



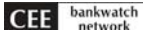
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Cc: Tim Ritchie, Global Head of Syndications & Global Loans
Christopher Bray, Head of Environmental Risk Management

22nd October 2003

Dear Mr Barrett,

Re: Baku-Tbilisi-Ceyhan oil pipeline: breach of Equator Principles

We welcome the moves your bank has made toward addressing the environmental and social impacts of project finance, by adopting the Equator Principles this summer.

We are writing to draw your attention urgently to the Baku-Tbilisi-Ceyhan (BTC) oil pipeline, which is currently seeking financing, and which our research finds breaches the Principles on multiple counts.

We enclose a detailed review of the compliance of the Turkey section of the pipeline with the standards of international financial institutions, together with a supplementary appendix covering compliance with the Equator Principles.

While at first glance the project may appear to have addressed environmental and social issues, a detailed examination reveals disturbingly poor performance in these areas. Two fact-finding missions to the pipeline route have found substantial divergence between what is claimed on paper by the project, and the reality on the ground in implementation. Meanwhile, thorough analysis of the project documents has found that even in design, the project is a long way from international best practice.

For example:

- The majority of affected people have not been meaningfully consulted on the project.

- Compensation payments to landowners who have had their land expropriated have been consistently well below land replacement cost.
- Baseline surveys of environmental and cultural resources have been cursory at best: the majority of sites have not been surveyed, and those that have, have been visited just on one day.

Of particular concern is the fact that the BTC Co consortium has completely failed to address the project's impacts on ethnic minorities. There are a number of ethnic minorities on the pipeline route, especially in Georgia (eg Armenians, Greeks, Abkhaz, Russians, Ossettians), who will be adversely affected. This analysis focuses on the Kurds in Turkey.

BTC Co has declined to apply the World Bank's Operational Directive 4.20, Indigenous Peoples, the only directive specifically aimed at safeguarding the interests of minority groups – despite the fact that the Kurds meet every one of the criteria for applying OD 4.20. The decision not to apply the policy leaves the Kurds and other ethnic minority groups unnecessarily and unjustifiably vulnerable. The fact-finding missions have already found discrimination and excessive negative impacts experienced by minorities, and indeed major human rights concerns associated with the project.

Furthermore, there is strong evidence that the pipeline will not help with poverty alleviation in the region. In Azerbaijan in particular, extensive corruption has prevented oil revenues from reaching those who most need them. Earlier this month, an Azerbaijani human rights group submitted a complaint to the International Finance Corporation (IFC) and the European Bank for Reconstruction and Development (EBRD) concerning corrupt practices at the State Oil Company of Azerbaijan (SOCAR).¹

Meanwhile, in Georgia, by passing through the support zone of the Borjomi-Kharagauli National Park, the pipeline threatens the mineral water springs which produce the country's largest export. The Borjomi routing has been highly controversial, and has sparked widespread public protests in the country.

Our research finds that, on the Turkey section of the pipeline alone:

- **The BTC project is in partial or total breach, on at least 127 counts, of five IFC standards with which the Equator Principles require compliance;**
- **The project potentially breaches the Turkish Expropriation Law on at least two counts;**
- **The project is in partial or total breach of international standards on 171 counts, which under the project agreements are requirements of Turkish Law;**
- **The project is in partial or total breach of nine further clauses of the Equator Principles, on 30 counts;**

¹ See Committee of Oil Industry Workers' Rights Protection / CEE Bankwatch Network press release, <http://www.bankwatch.org/press/2003/press40.html>

- **There is significant legal uncertainty surrounding the project agreements; and there are concerns regarding conflicts between the agreements and Turkey's international obligations on environment and human rights.**

We recommend that:

- **Banks should not provide loans to the BTC pipeline, as it currently stands;**
- **In the interests of transparency, banks should publish their analysis of the BTC project against the Equator Principles and against their other environmental and social standards.**

When banks formulated and adopted the Equator Principles, they were aiming to show leadership in their handling of environmental and social issues. It would thus be a sign of considerable weakness in their commitment to these issues, were they to abrogate decisions on whether projects are compliant to a third party such as the International Finance Corporation (IFC).

We believe strongly that banks must carry out their own analysis of the project, and not rely solely on information from the BTC consortium itself or from the IFC. Banks are committed to the standards outlined in the Equator Principles, regardless of whether the IFC upholds its own standards or not.

Specifically, loans should not be considered to BTC until at least the following requirements are met:

- **IFC policy OD 4.20 (Indigenous Peoples) is applied and the project brought into compliance with it**, as required under the Equator Principles;
- **The project is brought into compliance with the Equator Principles** – requiring action on the 127 breaches of the referenced IFC policies, and on the 30 further breaches of other Equator Principles;
- **The project is made fully compliant with host country law;**
- **Legal clarity on the project agreements is achieved** – the project agreements should be amended to protect third party rights, and to ensure compliance with Turkey's obligations under international human rights, land rights and environmental law;
- **Ongoing investigations and inquiries by independent authoritative bodies have been satisfactorily concluded** – including through the European Commission and the OECD.

When the Equator Principles were launched, civil society groups cautiously welcomed the move, but warned that the true measure of banks' environmental and social commitment would be in their implementation of the Principles. Specifically, banks would be judged on which projects they provide loans to.

We are confident that you will share our concerns, and that you will make every effort to ensure that your bank follows through on its commitments.

We look forward to hearing from you.

Yours sincerely,

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