



SUSTAINABILITY
FUTURE GROWTH

NON-TECHNICAL SUMMARY

FINAL REPORT OF THE:

INDEPENDENT ENVIRONMENTAL & SOCIAL CONSULTANT

**ENVIRONMENTAL & SOCIAL REVIEW AND AUDIT OF THE
LUKOIL OVERSEAS SHAH DENIZ - STAGE 2 OF THE SHAH DENIZ
PROJECT**

AZERBAIJAN

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TABLE OF CONTENTS

1. INTRODUCTION	3
2. OBJECTIVES AND SCOPE OF REVIEW AND AUDIT	3
3. REVIEW METHODOLOGY AND CONTEXT	5
4. KEY PROJECT ENVIRONMENTAL AND SOCIAL ASPECTS AND IMPACTS	7
5. ENVIRONMENTAL AND SOCIAL MANAGEMENT	10
6. FINDINGS AGAINST LENDER GROUP REQUIREMENTS AND POLICIES	12
ENVIRONMENTAL AND SOCIAL MANAGEMENT / STAKEHOLDER ENGAGEMENT	12
LABOUR AND WORKING CONDITIONS	15
RESOURCE EFFICIENCY AND POLLUTION PREVENTION	16
COMMUNITY HEALTH, SAFETY AND SECURITY	16
INVOLUNTARY RESETTLEMENT	16
BIODIVERSITY CONSERVATION AND SUSTAINABLE MANAGEMENT OF LIVING NATURAL RESOURCES	17
INDIGENOUS PEOPLES	17
CULTURAL HERITAGE	18
7. CONCLUSION	19



1. INTRODUCTION

An environmental and social review and audit of the Shah Deniz Stage 2 oil and gas development Project, located in Azerbaijan, has been completed by independent environmental and social consultants engaged by a lender group considering financing of Lukoil Overseas Shah Deniz (LOSD), a 10% shareholder of the BP Caspian operated Shah Deniz Project. This report is a non-technical summary of the Environmental and Social review findings.

The European Bank for Reconstruction and Development (EBRD) is leading the environmental and social review for possible financing of the Shah Deniz Stage 2 Project on behalf of a group of lenders including the Black Sea Trade and Development Bank and Asian Development Bank and other possible commercial banks. The Lender Group is considering finance to LOSD as a joint venture member, but not the operator, of the Shah Deniz Project. Therefore, the environmental and social review did not address whether the project would go ahead, but rather whether to provide financing to Lukoil Shah Deniz for their portion of the project.

The Shah Deniz gas field lies approximately 100km south east of Baku, within the Azerbaijani sector of the Caspian Sea. Development of the field is being pursued in stages under the terms of a Production Sharing Agreement (PSA) between the State Oil Company of the Azerbaijan Republic (SOCAR) and a consortium of foreign oil companies, including LOSD.

The SD Stage 1 development, which commenced production in 2006, includes a fixed platform with drilling and processing facilities limited to the separation of gas and liquids and two marine export pipelines to transport gas and condensate to onshore reception, gas-processing and condensate facilities at the Sangachal Terminal located approximately 50km south-west of Baku. The Southern Caucasus Pipeline (SCP) has been installed across Azerbaijan and Georgia, and from July 2007 commenced transfer of SD Stage 1 gas to Turkey.

The Shah Deniz Stage 2 represents the second stage of development of the Shah Deniz field, and will be associated with an expansion of the SCP project for export of the product.

2. OBJECTIVES AND SCOPE OF REVIEW AND AUDIT

To comply with the project lender environmental and social policies, the Shah Deniz Stage 2 Project requires a comprehensive Environmental and Social Impact Assessment (ESIA) that clearly identifies the environmental and social impacts of the Project, assesses the extent and magnitude of these impacts and describes how the project will either avoid, reduce or otherwise manage impacts to meet national and internationally accepted standards. Based on this requirement, the Lender Group engaged Sustainability Pty Ltd (Sustainability) as an



Independent Environmental and Social Consultant (IESC) to review the existing ESIA documentation against requirements of the lenders and conduct an environmental and social compliance audit of the existing facilities.

The objective of the environmental and social review and audit is to provide an independent assessment of the Project's environmental and social status, including the ESIA, against the lender group environmental and social performance standards, requirements and policies. The review and audit has focused on evaluating social and environmental changes brought about by the Project and on assessing the implementation and effectiveness of proposed mitigation measures. The basis for evaluating the Project in terms of Lender policies is defined as follows:

- Equator Principles III 2013;
- International Finance Corporation (IFC) Sustainability Framework – 2012; including the Environmental and Social Performance Standards
- IFC General Environmental Health and Safety Guidelines 2007;
- EBRD Environmental and Social Policy (2008) and Performance Requirements¹;
- EBRD Sub-Sectoral Environmental and Social Guidelines: Petroleum and Coal Products;
- ADB Safeguard Policy Statement and other social requirements (ADB Gender and Development Policy, ADB's Policy on Incorporation of Social Dimensions into ADB Operations, and ADB's Public Communications Policy);
- The Project's Environmental and Social Management Plans; Environmental and Social Action Plans; Stakeholder Engagement Plans including internal and external grievance mechanisms; and health and safety provisions and record for the Project;
- Applicable national laws in Azerbaijan;
- Conformance with international environmental agreements and good international practices; and

The environmental and social review and audit outcomes are provided in the full IESC report, which is subject to this non-technical summary

The scope of the environmental and social review of the Shah Deniz Stage 2 Project consists of:

- A fixed platform complex, denoted SD Bravo (SDB), that includes 2 new bridge linked platforms:
 - A Production and Risers platform; and

¹ The review of this project was initiated before 7 November 2014 and therefore the 2008 Policy was applicable
[Lukoil Overseas Shah Deniz Stage 2 Project](#)
[Non-Technical Summary: Environmental and Social Review to Support Financing](#)
 May 2015



- A Quarters and Utilities platform
 - Subsea manifolds, associated well clusters and flowlines. The subsea development incorporates a total of 26 wells, drilled using mobile drilling rigs ; and
 - New subsea gas and condensate pipelines to the onshore terminal facilities and a dedicated monoethylene glycol import pipeline from the Terminal to the platform complex;
 - Onshore processing facilities for the SD2 Project within an expansion area at the Sangachal Terminal.

The scope of the SD2 Project includes the design and construction of the gas export compression, metering and associated utilities at the Terminal, but does not include the work involved in a separate project to expand the capacity of the existing South Caucasus Pipeline, which transports gas from the Terminal to its customers. Although the gas export pipelines are not directly included in the proposed Project financing, these are subject to the environmental and social review as these facilities are considered to be within the Project's area of influence. Additionally, facilities used in support of project operated directly or by third parties (such as the ATA Construction Yard and Serenja Hazardous Waste Management Facility) are also considered to be within the area of influence.

3. REVIEW METHODOLOGY AND CONTEXT

The independent environmental and social review and audit was undertaken by a team of experienced environmental and social consultants who completed the assessments based on review of (1) publicly available environmental and social documentation and (2) information provided by BP as part of the review, which is not available in the public domain. This included review of the Environmental and Social Impact Assessment documentation and associated Environmental and Social reports, plans, policies and strategies. Documentation reviewed to assess the level of environmental and social performance includes construction phase management plans, procedures, audit reports, records of inspection, training records, incident investigations and monitoring data. Worker health and safety document reviews included planning phase and construction phase occupational health and safety policies, plans and strategies; safety statistics; audits and inspections, and; risk assessment methodologies and outcomes.

Information was obtained from discussions with relevant Shah Deniz Project personnel and site visits, including:

- Meetings with the Project design personnel at the Project design team offices in Leatherhead, UK on the 17 November 2014;



- Meetings and interviews with the Shah Deniz Project team in Baku, Azerbaijan on 20 November 2014;
- A site visit to the Sangachal Terminal construction site on 21 November 2014 which included meetings with construction health, safety and environment personnel and an overview of the current construction site for the terminal expansion.

An initial Draft Environmental and Social Review and Audit Report was submitted (subsequent to the site visit on 27 February 2015) for circulation, review and comment by the Lender Group. The draft report identified a number of evidence gaps that prevented demonstration of Project compliance with the lenders' policies and performance standards/requirements. LOSD facilitated additional environmental and social discussions with the operator and a document request to address the evidence gaps. An additional package of environmental and social information was provided by LOSD to Sustainability on 27 April 2015 and the initial draft report findings have been updated accordingly in the final report that is summarised in this Non-Technical Summary.

The scope of the environmental and social review of the SD2 project included a review against Lender Group environmental and social performance standards, requirements and policies that differ from the environmental and social criteria and impact assessment and management methodologies applied to the SD Project through both statutory requirements and operator (BP) standards. These differences are recognised by the IESC with the review and audit findings discussed within the context of the intent or objective of the Lender Group requirements and policies rather than a systematic procedural assessment of compliance that may otherwise apply in the case of an ESIA being developed with the objective of meeting Lender Group environmental and social criteria.

The environmental and social review and audit findings also recognised that LOSD, as the party seeking finance from the Lender Group, is not the operator of the Shah Deniz Project and has limited ability to influence the Project's environmental and social performance. LOSD was also limited in its ability to facilitate the Project's demonstration of environmental and social performance in compliance with Lender Group policies and standards. To that end, the IESC findings recognise that compliance with Lender Group obligations is assessed on the basis of information that may be incomplete and with limited access to the operator or its contractors. Where incomplete or limited information was available to evaluate compliance with Lender Group standards and policies, the IESC considered past performance and practices applied at the SD Project and applied professional judgements based on knowledge of the operator's practices, policies and management systems applied globally.



4. KEY PROJECT ENVIRONMENTAL AND SOCIAL ASPECTS AND IMPACTS

The Shah Deniz Stage 2 environmental and social impact assessment has identified and assessed environmental and social aspects and impacts drawing on a wide range of environmental, social and cultural heritage surveys undertaken since 1999. Environmental impacts have been identified and assessed for the following phases of the project: Early Infrastructure Works; Drilling and Completion; Construction, Installation, Hook-up and Commissioning (HUC); and Operations.

The impacts of all aspects of the offshore drilling and completion programme were predicted to be of minor negative significance, with adequate control, monitoring and mitigation measures similar to those that have been applied for Shah Deniz drilling over the life of the Project (nearly 20 years). The ESIA described the key waste mitigation measures associated with offshore drilling activities including the selection of drilling methodologies and chemical additives to ensure that discharges to the sea and sea floor are minimised. Water based muds used for drilling are separated from drill cuttings as far as practicable and re-used; additives used during offshore drilling activities are low toxicity (UK HOCNS "Gold" and "E" category or equivalent toxicity). No mineral oil based muds are discharged to the sea during drilling. All oil based muds and associated cuttings used for lower hole drilling are returned to the drill rig and separated for reuse where practicable, and the remainder returned to shore for treatment or disposal.

As part of the ESIA process, significant residual negative impacts were identified from the Construction, Installation and HUC (hook –up and construction) phase of the project, which include:

- Expansion of Sangachal Terminal to accommodate SD2 facilities (including temporary facilities for construction and accommodation of construction workers);
- Installation and commissioning of gas and condensate export lines, and a MEG import line, between the SDB platform complex and the new Terminal facilities;
- Installation and commissioning of the subsea flow lines and associated subsea infrastructure;
- Onshore construction and pre-commissioning of the platform topsides and jackets; and
- Offshore installation and HUC of the platform complex.

Atmospheric emissions and noise associated with onshore construction at the Terminal, onshore and near shore pipe lay and construction at the yards were predominantly predicted to result in impacts of moderate negative significance. Additional measures to reduce noise impacts associated with terminal construction plant and vehicles include completion of a



detailed noise assessment immediately prior to works commencing, completion of work plans to include when noisy works are anticipated (to be communicated to the local communities) and noise monitoring prior to and during construction focused on identifying and addressing the reasons for any breach of the relevant noise limit. Discharges to the marine environment associated with pipeline and flowline pre-commissioning were also assessed as having a moderate negative impact. The marine impact of other offshore installation and HUC activities were predominantly assessed as being of minor negative significance.

During operations, noise and emissions associated with onshore terminal activities were assessed as being of moderate negative significance. Impacts associated with offshore activities during operations were predominantly assessed as being of minor negative significance. Impacts associated with odour due to the anticipated non routine use of ponds for produced water storage were assessed to be of moderate adverse impact, taking into account existing controls and additional mitigation, which includes use of a treatment package to manage any potential breach of air quality thresholds of Volatile Organic Compounds from the produced water stored in the pond and evaluation of odour control techniques to be included in the design, if practicable.

The following socio-economic interactions resulting from project activities were identified within the Project ESIA based on the anticipated project activities:

- Employment creation and subsequent de-manning;
- Training and skills development;
- Procurement of goods and services (including construction yard operations and their workers);
- Disruption to fishing and commercial shipping operations; and
- Offsite construction vehicle movements and an associated increased risk to community health and safety.

Survey work indicated that those individuals and groups most likely to be affected by project activities include:

- The local communities of Sangachal Town, Umid, Masiv 3 and Azim Kend, which are the four main settlements in the vicinity of the Terminal;
- Recreational, small-scale and artisanal fishermen, commercial fishermen and recreational users of the shoreline;
- Users of regional road infrastructure;
- Local, regional and national businesses and their staff (including the contractors and workers at construction yard operations); and



- Owners and the crews of vessels engaged in commercial shipping operations and local government authorities responsible for regulating such activities.

The assessment predicted predominantly positive impacts in terms of employment, training and skills development and procurement of goods and service with potential negative impacts (e.g. disruption to fishing and shipping) minimised through the use of appropriate plans and mitigation.

5. ENVIRONMENTAL AND SOCIAL MANAGEMENT

Control measures to mitigate impacts to the marine environment from routine and non-routine discharges associated with the Project and associated reporting requirements are detailed within the Shah Deniz Stage 2 ESIA. These include design and operating principles (e.g. no planned discharge of non-water based mud), facility maintenance regimes, appropriate chemical selection and monitoring to confirm effective operation and/or confirm compliance with standards.

Monitoring and reporting procedures and documentation requirements for each Project phase are included within BP Azerbaijan's Health, Safety, Security and Environment (HSSE) Policy. Once operational, the Project commits to develop a set of specific monitoring, management and reporting procedures based on, and consistent with, the procedures already in use on existing BP operated Shah Deniz and Azeri-Chirag-Guneshi platforms. It should be noted that these documents have previously been subjected to review relative to EBRD and International Finance Corporation (IFC) requirements and the results of these reviews indicated that the documents are completed to a high standard and generally compliant with these requirements.

The project Programme Health Safety and Environment (HSE) Plan has been developed for the construction phase of the Project and describes how occupational health, industrial hygiene, safety, legal and regulatory compliance and environment and social impacts and risks will be managed in conformance with applicable BP requirements. The Programme HSE Plan provides an overarching framework for the implementation of safety and environmental management programs required for the construction Phase of the Project.

The Project delivery teams are required to use the Environmental and Social Management and Monitoring Plan (ESMMP) as the framework to deliver the environmental and social requirements, as defined by applicable legal, contractual and other requirements, including ESIA commitments. The ESMMP includes specific requirements for various work packages to manage and monitor environmental performance against the Environmental Design verification register, the Environmental and Social Compliance Register that includes ESIA commitments. The ESMMP includes management plans designed to implement the environmental and social requirements during construction and includes:

- **Restoration and Landscape Management Plan** – landscape management; soil management during construction; site restoration; spoil management; training; monitoring and reporting (received and reviewed).
- **Waste management and Minimisation Plan** – waste hierarchy, procurement; classification; waste registers; handling; training; monitoring and reporting (received and reviewed).



- **Ecological and Wildlife Management Plan** – baseline surveys; inspections; protection during construction; training; monitoring and reporting (received and reviewed).
- **Pollution Prevention management Plan-** energy efficiency; emissions management; wastewater management; sewage treatment and disposal; chemical management; noise and vibration; contaminated soils; training; monitoring and reporting (received and reviewed).
- **Community Engagement and Nuisance Management and Monitoring** – nuisance management and monitoring (noise, light, odour, vermin) (received and reviewed).
- **Archaeology and Cultural Heritage Management** – protection of known tangible CH resources; chance find procedure; watching brief procedure; training; monitoring and reporting (received and reviewed).
- **Spill Prevention, Response, Notification and Close-Out Actions** – spill prevention; training; monitoring and reporting.
- **Traffic and Transportation management Plan** – driver training, onsite and offsite vehicle movements; risk assessments for transport of heavy loads; monitoring and reporting.
- **Employee Relations Management Plan** – training and skills development; grievance mechanism; de-manning; monitoring and reporting (received and reviewed).

These management plans are not available in the public domain, however the reviewed content is similar to those reviewed for previous stages of projects, which were found to be compliant with Lender standards.



6. FINDINGS AGAINST LENDER GROUP REQUIREMENTS AND POLICIES

The IESC assessment findings are discussed under the headings below, with specific reference to those findings where compliance with the Lender Group environmental and social criteria has not been fully demonstrated. The review and audit findings are presented against the relevant Lender Group requirements that have been aggregated where these requirements are similar.

ENVIRONMENTAL AND SOCIAL MANAGEMENT / STAKEHOLDER ENGAGEMENT

(IFC Performance Standard 1: Assessment and Management of Environmental and Social Risks and Impacts / EBRD PR 1: Environmental and Social Appraisal and Management / EBRD PR 10: Information Disclosure and Stakeholder Engagement / EBRD Sub-sectoral Guidelines / Equator Principles 2 – 6 / ADB Safeguards Policy Statement)

Scope of ESIA

The environmental and social impacts have been assessed through a systematic process applied for all Project components as identified through the ESIA scoping and through engagement with key Government stakeholders in Azerbaijan. The Environmental and Social Assessments include: the Shah Deniz Stage 2 Project ESIA dated November 2013, which incorporates an assessment of the expansion of offshore wells and production facilities within the Shah Deniz Contract Area production field, expansion of the onshore Sangachal Terminal (ST) processing facilities, and the marine export pipelines that connect the offshore facilities with the onshore Terminal. The ESIA also includes the design and construction of the export compression, metering and associated utilities for Southern Caucasus Pipeline Expansion (SCPx) Project at the Terminal. The ESIA covers the construction, commissioning, offshore platform hook-up and commissioning (HUC), start-up and operation of all the project facilities. The ESIA for the Project does not include assessment of works that were subject to previous statutory approvals from national Azerbaijani authorities, including a number of Environmental Technical Notes (ETN) developed for offshore pre-drilling and drilling activities undertaken within the Shah Deniz field. The pre-drilling and drilling ETN documents were completed using a systematic environmental and social assessment process that is consistent with the Shah Deniz Stage 2 ESIA. However, the level of detail and extent of the ETN documents is somewhat limited and abbreviated to key issues only. E.g. the ETNs do not include broad stakeholder engagement or public disclosure.

A separate ESIA which was also part of this review (the SD2 Infrastructure ESIA, by URS, dated December 2011), was conducted and approved by the MENR for early site works for



the ST expansion and includes site access, construction facilities, earthworks and drainage works.

ESIA assessment methodology

The construction phase shipyards in Azerbaijan used for fabrication of the offshore SDB jackets and topside are subjected to a narrow assessment of potential impacts in the SD2 ESIA (Chapter 5.6) limited to noise impacts and non GHG air emissions. The ESIA does not provide sufficient detail (based on lender requirements) of the land requirements, land use or potential environmental and social impacts associated with the expansion.

Lender Group requirements and policies stipulate that third parties EHSS performance is under the responsibility of the Project. Significantly, the IESC found that the ESIA lacks sufficient social baseline information for the ATA fabrication yard to demonstrate that social impacts are appropriately identified and that the social management plans in place are sufficient for compliance with lender standards. This site was not confirmed for use by the Project at the time of ESIA development and was presented as an option, not fully defined or assessed.

Environmental objectives

The overarching environmental performance objectives for the Shah Deniz project are included in the Project specific Environmental Protection Standards (EPS) developed in 2008 by a working group consisting of Azerbaijani Government departments, regulators and academic institutions. However, the EPS are yet to be endorsed by the MENR and therefore these standards do not yet have legal force. Until such time as the EPS are fully authorised, the Project must comply with the more generic environmental standards included in the Product Sharing Agreement and which describe the standards and practices common for international petroleum industry that were in existence at the time the PSA was signed in 1996. The ESIA (Chapter 2/5) states that the SD2 Project will comply with the intent of current national legislation where those requirements are consistent with the provisions of the PSA, and do not contradict, or are otherwise incompatible with, international petroleum industry standards and practice.

Area of impact

The IESC found that the Project area of influence (a concept presented in the lender standards) is not fully described for all Project activities and phases, resulting in limited demonstration that the environmental and social management programmes are sufficient to mitigate such associated impacts. The area of influence is identified for the Sangachal Terminal expansion based on social baseline and modelled impacts from the construction and operational phase of the Project. However, similar assessments are not provided for



other Project activities described in the ESIA, including shipyards and waste management facilities, where the extent of or potential for impacts to nearby communities is unclear.

The reported socio-economic baseline conditions do not appear to have been used to carry out an evidence-based social impact assessment. Impacts to villages neighbouring the Sangachal Terminal, for instance, are not differentiated to reflect their different circumstances. The baseline social data provided in the ESIA appears to be of insufficient detail to allow effective monitoring of the effectiveness of social impact management programmes within affected communities.

Management systems and plans

The IESC notes that the Project has various management plans in place for its existing Shah Deniz operations, and that Construction phase management and monitoring programmes favour impact and risk avoidance. These plans include measurable targets and indicators and assign clear roles and responsibilities for time bound implementation. However, it appears that there are some deficiencies in particular in social management plans (SMPs), such as addressing unplanned but predictable developments (e.g. not clearly linking any population influx monitoring to a management plan to respond where necessary), engagement with affected communities on emergency preparedness and response (see below), and measures to manage Small Scale Fishing / Livelihood Restoration for those displaced by temporary onshore/nearshore pipeline works (commitment to develop this Management Plan has been made but is not yet complete).

For all Environmental and Social Management Programmes developed for the Shah Deniz Stage 2 Project construction phase, a significant deficiency and non-conformance to Lender Group requirements is that these plans have not been publicly disclosed during the ESIA process and are not currently available to the general public.

The IESC notes in the audit that the operator has assembled a team of competent professionals to manage the environmental and social performance function from within the operator's team supported by external experts as required, such as for the development and delivery of the ESIA's.

Stakeholder engagement, consultation and disclosure

The ESIA documents the disclosure steps that were taken (namely, scoping consultation workshops, and draft ESIA report release for consultation), as well as the high level issues that were raised during the consultation process. While the ESIA consultation was recognised as appropriately undertaken, ongoing Project consultation and stakeholder engagement is not clearly defined in the disclosed documents (or those reviewed as part of this assignment). Ongoing engagement and participation at the local level, including the



implementation of the grievance mechanism, was not sighted for review by IESC for the construction phase.

The IESC also found no evidence of efforts to engage with affected communities around third party managed Project sites, e.g. construction yards, or the waste facility. It has not been demonstrated that the operator or its contractors have engaged with SOCAR / the municipality / other relevant agencies for the purposes of determining responsibilities for implementing disclosure, consultation and stakeholder engagement activities with those potentially impacted communities near these facilities.

Monitoring

The Shah Deniz operator has implemented an Environmental Monitoring Programme (EMP) designed to provide a consistent, long-term set of data, with the objective of ensuring an accurate picture of potential impacts on the surrounding environment. The EMP follows a 10 year schedule and detailed monitoring plans are prepared for the next 3 years, with outline planning for the following 7 years. Offshore marine monitoring has been conducted with the primary focus being the benthic environment as sediments and their associated biological communities are widely considered to be the source of the most reliable indicators of ecological status and impact.

In terms of onshore terrestrial operations, effort has focused on environmental monitoring in the vicinity of the Terminal in the form of terrestrial ecosystem monitoring, bird surveys, ambient air quality monitoring, and groundwater and surface water quality monitoring. In addition, nearshore fish monitoring and bio-monitoring has been conducted within Sangachal Bay and future surveys are proposed to be conducted in accordance with the 10 year schedule.

The ESIA describes the process of expansion of the environmental monitoring programme for the SD2 Project, to integrate operational monitoring of key discharges carried out by the operator. The aim of regular monitoring is to establish an understanding of trends over time, taking into account results of concurrent regional surveys and initial baseline data. Combined with operational discharge monitoring, this approach provides a robust basis for assessing the impact of Project operations, and for comparing the observed impact with that predicted in the ESIA.

LABOUR AND WORKING CONDITIONS

IFC Performance Standard 2: Labour and Working Conditions / EBRD PR 2: Labour and Working Conditions

No substantial deficiencies were identified as a part of this review against labour and working conditions criteria.


RESOURCE EFFICIENCY AND POLLUTION PREVENTION

(IFC Performance Standard 3, EBRD Performance Requirement 3, ADB Safeguard Policy Statement).

No substantial deficiencies were identified as a part of this review against resource efficiency and pollution prevention criteria.

COMMUNITY HEALTH, SAFETY AND SECURITY

IFC Performance Standard 4: Community Health, Safety and Security / EBRD PR 4: Community Health, Safety and Security

Community health, safety and security issues are not assessed in detail in the Shah Deniz Stage 2 or the Early Infrastructure Works ESIA documents (for example, antisocial behaviour and social conflict), or they are scoped out (for example, road/rail disruption, health and safety risks and impacts as a result of onshore pipeline works).

The Operator has described health, safety and environmental leadership, planning and management, legal and regulatory framework, as well as management of contractor health and safety, security, environmental and social responsibility, and self-verification in the Programme HSE Plan for the construction phase of the Project, demonstrating an established system is in place for addressing emergencies and other hazards that may impact communities. As with other management plans, this does not appear to have been publicly disclosed, which is inconsistent with the requirements of the Lender Group policies.

INVOLUNTARY RESETTLEMENT

IFC Performance Standard 5: Land Acquisition and Involuntary Resettlement / EBRD PR 5: Land Acquisition, Involuntary Resettlement and Economic Displacement

The project ESIA discusses options to optimise land take with the intention of avoiding or minimising environmental and social impacts in the project design stage. However, it is clear that the Project does result in some economic displacement of fishing households as a result of the construction activities surrounding the shore crossing of the gas export and MEG pipelines. The IESC also identified that there is limited social baseline information available regarding the land acquired for the ATA construction yard expansion.

Impact assessment on enforcement of the marine exclusion zone recognised the potential impact to small scale fishermen, resulting in a fishing livelihood baseline survey being undertaken to gather additional information on small-scale fishing activities within Sangachal Bay and the nearshore environment. The baseline determined that livelihood restoration is required to compensate the fishermen's temporary loss of access to natural resources of the Bay.



While work has commenced to progress livelihoods restoration and some agreements may have been reached, it is not confirmed whether final agreements or compensation payments were in place with fishermen prior to construction and thus at the time of the livelihoods impacts occurring. An Entitlements Matrix has been developed but the methodology is not discussed, and the payment schedule is not specified in the documentation provided for IESC review. Further, the IESC was unable to confirm if a grievance process specific to livelihood restoration was in place prior to loss of access to natural resources.

A Livelihood restoration framework, through a Small Scale Fishing Management Plan is yet to be established by the Project. It will include identification of appropriate (financial and non-financial) livelihood restoration measures by agreement with stakeholders, for the duration of the temporary loss of access. This loss of access will apply during the construction period from February 2015 for approximately 9 months, after which access will be reinstated.

Based on lender requirements, compensation is required to be paid before displacement, while full implementation of the resettlement plan might take longer. The operator has not yet documented a date for delivery of the Management Plan covering the compensation measures. The compensation measures have been developed and documented in an Entitlements Matrix but the IESC is not aware that the methodology behind the matrix is documented or publicly disclosed. The operator has indicated that compensation payments will be based on legal requirements and past experience of compensation by the operator for the Shah Deniz Project.

A mechanism is proposed to be established to receive and facilitate the resolution of affected persons' concerns and grievances for small-scale fishermen, in line with the existing grievance procedures of the Project. A timeframe for its development has not yet been identified or if this has been implemented, the documentation was not available to the IESC for review.

BIODIVERSITY CONSERVATION AND SUSTAINABLE MANAGEMENT OF LIVING NATURAL RESOURCES

IFC Performance Standard 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources / EBRD PR 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources

No significant deficiencies were identified as a part of this review against biodiversity conservation and sustainable management of living natural resources criteria.

INDIGENOUS PEOPLES

IFC Performance Standard 7: Indigenous Peoples / EBRD PR 7: Indigenous Peoples

It is considered that the criteria for Indigenous Peoples are not triggered for this Project.



CULTURAL HERITAGE

IFC Performance Standard 8: Cultural Heritage / EBRD PR 8: Cultural Heritage

Tangible heritage

The IESC notes a lack of evidence of targeted consultation relating to cultural heritage with individuals or groups with specialist interests, outside the regulatory bodies.

EBRD PR 8: Cultural Heritage

Intangible heritage

The Lender standards require the assessment of intangible cultural heritage. While the Institute of Archaeology and Ethnography has been engaged in a watching brief on the Project, it is not evident what intangible cultural heritage investigation has occurred, is ongoing or planned for the future.

7. CONCLUSION

The review and audit findings identified a comprehensive environmental and social impact assessment process has been undertaken for the Shah Deniz Stage 2 Project which is generally considered to be a high standard, consistent with good international practice. The ESIA represents the latest assessment for the Shah Deniz Project that was initially subject to ESIA for Stage 1 in 2002. The 2014 ESIA has been developed from a body of knowledge gained from operation of the Stage 1 Project since 2006 and the associated environmental and social monitoring and management programmes that have continued since the initial ESIA studies. The operational knowledge gained from the Shah Deniz Project, together with the understanding gained on the environmental and social aspects of the Project have informed the identification, scoping and assessment of impacts for the 2014 Project ESIA.

Material non-compliance with Lender policy is:

- PR1 (paragraphs 14 and 15), PR10 (paragraph 17): Absence of documentation in an ESAP; Disclosure of information did not include all of the proposed mitigation measures and implementation issues, specifically, the Environmental and Social Management Plans. This includes the Stakeholder Engagement Plan, which has the potential to materially impact how the operator conducts engagement and disclosure activities including those disproportionately impacted by the Project, vulnerable groups, and workers.

In general, the ESIA provides a systematic and detailed assessment of the significant environmental and social aspects of the Project. Baseline environmental and social data are comprehensive, being developed from monitoring programmes refined over a 10 year period, although some limitations of social baseline have been identified for the onshore components of the Project which are located away from the Sangachal terminal and surrounding area (including the construction shipyards). The impact assessment methodology is sound and consistent with Good International Industry Practice. The impact assessment scoping process used for the ESIA has applied past Project experience to identify those environmental and social aspects that are likely to be significant for Shah Deniz Stage 2. This process allows the operator to design the Project such that significant impacts are avoided where possible or substantially mitigated using proven methods and technology.

The deficiencies identified through the environmental and social audit are largely due to differences between the environmental and social performance criteria applied by the Lender Group and the compliance requirements applied for the Shah Deniz project which are reflected in the ESIA, including the statutory requirements and the Project operator (BP) standards. The most significant variation from Lender Group standards and policies relates to the lack of public disclosure of environmental and social management plans and



SUSTAINABILITY

FUTURE GROWTH

stakeholder engagement plans developed for the construction and operational phases of the project.

The IESC notes that some deficiencies identified through the environmental and social review and audit may have resulted from limited access provided to the IESC to Project information and people . It is recognised that LOSD, as the party seeking finance from the Lender Group, is not the operator of the Shah Deniz Project and has both limited ability to influence the environmental and social performance and limited ability to demonstrate the Project's environmental and social compliance with Lender Group policies and standards.