information on expenditures between 1999 to present has not yet been released.

Every year about 20-40% of the Fund is allocated to social investment projects in the Sakhalin Oblast. Since 1996 the largest social projects have included:

TABLE 10-06: MAJOR SAKHALIN DEVELOPMENT FUND SOCIAL PROJECTS

Project	Location	US\$
Construction of a children's clinic	Yuzhno-Sakhalinsk	\$1,400,000
Construction of a hospital	Korsakov	\$3,000,000
Construction of schools	Okha, Dolinsk, and Yablochny	\$4,475,000
Extension of therapy unit – regional hospital	Yuzhno-Sakhalinsk	\$2,783,900
Purchase of medical equipment		\$4,223,900

Money from the Extra-Budget Fund was also used to finance construction of the Nogliki gas-fired power station.

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10.3 DIRECT FOREIGN INVESTMENT

Sakhalin II represents the first significant foreign investment under a production sharing agreement (PSA). This is an approach that is expected to be a principal structure for major natural resource investments in Russia for the foreseeable future.

This investment could potentially act as an important stimulus for attracting future foreign investment to Russia. This is because other potential investors will evaluate its success or failure as a measure of risk and act accordingly.

By end 2001, SEIC had already invested about US\$2 billion into the development of the Piltun-Astokhskoye and Lunskeye oil and gas fields. The total sum of direct expenditure expected from 2001 is estimated at about US\$30 billion (money of the day) of which about US\$10 billion will be capital investment for Phase 2 and further development of the current Phase 1.

The rest of the expenditure is related to the operation of existing and new facilities as follows:

Phase	Type of Investment
Design and Construction	Further investments are planned for, design and construction for: <ul style="list-style-type: none">– New and existing island infrastructure upgrades (port, roads, bridges, airport, railways),– New and existing island infrastructure upgrades (port, roads, bridges, airport, railways),– Two new offshore platforms, oil and gas pipelines, onshore processing facility, booster station, and LNG plant and oil export terminal.
Operational	Expenditure over the period of 2001-2045 is estimated at about US\$18 billion (money of the day).

Capital investments in Phase 2 and the existing Phase 1 from 2001 until the end of the construction phase (including drilling) are estimated at somewhere about US\$10 billion. The impact of this investment can be compared to the follow figures reported for 2000 of:

- The reported GRP of Sakhalin Region in 2000 was approximately US\$1.4 billion, and
- The direct foreign investment in Russia in 2000 was about US\$4.0 billion.

10.4 PROVISION OF TAKE-OFF POINTS TO ENABLE GAS SUPPLY TO SAKHALIN ISLAND AND/OR RUSSIAN FAR EAST

The primary markets for oil and gas from the Sakhalin II development is export outside Russia. However, within Russia:

- The Russian federal and regional authorities need, as agreed in the PSA, to take their entitlements in the form of natural gas, and
- SEIC can enter into additional, commercial gas sales contracts.

The Sakhalin II PSA foresees that the Russian Party will take royalty and profit revenues in the form of gas. This so-called entitlement gas can be used by the Russian Party in any way it sees fit. The pricing is the same as the gas used to establish the value of the gas production from the Project. This in turn is used to calculate the Russian Party's royalty and share of the profit hydrocarbon. The gas price used for accounting purposes is based on a world market price. Gas prices in Russia are currently about 1/6th the world market value.

For the delivery of entitlement gas SEIC has proposed a number of gas off-take points along its pipeline to supply the gas for the needs of Sakhalin Island and the Russian Mainland under the terms of the PSA. The production rate of this entitlement gas can be up to about 350MMscf/d in the period between 2010 and 2030. The range will depend on the gas and oil revenues generated.

At the time this SIA was prepared the Russian Party had not yet advised SEIC of the yearly volumes they intend to take, but have advised SEIC that the gas delivery points for these volumes are acceptable.

10.4.1 Gas Supply to Sakhalin Region

Gas supplied under the terms of the PSA may be used to supply heating and power generation where it is economically and technically feasible. At present the gas distribution network on the island is underdeveloped. Gas is now supplied to a few communities in the north via the SMNG gas line. However, based on economic studies, future projected gas demand on the island is expected to be mainly localised in the southern half of the island and particularly near Yuzhno-Sakhalinsk.

In the approved Integrated Plan of Development SEIC has advised that with the current design the peak gas delivery capacity is about 120MMscf/d (3.5 million m³/day) to both the north and south of the island. However, additional technical measures will be implemented when the Russian Party will have advised SEIC on their entitlement gas deliveries. These supplies would be delivered as described below.

- North of OPF
- Delivered into the SMNG system via a off-take station at Boatasyn. The gas would be fed from the 20" feeder gas pipeline from Piltun Astokhskoye to the OPF.
 - A gas supply to an expanded Nogliki Power Plant could also be made available from this feeder pipeline which is 4-5km away.
- South of OPF
- Gas would be supplied along the route of the main 48" trunk pipeline.

There are high expectations among most Sakhalin communities that gas should be supplied. Currently, power for Yuzhno-Sakhalinsk and the majority of communities is generated by coal-fired power stations. Some community heating plants are powered by expensive and scarce diesel fuel. Many older private homes depend upon wood for cooking and heating in the winter. Power cuts are from the community coal and diesel-powered plants are frequent in the winter. Polluting emissions from the coal-powered plants are high.

Oblast authorities have advised SEIC about plans to stimulate renewed industrial development of the Island, which would potentially use gas supplies (Chapter 15). However, it is unclear if this project will be developed and hence local gas demands may fall short of expectations. However, the pipeline's block valve stations provide sufficient flexibility to supply gas to communities if required for delivering entitlement gas or if an economically attractive domestic sales contract, with appropriate payment security, can be secured.

10.4.2 Gas Supply to the Russian Mainland

Gas supplies to the mainland are a possibility. Currently, the mainland can be supplied with gas via a delivery point near Boatasyn (just south of Val) and subsequent gas transport via the existing Sakhalinmorneftegaz (SMNG) gas pipeline to the mainland.

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10.5 MITIGATION AND MONITORING MEASURES

10.5.1 SEIC Mitigation/Monitoring Actions

TOPIC	SEIC ACTIONS
Reporting on Russian Content throughout the life of the Project	<ul style="list-style-type: none"> – SEIC will regularly report on progress made as per PSA requirements to achieve Russian content of 70% over the life of the project.
Employment Recruitment/Hiring during Construction and Operations	<ul style="list-style-type: none"> – Monitoring of contractor recruitment and hiring process hiring, and performance, including Contractors' reporting requirement/indicators. – Monitoring and solicitation of feedback from local governmental authorities and communities concerning contractor's recruitment and hiring procedures through its CLO staff. – Monitoring as per compliance with Russian Federation employment standards.
Maximising Russian Content	<ul style="list-style-type: none"> – Developing a database of potential Russian vendors. – Visiting a wide range of Russian companies to assess their capabilities and help them to develop. – Ensuring that engineering contractors incorporate Russian equipment in designs. – Supporting the efforts of Russian companies to obtain licences to manufacture equipment and materials to internationally recognised standards. – Recommending areas of work where joint venture with foreign companies could be beneficial. – Encouraging the development of joint ventures between Russian and foreign companies so as to maximise technology and skills transfer. – Organising a series of seminars for Russian industry to explain the requirements for the Sakhalin II Project. – Advising Russian industry and foreign companies on how to best position themselves to participate in the Sakhalin II Project. – Drawing up lists of work (goods and services) where Russian contractors and sub-contractors could be involved and lists of potential Russian contractors, including manufacturers and service providers. – Recommending to SEIC ways to formulate tender conditions for contracts so as to encourage Russian Content; – Facilitating inspections of potential Russian contractors. – Familiarising potential Russian contractors with SEICs contractual needs.
Community Liaison Efforts during Construction and Operations	<p>The CLOs will work with contractors and local employment authorities to facilitate the exchange of information regarding employment opportunities.</p> <p>In local communities CLOs will assist in facilitating this process by:</p> <ul style="list-style-type: none"> – Providing information about the duration of construction activities in their vicinity. This information will be provided updated at least on a monthly basis. – Providing assistance for ensuring that work applications are deposited with local authorities. – Monitor community feedback concerning contractor recruitment and hiring procedures.
Monitoring	<ul style="list-style-type: none"> – Analysis of the database on Russian content. – Monitoring of employment and training. – Monitoring of wages. – Monitoring of budget income and expenditures.

10.5.2 Residual Impacts

TOPIC	SEIC ACTIONS
Construction-Related	
Russian Content	<ul style="list-style-type: none"> - Positive: Increase of competitiveness of Russian companies working under Sakhalin II Project. - Development of more competitive forms of business. - Use of international standards. - More opportunities to participate in large oil projects. - Positive: Increase of competitiveness of labour force employed for the project. - Opportunities for employment in other projects. - Positive: increase in wages in construction industry and hence, in general level of wages in linked industries and economy in general. - Negative: inflation of wages and price rise.
Working conditions	<ul style="list-style-type: none"> - Potential residual positive impacts if Russian regulatory and project standards are met through improved working conditions and application of standards. - Increase in work conditions at enterprises operating in the project and previously non observing international standards in their work.
Direct employment wages/training to individuals/households-wide distribution of economic benefit on Sakhalin Region and other home communities of workers within the Russian Federation.	<ul style="list-style-type: none"> - Positive: Partially balanced by the fact that most major contractors tend to re-employ suitable former employees. As a result there is a level of stable income generated for a pool of skilled workers living throughout Russia. - Positive: Satisfactory performance of local workers and training may result in enhanced opportunities for construction-related off-Island employment opportunities, similar to those who will be re-employed from other parts of Russia by contractors to whom the work will be awarded.
Employment business expectations	<ul style="list-style-type: none"> - Variable potential for positive to negative residual perceptions. Especially given current Island view of few direct Project benefits. Level of employment/local benefits will be in part driven by potential cumulative overlap of employment needs by the Sakhalin I Project reducing the residual impact. - Monitoring of construction contractor hiring process and systematic management by SEIC should result in a low-moderate residual impact.
Infrastructure Investment	<ul style="list-style-type: none"> - Positive: infrastructure improvement. - Negative: failed expectations of the population associated with the local improvement of the infrastructure. - Positive: In the event that gas will be available under the terms of the PSA, a major indirect social and environmental benefit will result from the Project implementation. In the event that gas is not taken up by the Russian State; gasification may lead to decrease in economic expenditures on electricity and fuel. - Negative: Public perceptions of the issue may arise because of failed expectations. SEIC will strive to make these expectations neutral by informing the population of the gasification opportunities. - Reorientation of the fuel industry to markets in Russia and near abroad as a result of decreased demand in coal.
Operations-Related	
Increases in Oblast-wide economic benefits (jobs, infrastructure improvement, and community services) as a result of PSA payments to the Sakhalin Region	<ul style="list-style-type: none"> - Opportunities for infrastructure improvement as a result of SEIC PSA payments to Sakhalin Region and development of services. - Opportunities for realisation of social programmes as a result of SEIC PSA payments to Sakhalin Region.
Increases in long-term direct and indirect Project-generated economic benefits (jobs/secondary services) in communities where long-term facilities are sited (e.g., Nogliki, Gastello/Poronaisk, Yuzhno-Sakhalinsk/Korsakov)	<ul style="list-style-type: none"> - Positive: Creation of long-terms jobs and predictable need for secondary goods and services will result in an overall residual impact on Sakhalin Island.
Reduction in indirect expatriate spending/support costs in local communities during transition to Russian staffing	<ul style="list-style-type: none"> - Neutral: It is expected that by the time there is a substantial transition to Russian operations staffing, the Sakhalin Oblast will begin realising the economic benefits of the project as per the flow of revenues to the Island.