



## **Executive summary**

### INTRODUCTION

The Sakhalin II, Phase 2, Social Impact Assessment (SIA) was prepared in accordance with international best practice and shareholder standards. It is a public document in both Russian and English, and is available for viewing on the Sakhalin Energy Investment Company Limited (SEIC) web-site, in local libraries across Sakhalin and elsewhere. Its objective is to present the findings, conclusions and recommendations of this assessment process to Project stakeholders.

Findings presented here represent the work of a group of independent local sociologists and economists, and international SIA experts. This group was first organised in the autumn of 2001 with the express purpose of preparing the Project's SIA.<sup>1</sup> The SIA documents the results of this work between September 2001 and early November 2002. It further describes the diverse range of scoping, consultation, baseline data collection, and assessment, which were completed as part of the process.

The success of this Group and their work is best reflected by the policies, procedures, and commitments made by SEIC senior management over the last year. In many SIAs these policies and procedures are framed as mitigation-of-impact measures. In the Sakhalin II, Phase 2 Project a number of the programmes are in the process of being implemented.

The policies, procedures, and commitments described here are fully compliant with international best practices. They were adopted based on the findings and recommendations of the SIA Group and the desires and concerns of the Sakhalin community.

### 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-Astokhskoye field is mainly oil and condensate. The Lunskeye field is primarily gas. Together, the fields contain approximately 600 million tonnes of crude oil and over 700 billion m<sup>3</sup> 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 (Figure ES-01).

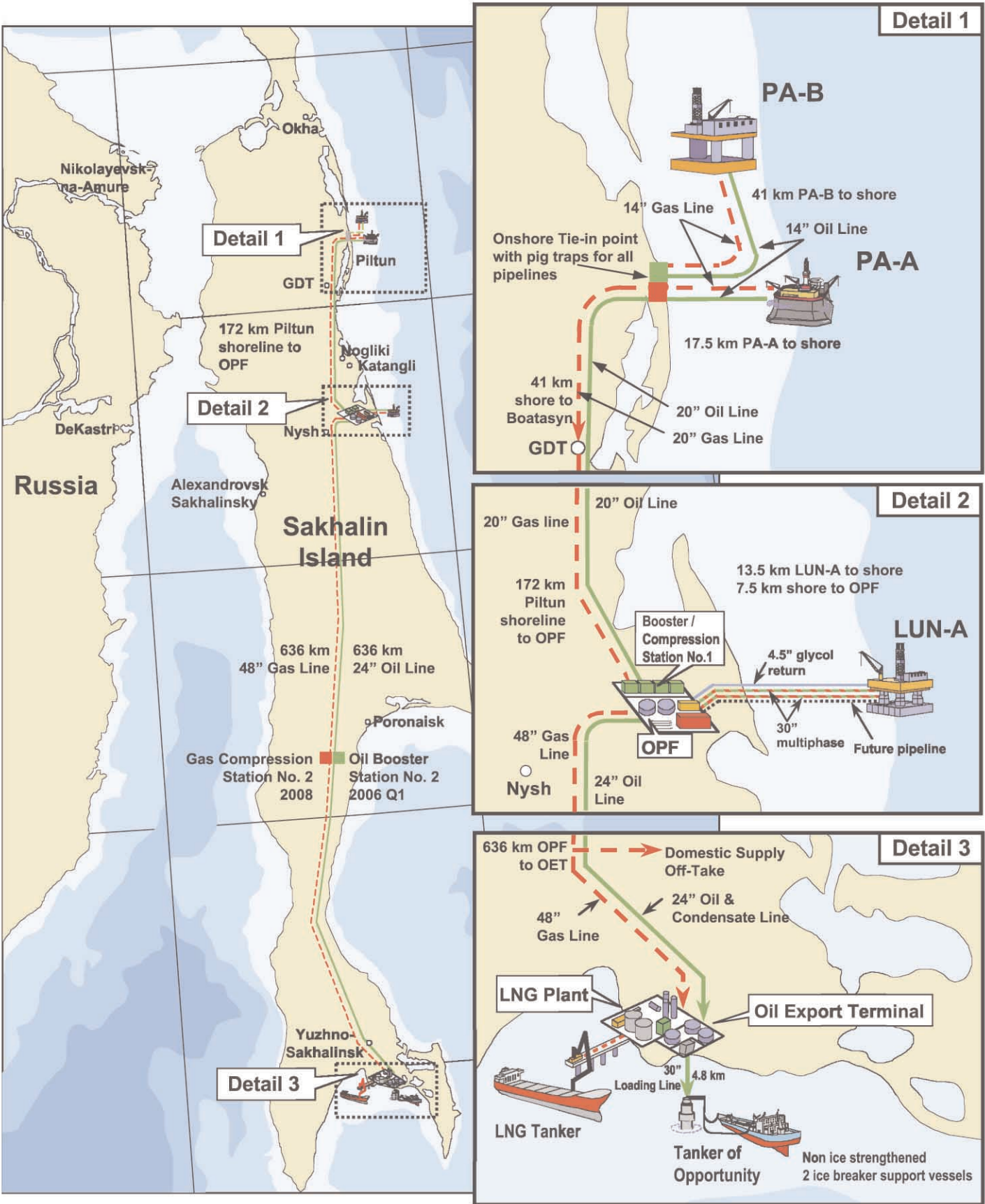
Phase 2 is due to come on stream from 2006. Peak crude oil/condensate production will be about 180,000 barrels/day (about 8.2 million tonnes/year). LNG production will be about 9.6 million tonnes/year for more than 25 years. Oil and gas will be shipped to markets in the Asia Pacific region and beyond.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

In the autumn of 2001 Sakhalin Energy Investment Company, Ltd. made a commitment to a local capacity building in International SIA in oil and gas development. The Company retained a group of independent well-known and well-respected sociologists and economists from several of the local universities to prepare the SIA. Most had been born and raised on Sakhalin Island, providing a wealth of knowledge on the social and economic background of the Island. A group of indigenous people's experts was also retained and carried out a specific research programme for Native communities.

Since none had any previous experience in SIA, in fact SIA is a relatively new concept in Russia, the Company decided to retain the services of an independent international consultant to provide training and direction in SIA. The Company further provided office space to the group permitting them ready access to Company records, reports, and specialists on a daily basis. The SIA findings were reviewed by an independent third party SIA specialist prior to release.

FIG. ES-01: SEIC PHASE 2 PIPELINE SYSTEM ROUTING



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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.

### SAKHALIN ENERGY COMMITMENTS

Both the extended time period over which the SIA was prepared and the stage of Project planning and design permitted ongoing integration of social management issues into the overall planning process. The process of scoping and ongoing community consultation resulted in a dynamic process of assessment, consultation with communities, and feedback and refinement of management recommendations.

While the SIA was being conducted, SEIC adopted a number of policies, procedures and requirements. The most important commitments, policies and plans are listed opposite and summarised in later sections.

### PUBLIC CONSULTATION AND BASELINE DATA COLLECTION

#### SIA methods, number of participants and communities consulted

During the SIA a large number of Sakhalin residents were consulted, covering 52 communities and focusing in particular on 22 mostly rural communities where temporary construction and permanent Project facilities are likely to be sited. Baseline information was gathered and key community concerns identified.

**Between September 2001 and October 2002 over 5,000 Sakhalin residents were consulted in 52 communities.**

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About 1,500 people were consulted during the scoping phase.

About 1,500 people participated in the Public Hearings and Environmental Presentations in 29 communities.

Almost 1,200 people answered questionnaires or were consulted on impacts and mitigation measures in 2002.

About 25% of all Native families.

Over 500 expert interviews were completed.

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Methods included interviews with the public and local experts, questionnaire surveys, price recording, resource mapping, public meetings, group consultations and direct observation. Secondary data sources include SEIC Project materials; statistical data from State Departments of Statistics, district administrations, enterprises, organisations and institutions; published research and the media.

SEIC currently has in place an active on-going programme of social monitoring and consultation about supplemental assistance and impacts/mitigation measures. This consultation programme will cover up to 60 communities across the island. The focus will be on district centres and communities most likely to be affected by the Project, given their proximity to Project facilities. The list of communities will be determined by Project development and is subject to change.

### HISTORIC AND CURRENT STATUS OF THE SAKHALIN ECONOMY

Sakhalin has long been a resource periphery for Russia, focusing on the export of natural resource extraction, with very little processing. Northern Sakhalin has been the focus of the onshore oil and gas industry since the 1920s. However, most economic activity is in the south where there are ice-free ports, railway hubs, and large population centres.

TOPIC	GOAL
<b>Supplemental Assistance Policy (Compensation) and Programme</b>	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.
<b>Commitment to Russian Jobs and Business Development</b>	To maximise Russian content. To provide to the extent practicable and possible, a preferential approach for hiring workers and tilising 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.
<b>Policy on No Fishing, Gathering, and Hunting</b>	To limit/minimise potential impacts to subsistence fishing, gathering, and hunting during construction.
<b>Code of Conduct Policy</b>	Establishes code of conduct for construction workforce. Establish basis for which monitoring of activities will take place.
<b>Uilta Reindeer herders</b>	To minimise impacts/inconveniences though continuous consultation. Requires Contractor Management Plans for activities in reindeer grazing areas.
<b>Policy on Discovery and Decontamination of Unexploded Ordinance from SEIC Land Allocations</b>	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.
<b>Policy on Discovery of War Dead During Construction</b>	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.
<b>Treatment Plan for Objects of Cultural Heritage</b>	Sets minimum standards of data recovery and support of archaeological monitoring and mitigation programme throughout construction.
<b>Contractor Socio-Economic Plan for SEIC Review and Approval</b>	The Plan will describe how individual contractors intend to adopt, implement, and manage socio-economic mitigation measures and commitments made by the Project.
<b>Requirement for Contractor Community Liaison (CLO) staff</b>	Requires contractors maintain CLO staff and interactions with SEIC CLO staff and communities.
<b>Camp Management Policy</b>	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.
<b>Ongoing Community Consultation</b>	Provides for long-term consultation and interaction with communities.
<b>Monitoring of Potential Social and Economic Impacts</b>	Establishes SEIC CLO and Social Assessment consultation and monitoring programme.
<b>Grievance Procedure</b>	Establishes low/no cost grievance process as per international best practice.
<b>Sustainable Development Policy</b>	Establishes SEICs long-term commitment to assist sustainable development on Sakhalin Island.
<b>Public Consultation and Disclosure Plan</b>	Describes SEICs commitment and plan for ongoing consultation and disclosure with stakeholders.



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Strategically important to the former Soviet State, Sakhalin received incentives and subsidies. With the decline of the economy in the 1990s many industries closed, social supports reduced, prices rose, and significant out-migration occurred. The Sakhalin economy began to improve in 1999, primarily due to the offshore oil and gas development, which accounts for more than half of the total investment and over 80% of foreign investment on the Island. However, modernisation of the economy is slow.

State supplied statistical data indicate that for the first time in many years, the standard of living on Sakhalin improved in 2000. Living standards are highest in Yuzhno-Sakhalinsk and in the Nogliki District. The average wage is highest in Nogliki and Okha districts because many people are employed in the oil and gas industry. Income from entrepreneurial activities has also increased.

Living standards are lower in most rural communities than in the towns, and many rural residents live in poverty. The percentage of the population living below the subsistence level (36% in 2000) is higher than the Russian average. The natural economy of fishing, gathering, hunting, garden plot cultivation dominates rural life.

In larger towns such as Yuzhno-Sakhalinsk, Korsakov and Kholmsk new medical treatment centres have been built. However, health provision is poor in smaller rural communities and medical facilities are closing due to out-migration and lack of funds.

The condition of infrastructure, housing, utilities and social services continues to deteriorate, particularly in rural communities.

### ECONOMIC BENEFITS TO THE RUSSIAN FEDERATION AND THE SAKHALIN OBLAST

Consultation with local communities indicated that most residents are not aware of the existing and potential future economic benefits of the Project to the Sakhalin Oblast. They have expressed surprise when these are described. The Project's 1994 PSA, between SEIC and the Russian Party (Russian Federation and Sakhalin Regional governments), describes how Project revenues are distributed between the two parties. These revenues are, and will be, a significant source of revenue not only to the Federal Government but to the Sakhalin Oblast as well.

#### **Substantial financial benefits will accrue to the Sakhalin Oblast as a result of the Project.**

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Royalties are currently estimated to be about US\$ 5-6 million per year based on seasonal Molikpaq production.

Over the life of the Project, the total revenues (including royalties) to the Russian Party are estimated to be about US\$ 39-49 billion.

Based on the estimated 50/50 split the Sakhalin Oblast would expect to receive about US\$ 18-25 billion.

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#### **Phase 1 and Phase 2 royalties**

Based on SEICs current understanding Project royalties are split 50/50 between the Russian Federation and Sakhalin Oblast. The six-percent royalty is based on all hydrocarbon production sales before any consideration of profits or losses.

To date, seasonal oil production from Molikpaq is SEICs only source of income and only source of royalty payments. Royalty payments have varied between US\$ 10-12 million annually since the Molikpaq first started production in 1999. The payments made to the Russian Federation are estimated to return about US\$ 5-6 million per year in royalties to the Oblast. As of September 30, 2002, SEIC has paid US\$ 55.6 million in royalties. Royalties will increase when year-round production begins from the Molikpaq and the two new offshore platforms.

### Phase 2 revenues after cost recovery

Revenues remaining after payment of royalties are used to cover SEIC development and operating costs. Depending upon the price of oil and gas, SEIC expects to recover the Company's full development costs between 2010 and 2015.

After SEIC recovers its estimated US\$ 10 billion in Project development costs, SEIC will begin making profit share payments of 10%, 50%, or 70% depending upon the rate of return. The Russian Party will levy a 32% tax on SEICs profit. Based on the current estimated split of revenues, the Sakhalin Oblast can expect to receive US\$ 18-25 billion over the life of the Project. Actual revenues will vary depending upon world market prices.

### Other payments to the Russian Federation and Sakhalin Oblast

Other sources of income to the Russian Party have included tax payments, bonuses and monies to the Sakhalin Development Fund. SEIC is also reimbursing the Russian Federation for past exploration costs.

**Since 1996 payments made by SEIC into the Sakhalin Development Fund have not only helped to support future development on the Island but to also build a children's clinic, a hospital, and three schools.**

### Importance of Sakhalin II revenues in the Sakhalin economy

Sakhalin II Project revenues also form a significant portion of the Regional Non-Budget Fund. Between 1996-2000 Sakhalin II Project revenues constituted up to 97% of this budget. It was invested by the Administration in development or improvement of existing industries. About 20-40% is allocated to social investment projects like schools, hospitals, and healthcare improvement.

The oil industry is one of the leading sectors of the Sakhalin Oblast economy. In 2000, the oil and gas industry contributed 47% to the Gross Regional Product and 58% to industrial production.

By the end of 2001, SEIC had invested about US\$ 2 billion in the Project. Total direct expenditure in development and operating costs from 2002 onwards is estimated at about US\$ 25 billion.

### GAS SUPPLY TO SAKHALIN ISLAND AND THE RUSSIAN FAR EAST

Provision of gas supply to the Sakhalin region under the terms of the PSA is not well understood among the communities consulted. Most Sakhalin residents expect gasification of the island and most believe this to be the responsibility of the Sakhalin II Project. As part of the consultation effort SEIC has explained and will continue to explain the status of this effort to Sakhalin residents.

#### Provisions of the Production Sharing Agreement with Regard to Gas Supply

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The Russian federal and regional authorities will take their royalties and other entitlements in the form of gas, or if gas is not available in oil or cash.

SEIC gas block valves along the pipeline can be adapted to permit gas take-off points.

The government is responsible for building the gas infrastructure to deliver gas from the pipeline to the consumers.

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Russia now provides gas at regulated prices significantly below the current world market price.

### EMPLOYMENT AND BUSINESS OPPORTUNITIES

Creation of jobs and business opportunities was a major community concern identified during the SIA effort. Most people hope for increased employment opportunities from the Project. Over the last decade there has been extensive intra-Island migration of people from rural communities to district centres and Yuzhno-Sakhalinsk in search of jobs.

Information related to resident's job skills and businesses were collected during the baseline survey. In rural communities the assessment that employment possibilities are limited, due to their lack of mobility and relevant qualifications. As a result, unmet hiring expectations are likely to be important. Under-utilised businesses were also identified.

### Russian Content

Commitments to Russian Content under the PSA are one of the major vehicles through which development of Russian jobs and businesses will be supported. It is expected that most construction workers will be hired from the available labour pool on Sakhalin and the Russian mainland.

#### **According to the PSA, SEIC is committed to a best effort to achieve 70% use of Russian labour, materials, equipment and contractors over the lifetime of the Project.**

In 1998 the Joint Committee was set up to provide a forum for the Russian Party and SEIC to promote the use of Russian industry and to discuss related contract issues at the working level. The Joint Committee consists of two representatives of each of the federal authorities, the Sakhalin Oblast Administration and SEIC.

A large number of temporary and short-term construction jobs will be created on infrastructure upgrades between 2002-2008, ranging in duration from several months to two or three years. Significant secondary employment will be generated as a result of increased demands for local goods and services.

At present, about 350 SEIC Russian and expatriate staff are employed by SEIC. About 1,000-1,500 additional new long-term SEIC jobs and an estimated 900 additional contract jobs will result from the Phase 2 development.

In total, on average between 5,000 and 8,000 individuals are expected to be employed during construction with a peak construction estimate of about 13,000.

### Local jobs and business opportunities

The Sakhalin labour pool is limited and there is likely to be a deficit of qualified labour on Sakhalin itself, which may lead to wage inflation. Qualified staff may leave for better-paid work with the oil companies.

This situation may be intensified as a result of cumulative labour demand due to the concurrent development of the Sakhalin I Project. Peak employment levels for both Sakhalin I and II are expected to coincide in 2004, with more than 3,000 people employed by Sakhalin I.

Potential contractors have reported that they expect 70-95% of the workforce to be Russian. Estimates of employment from Sakhalin Island and the Russian Far East vary from 25-65% of the workforce.

#### **SEIC Commitments on Local Jobs and Business Opportunities**

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Preferential approach, to the extent practicable and possible, to the people and businesses of the Sakhalin Oblast.

Provision of accurate information in advance to local communities about job opportunities in order to make expectations more realistic and enable local people to plan appropriate training and education.

Support for appropriate training and educational programmes and initiatives.

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## IMPACTS TO SAKHALIN COMMUNITIES

### Communities considered

Assessment of potential Project impacts on Sakhalin communities was one of the primary objectives of the SIA. Consultation efforts have included 52 communities located along the pipeline corridor. A subset of these communities, those in which proposed construction camps or permanent facilities were sited or near, were the focus of intensive consultation and baseline data collection efforts.

Impacts to communities were a major focus of the SIA, primarily impacts during construction. This was particularly an issue early in the consultation process when issues related to contractor camp management were less well known. Depending upon the management scenario it was recognised that major adverse impacts might occur. This is especially true in rural communities where the influx of construction workforce has the potential to overwhelm the existing infrastructure.

Little has been written on Sakhalin rural communities and few statistical data are available. Most statistical information is reported at the level of the Oblast or District, rarely individual communities. This SIA represents the first systematic effort to collect information on and characterise individual Sakhalin rural communities. Baseline information was made available directly from the files of local authorities; in some cases data were not available or could not be provided.

### Impacts due to siting criteria

Many impacts to communities were minimised due to careful siting of proposed sites and permanent facilities. Whenever feasible, sites were selected on existing brown field sites, the clean-up of which will ultimately benefit communities. To the extent feasible, camps were sited to minimise construction traffic through communities and to minimise potential nuisances. Siting requirements, following Russian Federation SNIIP requirements ensure that local communities' water supplies, nearby fisheries and other sensitive areas are protected.

### Impacts due to construction camps

One major area of assessment was potential impacts to communities due to temporary construction camps. The majority is pipeline construction camps, housing anywhere between 500-1000 people, are in or nearby Sakhalin's rural communities. The actual size will depend upon the number of sites selected by the pipeline contractor. The largest camp will be at the Liquefied Natural Gas/Oil Export Terminal where an average of two to three thousand workers may be housed.

It was recognised that open camps would place far more demands on communities than closed camps. Conversely, closed camps would limit some of the potential benefits to these communities through the sales of snack foods or other products and services to camp residents.

In order to assess potential impacts information was gathered on 'hard' community infrastructure such as housing, water, and heating systems, as well as 'soft' community infrastructure such as number of police, food shops, and recreational facilities. After these data were collected, each category of data was evaluated in relationship to infrastructure categories.

The analysis indicated that existing housing, water, and power supply in the majority of communities would not meet SEIC Health, Safety, and Environment (HSE) or Russian SNIIPs for construction housing supply without an investment in upgrading and/or repair the existing services. In a few cases, camps and/or other facilities may tie into existing public services, but only when there is sufficient surplus.

Camp workers have the greatest potential to impact soft community infrastructure. Although camps are designed to be largely self-contained, workers may visit nearby communities during off-duty hours. In consideration of these potential impacts, SEIC implemented a number of key policies which SEIC will monitor and construction contractors will manage for their own work force. These are discussed in more detail in the Section on SEIC Contractor Management of Social Issues below.

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### Impacts to enclaves of indigenous peoples

The indigenous peoples consultation programme focused on enclaves of indigenous peoples in Val, Nogliki, and Chir-Unvd among others. In general their concerns mirrored those of the general population in the same communities. Unemployment is high and many people depend upon subsistence fishing and gathering. These impacts are addressed in the section on fishing, gathering, and hunting below. Special concern has been expressed concerning Uilta reindeer herding and is also addressed separately.

### Impacts due to in-migration and individuals in search of jobs

Coupled with construction camps come concerns related to camp followers in search of work and/or to provide services, potential impacts on housing, food and water supply among others. This activity has the potential to adversely affect people in local communities depending upon types of activities engaged.

This is not considered to be a major issue in the majority of communities' consulted. There is already substantial intra-island migration with individuals migrating to District centres or Yuzhno-Sakhalinsk in search of work. There are few employment opportunities in most communities, and little infrastructure to accommodate camp followers. Bitter weather and lack of housing accommodations limit the potential of people to be camp followers during a large part of the year in many locations.

### Sustainability of communities

Baseline data collection and interviews documented that many of Sakhalin rural communities potentially affected by the Project is not currently sustainable. Closure of industries, lack of jobs, and deferred maintenance of public utility systems have left local authorities lacking the income needed to maintain the existing infrastructure. The SIA describes some of the problems faced by these communities and actions, which are being taken both on Sakhalin, and elsewhere in Russia.

### Concerns of community residents

During the course of the consultation process individuals expressed a wide range of concerns related to the Project. The most frequently mentioned items included jobs, impacts for fishing and berry gathering areas, and compensation. In the following sections SEIC commitments and programmes to address these issues are discussed.

### Mitigation management and monitoring impacts to communities

A key mitigation measure is the SEIC requirement that contractors prepare for SEIC review and approval, a socio-economic action plan, which describes how the contractor will implement mitigation measures in the SIA. The success of this programme will be monitored by the SEIC Community Liaison Officer (CLO) organisation as described in the section on Social Impact Management and Monitoring below.

In addition to these measures, SEIC will independently monitor potential impacts on these communities. This includes regular monitoring of food and medical essentials, as well as housing prices. Communities will also be made aware of the grievance process through which concerns may be addressed directly to SEIC.

## COMPENSATION AND PROJECT LAND NEEDS

Project land compensation is fully compliant with the Russian regulatory system and World Bank Group guidelines, which drive international best practices. Gaps exist between the two, as discussed in the SIA. To address these gaps SEIC adopted and implemented a Supplemental Assistance Programme in mid-2002.

### Supplemental Assistance Programme

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Ensures every land user affected by the Project will be at least as well off after Project implementation as before.

Considers replacement valuations.

Ensures transparency between affected land users and SEIC.

Is based on extensive consultation programme with affected land users.

Involves consultation with appropriate local authorities on SEIC compensation solutions.

Includes a transparent low/no cost grievance process to address grievances related to compensation.

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### Project land needs and affected land users

About 7,500-8,200ha of land are needed for construction and will affect an estimated 50-60 households, 25 agricultural enterprises, 12 timber enterprises, two onshore seasonal fisheries, 18 other industrial enterprises and 19 municipalities in 10 districts. This number may vary depending upon the outcome of the final land allocation.

About 50-60 households may be affected. The farms, houses or dachas of up to 14 households may have to be relocated due to construction or related land use restrictions. Six households are located on the LNG/OET site in Prigorodnoye and will require relocation. The status of the remaining eight households are currently being assessed. In addition, about 42 households will be temporarily affected during construction by the loss of garden plots, potato fields or hay meadows.

The number of directly affected land users is surprisingly small for a Project of the magnitude of Sakhalin II. This can be attributed to stringent Russian regulations which require that the pipeline is sited a minimum of 300 metres from communities, in areas of low population density, low level of agricultural activity, emphasis on extractive industries, and historical military use.

### Recreational areas

The major recreational impact will be the loss of use of a popular beach at the LNG/OET site in Prigorodnoye. This issue has been the focus of extensive public consultation. SEIC proposes to support the development of an alternative recreational site by way of compensation for loss of this beach, which is not a designated recreational area, and thus not officially subject to compensation.

In smaller rural areas, there are generally adequate alternative recreational areas other than those potentially affected by Project-related construction, and the population did not perceive this as a major issue.

### SUBSISTENCE AND RECREATIONAL FISHING, GATHERING, AND HUNTING

Hunting, fishing and gathering are important subsistence and economic income activities in Sakhalin's central and northern rural communities for both native and non-native populations alike. Recreational fishing and gathering is popular throughout the island. Native families and enterprises fish on the bays and rivers of the northeast. Some live in these areas seasonally or permanently and depend on the fish resources for their subsistence needs.

Early in the consultation process, people expressed concerns over potential Project impacts to fishing streams and bays, berry-gathering areas, and in some cases commercial hunting areas. In some communities, residents objected to proposed construction camp locations due to potential damage to berry fields and/or camp fencing cutting off access roads and trails to fishing and gathering grounds.

In central and northern Sakhalin most residents did not want construction workers fishing, gathering or hunting near their communities. In the south, most people felt Project workers should not be so restricted. As a result SEIC adopted the following policy.

#### Policy on Fishing, Gathering and Hunting during Construction



During the construction phase all Sakhalin Energy, Contractor, and Subcontractor employees will adhere to the policy.

North of the Dolinsk and Tomari District boundaries:  
No fishing, gathering, or hunting will be permitted.

In Dolinsk and Tomari districts and south:  
Fishing will only be permitted with a license issued by the relevant Russian authority.  
No gathering or hunting will be permitted.

Sakhalin Energy will annually review this policy with the relevant Russian authorities to identify any potentially adverse affects.

The SEIC CLO organisation will independently monitor community responses to the SEIC policy.

If necessary any changes to this policy will be managed through the SEIC change management process.



Other mitigation measures to be considered include providing transport to alternative berry grounds during construction and continuing monitoring and assessment. Continuing concerns may be addressed through the grievance process.

SEIC has made a commitment to consult with land and resource users before and during construction and operations.

### UILTA REINDEER HERDING

Five to seven Uilta families from Val are involved in reindeer herding in northeastern Sakhalin. An average of 20–25 men herd about 110–120 domestic reindeer in three groups. They live in the forest in winter and on the shores of the eastern bays in summer.

Over the last 40 years, the area of pasture suitable for grazing has continuously decreased due to oil industry encroachment and forest fires. Project-related construction is planned on parts of the spring/summer pastures used by reindeer herders on Sakhalin.

Reindeer herders are concerned about potential Project impacts. Key issues include: construction of access roads and induced access; increased poaching; unpredictable reindeer response to traffic, noise, dust and night-lighting; enforced migration changes; damage and limited access to pastures and calving grounds; and increased danger to animals from pollution and accidents.

SEIC has undertaken an intensive ongoing programme of consultation with reindeer herders in Nogliki District.

### Summary of Commitments Regarding Uilta Reindeer Herding

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To listen to concerns related to compensation.

Maintain an ongoing consultation programme with reindeer herders through the SA and IP Groups and CLOs.

Contractors will be required to adopt the SEIC Code of Conduct and prepare a management plan for potential impacts during construction on or near spring/summer pastures.

Contractor CLOs will work with herders and SEIC CLOs to establish notification procedures during construction, and contractors will report regularly to SEIC on issues.

To the extent practicable SEIC and contractors will minimise impact on reindeer pastures during construction; consult and inform herders in advance about construction schedules and provide education and training on safety measures and emergency response plans among other measures.

Encourage herders to submit proposals for support of activities not directly-Project related for funding through SEICs Sustainable Development Fund.

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Compensation issues are complicated by the fact that the herders have no ownership of the lands they use and thus are not entitled to compensation. There are also some conflicts over user rights to these lands. SEIC will continue to consult with herders about the status of compensation issues and the distribution of any monies via local administrations.

If the Sakhalin I Project is constructed cumulative impacts will affect the spring and summer pastures used by reindeer herders. The two Projects have already collaborated on consultations with reindeer herders and will continue to consult with herders in the future.

### HERITAGE RESOURCES

Heritage resources on Sakhalin Island include a broad range of prehistoric and historic resources, as well as some areas of spiritual significance to indigenous peoples. About 40 cultural, prehistoric, and historic resources were identified within and in close proximity to the pipeline route. These include sites dating from the Early Palaeolithic to historic sites dating to World War II. Among the cultural and historic resources are prehistoric habitation sites, military camps, battlefields and memorials of 20th century Japanese architecture. Shipwrecks have also been recorded.

Sakhalin Island also has a long history of armed conflicts and post WW II militarisation. Major periods of the Sakhalin Island military history include:

- Armed Russian-Japanese conflicts of the 19<sup>th</sup> century and successive military operations to 1945,
- Russian-Japanese War as part of WW II and immediately thereafter, and
- Post WW II military and training operations from 1945 to present.

With the rise of the Cold War and the 1960s border skirmishes with China, the island became of strategic military significance. Sakhalin Island was important to Soviet strategic defence against North America and China.

### Unexploded ordnances

Based on historical finds SEIC considered there was a risk of unexploded ordnances (UXO) during construction. A small number of bombs and pieces of UXO were found on the surface of several of the Infrastructure Upgrade Project (IUP) and pipeline construction sites in late 2001 leading the development of the SEICs UXO programme.

SEICs overarching philosophy was that all work be conducted in accordance with Russian and internationally acceptable standards. SEIC developed Sakhalin Energy Mine Action Standards (SEMAS) that fulfils those standards.

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A substantial skill enhancement programme was conducted to support the onshore Explosive Ordnance Disposal (EOD) programme. A total of 200 personnel participated in the programme, all from Sakhalin Island.

Keys to the programme include development of a strategy to reduce possible Project risk from UXO exposure to as low as reasonably possible, and adoption of Russian, international, and specific Project standards for the process of decontamination of identified sites developed.

### War dead

Parts of the Project footprint crosses areas, which were believed to contain war dead. Under Russian law the search for war dead are the responsibility of the government. To assist local authorities in fulfilling their responsibilities, SEIC agreed to provide financial support. As a humanitarian gesture, SEIC also provided a monetary contribution to assist in the identification and notification of next of kin of each unidentified set of remains, and for the burial with military honours on Sakhalin Island, of all war dead found during the Project.

During the summer and fall of 2002 remains of three Russian and six Japanese war dead were found and excavated. The Russian war dead was transferred to the Military Commissariat until such time that they would be reburied with military honours, and Japanese war dead have been cremated in accordance with approved procedures and will be reinterred in Japan.

In the unlikely event that war dead are discovered in the Project footprint during construction, SEIC instructions to contractors will be to stop work in the immediate vicinity of the find and notify the appropriate authorities. It is expected that a team authorised by the authorities will respond in a timely manner using their own personnel and with reference to and the involvement of only the Military Commissariat.

### Objects of cultural heritage

Construction of the Project will impact some sites of historical and cultural importance. Relevant decisions have been taken on the majority of the cultural and historic resources. As of the end of 2002 the fixed facility sites, access roads, and pipeline route will have been the focus of an intensive surface survey. Twenty-eight cultural and historic resources are the focus of additional treatment and protection efforts. Additional excavation may be needed at between three to six additional sites depending upon final pipeline alignment.

The Sakhalin II, Treatment Plan for Objects of Cultural Heritage sets forth procedures to meet SEICs commitments in treating cultural objects potentially affected by Project construction.

#### SEIC Heritage Plans and Policies

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Policy on Discovery and Disposal of Unexploded Ordnance  
from SEIC Land Allocations.

Policy on Discovery of War dead During Construction.

Sakhalin II, Treatment Plan for Objects of Cultural Heritage.

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**CONTRACTOR MANAGEMENT OF SOCIAL ISSUES**

Management of construction camps and activities of construction workers is an important concern for construction-related impact on communities. At the initial bid release SEIC required all potential bidders to include a preliminary socio-economic management as part of their bid submission as one of the conditions for the contract award. Requirements were also included related to the treatment of archaeological and cultural resources.

For the pipeline construction tender, potential bidders submitted responses to the socio-economic questions and their socio-economic management plans were reviewed by SEIC.

Socio-economic terms/conditions became part of the final bid discussions.

Post award SEIC will review and approve contractor-prepared socio-economic management plans. SEIC will continue liaison during the construction phase to monitor contractor-community relationships.

**Summary of SEIC Requirements for Contractors**

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Review and approval of a contractor Socio-economic Management plans as part of contractor requirements.

HSE Management Plan.

SEIC Code of Conduct.

Camp Management Requirements.

Requirements for Community Liaison staff and monitoring.

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SEIC will include socio-economic requirements as part of final bid applications. Post-award, SEIC will assist with development of more detailed contractor socio-economic management plans. This is in addition to the HSE management plans that contractors will be required to develop and implement.

During construction, SEIC CLO staff will monitor contractor-community relationships.

**Code of Conduct for Contractors**

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Adhere to the spirit of SEIC principles of business conduct.

Manage camps so as to minimise potential adverse impacts on nearby communities.

Ensure decent public behaviour of workers.

Implementation of no fish/gather/hunt policy in rural communities.

No harassment of wild or domestic animals by workers.

Limit disruption of the natural environment.

No unauthorised collection/disturbance of archaeological artefacts or other cultural objects by workers.

All waste shall be disposed of in a reasonable manner.

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## SOCIAL IMPACT MANAGEMENT AND MONITORING

In general, social management is the responsibility of all major parties engaged in the Project. SEIC has demonstrated a commitment to Social Impact management and monitoring through the establishment of the Social Assessment Group and the Community Liaison network and through the SEIC contractor requirements.

### SEIC Commitments on Social Impact Management and Monitoring

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No/low cost grievance process – voluntary solutions to grievances wherever possible.

SIA Group has begun monitoring by establishing a baseline of socio-economic data for 20 communities across Sakhalin; also Health impact assessment and Environmental impact assessment monitoring.

Community Liaison Officer network: CLOs and camp (construction and operations) CLOs (also contractor CLOs).

Sustainable development strategy.

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Information collected during the SIA consultations and baseline data collection provides the foundations for future consultations. These data also provide the foundation for ongoing monitoring of communities to assess the short- and long-term impacts of Project implementation. This will enable SEIC to undertake appropriate mitigation measures and address grievances.

### SIA Group Monitoring Activities

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Compensation (Russian Regulatory and Supplemental Assistance).

Social issues and communities.

Monitoring of food, medical, and housing prices and availability.

Employment and Construction Activities.

Objects of culture.

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Throughout the life of the Project SEIC may elect to initiate third party and independent reviews as appropriate. These reviews will be conducted in accordance with international best practice. The results of such reviews will be incorporated into SEIC decisions and corresponding actions.

## CUMULATIVE IMPACTS

Sakhalin Island currently has nine offshore oil and gas projects at different stages of development. The Sakhalin Oblast Administration also has a list of 35 proposed and existing investment projects worth a total of US\$ 35 million, including timber, coal, fishing, food, construction, electrical energy, transport and tourism projects, most of which should be completed in the next 10 years. The Administration also hopes to increase local hydrocarbon processing.

Concurrent development will enhance positive economic effects and development opportunities. The extent and magnitude of cumulative positive and negative impacts will depend upon the actual implementation and timing of these projects.

The impacts of large-scale foreign investment in oil and gas in a relatively small regional economy will be increased with the development of other offshore projects. Depending upon timing, the construction of larger oil and gas projects, combined with other proposed economic development projects may result in the longer-term sustained development of the Island. This may partially mitigate some of the boom-bust cycles typically associated with construction of single Projects such as Sakhalin II.

The most significant near-term cumulative impact will result from near concurrent construction, operations, and decommissioning of the Sakhalin II and Sakhalin I Projects over the next year. Decommissioning is expected in the range of 2040 to 2045.

Geographically, there is little overlap between the two Projects except north of Nogliki. Both companies have major offices in Yuzhno-Sakhalinsk. The primary areas of overlap would be the demand for skilled workers if work is concurrent, or alternatively, non-concurrent construction would partially mitigate local boom-bust cycles. North of Nogliki the two Projects is sharing some infrastructure upgrades.

If construction is concurrent, potential construction-related impacts to communities will be monitored and discussions initiated as appropriate.

Broader scale economic impacts and reinvestment of revenues to mitigate broad social and economic development of the Island is the responsibility of the Russian Federation Government. SEIC will simultaneously support sustainable development initiatives.

## SUSTAINABLE DEVELOPMENT

A commercial company cannot assume the Russian Federation Government's responsibility to modernise the economy and society. However, SEIC can consult with the Government to promote sustainable development in the communities in which it operates by developing the workforce, safeguarding the environment, supporting sustainable development initiatives, improving transport infrastructure and supporting the use of gas by local companies, administrations and households.

### SEIC Commitment to Sustainable Development

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The concept of sustainable development is about ensuring that 'the needs of the present generations are met without compromising the ability of future generations to meet their own needs.'

From the sustainable development definition, the main business objectives

are to balance economic, social, and environmental factors in project development and operations and to contribute to the present and future needs of Sakhalin Island.

SEIC will embed sustainable development principles into business plans and practices; implement effective social mitigation strategies and monitoring their success; inform and engage with stakeholders on its performance and seek feedback; and develop strategic partnerships to achieve the sustainable development policy.

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