

 Early Warning System

EBRD-46766

Lukoil Shah Deniz Stage II



Quick Facts

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| Countries | Azerbaijan |
| Financial Institutions | Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD) |
| Status | Approved |
| Bank Risk Rating | A |
| Voting Date | 2015-07-22 |
| Borrower | LUKOIL Overseas Shah Deniz Ltd |
| Sectors | Construction, Energy |
| Potential Rights Impacts | Healthy Environment, Housing & Property, Labor & Livelihood, Marginalized Groups, Right to Food, Right to Water |
| Investment Type(s) | Loan |
| Investment Amount (USD) | \$ 500.00 million |
| Project Cost (USD) | \$ 1,000.00 million |



Project Description

The project is an A/B loan to LUKOIL to provide financing for its share in Stage 2 development of the Shah Deniz, an offshore gas exploration and production project in Azerbaijan, one of the largest gas fields in the world. The Project includes two additional bridge-linked offshore gas platforms, 26 subsea wells, 500km of subsea pipelines, and the expansion of the gas plant at Sangachal Terminal and the South Caucasus Gas Pipeline expansion.



Early Warning System Project Analysis

This project is Category A for the European Bank for Reconstruction and Development (EBRD). EBRD Category A projects could result in potentially significant adverse future environmental and/or social impacts which cannot readily be identified or assessed and will require the client to carry out a comprehensive Environmental and Social Impact Assessment (ESIA).

APPLICABLE SOCIAL & ENVIRONMENTAL STANDARDS

The EBRD and ADB financed Lukoil (a minority shareholder in this project), after British Petroleum (the project operator) already conducted its own diligence. The British Petroleum's ESIA and all related EBRD and ADB documents do not specify which Performance Requirements have been triggered, as the ESIA was not done according to the EBRD and ADB frameworks. In August 2016, an independent environmental and social consultant conducted an Environmental and Social Monitoring Review (ESMR) of the project using the International Finance Corporation (IFC), EBRD, and ADB standards as a frame of reference, with a follow-up review in July 2017. However, it was not determined whether any safeguards have been subsequently triggered.



People Affected By This Project

OUR RISK ASSESSMENT

As community engagement and consultation has largely been absent, with the 2017 independent ESMR identifying the project's stakeholder engagement and grievance management at risk of non-conformance with IFC and EBRD standards, it is difficult to assess local impacts, especially in such a politically restrictive environment like Azerbaijan. Crude Accountability has been able to assess the impacts on the ground with respect to the 4 local communities: Sangachal Town, Umid, Masiv 3 and Azim Kend; and has ascertained that implementation of social and environmental diligence has been largely absent. Since its commencement, the project has been posing risks and harm to the following human rights:

Right to Property & Adequate Housing – It is unclear whether full disclosure of resettlement and compensation has been made, with the 2017 ESMR identifying lack of compliance in disclosure of project management plans. The 2016 ESMR states that only 2.5ha of land was acquired from 5 individuals for the associated gas pipeline, and that compensation was provided. However, the 2017 ESMR states that more than 950 landowners and users have been compensated for the first 200km of the pipeline, and that a further 3,200 landowners and users are in the process of completing their compensation agreements. Villagers have stated that those that they know that have moved away due to impacts from the terminal have not received any compensation, and that they are not aware of any compensation provided to anyone.

Rights of Marginalized and Discriminated Against Groups. Internally displaced peoples (IDPs) fleeing the Nagorno Karabakh conflict reside in the four impacted communities. They have not been consulted separately to take into account their specific rights and needs, with the independent ESMR voicing concern about poor disclosure and engagement practices.

Right to Food – Based on interviews collected on the ground, inability to grow food for subsistence has been a central complaint of the villagers. Livestock births, particularly sheep and cattle, have had an unusually high degree of mortality and deformity since the project went into operation. A central complaint from villagers is that they can no longer grow any fruit or vegetables for subsistence due to the contamination of the soil.

Right to Water – Based on interviews with local communities, there has not been any testing of water for contamination since the project became operational.

Right to a Healthy Environment – Local villagers are very concerned about ambient air quality and contamination from the terminal. Many have complained about a sulfur smell, especially at night when the gas is released into the air. Some say that the netting in their windows accumulates a yellow dust like substance.

Right to Livelihood – While displacement of livelihood activities, such as fishing and potentially grazing, has been documented, it is unclear whether fair and adequate compensation has been equitably awarded. The 2017 ESMR identifies 48 fishermen as eligible for compensation, with mixed levels of satisfaction according to a household survey conducted. According to the survey, “the new fishing areas used by affected fishermen were less viable than the area compensated for”, and that the increase in travel costs to the new fishing areas resulted in the laying off of employees. While the ESMR reports that formal grievances were filed and that the issues are being resolved, none of the local villagers interviewed were aware of grievance mechanisms available.

Labor Rights – According to on the ground information, the affected villages are experiencing a very high rate of unemployment. At the project inception, officials from the project companies came and promised jobs, but villagers say that this has not been realized till today. Many would like to work at the project site, but there are no opportunities for this. The 2016 ESMR identifies 234 complaints lodged in the TKAZ community grievance register from January to May 2016 which were all related to “people from nearby communities seeking employment.”

CONSULTATIONS

Lukoil has not held consultations with local communities as part of the loan agreement. British Petroleum, the operator of the



Investment Description

- Asian Development Bank (ADB)
- European Bank for Reconstruction and Development (EBRD)

LUKOIL Overseas Shah Deniz Ltd is a Special Purpose Vehicle beneficially owned by LUKOIL Overseas Holding GmbH, a subsidiary of OAO LUKOIL in charge of the development of the Group's non-Russian exploration and production activities.

LUKOIL has a 10% interest in the Shah Deniz field. The project is managed by British Petroleum. The EBRD and the ADB were appointed by LUKOIL as the Mandated Lead Arrangers for the proposed transaction. According to EBRD, a unique aspect of this transaction is that EBRD has no formal relationship (for this project) with the technical operator, British Petroleum. The Bank's client for this transaction is Lukoil Overseas, a 10 % shareholder of the Shah Deniz project. Therefore, the normal Bank-Client relationship, allowing EBRD to influence or to make contractual requirements for operations at the site, does not exist on this project.



Contact Information

This analysis was drafted with Crude Accountability, who is monitoring this project and in touch with affected communities. For more information, please contact Sonia Zilberman at sonia@crudeaccountability.org.

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ACCOUNTABILITY MECHANISM OF EBRD

The Project Complaint Mechanism (PCM) is the independent complaint mechanism and fact-finding body for people who have been or are likely to be adversely affected by an European Bank for Reconstruction and Development (EBRD)-financed project. If you submit a complaint to the PCM, it may assess compliance with EBRD's own policies and procedures to prevent harm to the environment or communities or it may assist you in resolving the problem that led to the complaint through a dialogue with those implementing the project. Additionally, the PCM has the authority to recommend a project be suspended in the event that harm is imminent. You can contact the PCM at pcm@ebrd.com or you can submit a complaint online using an online form, http://www.ebrd.com/eform/pcm/complaint_form?language=en. You can learn more about the PCM and how to file a complaint at <http://www.ebrd.com/work-with-us/project-finance/project-complaint-mechanism.html>.



Bank Documents

- [2016 Environmental and Social Monitoring Review](#) [Original Source]
- [2017 Environmental Social Monitoring Review](#) [Original Source]
- [Environmental Social Management Plan](#) [Original Source]

Community Documents

- [Crude Accountability - Community Assessment](#) [Original Source]

Campaign Documents

- [Crude Accountability - Assessment of Available Project Related Information](#) [Original Source]
- [Crude Accountability - Cover Letter: Complaint submission for Shah Deniz II Project](#) [Original Source]

Media

- [Crude Accountability - Civil Society files a complaint with the EBRD for its Shah Deniz II loans](#)



Other Related Projects

- EIB-20150676 TANAP TRANS-ANATOLIAN NATURAL GAS PIPELINE
- ADB-50117-001 Shah Deniz Gas Field Expansion Project
- MIGA-3519 Trans-Anatolian Pipeline
- EBRD-45599 Lukoil Overseas: Shah Deniz Gas Condensate Field Develop. II
- ADB-49451-001 Shah Deniz Stage II Investment Plan
- EIB-20140596 TRANS ADRIATIC PIPELINE
- ADB-49451-002 Shah Deniz Gas Field Expansion Project
- WB-P157416 Trans-Anatolian Natural Gas Pipeline Project
- EBRD-49215 Lukoil Shah Deniz Stage II Extension
- ADB-48330-001 Shah Deniz Stage II Gas Field Expansion Project
- AIIB-000011 Azerbaijan: Trans Anatolian Natural Gas Pipeline Project (TANAP)
- EBRD-48376 Azerbaijan: Southern Gas Corridor
- EBRD-45690 Trans Adriatic Pipeline Project