

Motion presented by Ute Koczy, other Members of Parliament and the Parliamentary Group of Alliance 90 / The Greens

Preventing the reputation of the European Bank for Reconstruction and Development from being damaged – The Sakhalin II oil and gas project as a litmus test for compliance with international environmental and social standards

The Bundestag is requested to adopt the following motion:

I. The German Bundestag regrets the extent to which international environmental and social standards have not been complied with in the development of the world's largest oil and gas project on Sakhalin, a Russian island in the Pacific. The Sakhalin II oil and gas project encompasses three offshore drilling platforms, offshore and onshore pipelines, loading facilities and terminals. The oil and gas is to be transported through 800 km-long pipelines from the north to the south of the island, where it will be shipped from Aniva Bay, which remains ice-free throughout the year. The project is being carried out by a consortium called the Sakhalin Energy Investment Company Ltd (SEIC). The Anglo-Dutch company Shell has a 55 per cent share in SEIC, while the Japanese companies Mitsui and Mitsubishi hold stakes of 25 and 20 per cent respectively. Total costs are currently estimated at around 20 billion US dollars. SEIC originally estimated that only half that level of investment would be required. According to the developers, Sakhalin II is now more than 70 per cent complete. The bulk of the construction work is thus already finished.

The European Bank for Reconstruction and Development (EBRD) in London is currently considering whether to provide partial funding for Sakhalin II amounting to 300 million US dollars, as requested by the SEIC consortium. Because the EBRD generally scrutinises requests for funding very carefully, its involvement in Sakhalin II would also send a signal to other banks. EBRD loans are contingent on compliance with international social and environmental standards. There is a risk, however, that – in view of past breaches of Russian and international environmental and social standards by Shell, Mitsui and Mitsubishi, which have caused damage that is all but

impossible to undo – the EBRD's credibility would suffer lasting damage from any decision to finance Sakhalin II. In addition, experts believe that the construction and operational methods used for Sakhalin II will greatly increase the risk of major oil leaks in future. Ultimately, the EBRD too would bear responsibility for any oil disaster in the delicate natural environment on and around Sakhalin.

In the construction of Sakhalin II, SEIC has already infringed many standards which the EBRD and the World Bank (International Finance Corporation – IFC) generally consider prerequisites for providing funding. For example, implementation of the project on the ground was begun without an environmental impact assessment being carried out to determine what effects this would have on the environment. On 30 March 2006, the Federal Government noted in a written report to the German Bundestag's Committee on Food, Agriculture and Consumer Protection that 'If the EBRD should decide to provide funding, the Board of Directors would be approving a departure from the normal process.'

The population of Sakhalin is becoming increasingly sceptical of the project. Over 10,000 inhabitants of two towns on the island that are particularly affected have now signed a petition calling on the EBRD not to finance the project. The protest movement unites local fishermen, elected representatives, the governor and the indigenous people of Sakhalin. They also criticise the fact that the project will produce far less revenue at national and local level than originally promised.

The local population, experts and non-governmental organisations are questioning whether the EBRD is capable of ensuring compliance with high environmental standards during the current second phase of development of Sakhalin II. These concerns are fuelled by the problems experienced in enforcing compliance with environmental standards during Phase One, which was far more limited in scope. An audit of the first phase showed inadequate compliance with environmental standards for two thirds of the 90 points examined (see RSK ENSR Lenders Tier III HSE Audit for Phase One).

One task of the EBRD considered very important by shareholders and the public is the promotion of best practice and standards in the states of Eastern Europe and the former Soviet Union. The Bank has demonstrated its ability to carry out this task in the past. In order to communicate standards and best practice, however, it may be necessary for the EBRD to withdraw from projects where there is a high level of non-compliance with standards.

Even if Shell and its partners agree to the EBRD's requirements, the acute risks to the population and the natural environment on and around Sakhalin can only be slightly reduced, given the project's advanced stage. There must therefore be concern that any decision by the EBRD to provide funding for Sakhalin II would send a strong message that non-compliance with standards is acceptable for similar projects in future. In addition, the EBRD would be in severe danger of damaging its reputation.

II. The German Bundestag therefore calls on the Federal Government, as a stakeholder in the EBRD,

1. to work to ensure that the EBRD considers the important precedent this case would set as regards watering down standards when drafting its recommendation to the Board of Directors;
2. not to agree, within the EBRD Board of Directors, to a loan being granted to SEIC, due to the massive non-compliance with environmental and social standards in the development of Sakhalin II, described above;
3. to continue in future to seek to ensure within the EBRD that its own standards are consistently upheld;
4. to seek to ensure within the EBRD that the Bank's new draft energy policy, which might be submitted for approval as early as the beginning of June 2006, is revised to make far more funding available for energy efficiency and renewable energy (with the exception of large hydropower plants) than is provided for in the draft.

Berlin, 31 May 2006