

The BTC Intergovernmental and Host Government Agreements

The Intergovernmental Agreement (IGA), signed on 18 November 1999 by the Presidents of the Azerbaijan Republic, Georgia and the Republic of Turkey and witnessed by US President Clinton, records each country's support for the development, construction and operation of the BTC Pipeline across its territory together with the transit of petroleum liquids through the BTC Pipeline. The mutual obligations of the States under the IGA form the basis of the undertakings contained in the agreements they subsequently have entered into with BTC Co (including the three Host Government Agreements and, with respect to the Republic of Turkey, the Lump Sum Turnkey Agreement (LSTK Agreement) and the Turkish Government Guarantee (Government Guarantee)).

The overarching purpose of the IGA is to create a consistent, transparent and predictable fiscal, technical and legal regime to support the BTC Project as a trans-national transit project in and across jurisdictions with economies in transition located in a geo-politically fluid region of the world. Specifically, the IGA contains commitments from each Government with respect to:

- The application of uniform and clearly identified technical, safety and environmental standards in accordance with international standards and practices not less stringent than those applied in the member states of the EU;
- A detailed basis for taxation in each jurisdiction including an agreement on a basis for allocating profits among the three countries;
- The provision of security for the BTC Project; and
- The provision of a robust set of rights and guarantees from the Governments to BTC Co to help ensure the certainty and predictability of the fiscal, technical and legal regime relating to the BTC Project.

The HGAs follow a recognized approach that has been used for large-scale natural resources projects in developing economies and economies in transition around the world. Project participants benefit from greater certainty to support their investment, and the host countries benefit by receiving investments that may not otherwise be made, revenues that would not otherwise be generated and undertakings from the project participants, which in the absence of the HGAs would not otherwise exist under national legislation.

The HGAs are substantially similar for each of the States and set out in greater detail the technical, legal, and fiscal regime under which BTC Co undertakes the BTC Project and the mutual rights and obligations of the Government and BTC Co. The HGAs contain rights and guarantees from the respective States to BTC Co in respect of matters necessary to ensure the success of the BTC Project, including the following:

- Rights to land for the construction and operation of the BTC Project;
- Rights to a complete list of all documents required to apply for all permits, licenses and other documentation required in order to construct and operate the BTC Facilities;

- Rights to import and export goods, services and materials necessary to construct and operate the BTC Facilities exempt from import and export duties except to the extent specified;
- The right to transfer, convert and repatriate currency;
- A guarantee that the State Authorities and State Entities will carry out the obligations undertaken in the HGA;
- A guarantee of economic stabilization in the event that the legal or fiscal regime changes to the detriment of BTC Co;
- A guarantee of security; and
- A guarantee of compensation in accordance with prevailing international standards in the event of expropriation.

The HGAs also obligate BTC Co and its contractors to construct and operate the BTC Facilities in accordance with a comprehensive and detailed set of environmental, social, technical, and safety standards. The depth and detail with which these standards are dealt with in the HGA is calculated to ensure that the BTC Project adheres to the highest international standards. The HGAs also obligate BTC Co to undertake detailed scoping studies, risk assessments and public consultation and prepare an extensive Environmental Impact Assessment in accordance with the requirements of the HGAs (these obligations have already been discharged by BTC Co). Resettlement and oil spill response plans are also being developed. Finally, the HGAs set out a detailed programme for review, public comment and approval of specified environmental and social plans by the respective governments and the results of these reviews are now available on a publicly accessible website at www.caspiandevlopmentandexport.com

The HGAs set out a process for land acquisition and compensation to economically displaced users of land that is tied to the legal requirements and preferences of the different host countries. The project participants are committed to ensuring that land acquisition and compensation is based on an open and fair process following consultation with affected communities and meets not only HGA requirements, but also those of the different international financial institutions that may provide financing for the BTC Project. Overall, the HGA requirements impose a higher degree of transparency and due process in acquiring the rights to land needed for the BTC Project than would otherwise be available under the domestic legislation of the three jurisdictions involved.

Finally, the HGAs set out the terms of the direct financial compensation for each of the host countries. Over the life of the BTC Project, these revenues are expected to amount to \$500 million for the Azerbaijan Republic, \$550 million for Georgia and \$1,000 million for the Republic of Turkey. In addition, the construction of the BTC pipeline will unlock significant investment to develop production facilities offshore Azerbaijan in the Caspian Sea and permit the state oil companies of Azerbaijan and Turkey to earn very significant revenues through transportation and sale in international markets of crude oil produced from those facilities.

As a further demonstration of Turkish Government support for the BTC Project, a LSTK Agreement was entered into between BOTAS, a State Entity of the Government of the Republic of Turkey, and BTC Co under which BOTAS has agreed

to design, engineer, procure, construct and put into operation the BTC Facilities in the Republic of Turkey for a fixed price of \$1.3 billion (plus \$99 million for land acquisition). As a further demonstration of this support, the Treasury of the Republic of Turkey has provided a Turkish Government Guarantee of the full financial performance by BOTAS of all payment obligations under the LSTK Agreement.

The foregoing Government Agreement structure will enable the BTC Project to bring the following important benefits to the host governments and to the region:

- The BTC Project will provide a viable means for Azerbaijan and other Caspian Sea littoral states to develop, export and monetize their upstream oil production;
- The BTC Pipeline will establish a commercially viable export option for Caspian Sea crude oil that by-passes the environmentally-sensitive Turkish Straits;
- The BTC Pipeline will be transferred to the ownership of the Azerbaijan Republic at no cost after the investors in BTC Co (which include the state oil companies for Azerbaijan and Turkey) have achieved a 12.5% rate of return over a 20 year period;
- The construction and operation of the BTC Project is one of the single largest foreign direct investment projects in the Republic of Turkey (and the largest in Georgia);
- Through the LSTK Agreement, BOTAS will procure a significant portion of the required goods and services in Turkey;
- The BTC Project and its contractors will seek to utilise local personnel and materials where appropriate, and indirect employment opportunities in the countries will arise;
- The host countries will benefit from technical expertise and technology transfer resulting from the BTC Project; and
- The BTC Project will identify further key areas for sustainable social investment in the Azerbaijan Republic, Georgia and the Republic of Turkey, focusing on long-term benefits in areas such as community development and the further expansion of small and medium size enterprises.