

Sakhalin II oil and gas project Russian Federation

Sectors: Oil and Gas Extraction

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By: BankTrack

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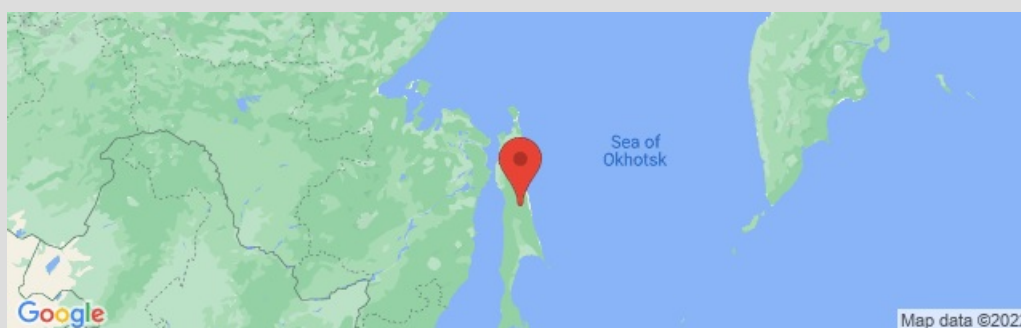
Contact:

[Doug Norlen](#), Pacific Environment, United States

[Project website](#)

Sector Oil and Gas Extraction

Location



This project has been identified as an [Equator Project](#)

About Sakhalin II oil and gas project

The Sakhalin II project in the Russian Far East is said by project sponsors to be the largest integrated oil and gas project in the world. The project involves three offshore oil and gas platforms and subsea pipelines to shore. The oil and gas is then transported via 800 km of onshore pipelines to one of the world's largest natural gas liquefaction and export terminal and oil export facilities at Prigorodnoye, in the south of Sakhalin. Oil and liquid natural gas is then exported via tankers.

Latest developments

WWF Campaign Against Sakhalin

Feb 1 2012

Latest update

Jul 18 2008

What must happen

The project should not receive funding from any bank claiming to apply the Equator Principles or equivalent standards. Any such endorsement would send a signal that lower standards are acceptable for the sector and for other operators on Sakhalin Island and elsewhere.

Impacts

Environmental and climate impacts

Sakhalin Energy Investment Company (SEIC) has installed two of its new oil and gas platforms adjacent to the only known feeding ground of the approximately 130 critically endangered Western Gray Whales. After initially planning to build a subsea oil pipeline directly through the whale's feeding area, SEIC re-directed the offshore pipeline just adjacent to the feeding area, continuing to threaten the population with its far-reaching impact. Noise, collisions, and sediment disturbance put the whales at risk during construction. The whales will face an ongoing risk of an oil spill in this harsh environment. The sea around the platform is covered by ice for 6 months of the year, seriously limiting the ability of SEIC to respond to an oil spill. Despite unreasonably optimistic promises by SEIC, there is no proven effective way to respond to oil spills in ice conditions.

Shell has not followed the precautionary approach, refusing to deviate from its construction schedule to wait for the completion of scientific analysis and it refuses to follow much of the advice from a panel of whale experts hosted by the International Union for the Conservation of Nature. As a result, the decision of whether the oil platforms should be constructed at all in the area of the critically endangered Western Gray Whale became moot issues for the panel. The whale scientists also made recommendations on noise limits, which SEIC has violated on several occasions.

SEIC built over 1000 pipeline river crossings, which has led to damage to salmon spawning rivers. SEIC has failed to construct 800 kilometers of parallel on-shore oil and gas pipelines simultaneously to reduce impact. Ineffective erosion control, unapproved stream diversion and sedimentation of rivers have damaged hundreds of salmon spawning rivers and tributaries. SEIC has revised its river crossings strategy but has failed to comply with the requirements of this strategy on a high percentage of sensitive rivers. Meanwhile, SEIC's pipeline design has failed to account for geohazards and river migration features of Sakhalin that will result in risks extending throughout the life of the project. NGO monitoring in October and December 2007 continued to find non-compliance with the required river-crossing and soil erosion management plans, raising concerns over the integrity of the pipeline system, especially in areas prone to seismic zones and landslides.

SEIC constructed one of the world's largest liquid natural gas plant in the south of the island in Aniva Bay. In so doing, SEIC dredged the bay to deepen the access for tankers, and dumped the dredged materials in the middle of this fisheries-rich bay, refusing to dump the material in a less environmentally harmful location further out to sea. Fisheries have been disrupted, and SEIC did not accurately predict the impact on the bay ecosystem. SEIC did not adequately consult on the construction of a jetty in Aniva as required by Russian EIA law. The local shellfish beds suffered from damage from dumping of dredged material.

The LNG facility, combines with LNG and oil export terminals comprise the Pregorodnoye Production Complex, the construction and operation of which has caused degradation of air quality, noise disturbance, damage and loss of access to local fishing and recreation resources, declines in agricultural productivity and decreases in community and road safety, and loss of land value for local dacha owners. Despite this displacement, SEIC has not resettled dacha owners in compliance with Russian law, international finance institution policies, and corporate commitments.

In October, 2007, SEIC announced that a new consultant report for potential lenders gives the project a "clean bill of health." However, this report actually reveals amongst other things systematic and chronic violations of policies and standards of potential international lenders and, by extension, the Equator Principles. An NGO critique of this report is available in the 'documents' section of this profile.

The construction and operation of the Sakhalin II Prigorodnoye Complex has caused pollution and physical damage to the Stroitel Association's dachas and to their cultivated lands, which are located within the Complex's Sanitary Defense Zone as approved by the Russian Ministry of Natural Resources.

Governance

Applicable norms and standards

Equator Principles

Debt – corporate loan

US\$ 17.1 million (May 2010) - In May 2010, SEIC secured a three-year, US\$ 17.1 million loan from Barclays for general corporate purposes.

Credit Suisse Group United Kingdom [profile](#)

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Debt – corporate loan

USD 100 million

June 2008

Participation in loan of \$1.6 billion provided by a consortium of Bank of Tokyo-Mitsubishi UFJ, Mizuho Corporate Bank, Sumitomo Mitsui Banking Corp., and BNP Paribas, in addition to \$3.7 billion loan provided by JBIC

Advisor

2001

Mitsubishi UFJ Financial Group (MUFG) Japan [profile](#)

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Debt – corporate loan

USD 350 million

October 2009

Participation in US\$1,4bn provided by consortium of BNP Paribas, BTM, Mizuho, and SMBC
source: Project Finance International

Debt – corporate loan

USD 358 million

June 2008

Participation in loan of \$1.6 billion provided by a consortium of Bank of Tokyo-Mitsubishi UFJ, Mizuho Corporate Bank, Sumitomo Mitsui Banking Corp., and BNP Paribas, in addition to \$3.7 billion loan provided by JBIC

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Debt – corporate loan

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Debt – corporate loan

USD 358 million

June 2008

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NatWest United Kingdom [profile](#)

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Debt – corporate loan

USD 7.745 billion

\$ 5.45 billion (March 2007) \$ 2 billion (April 2007) - Loans to finance Gazprom from an international banking syndicate, of which ABN Amro was one of the lead arrangers. This part of ABN Amro is now part of Royal Bank of Scotland and Société Générale

Société Générale France [profile](#)

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Debt – corporate loan

USD 2 billion

April 2007

Loan to finance Gazprom from an international Banking syndicate, of which ABN Amro was the lead arranger. This part of ABN Amro is now part of Royal Bank of Scotland and Société Générale. (See Royal Bank of Scotland)

Standard Chartered United Kingdom [profile](#)

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Debt – corporate loan

USD 300 million

June 2008

Participation in loan of \$1.6 billion provided by a consortium of Bank of Tokyo-Mitsubishi UFJ, Mizuho Corporate Bank, Sumitomo Mitsui Banking Corp., and BNP Paribas, in addition to \$3.7 billion loan provided by JBIC

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Debt – corporate loan

USD 350 million

October 2009

Participation in US\$1,4bn provided by consortium of BNP Paribas, BTM, Mizuho, and SMBC
source: Project Finance International

Debt – corporate loan

USD 358 million

June 2008

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Export credit agencies

[Japan Bank for International Cooperation \(JBIC\)](#)

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