

Environmental and Social Review Summary

OOO Sunty

This Environmental and Social Review Summary (ESRS) is prepared by MIGA staff and disclosed in advance of the MIGA Board consideration of the proposed issuance of a Contract of Guarantee. Its purpose is to enhance the transparency of MIGA's activities. This document should not be construed as presuming the outcome of the decision by the MIGA Board of Directors. Board dates are estimates only.

Any documentation which is attached to this ESRS has been prepared by the project sponsor, and authorization has been given for public release. MIGA has reviewed the attached documentation as provided by the applicant, and considers it of adequate quality to be released to the public, but does not endorse the content.

Country:	Russia
Sector:	Manufacturing
Project Enterprise:	OOO Sunty
Environmental Category:	B
Date ESRS Disclosed:	April 13, 2009
Status:	Due Diligence

A. Project Description

The project enterprise is a packaged coffee and tea product manufacturer in the Russian Federation. Tetley Overseas Holdings Limited, UK (TOHL), a unit of Tata Tea, India (Tata), plans to acquire partial ownership of a Russian coffee and tea manufacturer, OOO Sunty (formerly Grand Group Russia). TOHL has applied for a \$30.4 million MIGA guarantee to cover its investments of equity, future retained earnings, and dividend entitlement in OOO Sunty. TOHL and its joint investor, the European Bank for Reconstruction and Development (EBRD), will acquire a 51% ownership in OOO Sunty. The two investors will acquire the existing facility and make improvements, including the purchase of additional equipment and computer systems to enhance OOO Sunty's operations, the installation of modern, more efficient packing equipment and increasing the storage capacity of the facility. The overall aim of these improvements is to double production volume. It is expected that this can be accomplished without a reduction in employment.

B. Environmental and Social Categorization

This investment involves the acquisition and improvement of an existing manufacturing facility. No new land will be acquired and no people will be physically or economically displaced. MIGA expects that Tata, along with its joint investor EBRD, will properly mitigate the social and environmental risks that could arise. This project is categorized B under MIGA's social and environmental review procedures because the impacts are site-specific and limited in number, and mitigation measures are readily identifiable.

C. Applicable Standards

Based on our current information it is expected that the investment will have impacts which must be managed in a manner consistent with the following Performance Standards:

Performance Standard 1: Social and Environmental Assessment and Management System

Performance Standard 2: Labor and Working Conditions

Performance Standard 3: Pollution Prevention and Abatement

Performance Standard 4: Community Health, Safety and Security

PS5: Land Acquisition & Involuntary Resettlement does not apply to this project as other than the existing facility, no new land will be acquired. Tata has confirmed that no persons will be physically or economically displaced by the project. There are no ecologically sensitive areas in close proximity to the facility, therefore PS6 does not apply. As this project involves the purchase of an existing industrial facility and no new land will be acquired, MIGA does not expect the project to have any impact on cultural heritage (PS7). No Indigenous peoples will be affected by this project, therefore PS8 does not apply.

In addition, the following World Bank Group Environmental, Health and Safety (EHS) Guidelines are applicable to this project:

World Bank Group General EHS Guidelines

World Bank Group Industry Sector EHS Guidelines for Food and Beverage Processing

D. Key Documents and Scope of MIGA Review

In addition to the Definitive Application for a MIGA Guarantee, MIGA has reviewed the following documents:

- Skhodnya GRAND Ltd. Tea & Coffee Packaging Plant EHS Due Diligence [Draft Report, October 2008](#)
- Draft Subscription Agreement between Kahutara Holdings Limited and Campestres Holdings Limited and European Bank for Reconstruction and Development, incorporating an Environmental and Social Action Plan (ESAP), draft February 23, 2009
- [Tata Code of Conduct, 2008](#)
- Excerpt from the Tetley UK Human Resources Policy
- ACT (RECORD) No. 6-95-4/08 Of Inspection to Determine Compliance with Environmental Legislation and Observance of Environmental Requirements dated March 17, 2008;
- Registration Number 50-25-3 Issued to Skhodnya-Grand Ltd by the Agency for Environmental and Technological Supervision of Moscow Region under the Federal Service for Environmental, Technological and Atomic Supervision on April 5, 2006;

- Permit to Discharge Polluting Substances into Environment issued to Skhodnya-Grand Ltd by the Federal Service for Environmental, Technological and Atomic Supervision of the Russian Federation, valid from April 28, 2008 through April 28, 2009;
- Permit No. 2372 To Discharge of Polluting Substances into Atmospheric Air issued by the Federal Service for Environmental, Technological and Atomic Supervision of the Russian Federation to Skhodnya-Grand for the period during May 6, 2008 through October 31, 2011;
- RESOLUTION No. 6-99-4/08 On Administrative Penalty for Violation of Environmental Legislation dated March 17, 2008;
- Calculation of Environmental Harm Fee for the Fourth Quarter of 2008;
- Plan for Checking Levels of Pollutants at Sources of Discharge;
- Laboratory Reports (atmospheric air; drinking water; noise levels; light brightness in working areas; meteorological factors; indoor air; water from central water supply system) dated August 18, 2008; November 18, 2008; and November 25, 2008;
- Laboratory Reports on Quantitative Chemical Analysis of Effluents and Ground Water taken on September 15, 2008 and February 9, 2009;
- Laboratory Report on Measuring Pollutants in Escaping Gases, and Thermal and Technical Parameters of the Boiler taken on March 4, 2009;
- Certificate on Completion of Short-Term Training Course during 09/13/2006 through 09/18/2006 issued in the name of Ms. E.A. Vatutina;
- Certificate on Completion of Short-Term Training Course during 09/13/2006 through 09/18/2006 issued in the name of Mr. A.S. Vyalov;
- Certificate on Completion of Short-Term Training Course during 09/13/2006 through 09/18/2006 issued in the name of Ms. A.A. Zarubina.

MIGA's review of this project consisted of evaluating the environmental and social information submitted by Tata, including Tata's responses to inquiries posed by MIGA's social and environmental specialists.

E. Key Issues and Mitigation

PS1: Social and Environmental Assessment and Management Systems

EBRD, which applies to its projects social and environmental standards similar to those of the World Bank Group, is an investor in the project. The investment is expected to have no significant adverse social impacts. The key environmental issues are the management of air and noise emissions, solid waste and liquid effluent, largely described below under PS3 and PS4. Based on MIGA's review the investment is expected to comply with MIGA's social and environmental policies and standards.

EBRD commissioned an EHS Audit of the existing facility as part of its due diligence, which found no major non-compliance issues which would be associated with significant financial implications. The Audit found that the existing project enterprise is in general compliance with all applicable requirements, although some minor issues will require

improvement in order to demonstrate full compliance. A small fine was levied in 2008 for a minor infraction (failure to keep certain records), but this issue has been satisfactorily resolved. According to the Audit the existing facility has dedicated staff responsible for environmental and health and safety issues, although no certified social and environmental management system is in place. The investors have committed in the Environmental and Social Action Plan (ESAP) to implement ISO 14001, OHSAS 18001 and ISO 22000 (or HACCP) management systems, as recommended in the Audit, by 2009-2010. The current project enterprise possesses all the required permits and prepares reports for the authorities as required by Russian law.

The proposed improvements to the facility are still in the early planning stages, and an impact assessment has not yet been prepared. However, the Audit states that based on information currently available the newly applied technologies will comply with Russian and international environmental and occupational health and safety standards. Construction and demolition may involve a temporary increase in waste, noise, and traffic, but these are not expected to be significant.

PS2: Labor and Working Conditions

Human resources (HR) policies for the project enterprise under the joint venture ownership have not yet been drafted, but they will be based on those of Tata. MIGA has reviewed Tata's general HR policy and Code of Conduct and found them to be in compliance with PS2. Wages provided by Tata exceeds the average wages in the industry and region by approximately 10%. The Audit judged the project's health and safety training to be effective.

The ESAP contains a series of commitments that will bring the facility up to best practice standards and resolve issues that were raised in the Audit. These plans include the implementation of an emergency response plan and asbestos management plan, improved health and safety marking, improvement of accident reporting, and provision and monitoring of first aid kits. Upon completion, MIGA will review these plans.

In addition the ESAP also states a commitment to require companies that undertake outsourced production on behalf of the project to comply at a minimum with Russian Federation environmental, OHS and labor standards, to reduce EHS and labor risks in the supply chain.

PS3: Pollution Prevention and Abatement

The overall level of environmental risks associated with the company is judged to be low. General operations and standard of housekeeping at the sites were deemed adequate, however some areas required improvements.

Air emissions. There were some instances of emissions parameter breaches (air emission from boilers, quality parameters of wastewater and stormwater). While these breaches are not associated with any significant negative environmental impact or financial risk, the company has not yet addressed the issue. The Audit recommends that

minor investments in stormwater treatment and changes to a few operational practices would allow the company to achieve full compliance with permit conditions. The Audit also recommends adjustments to the boilers to allow the reduction of emission parameters to comply with permit conditions.

Effluents. Water and wastewater management appear to be adequate. The risk of soil and groundwater contamination, and the risk that such contamination occurred historically, are both low. However the Audit stated that the tests performed on ground contamination may have been inadequate, and consequently there is a commitment in the ESAP to perform further analysis. There is some evidence of discharge of contaminants to the municipal wastewater network in excess of acceptable levels, although the Audit does not see these results as conclusive. The ESAP contains a specific commitment to analyze this issue and resolve it. MIGA will review updated versions of the ESAP as well as regular monitoring reports. The Audit also recommends that the company invest in a stormwater pre-treatment unit as the quality of stormwater does not comply with discharge permit conditions. Concentrations of suspended solids and hydrocarbons exceed the standard imposed in the permit. Installation of a sedimentation tank coupled with hydrocarbons separator is recommended as an interim solution.

Solid Waste. Waste management practice observed at the site appeared to be appropriate for the types of waste generated. Separate collection and storage containers were provided where necessary. Waste documentation (contracts, certificates, waste transfer records) fully complied with Russian legislative requirements.

PS4: Community Health, Safety & Security

The main site is located in a central part of Skhodnya, a town 25 km northwest of Moscow with approximately 20,000 residents. The site adjoins other industrial developments from the west and east, residential areas from the north and a railway line to the south. The closest residential areas are located approximately 50 meters north of the site's fence. The Skhodnya River is approximately 200 meters northeast of the site. Local regulations require a 50 meter buffer zone around the facility, which is fully enclosed within the company premises. Unarmed security guards are employed to protect the project facilities.

The Audit notes that no data exists on the effects of noise on the local community, but the risk of elevated levels of noise is low, and no complaints have been reported. The community relations function is performed by the management of the company which closely cooperates with the local governmental body (Municipal Administration). Residents of Skhodnya can bring complaints directly to the management of the company or the local government.

The increase in production will result in a permanent increase in the amount of truck traffic to the area and consequent noise, traffic and air emissions. The Audit did not identify this as a significant problem.

F. Environmental Permitting Process and Community Engagement

The existing project possesses all required permits and is in compliance with Russian laws and regulations. The investment involves the acquisition of a facility that was in existence for a number of years. The proposed improvements to the facility are not anticipated to require additional permitting and no additional significant adverse effects on the surrounding community are expected.

G. Availability of Documentation

The listed documentation is available electronically as PDF attachments to this ESRS at www.MIGA.org.

- Skhodnya GRAND Ltd. Tea & Coffee Packaging Plant EHS Due Diligence Draft Report, October 2008
- Tata Code of Conduct, 2008 (also available on the Tata web site: <http://www.tata.com/aboutus/articles/inside.aspx?artid=NyGNnLHkaAc>)