

The Baku-Tbilisi-Ceyhan pipeline – a briefing for BP staff

The Baku-Tbilisi-Ceyhan pipeline, to be built by a consortium led by BP, is currently generating a good deal of publicity and controversy, as might be expected with any huge construction project.

BP welcomes an open debate and the opportunity to set out its views. This note explains what BP sees as the benefits of the project and answers some of the criticisms that have been made by pressure groups, including those made in a leaflet handed out recently near some of our offices.

The key facts

The BTC pipeline is being built to help transport the massive volumes of oil from the Azeri-Chirag-Gunashli oilfields in the Azerbaijan sector of the Caspian. Production from these fields is due to rise to one million barrels a day by 2008 and a new line is needed to carry more oil than can currently be transported through existing smaller pipelines to the Black Sea. Using the BTC pipeline will avoid sending more tankers through the congested Turkish Straits, which pass directly through the heart of Istanbul (a World Heritage City of 12 million people) and thereby avoid the safety and environmental hazards involved.

The BTC pipeline will bring major benefits, not only to BP and its partners, but to the countries it passes through – Azerbaijan, Georgia and Turkey. It is the largest single foreign investment in each of these three countries. For Azerbaijan and Georgia, two former Soviet states with high poverty levels and millions of refugees, the project provides a major opportunity to speed up their progress towards stability and prosperity.

Azerbaijan is expected to receive up to \$40bn from oil over the next 20 years, almost entirely as a result of the new pipeline. All three countries will benefit from tariffs and taxes generated by the project. During the construction of the pipeline, 10,000 jobs will be created and around 1,000 long-term jobs will be created during its operation period.

The BTC pipeline will carry oil for 1760 kilometres from Azerbaijan's waters in the Caspian Sea, via Georgia, to a deepwater port at Ceyhan on the Turkish Mediterranean coast. It will cost \$3bn and is being managed by BP on behalf of an 11 strong consortium known as BTC Co. Construction will start early this spring and is due to end in early 2005.

With the exception of the terminals and pump stations, the entire pipeline will be buried underground. Local people have been consulted along the length of the route and nobody will have to move from their home as a result of the project. The route also carefully avoids politically volatile areas. Anyone disadvantaged, for example by losing use of farmland during the construction, will be generously compensated. Farmland will be useable again once the ground has been reinstated. The actual area disturbed for the building and burying of the pipeline will be only 44 metres wide.

Some key issues

Legal agreements with host countries

Critics says that the agreements reached between the BP-led consortium and the governments of Azerbaijan, Georgia and Turkey, 'exempt' the consortium from these countries' laws. The critics oppose the way that these agreements enable the consortium to claim compensation should new legislation reduce the project's earnings.

The Inter-Governmental (IGAs) and Host Government Agreements (HGAs) apply a standard approach which is taken for many large-scale projects. The IGA provides a means to ensure that the same standards are applied in each of the three countries involved.

In Azerbaijan and Georgia, the HGAs protect the consortium and the local population from the application of outdated legislation left over from the Soviet era and ensure that all standards applied for safety, environmental protection and technical work are as stringent as those applied in the EU.

The agreements also take a standard approach to protect companies making multi-billion dollar long-term investments from unfair or unpredictable behaviour, for example attempts by a local authority to seek additional rent during the project.

The agreements have been extensively negotiated, agreed and ratified by the governments and Parliaments of the countries involved. Together, these arrangements make up the legal foundation on which the BTC pipeline will be constructed and operated. It is therefore reasonable for the consortium to expect that their terms will be honoured over time. However, because any arbitrary changes to these arrangements would damage the interests of the companies' shareholders – and possibly those of local people benefiting from the pipeline – we would be failing in our duty if we did not put in place an agreement to secure compensation in such a situation.

The Borjomi Mineral Water springs

Critics say that BTC Co has tried to push its way through environmental protections in Georgia. They have raised concerns in connection with the pipeline's route near the Borjomi mineral water springs, which provide high quality, popular, mineral water.

The pipeline will be built some 15 kilometres from the mineral springs and we are confident that even if the pipeline were to leak the mineral springs aquifers could not be contaminated. To minimize the risk of a leak in this environmentally sensitive area, BP and its partners are taking a series of additional measures, including:

- a thicker wall steel pipe

- doubling the number of automatic isolation valves required by international code
- increasing the frequency of patrols and surveillance by people from the local community
- training of local people as part of location specific spill response plans
- sensor systems to detect any interference or movement near the pipeline
- highly sensitive leak detection.

These precautions are in addition to the normal measures that include: external coatings, anti-corrosion protection; burying the pipeline at least a metre deep; pressure testing the pipeline with water before operations start; and regular internal inspections with remote-controlled gauges.

Many possible alternative routes have been considered, in conjunction with the Georgian government, but all have had unacceptable social, environmental or security risks. Far from pressurizing the Georgian government, BTC Co has worked very closely over a period of two years with Ministers and officials, holding detailed discussion leading to agreement on the route and on the extensive safeguards to be taken in the area.

'Free public money' to build the pipeline

BP CEO Lord Browne has been criticized for saying in 1998 that 'free public money' was needed to build the pipeline and BP has been criticized for seeking a 'public subsidy' for the project.

The reasons for considering public funds or public loans is to enable the participation of local partners who might lack the financial resources possessed by BP. The consortium is a joint venture, the joint venturers being obliged to fund the project in proportion to their respective equity shares. Partners such as the State Oil Company of the Azerbaijan Republic (SOCAR) do not have sufficient funds available to make their investment without a loan. Consequently, the project is taking the expensive step of borrowing 70% of the money for the investment. BTC Co intends to raise \$1.7 billion of external debt, mostly from commercial banks, but also from multilateral agencies such as the World Bank's International Finance Corp. and the European Bank for Reconstruction and Development. Political and commercial risk insurance is being sought from a number of export credit agencies around the world. If BP were running the BTC project alone, it would largely use its own funds and rely upon relatively minor participation by financial institutions, solely for the purpose of reducing political risks and to ensure an extra dimension of expert, external monitoring. Now, far from enjoying a 'public subsidy', the project will receive loans from financial institutions that charge interest rates reflecting the risks of the countries. The loans and interest are repaid in full by the project.

Consultation with pressure groups

BP has been criticized for declining to attend a meeting held at the House of Lords last year by the Baku Ceyhan Campaign.

BP has undertaken extensive consultation on this project, in the countries through which the pipeline would pass, in the UK and elsewhere. We have held numerous meetings with many groups. We welcome fair and balanced debate but we reserve the right not to take part in events that do not appear to provide fairness and balance. We declined to attend the meeting held in a room at the House of Lords because rather than involving a range of groups and airing a range of views, its agenda provided most of the available time to individuals who have consistently campaigned against BP as a company. We felt that this would not be conducive to a constructive public discussion of the pipeline project. However, we met the organizers twice subsequently to explain our views and to listen to theirs. We also took part in a public meeting with some of them at the London School of Economics in December. We are very willing to discuss these issues in public – as this paper shows – provided that the terms are fair and balanced.

Many major non-governmental organisations (NGOs) are working constructively with the BTC Co on environmental and social issues as a critical element of the project itself. For example, in Georgia two NGOs, Care and Mercy Corp, are being funded by BTC Co to carry out a multi-million dollar project, called the Community Investment Plan, working with local people as construction takes place to address issues that they have raised. There are similar programmes in Azerbaijan and Turkey.

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