SOME COMMON CONCERNS

Imagining BP's Azerbaijan-Georgia-Turkey Pipelines System

"Who speaks,
under what conditions,
and for whom?"

Henry A Giroux, *Living Dangerously: Multiculturalism and the Politics of Difference.*[1]

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Cover picture: the Chirag-1 oil rig, in the Caspian sea. (G Ruschendorf /Rapho/Network)

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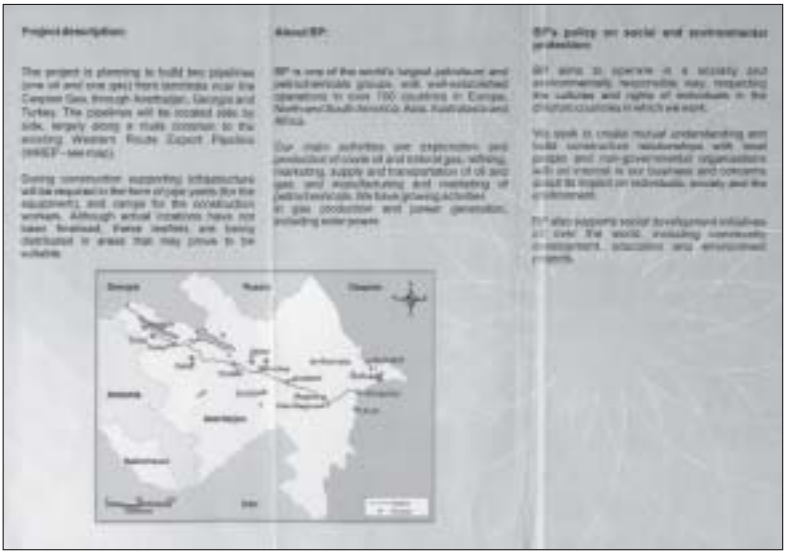
PART I

INTRODUCTION



Leaflet distributed in Azerbaijan in 2001 by ERM on behalf of BP.

Chapter 1
The leaflet from the Caspian Sea

NINETY WORDS. A mere 90 words of BP's Azerbaijan consultation leaflet, reprinted opposite, describe what is planned for the Azerbaijan-Georgia-Turkey (AGT) pipelines system:

> *The project is planning to build two pipelines (one oil and one gas) from terminals near the Caspian Sea, through Azerbaijan, Georgia and Turkey. The pipelines will be located side by side, largely along a route common to the existing Western Route Export Pipeline.*
>
> *During the construction supporting infrastructure will be required in the form of pipe yards (for the equipment), and camps for the construction workers. Although actual locations have not been finalised, these leaflets are being distributed in areas that may prove suitable.*

Ninety words, yet if the AGT pipelines system goes ahead as planned, it would be a vast social and industrial structure, a gathering of men, women and machines stretching 1,750 kilometres (1,087 miles) across hills and valleys, mountains and plains, fields and deserts, gardens and rivers. A complete system, running from the Azerbaijani oil and gas fields offshore in the Caspian Sea to a tanker terminal on the Turkish Mediterranean coast. A system that would include both the Baku-Tbilisi-Ceyhan (BTC) oil pipeline and the South Caucasus (gas) Pipeline (SCP).[a] A system that would remain in place for at least 40 years.[b] A system through which would flow US$ 21 million worth of fuel every day,[c] nearly $8 billion a year.

a Also known as the Shah Deniz pipeline, or the Baku-Tbilisi-Erzurum pipeline.

b The Production Sharing Agreement for the Azerbaijani-Chirag-Guneshli oilfields lasts 30 years, but the Host Government Agreement for (the Georgian section of) the Baku-Tbilisi-Ceyhan pipeline lasts 40 years.

c The pipelines are intended to carry one million barrels a day of oil and at least 20 million cubic metres of gas. At average prices of US$ 20 / barrel of oil and $60 / thousand cubic metres of gas, the daily flow is valued at $21 million

This vast project of almost unimaginable capital value is the proposed outcome of over a decade of activity, by a complex web of individuals and institutions stretching across at least three continents. Since the early 1990s, the pipeline has been developed through discussion between managers of BP Exploration (Azerbaijan) in Baku; of its parent company, BP plc, in London; of partner oil companies in Azerbaijan and their home countries; and of financial institutions in London, New York and Washington, DC; and government officials in Baku, Tbilisi, Ankara, Almaty, Ashkabad, London and Washington.

Headquarters of ERM, London (Pallab Chatterjee, Friends of the Earth)

If it is built, this pipeline system, which is intended to be the major export route for Caspian oil and gas to the West, would have an international strategic role well into the middle of the 21st century. But it was not until eight years after the pipeline system was first conceived that discussions began with people living along the proposed route of the project. For the majority of these people, the leaflet reproduced above will have been their first contact with a project that promises to have a substantial impact on their lives.

In the autumn of 2001, several individuals met in London to discuss the planned pipeline. They were from five non-governmental organisations: The Corner House (UK); La Campagna per la Riforma della Banca Mondiale (Reform the World Bank) (Italy); Friends of the Earth International (Netherlands); Kurdish Human Rights Project (UK); and PLATFORM (UK). All have a history of monitoring the public financial institutions from which BP would be seeking public funding and all were concerned as citizens of the countries that would be providing the money to ensure that such public money would not be spent on a project that infringed human rights and damaged the environment.

A copy of the leaflet reproduced on page 2 was obtained on a visit to Baku, the capital of Azerbaijan, in December 2001. Published in Azerbaijani, Russian and

English, this leaflet has been distributed to communities along the Azerbaijan section of the proposed route of the pipelines. Other leaflets have been, or are being, produced for Georgia[d] and Turkey.

What would be the impact of the pipelines system on those who live on or near its route? What would be its environmental impact, both locally and globally?

Consultation

ALTHOUGH the A4 leaflet is in BP's name, it has been produced and handed out to local communities not by employees of BP, but by those of another company: Environmental Resource Management (ERM), a consultancy based in Cavendish Square, in central London. In May 2000, ERM won a contract from BP to conduct the Social Impact Assessment studies for the entire 1,750 kilometres (1,087 miles) of the Azerbaijan-Georgia-Turkey pipelines system, plus the Environmental Impact Assessment for the Turkish section.

Environmental and Social Impact Assessments, known in the industrial development world as ESIAs, are standard practice. Any company wishing to build a pipeline, a dam, a major road or the like, is required to conduct such studies in advance – especially if it is hoping to gain financial support from public funds, such as those provided by the World Bank or a national government. ERM is a leader in the field of consultancies which do such work. It has, for example, conducted work for BP in Angola and China, and for Shell in Bolivia.

ERM's work in the Caspian region is being conducted in three distinct parts – Turkey, Georgia and Azerbaijan. It included in its bid for the contract from BP, an agreement that, as a London-based company, it would work with a local environmental consultancy in each of the three countries: Synergetics in Azerbaijan, Gorbi in Georgia, and Kora and Envy in Turkey. In each country, a team selected from the two companies (ERM and the local partner) is carrying out the studies.

Alongside the ESIAs, 'desk-top studies' will be produced: a 'Regional Overview' focusing on alternatives to the AGT pipelines system and on the geopolitics of the region; and a 'Macro-Economic Assessment' dealing with the social and development implications of the pipeline. These two reports will not be made public.

d The Georgia 'leaflet' goes into rather more detail than the Azerbaijani one, but was not directly handed out in the villages on the route; rather it was included as a supplement in a national magazine for landowners.

In the course of researching this book, the authors and contributors made three trips to the region. On the first in December 2001, they met in Baku with both ERM and its subcontractor Synergetics. Employees of the two companies explained the consultation process that has been used in Azerbaijan. Staff of ERM and Synergetics have visited a number of the villages along the planned route of the pipelines. They asked a set of questions to the residents they found in the villages, filling in the responses on a questionnaire sheet.

Synergetics and ERM say they "have not informed the villages about the risks of the project, as giving negative information would colour the responses". A section of the leaflet on page 2 entitled Some Common Concerns also appears to guide those interviewed towards favourable responses:

Will the project be safe?
Yes. The pipeline and all facilities will be built to the highest international standards, and will pose no threat to nearby residents.

What will it mean to live near a worker camp?
There are likely to be a number of camps in Azerbaijan which will house the workforce during the construction period. Communities near potential camp locations are presently being consulted. While spending in the community will bring benefits, strict discipline will ensure that disturbance to local populations is minimised.

Will we see a growth in traffic?
It is likely that areas near to camps or pipe yards, and their connecting roads, will experience a significant increase in traffic flows. To deal with this issue, traffic management plans will be developed to avoid congestion and maximise safety. BP puts safety before profit, and is therefore serious about this issue.

Will local people benefit?
Yes. There will be some employment opportunities within construction teams and construction camps. In addition, local communities will benefit through the provision of services to construction teams

---

The surveys have now been completed. During summer 2002, ERM/BP have taken a 'road show' through the villages as part of a 60-day consultation period. They will take one month to make any necessary amendments arising out of the consultation process and then, in September 2002, BP and the other sponsor companies will submit the final draft of the ESIA to the regulatory authorities, in this case the relevant government departments in Azerbaijan, for approval. The same process will take place in Georgia and Turkey.

In parallel with its survey of villages, ERM in collaboration with BP has held several consultative meetings and seminars with non-governmental organisations in the region. These meetings focused on three areas: the impact of the pipeline on the infrastructure and natural resources; employment and training of local people; and relations between construction workers and local communities.

The companies have mostly dealt with these issues in a technical way, asking the implied and overriding question 'how can we do this better?' Questions such as 'should we build a pipeline on this route?', or even 'should we build a pipeline at all?', were avoided. By limiting the discussion to a technical level, the companies dominated the discussion because of their greater expertise in technical issues.

What the leaflet says and does not say

WHAT stands out from the leaflet and the interview process is the limited frame of the survey. What stands out is what is *not* said. What stands out is what is not described in print, and what appears not to have been raised by ERM and Synergetics in their interviews with villagers.

The leaflet describes the project in one short sentence:

> *"The project is planning to build two pipelines (one oil one gas) from terminals near the Caspian Sea, through Azerbaijan, Georgia and Turkey."*

What it does not say is how long the project has been in the planning phase, nor how long it is expected to last. In stating that the project is 'planning', the leaflet could imply that the project might, or might not, take place. According to ERM, the ESIA will include a discussion of the 'no project option'. What the leaflet and this statement do not reveal, however, is the immense political and financial momentum behind the project.

Neither the consultative meetings nor the survey are the subject of our study, but they provide a window into considering the potential problems of the proposed AGT pipelines system. The leaflet for the Azerbaijani communities is not the only piece of literature produced by ERM for the entire length of the pipeline system, but it is a lever that enables us to prise open this vast undertaking. It is a critical document that will help us to answer the question: What would the probable future of the AGT pipelines system be, if it were built?

Children in Umid village, Eastern Azerbaijan (Nino Gujaraidze. Green Alternative)

Chapter 2

The pipelines system in the imagination

THOSE people living along the route of the proposed pipelines system, and those who attended consultative meetings, are invited by the BP/ERM consultation leaflet to comment on something that doesn't exist: the Azerbaijan-Georgia-Turkey pipelines system. Similarly, we who have compiled this publication – and you, the reader – are considering something that cannot be visited because it has not been built – indeed, it may never be built.

We need to imagine, therefore, what this huge undertaking might look like. Imagining is especially important given that staff within the relevant governments and within BP, its partners and contracted organisations have all been planning and imagining the pipeline system (or versions of it) for up to ten years. Their imaginations have been assisted by other, existing pipeline systems. Those potentially affected by the pipelines can help their imagining, and thus be in a better position to comment on the project, by looking closely at these other pipeline systems that have already been built.

BP's experience of building pipelines stretches back 90 years to the construction of the 210-kilometre (130-mile) pipeline in Persia (now Iran) which runs from Masjid-i-Suliman to Abadan. Today, the company has a key stake in pipeline systems in Algeria, Indonesia, UK, Germany, Italy, The Netherlands, United States and Colombia. Its experience of having built all these projects assists the company to imagine what the AGT pipelines system would look like if it were built.

The steepest gradient of imagination lies between what a lay reader of the BP/ERM consultation leaflet (including ourselves) understands by 'a pipeline' and what a BP executive understands by it. This study attempts to level that gradient at least a little. We begin by considering the geography and the life cycle of a typical pipeline system.

The Chirag-1 oil platform, the first development of the Azeri-Chirag-Guneshli oilfields (G Ruschendorf / Rapho / Network)

The BP/ERM leaflet for Azerbaijan depicts the AGT pipeline as a line running across Azerbaijan only. We need, however, to consider the full geography of the proposed pipelines system, a complete entity of oil and gas fields (Azeri-Chirag-Guneshli, Shah Deniz and others), coastal oil and gas terminals (Sangachal), two pipelines (Baku-Tbilisi-Ceyhan (BTC) and South Caucasus Pipeline (SCP)), and downstream terminals (Erzurum and Yumurtalik, near Ceyhan). Oil from the BTC pipeline would be exported by tankers from Yumurtalik, gas from the SCP pipeline would be fed at Erzurum into Turkey's existing gas distribution network. There is also an existing BP-owned refinery at Mersin, 100 kilometres (62 miles) from Ceyhan, which would be fed by the oil pipeline from Baku.

A complete system

THE concept of a 'complete system' is easier to understand by reference to a pipeline system that has already been built. Let's take BP's Forties Pipeline System (FPS) in Scotland (*see* map on p138). The Forties system includes more than 30 offshore oil and gas fields (the Forties oilfield itself, plus other smaller surrounding fields), 170 kilometres (106 miles) of offshore pipeline from the Forties field to Cruden Bay (near Aberdeen), the oil terminal at Cruden Bay, 480 kilometres (300 miles) of onshore pipeline from Cruden Bay to Kerse of Kinneil (near Edinburgh), an oil and gas separation plant at Kinneil near Edinburgh, a refinery at nearby Grangemouth, a tank farm at Dalmeny and a tanker loading terminal at Hound Point (both a short distance from Kinneil).

Turkish coast, just west of Ceyhan/Yumurtalik marine export terminal, where the BTC pipeline would end (Greg Muttitt, PLATFORM)

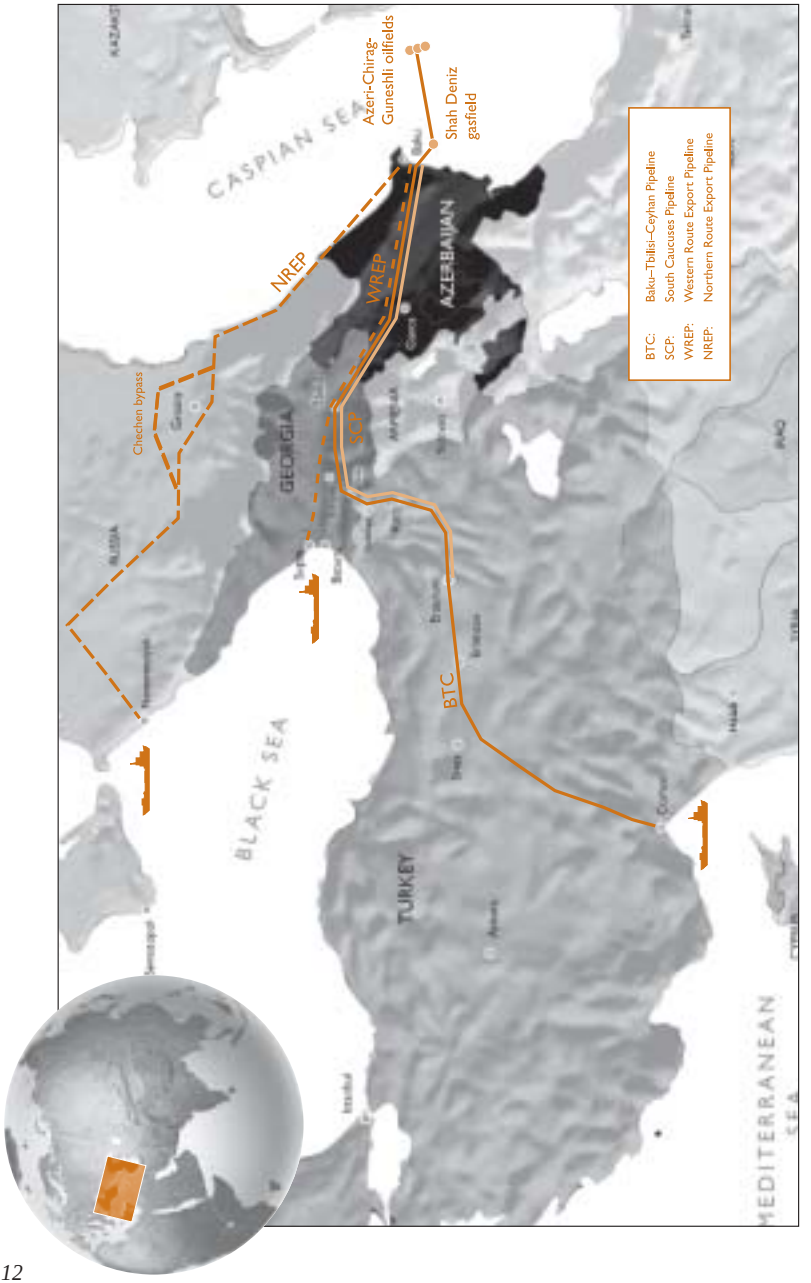
The refinery at Grangemouth has itself spawned and fed another 'complete system' of chemical works, as is often the case with oil refineries. Right next to the oil refinery is the Grangemouth petrochemical works, from which runs a 240-kilometre (150-mile) 'UK ethylene pipeline' carrying chemicals to Wilton on Teesside in the north-east England. From the BP chemical works at Wilton, the ethylene pipeline runs a further 116 kilometres (75 miles) to another BP chemical works at Saltend, near Hull.

One company – BP – operates and manages all the elements of this system.[a] But BP encourages its workforce to see each element as a distinct unit. Indeed, there are different corporate management structures and different unions or labour representation, in each of these elements. Yet none of them would be possible without all the others. Together, they bring North Sea oil from below the seabed to the market.

If we divide up FPS into its distinct units and look just at the onshore pipeline section running from Cruden Bay to Kinneil, we could say that it has limited environmental and social problems. But safety incidents (including some fatalities) are common in the offshore fields and in the Grangemouth refinery.

The thin line on the BP consultation leaflet that marks the AGT pipeline looks delicate and simple. But a comparison with FPS reveals that this drawing is far from

a Some of the smaller outlying oilfields are operated by other companies; but the majority of the oil in the system as a whole is extracted by BP



The proposed route of the AGT pipelines system (dotted lines show the routes of existing pipelines)

complete. A 'complete system' is a vast and complex undertaking. It is only by looking at the geography of the 'complete system' that its true social and ecological impacts can be estimated.

Phases of a pipeline system

JUST as we can only understand a pipeline system by examining its full geography, so too its full life cycle. Within the life cycle of a pipeline system, there are four distinct phases

- **Pre-construction:** *including planning, design, financing and approval;*
- **Construction:** *including acquiring materials, builiding machines, installing offshore platforms, drilling wells, buying land, clearing land, digging trenches and laying pipelines;*
- **Operation:** *the period when oil and gas are pumped; and*
- **Post-operation:** *the period after the system has ceased to pump oil and gas – which may include decommissioning the physical infrastructure, and also includes ongoing impacts of the system on air, water, land and people.*

Of the three phases of definite length, the operation phase is by far the longest. Post-operation lasts for an indefinite amount of time, but aspects of the system (such as its impact on the atmosphere and climate change) may persist for many decades. For the AGT system, pre-construction may now be almost complete. It has lasted about 10 years, from 1992 (possibly even 1989, *see* Chapter 3) to 2002 – an unusually long period of time for this phase. If the project faces serious opposition, however, this phase would have to be extended. Indeed, the scheme could well be cancelled altogether.

The construction phase of the AGT system is a complex of sub-phases. The construction of the BTC oil pipeline is intended to last about two years, from early 2003 until the end of 2004; with first oil due to reach Ceyhan in early 2005. The SCP is expected to be built in 2004–2005. Expansion of the Sangachal terminal for landing oil and gas, south of Baku, has been taking place through 2002.

Within each of these projects there are further stages. For example, BTC: BP and partners hope for approval from the host governments for the BTC pipeline in autumn 2002, after which they would begin buying up land along the route. After that, they would start work on clearing the land (felling trees, levelling the land etc) and building their construction facilities such as worker camps, storage yards and access roads. After all this, construction of the pipeline itself is planned to begin in April 2003.

AGT pipelines system

oil & gas fields	Azeri-Chirag-Guneshli (oil), Shah Deniz (gas), Plus 16 other confirmed oilfields (2 of which BP-operated) and 2 other confirmed BP-operated gasfields (both BP-operated)
shore terminal	Sangachal (south of Baku)
pipeline length	Baku-Tbilisi-Ceyhan (BTC) (oil): 1,750 kilometres (1,087 miles) South Caucasus Pipeline (gas): 1,000 kilometres (621 miles)
capacity	BTC: 1 million barrels[b] per day (bpd) SCP: at least 20 million cubic metres of gas per day[c]
gas terminal	Erzurum
oil tanker terminal	Ceyhan (Yumurtalik)
refinery	Mersin and elsewhere in Europe and the West

The operation phase of AGT is anticipated to last at least 40 years, but could well be extended. For example, the Forties pipeline system and the Trans-Alaska pipeline system were originally expected to last about 30 years each, but an additional 30 years has been added on to the lifetime of each one as a result of new oil finds, more favourable government policy and improvements in technology.

During AGT's current pre-construction phase in particular, the role of international bodies, foreign governments and foreign companies has been paramount. The shape of the AGT pipelines system to date, and for the next five years at least, has been, and will be, largely imagined and planned by politicians, government officials, financiers, executives and managers in cities such as London, New York, Washington, DC and Brussels. The majority of individuals who have the greatest overview of the project are likely to be working in these cities, far from the Caspian region – the extent of their knowledge of the pipelines system stands in stark contrast to those who live in the villages on the pipeline's route, the recipients of the BP/ERM consultation leaflet. It is in these distant cities that the pipeline has been imagined.

b 1 barrel = 42 gallons = 0.1364 tonnes

c Estimates vary between 20 and 80 million cubic metres.

Structure of this study

IN the following pages, we shall endeavour to imagine what the AGT pipelines system would be like if it were built, and we do this by looking in turn at the four phases of the system.In Part II (Chapters 3–8 and Timeline Section), we focus on the pre-construction phase of the pipelines system. We begin by looking at how the history of the AGT pipelines system has unravelled to date, as viewed both by the host countries and by the companies participating in the project. We then look at how BP's imagination is informed by its experience of pipeline systems it has already built, and consider in particular its three biggest to date: systems in Scotland, in Alaska and in Colombia.

By examining these existing systems, we can learn by comparison something about the system not yet built. Our first such comparison relates to the presupposition of the AGT pipelines system, that it would bring great wealth to the three host countries, and we use experience of existing systems to examine whether this is likely to be the case.

This process of comparison continues in Parts III and IV. Part III (Chapters 9–10) deals with the construction phase of the project, looking first at how local people are compensated for the use of their land, and then at the disruption caused by construction activities.

We move on in Part IV (Chapters 11–13) to the operation phase of the pipelines system. What would be the impact of the system on conflict in the region? What would be the impact on the environment? Would the system be safe for the workforce employed in it?

Turning to the post-operation phase, in Part V (Chapter 14) we look at the most important legacy of the AGT pipelines system: the carbon of the sub-Caspian which would – the oil and gas having been extracted, transported and burned – have been transferred to the earth's atmosphere. This would contribute to the problem of climate change for the majority of the 21st Century.

Finally, in Part VI (Chapters 15–16), we draw these many threads together to attempt to imagine the vast project that is the AGT pipelines system, and we present our own questions to BP and its partners.

PART II

PRE-CONSTRUCTION

The Chirag-1 oil platform (G Ruschendorf / Rapho / Network)

Chapter 3

Four governments unite

The origins and politics of the AGT pipelines system

20th September 1994. Heydar Aliyev, President of Azerbaijan, is there. Bill White, US Deputy Energy Secretary, is there. Tim Eggar, UK Energy Minister, is there. John Browne, Chief Executive of BP Exploration & Production, is there. Natiq Aliyev,[a] President of the State Oil Company of the Azerbaijan Republic (SOCAR), is there. Around these four are gathered the Russian minister of Fuel and Energy, the UK and US Ambassadors to Azerbaijan, and representatives of a range of other oil corporations: Unocal and Pennzoil of the USA; Lukoil of Russia, Statoil of Norway; Turkish Petroleum (TPAO) of Turkey, and DNKL of Saudi Arabia. They are all gathered for the signing of the US$ 7.4 billion[2] Production Sharing Agreement for the Azeri, Chirag and Guneshli off-shore oil fields – an agreement aimed at exploiting an estimated four billion barrels of oil reserves, an agreement set to last 30 years until 2024. This Production Sharing Agreement becomes known as 'The Contract of the Century'.

THE 20th September 1994 was a momentous day in the histories of Azerbaijan and of BP, and represented a significant turning point in the relationships between Russia and the countries of the West, the Caspian Region and Central Asia. It was the culmination of dramatic events over the previous five years. One of those attending this signing ceremony – Steve Remp, Chairman of Ramco, an independent oil company based in Scotland – was arguably the man who started it all. When he arrived in Baku, the capital of Azerbaijan, in the autumn of 1989, Remp was the first Western oilman to visit the oil city in almost 70 years. He is credited with re-opening Azerbaijan to the West.

a No relation of Heydar Aliyev

Early days in Baku[3]

AZERBAIJAN is not a 'new frontier' for oil. Pools of crude oil lying on the desert's surface have been utilised for hundreds of years, and drilling beneath the surface for oil began in Azerbaijani lands in the mid-19th century. Indeed, Baku is one of the birthplaces of the global oil industry.

The First Oil Boom, as it became known, followed the arrival of French and British capital into this distant corner of the Russian Tsarist Empire. Swedish/Russian industrialist Robert Nobel (whose family founded the Nobel Peace Prize) made his first oil investment in Baku in 1873, and by 1879 there were nine oil wells in the town. Once the railway from Baku to Tbilisi to Batumi on the Georgian Black Sea coast had been completed in 1883, development accelerated. The railway, financed by the UK-based Rothschild's bank, provided a commercially viable export route and answered a vital question: how to get Caspian oil on to the world market.

By 1900, there were 1,710 wells and Baku produced over half the world's oil.[4] The heart of the industry was Nobel's Chiornyi Gorod, "the Black Town" on Baku's outskirts. Its name gives a clue to its impact on the air, water and soil – one visitor compared it to "confinement in a chimney pot".[5] Nobel was soon followed by companies such as Shell, and later still by the Anglo-Persian Oil Company – which was later to become BP.

The rapidly expanding city of Baku was a hotbed of radicalism. The young Josef Stalin organised strikes here in 1905. Following the collapse of the Tsarist Empire in 1917, Baku had its own Bolshevik Revolution, the Baku Soviet. Although this ended in September 1918 following the city's occupation by Turkish Forces, it set a model in its short seven-month life for 20th century resistance to capital. The Soviet nationalised the oil industry and threw out foreign companies.

Western companies returned a few months later, however, in the wake of a British Expeditionary Force, whose troops occupied Baku and the Baku-Tbilisi-Batumi railway from November 1918 to August 1919, to ensure Western access to the oil. While the West reasserted its control, the Azerbaijanis fought a protracted conflict with the Armenians over the disputed mountainous area of Nagorno-Karabakh. This struggle halted only with the arrival of the Soviet Union's Red Army in 1920, followed by the establishment of the Azerbaijan Soviet Socialist Republic and, in due course, the incorporation of the whole of the Caucasus and Caspian region into the Soviet Union. Once again, the Western oil companies had their assets nationalised and left.

In its Second Oil Boom, Baku became the heartland of the Soviet oil industry, with Azerbaijan producing 75% of Soviet oil up until the 1940s. In the seven decades during which the world economy was divided into the two sectors of planned and capitalist economies, Baku provided the skills base from which the Communist world developed its oil resources. Particularly following the Second World War, it was the technology of the western Caspian that opened up the oil and gas fields of Volga-Urals, Kazakhstan, Uzbekistan, Turkmenistan, Western Siberia, Eastern Siberia, Ukraine and, eventually, of satellite countries such as Vietnam.

The collapse of the Soviet Union[6]

AROUND Baku today stretch expanses of desert littered with hundreds of rusting Soviet oil derricks. Just 20 metres (60 feet) high, many of these drilling scaffolds are inactive, standing in pools of oil on the stony ground. The same derricks dot the shores of the Caspian, because shallow-water offshore drilling was developed intensively from 1949 onwards. But the Soviet oil industry did not exploit the Caspian's deep-water offshore reserves. By the 1970s, existing Azerbaijani oilfields were declining in production while new fields were not being opened up – partly because the remaining deepwater reserves were beyond the reach of the limited Soviet technology and capital. The stagnation of the Azerbaijan oil industry increased as the Soviet economy collapsed in the wake of Perestroika.[b] By the late 1980s, Azerbaijan produced only a fraction of Soviet oil.[c]

In these circumstances, the ghosts of the past came back to haunt Azerbaijan. Once again, Baku became a scene of conflict. In January 1990, hundreds of Azerbaijanis were killed in demonstrations against Soviet rule. The conflict in Nagorno-Karabakh flared up again between February 1988 and May 1994. In this brutal struggle, Azerbaijanis lost 20% of their country to Armenian occupation, thousands were killed, and some 800,000 refugees fled to Azerbaijan, now comprising about 13% of the country's population.

Out of these conflicts have come many of the themes which affect current oil development. In the Azerbaijani-Armenian war, for instance, the United States, Russia and Iran backed the Armenians. In 1992, the US Congress passed Section 907 of the Freedom Support Act which banned direct aid to Azerbaijan, whilst Russia gave the Armenians large stocks of armaments. Azerbaijan came out of the war not only in further economic ruin, but also with a strong sense of isolation, a suspicion of

b Perestroika: The economic, political and social reform of the communist system of the Soviet Union, initiated by the last Soviet leader, Mikhail Gorbachev, in 1986

c The majority came from the Volga-Urals and Western Siberia provinces

Russian colonial interests, and a wariness towards the USA and Iran – a political setting that was ideal for the entry of companies from Britain, Turkey and other countries in Europe and the Middle East.

Since then, the cultural attention of Azerbaijan – as evidenced by everything from political speeches to product names and postage stamps – has remained focused on the resolution of the Nagorno-Karabakh issue and the defence of the isolated Nakhchivan pocket, an area of Azerbaijan separated from the main territory. Within Azerbaijan, the oil developments are viewed not simply as a source of wealth for economic development, but especially as a means to resolve the crucial Nagorno-Karabakh and Nakhchivan issues.

Decisions over which foreign companies Azerbaijan should encourage, or where an export pipeline should run, are made with a view to bolstering international support to resolve the conflict in Nagorno-Karabakh in Azerbaijan's favour, and to encouraging Western governments to pressure Armenia to withdraw from the occupied territories.

Britain returns

INTO this world of conflict stepped Steve Remp, Chairman of Ramco, an independent oil company based in Aberdeen, Scotland. He arrived in 1989 to cultivate contacts in Baku, a city with the longest history of continuous oil production in the world, a city rich in indigenous oil development skills and thus a city with an allure to any oilman. It was not only the political climate that favoured the British. The expertise developed in Britain's North Sea oil fields was ideal for the unexploited deep-water offshore fields of the Caspian – it could be a classic case of the oil industry transferring its technology. Some in the UK oil industry regard Baku as a way of extending the life of Aberdeen as an oil city. The Scottish city could become a centre of oil industry expertise refocused on a world market, not just on the declining North Sea oilfields.

Having made his contacts in Baku, Remp was charged with finding an oil company partner with the capital and technology to develop offshore Azerbaijan. He chose British Petroleum (BP). As the accompanying timeline indicates, BP began negotiating with the Azerbaijani authorities in the middle of 1990, about a year prior to Azerbaijani Independence.

On the 30th August 1991, Azerbaijan declared its independence from the disintegrating Soviet Union (which formally dissolved four months later). The

ensuing decade has essentially been a period of state-forming for the Azerbaijanis under the shadow of war, a struggling economy and wealthy, powerful Western oil companies.

During the following three years, as Azerbaijan poured all its resources into fighting Armenia, BP continued to negotiate what was to become 'The Contract of the Century' with this fledgling and ever weakening state. Despite the chaotic political and social situation, BP Exploration (led by John Browne, who is now BP's Chief Executive) maintained a tenacious commitment to keeping a foothold in Azerbaijan, and to keeping it on commercially favourable terms.

On 11th June 1993, Azerbaijan's then President Abulfaz Elchibey signed a Declaration with several Western oil companies – BP (UK), Statoil (Norway), Amoco (USA), TPAO (Turkey), Unocal (USA), McDermott (USA) and Pennzoil (USA) – to develop the offshore Azeri, Chirag and Guneshli oilfields as one unified project. The Declaration included conditions favourable to SOCAR (the State Oil Company of Azerbaijan Republic) and hence to the Azerbaijani state. But just 12 days later, incoming President Heydar Aliyev cancelled the contract – his first action after taking power in a *coup d'état* on 18th June.

According to Britain's *Sunday Times* newspaper, a Turkish secret service report has alleged that BP backed the coup which ousted President Elchibey and installed President Aliyev. "As a result of our intelligence efforts, it has been understood that the two petrol giants, BP and Amoco, British and American respectively, which together form the AIOC (Azerbaijan International Operating Company), are behind the coup d'état carried out against Elchibey in 1993", said the report.[7]

Whatever the substance of these allegations, the position of SOCAR (and hence Azerbaijan) was much weaker in 'The Contract of the Century' signed in September 1994 than in the Declaration cancelled by President Aliyev in June 1993. The Declaration had granted SOCAR a 30% stake in the AIOC (Azerbaijan International Operating Company) consortium formed to exploit the oil and gas fields, whilst the Contract granted only a 20% stake, a share which was reduced further to 10% when 5% was ceded to Exxon and 5% to Turkish Petroleum (TPAO) in spring 1995.[d] Despite its weakened negotiating position, the proximity of SOCAR to the Aliyev presidency was emphasised by the appointment in May 1994 of the president's son, Ilham Aliyev, to the post of Vice President of SOCAR.

d Azerbaijan was politically weaker in the new contract rather than financially weaker: its loss in production share was offset by an increase in taxation from 70% to 80%.

AZERBAIJAN INTERNATIONAL OPERATING COMPANY

AIOC consortium in September 1994		AIOC consortium in May 2002	
State Oil Company of Azerbaijan Republic (SOCAR):	20%	BP (operator)	34.1%
BP:	17.1%	Unocal:	10.3%
Amoco:	17%	State Oil Company of Azerbaijan Republic (SOCAR):	10%
Lukoil:	10%	Lukoil:	10%
Pennzoil:	9.8%	Statoil:	8.6%
Unocal:	9.5%	ExxonMobil:	8%
Statoil:	8.6%	Turkish Petroleum (TPAO):	6.8%
McDermott:	2.5%	Pennzoil:	5.6%
Ramco:	2.1%	Itochu:	3.9%
Turkish Petroleum (TPAO):	1.7%	Delta Hess:	2.7%
Delta Hess:	1.7%		

In the 13 years since Remp's visit, British government support for UK investment in Azerbaijan has been substantial. It is no coincidence that one of the Directors of Ramco is a former UK Foreign Minister, Malcolm Rifkind. In January 1998, meanwhile, Tim Eggar, who as UK Energy Minister made frequent trips to Baku between 1994 and 1996 including for the signing of the 'Contract of the Century',[e] became Chief Executive of Monument Oil in January 1998 – a company which took a stake in Azerbaijan's Inam oil and gas field in December 1998.

Development begins

WITH the signing of 'The Contract of the Century' in September 1994, the first building block of the Azerbaijan-Georgia-Turkey pipelines system was set in place. A massive inflow of foreign capital followed over the next three years as further agreements were signed to develop eight deepwater offshore oil and gas fields, involving seven more oil companies (Elf and TotalFina of France, Agip of Italy, OIEC of Iran, Winterhall of Germany, and Mobil and Chevron of the USA). 'The Contract of the Century' effectively sent a signal to the oil world that Azerbaijan was a safe bet for Western oil companies.

The AIOC's (Azerbaijan International Operating Company's) key function is to develop the Azeri, Chirag and Guneshli offshore oilfields. In just three years, the

e Tim Eggar also attended the signing of the Shah Deniz gasfield contract (production sharing agreement) between the Azerbaijan government and the oil companies (led by BP), and opened the Caspian Oil and Gas Exhibition in these three consecutive years alongside Azerbaijan's President Heydar Aliyev.

consortium refurbished the Chirag-1 oil platform at sea (a half-built platform had been left unfinished by the Soviets) and built a new 230-kilometre (143-mile) undersea pipeline to a new oil and gas terminal at Sangachal on the Caspian coast just south of Baku.

On 11th November 1997, Terry Adams, then President of AIOC, applauded at the ceremony where Azerbaijan's President Heydar Aliyev and his son, Ilham Aliyev, Vice President of SOCAR, smeared oil on their faces – the 'First Oil' from deep below the seabed of the Caspian.

The 230-kilometre undersea pipeline from Chirag-1 was in fact the first section of the oil export route that all parties knew was essential to open up of the Caspian reserves to the markets of the West. Five years earlier, in November 1992, BP, SOCAR, Botaş (of Turkey), Pennzoil and Amoco (of the USA) had signed an agreement to finance studies of three pipeline options: the first from Baku to Supsa (in Georgia), the second from Baku to Novorossiysk (in Russia), and the third from Baku to Ceyhan (in Turkey). The Ceyhan route could run from Azerbaijan to Turkey either through Georgia or Iran.

By the time oil was pumped from Chirag-1 in early 1998, it had been agreed that the Azerbaijani 'Early Oil'[f] would be exported via the Russian port of Novorossiysk, known as the Northern Route Export Pipeline (NREP). Although BP and its partner companies in AIOC had previously signed an agreement with Russia and Georgia to export oil via their existing, although dilapidated, Soviet-era pipelines, this proposal remained in doubt for two years. It is widely recognised that the go-ahead for the Northern Route, in November 1997, was acceptable to the USA as long as it was for 'Early Oil' only, was developed in parallel with the Western Route Export Pipeline (from Baku to Supsa in Georgia), and another route was found for the bulk of the Caspian oil. US geopolitics in the Caspian Region was beginning to show itself via pipelines and terminals.

Despite the November 1997 agreement for the Baku-Novorossiysk (Northern Route) pipeline, it took a further four months before the oil flowed, because the pipeline ran through Grozny, the capital of Chechnya.[8] The prospect of this pipeline being developed – by a BP-led consortium – had been a key factor in six years of brutal war and repression in Chechnya, since the Chechen declaration of independence from Russia in September 1991. As British journalist Sebastian Smith wrote in his study of the first Chechen war (1991–96):

f 'Early Oil' was the common term for the initial Caspian crude oil that would be of relatively small volume compared to the main bulk of the production that would follow.

Bodies of four dead Russian soldiers are unloaded from an armoured personnel carrier in occupied Grozny, the capital of Chechnya, 2000 (Anthony Suau/Network)

> *"In the North Caucasus you have only to say 'nefteprovod', or 'the oil pipeline', and everyone knows what you mean. Not many people have ever seen it or really know exactly where it is, but there's no mistaking what pipeline you are talking about. The Baku-Novorossiysk pipeline has its own presence, like the mountains, and when people look at the war in Chechnya, they think of the pipeline."*[9]

The Chechens wanted to control the pipeline that ran through their land, both because of its strategic importance and because of its potential to generate revenue from transit fees. The Russians, however, were determined to prevent this happening, for the same reasons. When the Russian forces withdrew on 23rd November 1996 and presidential elections were held in Chechnya on 27th January 1997 – resulting in one of the rebel leaders, Aslan Maskhadov, being elected as president– it looked like the Chechens had won. The Baku-Novorossiysk pipeline thus began its life passing through a semi-independent Chechnya – although Russian pipeline company Transneft delayed its opening as a result of complex negotiations with the new Chechen government, which demanded sovereign involvement in decision-taking and a share of the transit fees along their section of the route.

Eventually, on 24th March 1998, a tanker of Azerbaijani crude oil left Novorossiysk. For the first time since 1920, Azerbaijani oil was back on the world market. The conflict in Chechnya soon re-ignited, however, and early in 1999 Transneft stopped pumping oil through the Baku-Novorossiysk pipeline. By July 1999, AIOC oil was being shipped by rail through Dagestan to Novorossiysk so as to avoid the Chechen war zone. A new pipeline, the so-called Chechnya Bypass, was constructed by Transneft (opened in spring 2000) to carry a projected 340,000 barrels per day of oil from Baku to the Russian Black Sea terminal whilst avoiding Chechnya.

Meanwhile, on 17th April 1999, Georgia's President Eduard Shevardnadze announced the opening of the Baku-Supsa (Western Route) pipeline. As he stood among the Black Sea terminals and steel storage tanks, snipers kept watch over the crowd. Georgia had gone to great lengths to emphasise its ability to provide security, lining the pipeline with soldiers, and entering into a military cooperation agreement with Azerbaijan. The 830-kilometre (514-mile) pipeline from Baku to the specially-built terminal at Supsa had been refurbished by AIOC's partner company, the Georgian International Operating Company. Shevardnadze was accompanied by President Aliyev of Azerbaijan and the then Caspian Regional Co-ordinator of the US Department of Commerce, Richard Morningstar, as they watched the first loading of two oil tankers headed for Spain and Italy with Caspian oil.

The need for a main export pipeline

AS of June 2002, the two pipelines described above – Baku-Novorossiysk (Northern Route) and Baku-Supsa (Western Route) have been operating for three years. Both have a capacity of 100,000 barrels of crude oil per day. But the combination of these two routes would never have provided sufficient capacity to export the huge tonnage of crude set to flow from the Caspian after 2005. Azerbaijani production is expected to increase to 600,000 barrels per day, and ultimately 1 million barrels, and the likelihood of oil and gas from countries further east, particularly Kazakhstan, meant that the question of the major export pipeline had to be resolved if Caspian oil was to really supply the West.

From Azerbaijan, there are five potential routes for the main pipeline:

1) *to the Turkish Mediterranean town of Ceyhan and its port at Yumurtalik, either via Georgia or via Iran;*[g]

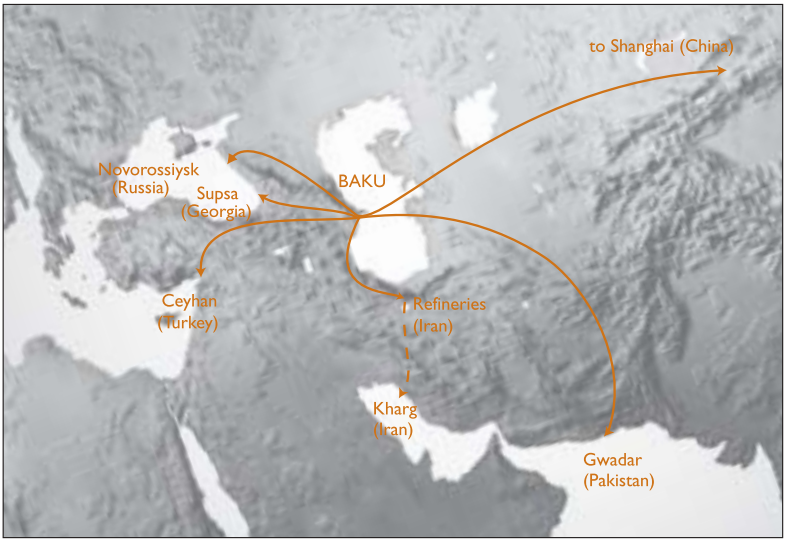
2) *to the Iranian Persian Gulf port of Kharg Island via Iran, with the possibility of an oil swap*[h] *in the initial phase to decrease costs;*

3) *to the Pakistani Indian Ocean port of Gwadar, via an undersea pipeline across the Caspian, then via Turkmenistan, Afghanistan and Pakistan (prior to the undersea pipeline being built, the oil would be transported across the Caspian by tanker);*

4) *to the Chinese China Sea port of Shanghai along the 'Silk Road' eastwards via the Caspian undersea pipeline (shipping by tanker in a first phase), Turkmenistan, Uzbekistan, Tajikistan and China; and*

g A third variant – via Armenia – is geographically but not politically possible.

h For each barrel of Azerbaijani oil refined in Iranian plants for use in Iran, a barrel of Iranian oil would be exported to the Western market from Kharg Island (ie. less Iranian oil would be required to meet Iranian needs). Thus costs would be saved by not having to transport the Caspian crude oil all the way across Iran to the export ports, but instead refining it in northern Iran.



Possible export routes for Caspian oil.

5) *substantially upgrading the Baku-Supsa and/or the Baku-Novorossiysk pipelines and port terminals to enable them to carry larger volumes of oil. If this option were pursued, there would be a secondary pipeline on the other side of the Black Sea, involving some of the following countries: Ukraine, Romania, Bulgaria, Greece, Serbia, Montenegro or Croatia.*

Competition over the choice of the route has been extensive because the transit countries would gain not only revenue from pipeline 'transit fees', but also a geo-political position of great strategic importance to the West.[10]

For some time, the most likely route has been to Ceyhan in Turkey via Georgia. The senior power in the region, the USA, has been determined since the early 1990s to prise the Caucasian and Central Asian states out of the Russian sphere of influence in which they have been enmeshed since the late eighteenth century. Key to this strategy is the dominant involvement of US companies in Caspian oil and gas developments, and the building up of a network of commodity arteries that avoid Russia. (US oil majors were initially hindered in Azerbaijan by the US government's support of Armenia during the war in the early 1990s between the two countries, but have since rapidly made up ground after a late start.) What has become known as the Eurasian Transport Corridor will run east to west linking Georgia, Azerbaijan, Turkmenistan, Kazakhstan, Uzbekistan, Kyrgystan and Tajikistan. The rapid proliferation of US military

bases in Georgia and Central Asia since the 11th September 2001 attack on the New York World Trade Center is a continuation of this policy.[i]

The USA is just as keen to maintain the isolation of Iran. The Baku-Kharg Island route is a commercially attractive option, and, since early 1998, Iran has been opening doors to the West, in particular to European oil and energy companies. But the USA is determined not to place the Caspian reserves at the mercy of Iran, nor to increase the West's dependence on the stability of the Persian Gulf and the compliance of the Arabian states.

The export route to Ceyhan in Turkey via Georgia would also assist wider US geopolitical aims, because it would bring to the Eastern Mediterranean a supply of oil that is non-OPEC,[j] non-Arab and from 'secularised Muslim' sources. This would not only be a secure source for the West in general, but also for Israel in particular – especially as Turkey is an ally of Israel and Ceyhan is a mere 483 kilometres (300 miles) by sea from the Israeli port of Haifa.

Meanwhile, Turkey is eager to regain its strategic position which it lost at the end of the Cold War – for 50 years, it had been NATO's bulwark on the Soviet Union's southern flank. Yet its attempts to become part of the European Union have been constantly frustrated over the last decade, mostly on human rights grounds. The pipeline offers the possibility of renewing Turkey's strategic importance and furthering the Pan-Turkic Alliance in which the Turkish State binds itself into an eastern union with its Turkic "brother nations", Azerbaijan and Turkmenistan, and undermines the interests of its old enemy, Armenia.

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i By February 2002 the US military had established military bases in Uzbekistan, Kyrgystan and Tajikistan, and through spring and summer 2002 it has been increasing its provision of training and military resources to the Georgian army, focused on the Pankisi Gorge (see page 117).

j OPEC, the Organisation of Petroleum Exporting Countries, is a cartel of some of the biggest oil-producing countries. By collectively agreeing production levels, OPEC aims to prevent the world oil price from falling too low through excessive supply – and thus to maintain revenue for its member oil-exporting countries. But OPEC does not want the price to rise too high either, as a high oil price facilitates development of both non-oil energy sources and non-OPEC oil sources. OPEC's target range for the oil price is US$ 22-28 per barrel.

Established in 1960, OPEC reached the height of its power when it precipitated the oil crisis of 1973, when as a protest against Israel's occupation of Palestine, OPEC dramatically cut exports to the USA and forced the oil price to leap. Since then, OPEC's power has fluctuated, depending on its ability to maintain discipline of its members in limiting production, but has on the whole waned as concerted efforts have been made to find new sources of oil outside the OPEC countries. At times it has been helped by the co-operation of non-member countries such as Mexico, Russia, Oman and Norway.

The US strategic interest is to undermine and reduce OPEC control over oil supplies and oil price – and this has been a major driver behind the development of new oil provinces, including the Caspian.

OPEC's members are Saudi Arabia, Iraq, UAE, Kuwait, Iran, Qatar, Nigeria, Libya, Algeria, Indonesia and Venezuela

For Turkish industrialists, these eastern connections open up a vast new export market and a new set of resources to feed an energy-hungry economy. Meanwhile Turkey has recently signed gas supply agreements with several countries in the region – Russia, Azerbaijan, Iran and Turkmenistan – despite its proven overestimated projections of future domestic gas demand.[11] These gas agreements mean that Turkey may well have a surplus of gas supply, which could therefore lead to the development of a new pipeline between Turkey and Europe, transforming Turkey into a European energy gateway for gas.

Turkey has argued vociferously against any increases in oil shipments along the Bosphorus. Currently, the majority of tankers leaving Novorossiysk and Supsa pass through these narrow straits, which run between the Black Sea and the Mediterranean, as their cargo of oil heads for the West. Turkey, supported by environmental groups such as Greenpeace, has argued that any increase in oil shipments in the straits would further raise the probability of a major environmental catastrophe – on the doorstep of Turkey's capital, Istanbul. Turkey's motives may not be so 'green', however. The Bosphorus is classified as 'international waters', not Turkish, so the Turkish state could not collect transit fees or exercise control over a strategic oil route. In contrast, a pipeline crossing Central Anatolia on its way to Ceyhan would enable it to do both.

Finally, both Azerbaijan and Georgia are eager to be considered as part of Europe and to revive the cultural and diplomatic ties of the late 19th century 'First Oil Boom' (1870–1914). In July 1996, both countries applied to become members of the Council of Europe, and their eventual aim appears to be to join as affiliates of the European Union and NATO,[k] and to leave the Russian-dominated Commonwealth of Independent States. In this way, their aspirations neatly dovetail with the USA's strategic desire to decrease Russian influence in the region.

On 18th November 1999, the ten-year geopolitical struggle to come to an agreement on the Main Export Pipeline for Caspian Oil appeared to reach a conclusion. At the OSCE (Organisation for Security and Cooperation in Europe) Summit, under the watchful eye of US President Clinton, the leaders of Azerbaijan, Turkey, Georgia, Turkmenistan and Kazakhstan, signed with the USA the Istanbul Declaration on the building of the BTC oil pipeline. This stressed that all the parties would provide comprehensive assistance in financing and constructing the Main Export Route until

k The North Atlantic Treaty Organisation, the military alliance of all the major western European states, plus the USA and Canada. In the post-Cold War era, NATO is increasingly playing the role of global policeman, often drawing its authority from the United Nations. Membership of the alliance is a key strategic aim for many former Soviet Bloc states.

The signing of the Istanbul Declaration – the Inter-Governmental Agreement for the BTC pipeline – at the OSCE summit, Istanbul, 18th November 1999 (L–R): Turkish Prime Minister Bulent Ecevit, Kazakstan President Nursultan Nazarbayev, Azerbaijan President Heydar Aliyev, US President Bill Clinton, Turkish President Suleyman Demirel, and Georgian President Eduard Sheverdnadze. (AP Photo/Jerome Delay)

2004. It looked as though what was to become the AGT pipeline system had been finally and thoroughly launched.

THE BAKU-SUPSA (WESTERN ROUTE) OIL PIPELINE [12]

The Baku-Supsa pipeline was one of the fast-track components of 'The Contract of the Century', along with the partial development of the Chirag offshore oil field (illustrated on the cover of this book) and related facilities in the Caspian Sea in Azerbaijani waters. The oil is exported from the Sangachal terminal on the Caspian coast south of Baku, via the Northern Route Export Pipeline (NREP) to Novorossiysk, and via the Western Route Export Pipeline (WREP) to a new storage and tanker loading terminal at Supsa on the Black Sea. From both Novorossiysk and Supsa, the oil is carried into tankers across the Black Sea and through the Bosphorus.

The Early Oil project was designed to prove that drilling in a politically unstable region was viable, to open up the possibility of provision of long-term financing that had not previously been made available to the region, and to create a precedent for future involvement of public international financial institutions (IFIs) – such as the World Bank, the International Finance Corporation and the European Bank of Reconstruction and Development (see page 55) – in the development of Caspian Sea oil reserves (which would help to mitigate the risks associated with private sector investment).

But the precedent 'Early Oil' has set – and the prospects for the Main Expert Pipeline – are rather less than positive.

BP and the European Bank of Reconstruction and Development have claimed that the project was implemented according to the strictest environmental and social standards. They expected the project "to start an oil boom whose tax revenues will increase the national [Azerbaijani] budget by 40% over the next 11 years, and [that] the related pipeline development should also help Georgia attract more foreign investment than it has received since independence in 1991."

Oil revenues provide, on average, about half the Azerbaijan government's income. Increasing oil extraction since 1998 has facilitated the predominance of the oil sector and the decline of the manufacturing industry with the share of petroleum products in total exports composing 86.8% in 2000. But while the government estimates that the economy grew about 11% in 2000, the 2000 Human Development Report of the UN Development Program (UNDP) clearly states that the lives of 60% of Azerbaijanis have not improved (see section "Will Oil Bring Prosperity?", p151).

Environmental concerns

Since the Chirag platform-1 began to operate in 1997, it has discharged its wastewater directly into the Caspian Sea, even though the Environment Impacts Assessment states that the problem of wastewater treatment will be investigated and that "water will be discharged 50 meters below the Caspian mean level to prevent damage to productive biological zone". The impact on sturgeon and salmon has been severe. In addition, waste discharges have been linked to the deaths of a number of seals.

The Baku-Supsa pipeline through Georgia passes through five conservation areas, runs close to protected areas, and crosses more than 27 watersheds, running the risk of a leakage or rupture near a watercourse or another sensitive area with associated high safety and environmental impacts. The new terminal at Supsa is located near Kolkhety wetland, which is protected under the 1971 Ramsar Convention on Wetlands. The Baseline Environmental Study stressed that "Kolkhety reserve is situated in one of the most sensitive areas adjacent to Paliastomi Lake, and Supsa terminal may have potential impact on unique wetlands communities and Kolkhety Forests".

Accidents have also created problems. In 1997, 7,000 barrels of oil were discharged from a corrosion hole along the Northern route pipeline. Technical accidents, such as uncovering of the buried pipeline and landslides, stopped oil transportation through the Northern and Western Route Pipelines for several days in 1998–1999.

Furthermore, the standards of the Supsa oil terminal do not meet guidelines for special zones[1] under the 1973–78 MARPOL Convention for the Prevention of Pollution from Ships, which require oil terminals to be equipped with adequate reception and wastewater facilities.

Transparency issues

Obtaining public funds from international financial institutions is conditional on companies agreeing to a certain degree of transparency. Yet the project sponsors have not disclosed many key

documents for the Baku-Supsa oil pipeline. While in Georgia (where civil society is quite strong) NGOs forced the BP local office to release its oil spill response plans for the country, in Azerbaijan, where an oil spill could result in an ecological tragedy in the Caspian Sea, the AIOC has been tight-lipped about its plans. The lack of transparency and public participation in these high-risk oil projects could lead to environmental problems that increase financial and political risks, including the very risks that the involvement of publicly-owned institutions like the International Finance Corporation (IFC) and the European Bank of Reconstruction and Development (EBRD) is supposed to preclude.

While the Environmental Impact Assessment (EIA) was itself made available at some locations in the region, for many key aspects of the project, it merely summarised other studies, many of which have never been made public, and some of which had yet to be concluded. Many of these tertiary studies amount to decision documents on essential environmental standards to be applied, yet were not made subject to the same information disclosure and public participation requirements that are applied to the EIA shell documents. Many decision documents were incomplete, such as the Oil Spill Response Plan and the Environmental Management Plan (EMP). Furthermore, under the terms of the Production Sharing Agreement, critical environmental decisions over issues such as the discharge of production wastes and of oil spill response plans were being decided through an opaque process over which the banks and citizens had no oversight, and where there was no commitment to transparency.

Further concerns

The large number of overlooked issues in the 'Early Oil' project prompted several NGOs from the Caucasus, Eastern Europe and other countries to write a joint letter of concern to the IFC and EBRD in July 1998. The NGOs' concerns echoed and reinforced those expressed by many professionals inside and outside of these institutions.

Meanwhile, communities along the route of the Baku-Supsa pipeline have also had a somewhat negative experience. An independent Fact-Finding Mission to Azerbaijan and Georgia in June 2002 was told that the promised jobs and social development for affected communities had simply not materialised. Furthermore, damage caused by construction activities to local infrastructure, such as roads and water pipes, had still not been repaired more than three years on (see pages 87 and 99).

Perhaps understandably. those communities often asked: "Why should we believe the experience of Baku-Tbilisi-Ceyhan will be any different from that of Baku-Supsa?"

l The special Zones include Mediterranean, Baltic Sea, Black Sea and Gulf Area

Chapter 4

Two companies merge

BP's strategic view of the AGT pipelines system

11th August 1998. Almost four years after the signing of the Contract of the Century, three men sign a further deal just as significant for the future prospects of Azerbaijan. They are at the headquarters of the Honourable Artillery Company in the City of London, the charitable arm of one of the oldest regiments in the British Army. John Browne and Peter Sutherland, Chief Executive and Chairman of BP, have just completed negotiations with Larry Fuller, Chairman of Amoco, on what is at the time the biggest industrial merger in history.

THE lead organisation developing the Azerbaijan-Georgia-Turkey pipelines system is the oil company, BP. BP will manage construction and operation (if the project goes ahead), and will coordinate with governments and other bodies, and of course with its project partners. The leaflet distributed to Azerbaijani communities along the pipeline route, reproduced on page 2, is in BP's name.

In the early 1990s, the government of Azerbaijan was being courted by British Petroleum (as BP was then known), but felt it could get a better deal if another company was competing with BP for Azerbaijani oil resources. The company which came to fulfil this role of being a counterweight to BP was the US oil giant, Amoco.[13] For the following five years, Azerbaijan became a place of contest between a British corporation (British Petroleum) and a US one (Amoco). But in August 1998, British Petroleum and Amoco announced their merger, which was completed in January 1999. Since then, the key stake in Azerbaijan's economy has been controlled by a single British-American corporation (BPAmoco, renamed simply BP in the year 2000). Since 1998, BP has been the primary player in the western Caspian region: it has a 34.1%

(L-R) John Browne (BP), Larry Fuller (Amoco) and Peter Sutherland (BP) shake hands on the BP-Amoco merger deal, outside the Honourable Artillery Company, 11th August 1998 (Lathigra Kalpesh, The Independent)

holding in the Azerbaijan International Operating Company (AIOC), a 25.5% holding in the Shah Deniz gasfield and South Caucasus (gas) Pipeline, and a 38.21% holding in the Baku-Tbilisi-Ceyhan oil pipeline. It is also the operator of the complete AGT pipeline system. Chapter 3 outlined the importance of AGT to the strategic policy of the host countries and to the USA. But what of AGT's importance to BP's strategic policy?

Looking backwards

A CORPORATION strives to ensure its longevity and strategic role in the world just as actively as any nation state. Corporate survival requires careful tactics, diplomacy and planning. BP – or the Anglo-Persian Oil Company as it was then known – began life in 1908. Six years later in 1914, the First Lord of the Admiralty, Winston Churchill, on behalf of the British state, bought a controlling stake in the company, so as to secure the supply of oil for Britain's First World War effort. In effect, Anglo Persian became the fuelling arm of the British Royal Navy. For the following 62 years, Anglo-Persian, or British Petroleum as it was renamed in the 1950s, was 51% owned by the British government. In 1976, however, the British government sold off its controlling stake,[a] and since then the company has worked hard to find a role for itself outside the shadow of the British state and its dwindling imperial legacy.

a The British government maintained a smaller share after 1976, sold its last major holding in 1987, and the very last bit (1.8%) in 1995

BP's 1998–1999 merger with Amoco and its subsequent take-over of another US oil company, ARCO (announced in April 1999 and completed in April 2000) set BP on a new course. The corporation was ensured a place among the ranks of the 'super majors' of oil companies (alongside ExxonMobil and Shell), breaking away from the pack of 'majors' (the likes of Chevron, Texaco and TotalFinaElf). Through these take-overs, BP, guided by Chief Executive John Browne, became one of the 'Three Sisters', the three giant companies that hold sway over the oil and gas world.

The Amoco merger and the ARCO take-over also represented an important geo-political realignment for BP. Compared to its rivals, the company had made a late entry in the world's largest energy market, the United States of America. Its first retail presence on the Eastern Seaboard of the United States was in spring 1969 following the purchase of the downstream assets, including gas stations, of US oil company Sinclair. Only with the discovery of oil in Prudhoe Bay, Alaska (announced in September 1969, *see* Chapter 10), and BP's subsequent purchase of the rights to the controlling stake in the oil company SOHIO[b] (completed in January 1970), did BP become a player on the US stage.[14] Since the merger with Amoco and take-over of ARCO, 36% of BP's shares are now held in the USA.[15] Over the last four years, the company has boldly evolved from being a thoroughly British company to being a truly British-American corporation.

This corporate evolution took place at a key juncture in the political evolution of the Caspian oil export issue. By the summer of 1998, the lack of a decision on an exit route for Azerbaijani oil was beginning to hinder investment in offshore development, while the nature of future relationships between Azerbaijan, Georgia, Turkey, Iran and Russia hung in the balance. The strategic desire of the USA to see a non-Iranian/non-Russian exit route for Caspian oil had been clear for the better part of seven years: the question was, who would take up this challenge?

BP's merger with Amoco was a relatively smooth five-month process. The merger with ARCO, however, took 12 months because of repeated objections from the US Federal Trade Commission, the body that regulates take-overs and mergers in the USA. The Commission's objections, though centred on BP's potential monopoly control of West Coast fuel supply, were essentially about US strategic concerns that a 'foreign' oil corporation would significantly intrude upon the US domestic oil market.[16] Six months after the merger with ARCO, presidential candidate George W Bush started making noises about taking action to prevent such foreign ownership: "This [Clinton] administration… has left a lot of our offshore drilling

b Standard Oil Company of Ohio

under foreign hands such as Royal Dutch/Shell and BP".[17] For two years, there had already been well publicised disquiet about the 'merger' of BP and Amoco, which had in reality also been a take-over. A joke reportedly doing the rounds in the Texan oil city of Houston cut to the heart of the merger:

> *"How do you pronounce BP Amoco?" "BP. The Amoco is silent."*

In 2000, BP Amoco made the 'take-over' official when the company renamed itself simply BP.

In the late 1990s, although now positioned as a British-American corporation, BP still needed to prove its loyalty to the US administration; driving forward the AGT pipelines system can easily be seen as part of that strategy.

Up until the latter half of 1999, BP Chief Executive John Browne was publicly pouring cold water on the BTC oil pipeline. The pipelines from Baku to Supsa and from Baku to Novorossiysk, were for exporting 'Early Oil'. For the later and much larger exports, was BP perhaps thinking about a pipeline to Iran's Kharg Island, or a route from Baku to Ceyhan via Iran? After all, it had opened an office in Tehran in early 1998 after 19 years absence from the country. Such a route would take the company back to its British Imperial birthplace. As the Anglo-Persian Oil Company, BP began its life in Iran, and the company's investment there remained its biggest asset until the ejection of the company in 1951 when Iran nationalised its oil industry. BP is still very interested in expanding in Iran in the longer term, but will need to keep the USA on its side to do so.

Perhaps BP was considering the northern route through Russia to Novorossiysk, despite the conflict in Chechnya. After all, BP did not show much concern about reopening the route in 1997, so perhaps it felt that this pipeline could handle a much greater capacity. Throughout the 1990s, moreover, BP was making several strategic investments in Russia, such as its stake in the Kovyktal gas fields, through its investment in Russian oil company Sidanco. BP bought 10% of Sidanco in 1997 for US$ 480 million, and in April 2002 bought a further 15% for $380 million. Again, BP's closeness to Russia might imply a strategy different from that espoused by the USA.

Publicly, BP did not express a preference, but kept its options open, although it did conspicuously decline to support the Baku-Ceyhan route until autumn 1999. Only then did it begin to say that the Baku-Ceyhan route might be possible. By spring 2000, after the November 1999 OCSE Summit and the signing of the Istanbul Declaration on the BTC pipeline, BP was fully committed, at the very top level.

NATO air base, Incirlik (US Department of Defense)

BP's co-operation with the USA mirrors that of Turkey's cooperation with it. The BTC oil pipeline would bring Caspian crude to Ceyhan and the BP refinery at Mersin (100 kilometres west of Ceyhan). This refinery is a key supplier of aviation fuel to the US Air Force base at Incirlik 30 kilometres (18 miles) west of Ceyhan, and the US Air Force base at Konya, 250 kilometres (155 miles) north west of Mersin. Since the 1980s, Incirlik has been vital for US military hegemony over the Middle East. Bombing raids were flown from Incirlik during the 1991 Gulf War; the Northern No-Fly Zone over Iraq is maintained from Incirlik; aircraft flying on missions over Afghanistan take off from Incirlik. If BP began its life as the fuelling arm of the British Royal Navy, it can now be seen as part of the fuelling arm of the US Air Force and the US Navy.

Thus central to BP's support for BTC (and ultimately AGT) is the repositioning of this former British company as a British-American one, a company careful to keep in line with the desires of Washington. For the four or five decades' lifespan of most of its Caspian projects, the USA is likely to be the leading world power. BP needs to keep itself aligned with that world power while at the same time pursuing its own commercial logic. Just as a nation state secures its political position through alliances, so too the corporation.

LOOKING FORWARDS

Beyond its wider geo-political significance, the AGT pipelines system is essential to the long-range commercial logic of BP. Without AGT, or an alternative, BP's presence in Azerbaijan would be almost redundant. Azerbaijan is key to BP's long-term strength. The company competes in the capital markets, such as on the London and New York stock exchanges, with its rival 'Sister' oil companies, especially Shell. Since the late 1990s in particular, the attractiveness of oil companies to investors – as measured by the share price – has rested heavily on the companies' capability to increase their levels of hydrocarbon production. BP's strategy, as articulated to oil analysts rather than to the general media, is centred on a target of 5.5% annual expansion in its rate of extraction of oil and gas – a target higher than that of any other major oil company. Its ability to meet this target will be a litmus test for the company and the judgement of BP's management, a test that so far they seem to be passing.

Currently, BP is maintaining its growth rate due to strong US production and continued expansion from its business in Trinidad & Tobago and Angola. But in the medium- to long-term, it is Azerbaijan that would have to feed such production growth,[18] especially as Azerbaijan offers a non-OPEC (see page 29) and relatively secure oil province. In contrast, Shell cut its medium-term annual growth projections from 5% to 3 % in September 2001, blaming "declining UK production and difficulty accessing new reserves controlled by OPEC states".[19]

BP has worked hard to consolidate its position in the western Caspian. Through its corporate manoeuvring, it does not have to share its crown in Azerbaijan, in contrast to oil companies in Kazakhstan, for example.[c] It is effectively the key player in the country's oil industry.

This state of affairs has been emphasised since the company's merger with Amoco. In theory, a consortium such as the Azerbaijan International Operating Company (AIOC) should work by consensus but, like all coalitions, there is in reality an ongoing political dance within the consortium. Prior to January 1999, BP and Amoco each owned 17% of the consortium (see table on p 24), a distribution of power that would have allowed SOCAR, the state oil company of Azerbaijan (and thus the government of Azerbaijan), some chance of playing one company off against the other. After the January 1999 merger of these two, BP had a 34% stake (and no other company had more than 10.3%), marking a major shift in the power dynamic within AIOC and consequently within Azerbaijan itself. BP has pursued the same approach – dominating oil production and thus politics – in Alaska, Colombia and Trinidad & Tobago.

BP, after initially sharing the view of other oil companies that the Baku-Tbilisi-Ceyhan (BTC) pipeline was economically unviable, was the first oil company to express support publicly for the project in October 1999. Within six months, it was negotiating government agreements in Washington, effectively as a fifth 'government' alongside those of Azerbaijan, Georgia, Turkey and the USA. Within 12 months, it was pulling other oil companies together to try to persuade them to join the project. Throughout this period, and into 2001, BP did not go along with the predominant view of the oil industry (which is still held by some companies, including ExxonMobil and possibly Shell) that the BTC pipeline was economically unviable.

c In Kazakhstan, no single western oil company has the dominant role; instead there are many actively participating. Lead companies are ChevronTexaco (US), ENI / AGIP (Italy) and BG (UK), closely followed by ExxonMobil (US). The project partners in Kazakhstan's three giant oilfields are:

TENGIZ field: ChevronTexaco 50%, ExxonMobil 25%, Kazmunaigaz 20%, LukArco 5%.

KARACHAGANAK field: Agip 32.5%, BG 32.5%, ChevronTexaco 20%, Lukoil 15%.

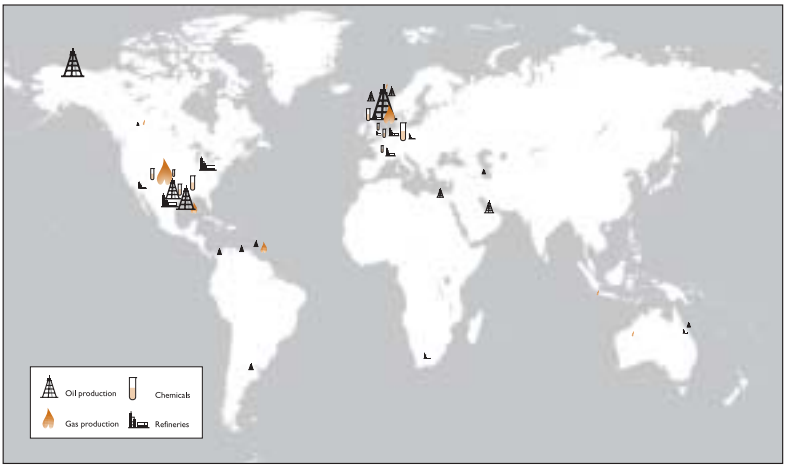
KASHAGAN field: ENI-Agip 16.7%, BG 16.7%, ExxonMobil 16.7%, TotalFinaElf 16.7%, Shell 16.7%, Inpex 8.3%, Phillips 8.3%.

Meanwhile, for the major export pipeline to Novorossiysk, ChevronTexaco is the leading company with a 15% share, but LukArco is close behind with 12.5%, and Rosneft-Shell and ExxonMobil both have 7.5% (transit countries are also partners, as are companies with smaller shares). What these figures show is that shareholdings in projects are much more spread out across several companies, in contrast to Azerbaijan's great concentration in BP.

Since publicly expressing support for the BTC pipeline in October 1999, BP has invested considerable resources in the AGT pipelines project. It has already spent US$ 44 million on external contracts for engineering studies[20] and invested considerable staff time in meetings and in developing plans for the project (See Timeline). Indeed, it narrowed the route of the pipeline down to a 10 kilometre-wide 'interest corridor' using its in-house expertise, before the (outsourced) basic engineering phase. If BP is correct in assuming that other export routes are politically impossible – since the attack on New York's World Trade Center on 11th September 2001, Iran has become even more problematic, while Turkey has become even more important as an ally – its investment could also include the considerable financial and political resources BP has committed to exploring and developing Azerbaijan's oilfields, especially Azeri-Chirag-Guneshli, which amount to more than US$ 2 billion.

BP and its partners plan to spend over US$ 13 billion dollars in Azerbaijan over the next six years (mainly on the construction phase of the Azeri-Chirag-Guneshli oilfield, the Shah Deniz gas field and the two corresponding pipelines, BTC and SCP and the Sangachal Terminal Expansion).[21] BP's share of this investment ranges from 25.5% to 34% depending on the project, meaning that BP plans to invest about US$ 3.7 billion over six years, equivalent to at least 7% of all BP's investment in all countries in all sectors of the oil industry from field to forecourt.[22] This is comparable to its expenditure in the North Sea (US$ 1,095 million in 2001), which currently accounts for 25% of the company's production.[23]

Thus BP is completely committed to the AGT pipelines project in terms of invested financial resources, not to mention its political and 'emotional' investment. The sense of corporate pride and ambition attached to its presence in Azerbaijan in general and to the pipeline system in particular is substantial.



BP's global asset reach

PRODUCTION SHARING AGREEMENTS (PSAS) – MAI BY THE BACK DOOR?[24]

Agreements covering the Azerbaijani off-shore fields and pipelines were framed as production-sharing agreements (PSAs), a formula that has one overwhelming benefit over other investment-recovery schemes: PSA contracts, once signed by both parties, are ratified by Azerbaijan's parliament and thus assume not only the force of national law, but also the status of international law. If there is a conflict between a local or national law and the agreement, the latter takes precedence.

This process is used worldwide by oil companies since it provides increased levels of contract stability, commensurate with the PSA's insulation from domestic legislation, which can be notoriously capricious. Azerbaijan, Georgia and Turkey also have PSA-type arrangements known as Host Government Agreements covering the transport of oil and gas across their territories.

In effect, the agreements are a means for companies to achieve what the corporate sector as a whole failed to achieve via the proposed, but ultimately rejected (in 1998), Multilateral Agreement on Investment (MAI) at the Organisation of Economic Cooperation and Development (OECD) – notably the means to sue governments directly.

Although PSAs must be ratified by the Azerbaijani Parliament, this is a mere formality, not only due to the tight ties between the national oil company, SOCAR, and President Aliyev, but also because of the weakness of parliament itself. In its nearly six years of existence, it has not once rejected or even returned for review an oil contract put before it. Furthermore, Parliament, irrespective of the constitution, exercises virtually no oversight powers on the implementation of the PSAs by SOCAR.

Opposition deputies have complained that negotiations for most contracts between SOCAR and oil companies are conducted "behind closed doors," and that the destination for bonus payments to the government is "totally unknown" to the Parliament.

Furthermore, in theory the PSAs negotiated with Azerbaijan are supposed to be laws of the Republic of Azerbaijan and thus public documents, with copies to be lodged at least in the Parliament. But the public has always had difficulties in getting copies and apparently these documents have never been published: at best, auxiliary documents appear. This not only violates the requirements of the law of the Azerbaijani Republic "Concerning normative-legal documents", but also the very instructions of the PSAs, according to which the regulatory guarantees acquire the force of law after Parliamentary ratification and publication under usual procedures.

Foreign energy companies operating in Azerbaijan have reported that SOCAR's strong position and proximity to the presidency, the major seat of political power, have established it as a de facto "one-stop shopping" contact for foreign investors. The first PSA in Azerbaijan was negotiated in 1994 between BP, as leader of the AIOC consortium, and the government. The agreement "Concerning joint exploration and sharing extraction of oil in the fields of Azerbaijan and Chirag and the deep sea part of the deposits of Guneshli in the Azerbaijani sector of the Caspian Sea" is better known as "The Contract of the Century" (see Chapter 3). Since 1994, a further 22 PSAs have been ratified by the Azerbaijan Parliament, of which 20 cover the development of oil fields and two the development of pipelines.

Generally, within the PSA framework, foreign consortium members pay bonus payments for contract-signings to the State (which have ranged as high as US$ 300 million) and are allowed to recover all costs (capital expenses and investments) up front, at the early stages of production – in the form of a share of crude production at the beginning of the production cycle. Only after they have done so is "profit oil" deemed to begin, split unevenly between the Azerbaijani government and consortium members according to a formula agreed upon for each individual PSA. Apparently, early PSAs gave very favourable terms to oil companies in order to attract their investments to Azerbaijan.

Thus, the Azerbaijani people and state have to wait for the bulk of their oil revenues because of the structuring of PSAs. The "Contract of the Century" PSA, for example, at peak output and after subtracting costs, was, in 1997, expected to generate approximately US$ 2.5 billion per year, which would be split between the Azerbaijani government and the AIOC shareholders. Although SOCAR and the government are slated to realise a significant share of total revenues, the production-sharing formula dictates that Azerbaijan will begin to recover its lion's share only after AIOC's expenses and investments have been recouped – a benchmark that, depending on the price of oil, may not be reached until the end of the next decade.

The 1994 "Contract of the Centruy" reportedly guaranteed that Azerbaijan would provide BP with whatever land it required for its operations. It is unclear whether PSAs bind the companies to observing local environmental law. It would be of major significance if they were permitted to override local environmental law, not least since many pollution standards (originally set under the Russians) are higher that those applied in Western countries. In fact, within Azerbaijan, certain Soviet standards on the environment are still in effect, since they were not repealed and are not at variance with the Constitution of the Azerbaijan Republic. It is possible that the Environmental Protection Law covering two natural reserves which might be crossed by the pipeline corridor has been overwritten by the PSA for the BTC project.

Furthermore, in the PSA, there is no mandatory provision for involving the State Ecological Committee in the environmental monitoring of the projects.

If a dispute occurs over the pipeline, it has to go to an international tribunal. It cannot be resolved through a local court. This has an important implication for compensation. If there were a dispute, villages would have no right to go to the local courts but would have to go to the local committee of an international tribunal, as laid down within the PSA. The committee would consist of a BP representative, a representative from the government and an independent member agreed by all parties. The applicant would be one of these parties.

Chapter 5

Faces and names

The AGT pipelines system in BP's imagination

The 'Tale of The Three Seas Conference', Istanbul, 20th June 2001.[a] *BP's Chief Executive, John Browne, expresses his deep-seated confidence that the Azerbaijan-Georgia-Turkey pipelines system will be built. At this time, not a metre of trench has been dug, not a piece of land has been bought, the Environmental and Social Impact Assessment has hardly begun, and the financing of the project is far from secure. Yet Browne is publicly sure the project will go ahead. Certainly, it is his job, as Chief Executive of BP, to 'talk up' the project, but Browne's confidence derives in a large measure from his own experience and that of his company.*

IN our attempt to imagine the proposed AGT pipelines system, it is important for us to understand some of the people behind the pipeline. Although a company may seem to be an abstract machine – and BP is the seventh largest[25] such machine in the world – it is run by a collection of people, who make its decisions. Consequently, the backgrounds of these people have an impact on the way the company acts. This chapter details some of the individuals in BP most directly connected to the AGT project.

John Browne, now 54 years old, was effectively born into BP. His father worked for the company, then known as the Anglo-Iranian Oil Company, so Browne spent some of his childhood in Iran. When he went to Cambridge University to study geophysics, he received financial support through a BP scheme.

a A conference aiming to internationally promote oil, gas and power investment opportunities in the Black Sea, Caspian and Eastern Mediterranean regions, organised by UK-based Cambridge Energy Research Associates (CERA), Turkey's DEGTK (Foreign Economic Relations Council) and KEGT (The Organization for Black Sea Cooperation)

During John Browne's career in the company over three and a half-decades, he has worked closely on three BP pipeline systems: the Trans-Alaska Pipeline System (TAPS, USA), the Forties Pipeline System (FPS, Scotland) and the OCENSA pipeline system (Colombia). The AGT pipelines system, if it is built, is likely to be one of his last major projects before he retires. In the following chapters, we examine these three pipeline projects so as to gain insights into the planned AGT system.

In 1969, after finishing his degree at Cambridge, Browne took up his first post with BP in Alaska. Here, he joined a vast oil project in a state of high excitement. Just a few months earlier (in March 1969), BP had discovered oil, following the first discoveries on Alaska's North Slope by Humble Oil and ARCO the previous year. BP's find – which Browne examined using his geophysics training – turned out to be the giant Prudhoe Bay oil field, one of the largest ever found outside the Middle East. Browne worked on the project for 18 months.

During that time, BP and its partners worked out their development plans for the field and decided (along with other oil companies) on an export route using a pipeline to the fishing port of Valdez. But initial euphoria turned sour in March 1970 when lawsuits stopped the construction of TAPS for four years. But whilst the US Supreme Court deliberated, BP Chairman Sir Eric Drake expressed that same confidence that John Browne exhibited in Istanbul. The pipeline, Drake said, would be built "as sure as night follows day".[26]

While TAPS was stalled, John Browne was moved to New York in late 1970, and a few years later to San Francisco where he stayed until 1983. Throughout most of this time, Browne was working on Prudhoe Bay and TAPS, as Alaska became BP's largest investment in the USA by far..

In 1983, Browne left the USA when he was posted to the Forties field (which had been developed at the same time as Prudhoe Bay) in the UK North Sea. Forties was BP's other big field at this time, and was the major source of oil feeding into FPS. It was while he was a commercial manager on this field that Browne pulled off the major success that got him noticed in the higher echelons of BP and led to many of his contemporaries predicting that one day he would head the company. His major achievement was in saving BP £200 million (US$ 300 million) in tax (*see* Chapter 8). Browne was then promoted to manager of the whole Forties field and, from 1984 onwards, to a series of positions in the UK and the USA as he rapidly climbed the corporate management ladder.

In 1989, he was appointed head of global Exploration and Production – BP's most important division – and tasked with overhauling it radically. Just a few weeks before his appointment, the Exxon Valdez tanker had run aground in Prince William Sound, Alaska, causing a major pollution incident (*see* Chapter 12). Managing the consequences to BP of the disaster fell within his sphere of responsibility,[b] particularly ensuring that the public's attention did not dwell on BP's involvement in the accident. After all, the terminal at Valdez was run by a BP-led consortium. Attention instead focused almost entirely on Exxon, which was responsible for the tanker.[c]

At BP Ex, as the Exploration and Production division is known, Browne's main tasks were twofold: to cut costs, and to break out of BP's reliance on North Sea and Alaskan oil. BP was referred to disparagingly by others in the oil industry as a "two pipeline company". To cut costs, he played a key role in increasing the North Sea's profitability by lobbying the UK government to cut tax in 1993 (*see* Chapter 8). For his second task, he took the company into two new important oil provinces: Colombia and Azerbaijan.

BP had been exploring in Colombia since 1987. Browne was at the helm when BP found the Cusiana and Cupiagua fields in 1991, the biggest finds by any company in the Western hemisphere since Prudhoe Bay. He was excited by Colombia, and it was at this time that he developed his interest in pre-Colombian art, for which he remains renowned.[d] He was in charge as these fields were developed and the decision taken to build the OCENSA pipeline (*see* Chapter 9). The second new direction begun under Browne's leadership was BP's move in 1990 into Azerbaijan and the signing four years later of 'The Contract of the Century'.

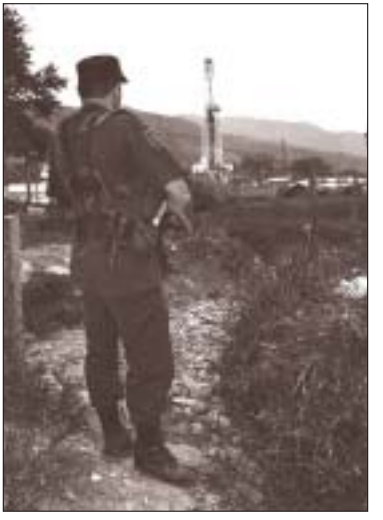
In 1995, at the age of 47, John Browne became Chief Executive of BP, remarkably young for an individual to head a major transnational corporation. Soon after, in 1995 and 1996, public allegations of human rights abuses in Colombia at BP's oil fields in Casanare and its OCENSA pipeline system became widespread. Browne,

b Although there were individual managers below him in Alaska working full-time on the issue, John Browne bore responsibility to the Board of Directors

c The disaster is seen by many in the public relations (PR) industry as a turning point in corporate 'crisis management', largely for Exxon's mistakes in PR management of the spill. Exxon consistently denied wrongdoing, and argued strongly that the damage was insignificant. Following the massive reputation damage to Exxon, it is now recognised that in disaster PR management it is better to show humility, acknowledge the mistake and show concern, rather than fighting criticism head-on. Arguably though, the big PR success of the incident was in Alyeska's, BP's and ARCO's staying out of the media attention whilst Exxon was blamed, despite their having responsibility as operators of the Valdez terminal, as far as the regulator was concerned, for spill prevention and response (see Chapter 12).

d Pre-Colombia refers to the culture of what is now South America prior to the arrival of the Europeans 500 years ago

along with then Chairman David Simon, was the public face of BP (as Browne is now), and played a key role in managing the damage to BP's reputation. (*see* Chapter 11) Through deft positioning and strategic relationships, he avoided the crisis developing to the extent that Shell had faced in Ogoniland in Nigeria in 1995 when nine people who had criticised the effects of oil development were executed by the Nigerian state.



Special police agent guarding drill site on Cusiana-Cupiagua oilfield, Colombia (Michael Gillard)

Growing out of the Colombia communications success, as part of a broader strategy for BP's reputation management, Browne masterminded the repositioning of BP as a 'green' company, including the re-branding of the company with a 'helios' logo in 2000. Many politicians, journalists and NGOs accepted the repositioning at face value – an indication of its political success. But to others this was at best a positioning at 'best of sector' in a very bad sector (as far as human rights and the environment are concerned). In other words (as the case studies and analysis in this publication attempt to show), many of the problems are systemic, rather than simply a product of management decisions. This is well illustrated by the fact that in spite of the re-brand and the 'beyond petroleum' slogan, BP continues to increase its output of oil and gas faster than any of its rivals, at a rate of 5.5% per year. And while BP's solar power activities occupy nearly 20% of its communications (as evidenced for example in BP's self-description in its Azerbaijan consultation leaflet), they account for just 0.17% of BP's total turnover.[27]

As early as 1995, he began developing relationships with non-governmental organisations, starting by commissioning business consultancy Sustainability to carry out a scoping of the NGOs BP should develop long-term relationships with. Since then, BP has led the field in having dialogues, 'constructive engagements' and partnerships with a wide range of NGOs, a trend which has been followed by many of the largest corporations. While many NGOs have been keen to get involved, others have seen the move as a political coup for BP, where its potential critics are tied up in the detail of an issue, where the issue is kept out of the public sphere, and where BP is able to pursue

'continuous improvement' through a set of technical discussions – which it manages. This re-positioning as a supposedly ethical and environmental company, alongside the US mega-mergers, has defined Browne's time at the top.

This brief biography of John Browne illustrates that the Chief Executive of BP has had personal experience of what it means to construct and operate a pipeline system. Of course, this experience is not unique to John Browne: many other senior executives in BP have had similar career paths. For example, David Woodward, President of BP Azerbaijan and therefore also President of AIOC, worked in BP Alaska from 1994 to 1998, ultimately as head of exploration, a post which would have enabled him to gain an intimate understanding of TAPS.

WHO's WHO INSIDE BP IN AZERBAIJAN, GEORGIA AND TURKEY

MOST IMPORTANT MANAGERS FOR THE AGT PIPELINES SYSTEM

David Woodward President of BP Azerbaijan, and hence of Azerbaijan International Operating Company (AIOC). He is the most public face of BP's Caspian developments and the BP executive who meets senior government officials in the proposed oil transit countries. As BP's head in a country as important to BP as Azerbaijan, Woodward is very senior within BP and will know John Browne personally. Before Azerbaijan, he was head of exploration in Alaska, but has also worked in Britain, Norway, United Arab Emirates and Russia. He joined BP in 1970 as a petroleum engineer and is now 55 years old.

Michael Townsend Vice President for Export of Hydrocarbons, BP Azerbaijan. Townsend is the manager of the pipeline project itself. Reporting to Woodward, he works full-time on the Baku-Tbilisi-Ceyhan (BTC) pipeline, and as the Timeline shows, plays a central role in its development in all areas, including political, commercial and technical. In his previous role in BP too, as Director of International Affairs, he played an important role in the development of the BTC pipeline.

Andrew McAuslan Commercial Manager of the BTC oil pipeline project. As commercial manager, he is responsible for legal agreements with governments and with other companies, detailing what they are expected to provide for the pipeline and how much money they receive from it; for the establishment of the pipeline company itself (as a joint venture); and for the raising of finance from international finance institutions, such as the

	International Finance Corporation and the European Bank of Reconstruction and Development. He reports to Townsend.
Andrew Baines	Head of BP's Tbilisi office. Appointed to this position in early 2001, he has three responsibilities: the existing Baku-Supsa pipeline, the BTC oil pipeline and the South Caucasus (gas) Pipeline. Since most of the engineering work for Georgia is coordinated from Azerbaijan, Baines' more important role is political.
Ertugrul Tunler	BP Turkey Representative. Design and construction in Turkey is the responsibility of the Turkish company Botaş, not BP. So like that of Baines, Tunler's role in relation to BTC is mainly political. Unlike Baines, however, pipelines are just one of his many responsibilities; another is marketing gas in Turkey.
Rashid Djewanshir	President of BP Amoco Exploration Shah Deniz. A Bakuvi geologist/ geophysicist, he entered the company through Amoco. As the boss of Shah Deniz gas field, he is the most senior Azerbaijani in BP. At one point, he was tipped for the top job in Azerbaijan, which in the end went to Woodward in 1998, perhaps because of the international and political focus of the position.
Gordon Birrell	Head of BP Exploration Azerbaijan. Has a less important role in the pipeline politics than his predecessor Andy Hopwood (who was promoted to London in April 2000), as sufficient oil and gas has now been identified to make the projects viable.

BP GROUP MANAGERS INVOLVED IN THE AGT PIPELINES SYSTEM

Lord[e] Browne of Madingley	John Browne – Group Chief Executive, BP. Browne's involvement with AGT stretches back to the early 1990s. He is the global public face of the company and hence the project.

e Sir John Browne became Lord Browne when he was one of 15 'People's Peers' selected by a special commission in April 2001. The appointments had been much vaunted by the UK government as an opportunity for 'ordinary people' to be appointed to the House of Lords (Britain's un-elected upper house of parliament), a break from the usual perceived elitism and cronyism of Lords appointments, and a symbol of Prime Minister Tony Blair's personal commitment to modernise government. However, in the event the process was heavily criticised because of 3,000 nominees, the 15 selected were all, like Browne, already considered part of the establishment. As *The Guardian* newspaper (27/4/01) pointed out, they included "seven knights, the wife of a peer, three professors and two others who had already been honoured", and all but four were already in the Who's Who directory.

The Board of Directors will ultimately give the final approval for the project. This is both a legal requirement and a result of the strategic significance of AGT to the BP Group. The Board has five executive directors and 11 non-executives. Those who have particular responsibility for the AGT project alongside Browne include:

Dick Olver	Chief Executive, BP Exploration and Production
John Buchanan	Chief Financial Officer

The AGT pipeline system falls within the sphere of BP's Exploration and Production division, whose top executives guide the project:

Richard Flury	Vice President, BP Exploration & Production
Jack Golden	Group Vice President, BP Exploration & Production
Scott Urban	Group Vice President, BP Exploration & Production
David Work	Group Vice President, BP Exploration & Production

There are also supporting staff from the wider BP Group who provide services to all BP divisions, and who play a key role in AGT:\

John Sullivan	BP Vice President, Security
Peter Henshaw	BP Group Vice President, Government & Public Affairs

The section above lists the 17 most important BP managers involved in the AGT pipelines system. Between them, they are the ones making the major decisions. But they are not the only ones involved. BP has hundreds of staff working either in or on Azerbaijan (as well as Georgia and Turkey). What is the nature of the involvement of a more junior member of staff?

Karen St John, for example, joined BP in 1988. After 14 years with the company, she is now based in Baku as Social Impact Assessment Project Manager for the BTC oil pipeline, part of the AGT system. With a background in environmental legislative issues and risk management, her current job is to coordinate research and consultation in preparation for the construction of the pipeline system.

In an interview for BP's employee magazine, *Horizon*, she revealingly comments that she sees social investment as a tool in "an arsenal of risk management".[28] Clearly, this doesn't mean managing risk for the communities along the route, but rather for BP. What might those risks be? The risk to the company's reputation through social disruption caused by the project? The risk of local people opposing the construction of the pipeline or disrupting its operation, should it be built?

The company manages those risks in part by means of social investment – putting company money into social projects in villages along the pipeline route such as the schools and health centres mentioned in Chapter 1.

Karen reports back to her team in Baku, her superior, Anna Nesling, and those above Anna such as Michael Townsend, Vice President for Export of Hydrocarbons, BP Azerbaijan. Her work is not only vital as 'insurance' against opposition to the pipelines and company, and against reputational damage in the future; it is also vital in the present as BP tries to secure financing from institutions such as the International Finance Corporation and the European Bank of Reconstruction and Development. The company needs to assure these institutions that the pipeline project will conform to their social and environmental impact standards. Thus Karen will attend meetings with investor relations managers in London alongside her superiors, Anna Nesling (Project Manager for BTC Pipeline ESIA), Andrew McAuslan (AGT Commercial Manager), and Michael Townsend.

All but a fraction of the internal operations of a company such as BP are hidden from the outside observer. But we can ponder over the activities of an individual manager such as Karen St John.

Karen speaks enthusiastically about her work, but how much influence does she really have? If in the course of her interviews with local residents, she discovers a problem with the pipelines project, how much potential does she really have to change it? She makes an important contribution to the project, but does she really carry personal responsibility for it? Is she answerable for the project to those to whom she explains it? Will the company make her responsible if something goes wrong? Does she feel anxious about the possibility of things not working out, of risk to BP not being managed?

Chapter 6

The carbon web

The organisations involved in the AGT pipelines system

28th May 2002. A key moment in the development of the Azerbaijan-Georgia-Turkey Pipelines project. BP hands to the Government of Georgia its draft Environmental and Social Impact Assessment (ESIA) for both the BTC (oil) and the SCP (gas) pipelines. Within the following month, the company also submits similar documents to the Governments of Azerbaijan and Turkey. The publication of these three draft ESIAs marks the beginning of the official consultation process, wherein affected people have 60 days to comment on the project.

Phil Middleton, BP's ESIA manager for Azerbaijan, comments proudly, "The ESIAs represent the result of more than two years' work looking at the environmental and social aspects of these projects". But of that two years' work, only a minority has been carried out by Phil Middleton and his team. In fact, the ESIA documents have been compiled by a different company, Environmental Resources Management, or ERM.

The consultation leaflet for the Azerbaijani communities living along the proposed pipeline route, reproduced at the front of this book, was also produced by ERM. Yet ERM's name does not appear in any of the text or on the leaflet. Rather, it is the name and logo of BP that are emblazoned across the leaflet.

BACK in the 1970s when BP was imagining, planning and constructing the Forties Pipeline System in Scotland, the corporation was a unified and hermetic institution that carried out all its work 'in-house'. It was based in the many-storied office block that was its headquarters at the time, the Britannic Tower in the City of London.

On the top floors were the offices of the Chief Executive and of the Board, while further down below were the offices of the company accountants, the company personnel department, the company legal department, the company advertising department, and so on. The tower symbolises the nature and structure of the corporation at that time – a large hierarchical block.

Today, BP is less like a block and more like a web of interconnecting companies. Its headquarters is now Britannic House, a far smaller terraced office building. In here, the core coordinating functions of the company are carried out, while a vast range of company activities is 'outsourced' to other smaller companies and institutions. For example, BP's accounts are no longer kept by people directly on BP's pay roll, but by employees of accounting giant PricewaterhouseCoopers in London and in Portugal. BP's global human resources function, as the personnel department is now known, is today partly carried out by Exult, a California-based company.

This same process of outsourcing is at work in the AGT pipelines system. As the box opposite shows, a wide range of companies is carrying out work on the project on behalf of BP.

In addition to the companies in its web, BP has also cultivated civil society groups. In many cases, these relationships are key to its ability to carry it out its plans, to obtain a 'licence to operate', and to receive public and political support.

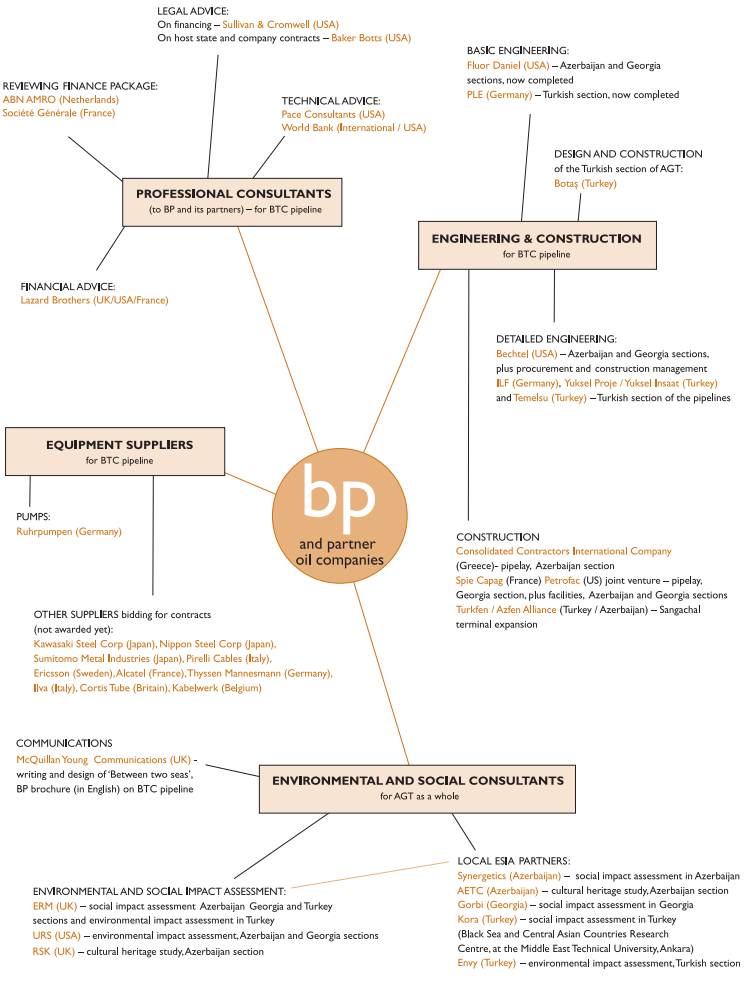
The notion that these outsourced companies and organisations are working on behalf of BP deserves closer inspection. Although BP is the operator of the AGT pipeline, it is not because it owns the project in its entirety, but because it is the lead company in several consortia of companies that together are the sponsors of the pipelines and oil and gas fields.

The AGT pipelines system actually comprises a set of interlocking projects: the Baku-Tbilisi-Ceyhan oil pipeline and the Azeri-Chirag-Guneshli oil fields; and the South Caucasus (gas) Pipeline and the Shah Deniz gas field. It is planned that the two pipelines should, in due course, be fed by further fields. Each of these interlocking parts is controlled by a separate consortium of companies.

BTC project supporters are aiming for the financing of the pipeline system to have been arranged by early 2003, but the structure of this financing is already taking shape. BP talks confidently of the pipeline being funded by a 30% equity/70% debt

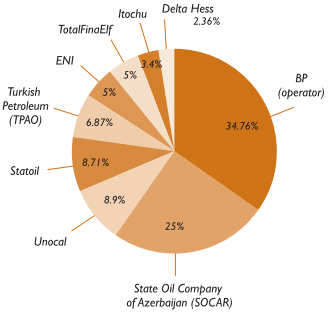
The web of companies involved in AGT

(NB Nationalities of parent companies are given below, rather than locations of office working on the AGT pipelines project)



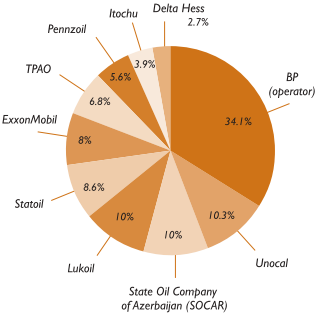
Oil companies investing in the pipelines

Baku-Tbilisi-Ceyhan oil pipeline
Sponsor Group / BTC Pipeline Company



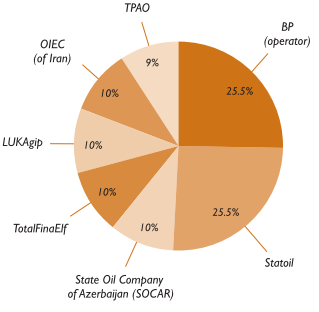
Azeri-Chirag-Guneshli oil fields

These fields are intended to be the main supply of crude oil to the BTC pipeline. They are controlled by Azerbaijan International Operating Company (AIOC), comprising:



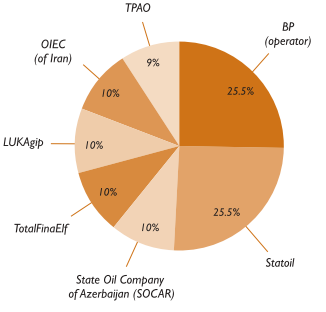
(Not all these companies support the BTC pipeline route).

South Caucasus Pipeline (SCP, gas)
Partners:



Shah Deniz gas field

This field is intended to be the main supply of crude oil to SCP.
The Shah Deniz consortium is the same as that which controls the SCP:



arrangement. This means that 30% of the finance would be provided by the members of the Sponsor Group of the BTC oil pipeline, while 70% would be provided by loans from banks, supported, bolsetered and guaranteed by public, taxpayers' money – most likely through the International Finance Corporation (an arm of the World Bank), the European Bank of Reconstruction and Development and national export credit agencies (see below). This gives these banks and international financial institutions a strong degree of influence, not to say control, over the project.

INTERNATIONAL FINANCIAL INSTITUTIONS' INVOLVEMENT IN THE AGT PIPELINES SYSTEM[29]

BP and its partners intend that the US$ 3.3 billion cost of the Baku-Tbilisi-Ceyhan pipeline should be primarily financed (70%) from loans provided by International Financial Institutions such as the European Bank for Reconstruction and Development (EBRD) based in London and the International Finance Corporation (IFC). (The other 30% of the finance would come from the partner companies).

Public money

International Financial Institutions (IFIs) like the World Bank, the International Monetary Fund and regional development banks like the EBRD, and Export Credit Agencies, wield enormous influence in the world. These taxpayer-funded institutions lend billions of dollars every year, financing projects and economic programs in poorer nations around the world. But they operate with much secrecy and little accountability. Many of the projects and economic programs they finance are environmentally destructive and fail to provide real development benefits to the world's poorest people. The big banks are run by governments whose voting power is proportional to the amount of money they put in, so rich countries have the greatest influence, even though the banks are supposed to reduce poverty and support sustainable development.

Multilateral Development Banks

The International Finance Corporation (IFC) is a member of the World Bank Group and is headquartered in Washington, DC. Like the rest of the World Bank, it exists to provide development finance, especially to the developing world, but unlike the main section of the Bank it specifically finances private sector projects. In fact it is the largest multilateral source of loan and equity financing for private sector projects in the developing world. IFC generally operates independently of the rest of the World Bank, as it is legally and financially autonomous with its own Articles of Agreement, share capital, management and staff.

Headquarters of the International Finance Corporation, Washington DC (Carol Welch, Friends of the Earth US)

IFC's investments are funded out of its net worth: the total of paid in capital and retained earnings. It raises most of the funds for its lending activities in the international financial markets through bond issues. Since its establishment in 1956, IFC has committed more than US$ 30 billion of its own funds and has arranged $20 billion in additional syndications for clients. Each member country is represented in IFC board and voting power is strictly connected with the shares that each country has. Therefore the G8 and few other industrialised countries control the majority of IFC board.

The European Bank for Reconstruction and Development (EBRD) was established in 1991, to finance new private sector development in the recently ex-Soviet countries. It now works in 27 countries from

central Europe to central Asia, and is the largest single investor in the region. It is owned by 60 countries and two intergovernmental institutions. Like the IFC, it invests mainly in private enterprises, usually together with commercial partners. It provides project financing for banks, industries and businesses, both new ventures and investments in existing companies. It also works with publicly owned companies, to support privatisation, restructuring state-owned firms and improvement of municipal services.
The Bank uses its close relationship with governments in the region to promote policies that will bolster the business environment. EBRD has a similar financial structure to the IFC board and voting system

Export Credit Agencies

Export credit agencies can be both public or private bodies. The public ECAs are run by national governments and use public money to provide exporters and their banks with insurance and guarantees against different types of risk, such as political risk, currency risk or breach of contract by a foreign government or contractor. Some ECAs also provide debt and equity. The official ECAs generally cover risks that the private sector is unwilling to bear.

Broadly, export credit guarantees work as follows. Where a company deems there is a risk of not being paid for the goods it supplies to an importer abroad, it contacts its national ECA and takes out an insurance policy, for which it pays a premium. The ECA then undertakes to pay the exporter for the exported goods should the importer default on payment. The ECA in turn almost always insists on the government of the importer giving a counter-guarantee whereby it takes over the debt from the ECA. In the event of a default, the ECA's loss therefore gets added to the stock of bilateral debt owed to the ECA's home government. Ultimately, therefore, it is the poor of the South who end up paying the bulk of the bill for failed ECA-backed development projects. Because ECA debt is charged at commercial rates, it is particularly onerous for poorer countries. ECAs are the source of 24% of developing country debt and 56% of debt owed to official agencies. In the case of the UK, 95% of the debt owed by developing countries to the UK government is in the form of export credit debt.

Export credit agencies are the largest source of public finance for private sector projects in the world. In 2000, export credit agencies supported $500 billion in guarantees and insurance to developing countries and $58.8 in export credits. By contrast, the combined total of all the loans made by Multilateral Development Banks, such as the World Bank, was $41 billion.

International Finance Institutions and fossil fuels

All of the IFIs devote significant shares of their annual loans, investments and guarantees to fossil fuel projects. It is estimated that in the period 1995-1999, IFIs allocated around US$55 billion to projects in these sectors (not including fossil fuel thermal generating plants). However, the quality of publicly accessible data is such that it is difficult to make a precise estimate. It should be noted here that public IFIs leverage other sources of capital, which adds significantly to the total amount of investments in these sectors.

Between 1994 and early 1999, oil and gas development projects and power projects using fossil fuels made up nearly 40% of project and trade finance flows to developing countries; ECAs accounted for 20% of this financing. Friends of the Earth International and other civil society

groups are calling for all International Financial Institutions (IFIs) and Export Credit Agencies (ECAs), to phase-out their financing of fossil fuel and mining projects within a period of five years. Current IFI lending practices in these sectors do not contribute to the eradication of poverty and the creation of sustainable societies, as they disregard the finite nature of natural resources and exacerbate rather than ameliorate inequities. This phase-out should cover all phases of the fossil fuel and mining cycles: prospecting, exploration, test drilling, exploitation, as well as construction of related infrastructure such as pipelines and roads, and any financial and regulatory advice or programs by IFIs that favour such projects.

International Finance Institutions and the AGT project

Investment *guarantees and export credits (government-backed insurance to companies against defaults on payment) are also expected from various national export credit agencies (ECAs) and from the World Bank's Multilateral Investment Guarantee Agency (MIGA).*

The banks and ECAs would give financial support from funds generated from public money – in effect, from European and US taxpayers' money. In November 1988, BP boss John Browne stated that the BTC/AGT project would not be possible unless "'free public money' was offered by government to build the line."

In October 2001, the partner companies sent a preliminary informative memorandum on the project's financing requirements to the IFC, EBRD and leading ECAs. Both IFC and EBRD have informally indicated a willingness to provide financing (see Timeline). It is expected that each of these would provide US$ 300 million. MIGA is reportedly being asked for $200 million in political risk insurance to cover the commercial banks lending to BP (these have not been named yet – BP would use the insurance to solicit commercial bank loans). US export credit agency OPIC has been approached for $300 million in political risk insurance and some European ECAs are also expected to get involved.

What does this extended web of interconnecting companies mean for establishing responsibility if something goes wrong?

When BP's involvement in human rights abuses in Colombia was uncovered (*see* Chapter 11), it ensured the sacking of Roger Brown, a manager of BP's security contractor, Defence Systems Colombia (DSC), and publicly blamed Brown and DSC for any malpractice.

In the North Sea (*see* page 144), outsourced engineering, geological, construction and other contractors are forced to bid for contracts with BP; generally those with the lowest costs get the work. As a result, pay, conditions and safety are far worse for employees of contractors (over 80% of the North Sea workforce) than for those directly employed by BP.

It is a complex web of companies and institutions that drives forward the pipelines project, that creates the sheer momentum of AGT and that helps to manage public opposition. Let us consider this complex web in the context of the leaflet reproduced at the front of this publication which was a key tool in the process of conducting interviews in villages in Azerbaijan as part of the environmental and social impact study.

London headquarters of Lazard Bros. investment bank providing advice to BP on financing of BTC (Pallab Chatterjee / Friends of the Earth)

Consider the chain of responsibility in the consultation process of the AGT pipelines system. The person who conducted the interviews as part of the Environmental and Social Impact Assessment may be employed by the Baku-based firm, Synergetics. This company is in turn contracted by ERM. ERM-Baku is itself a subsidiary of ERM in London, which has gained the contract for this work from BP Exploration Azerbaijan. BP Azerbaijan is itself a subsidiary of BP plc in London. BP plc is the operator of the pipeline projects on behalf of the Sponsor Group of the BTC pipeline and the project partners of the South Caucasus Pipeline, to whom it is, to some degree, answerable. The Sponsor Group of the BTC pipeline and the project partners of the South Caucasus Pipeline are only the minority financiers of the planned projects, however, and thus have to negotiate with the major financiers, most likely the International Finance Corporation and the European Bank of Reconstruction and Development, together with any national Export Credit Agencies which have been approached for support.

When the affected villager in Azerbaijan talks with the interviewer who hands him or her a copy of the leaflet, does he or she realise that they are not really talking to the company, not really talking to 'the people who are building the pipeline'? And as for the employee of Synergetics who conducts the interviews, how much does this person know of the true nature of the web that they are representing? How much does this employee feel personally responsible for what he or she is representing? And how much anxiety does the employee feel about the possibility of things going wrong, of the pipeline having an adverse environmental and social impact?

We can aid our own understanding of the possible adverse social and environmental impacts of the pipelines system by considering the stories and reports of BP's practices in other pipelines and in the Caspian region. These are the topics of the next chapters.

Chapter 7

The tale of three pipelines

Learning from experience

June 2002. BP and its partners publish in English a 26-page booklet, entitled 'Between two seas', about the Baku-Tbilisi-Ceyhan (BTC) pipeline. The booklet is colourful and has plenty of pictures. Of the 73 photographs in the booklet, only 28 show pipeline construction techniques, pipeline infrastructure, or pre-construction activities. The other 45 photos show landscapes and communities along the route of the BTC pipeline. The booklet has a warm, reassuring feel.

"Once commissioned, and with the land above carefully reinstated, the BTC pipeline will deliver crude oil – unseen and unheard – without interruption and with little or no impact on the everyday lives of people living nearby", the booklet promises.

The booklet attempts to make us imagine the BTC pipeline, to imagine it in the terms BP offers us.

BP has a 90-year history of running pipelines (*see* Chapter 2), an experience that certainly informs senior staff as they imagine and plan the Azerbaijan-Georgia-Turkey pipelines system. To assist our imaginations and to widen our knowledge, we need to look closely at some pipeline projects which have gone beyond the planning stage and now exist. We shall compare the proposed AGT pipelines system with three other BP pipelines that have some correspondence to the issues faced in the countries that AGT would cross. We have chosen to study BP's three biggest existing pipeline systems: the Trans-Alaska Pipeline System (TAPS, also known as Alyeska after the operating consortium) in the USA, the Forties Pipeline System (FPS) in Scotland, and the Oleoducto Central pipeline system (OCENSA) in Colombia.

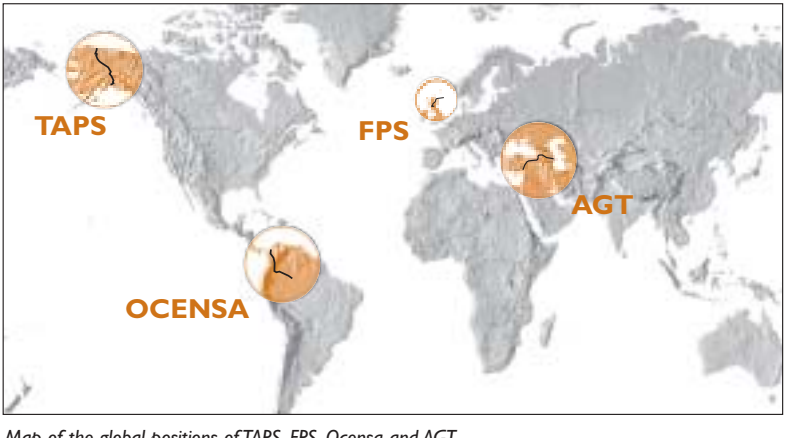
	TAPS	FPS	OCENSA	AGT
Oil & gas fields	Prudhoe Bay (oil) plus 18 other producing oilfields	Forties (oil) plus 31 other offshore oil fields	Cusiana (oil) Cupiagua (oil) plus 13 other oil fields	Azeri-Chirag-Guneshli (oil) Shah Deniz (gas) plus 16 other confirmed oilfields (2 of which BP-operated) and 2 confirmed gasfields (both BP-operated)
Shore terminal	N/A	Cruden Bay (north of Aberdeen)	N/A	Sangachal (south of Baku)
Pipeline length	1,287 km (800 miles) Alaska North Slope to Valdez	169 km (106 miles) Forties field to Cruden Bay (offshore) 482 km (300 miles) Cruden Bay to Kinneil (onshore)	837 km (520 miles) El Yopal – Segovia – Coveñas	**Baku-Tbilisi-Ceyhan (BTC)** (oil): 1,750 km (1,087 miles) **South Caucasus Pipeline** (gas): 1,000 km (621 miles) Baku-Tbilisi-Erzurum
Capacity	1.2m barrels per day (bpd)	630,000 bpd 1975–1993 950,000 bpd after 1993	500,000 bpd	**BTC:** 1m bpd **SCP:** at least 20m cubic metres of gas per day[a]
Tanker terminal	Valdez	Hound Point	Coveñas	Ceyhan (Yumurtalik)
Refinery	US west coast	Grangemouth	US east coast	Mediterranean coast, other Europe
Pipeline construction dates	April 1974–June 1977	mid-1973–Nov. 1975 Upgrade Sept. 1990 – Oct. 1993	Dec. 1995–Aug. 1997	**BTC:** (planned) early 2003 – end 2004 **SCP:** (planned) 2004–2005
Pipeline construction costs (in nominal terms)	US$ 7.7bn	**Construction:** £750m (US$ 1.8bn) (including offshore platforms and terminals as well as pipeline) **Upgrade:** £165 million (US$ 260 million)	US$ 2bn	**BTC:** US$ 3.3bn **SCP:** US$ 1bn
Contractors	Fluor Daniel	Bechtel **Upgrade:** Brown & Root, Trafalgar House/John Brown	SAIPEM Techint	Bechtel Botaş
Consortium/ joint venture company name	Alyeska	N/A	OCENSA	**BTC:** BTC Pipeline Company (BTC Co) – established in summer 2002, from Sponsor Group, as it was previously known. **SCP:** SCP Owner Group – to be formed from SCP Partners

a Estimates vary between 20 and 80 million cubic metres.

	TAPS	FPS	OCENSA	AGT
Current % holding by BP	50.1%	100%	15.2%	**BTC:** 34.8% **SCP:** 25.5%
% holding by other companies	Phillips (26.8%), ExxonMobil (20.3%), Amerada Hess (1.5%), Unocal (1.4%)	N/A	Enbridge (24.7% – operator) Ecopetrol (35.3%) Total (15.2%), Triton (9.6%)	SOCAR (25%), Unocal (8.9%) Statoil (8.71%), TPAO (6.87%) ENI (5%), TotalFinaElf (5%), Itochu (3.4%), Delta Hess (2.36%) **SCP:** Statoil (25.5%), SOCAR (10%), TotalFinaElf (10%), LUKAgip (10%), OIEC (10%), TPAO (9%)

A careful comparison between the summaries of the three existing pipeline systems and AGT reveals several understandings. For example, AGT is BP's longest, most expensive and most valuable pipeline system to date, measured in terms of its projected oil throughput. The physical conditions in which the pipeline is to be constructed are less daunting than those in Alaska, but the political conditions are particularly complex, which accounts in large measure for AGT's unusually long pre-construction phase.

But these bald facts and figures still do not come to the heart of the matter. BP informs itself from its experience, and its experience is built up of stories. We aim to bring some of these stories from other pipelines to bear on the prospects for the AGT pipelines system.



Map of the global positions of TAPS, FPS, Ocensa and AGT

Chapter 8

Neutron John

Would the states of Azerbaijan, Georgia and Turkey benefit from the AGT pipelines system?

BP Chief Executive Officer John Browne has celebrity status in the oil industry, in the financial world of the City of London and in business generally. In November 2001, he won for the third successive year the "Britain's Most Admired Leader" award, as judged by a survey of business leaders in the journal, Management Today. He won an enormous 30% of the vote, compared to 12% for the second-placed Chris Gent of Vodafone.[30] *Within BP, he is almost revered. He is the voice of the company, its strategist and its personality – and he plays a more central role in the corporation than the chief executives of most rival oil companies.*

One of the things that distinguishes John Browne as a successful corporate leader is his ability to cut a favourable deal for his company, especially in relation to the governments who license oil and gas resources and infrastructure in their territory. Under Browne's leadership, BP has acquired a reputation for its effectiveness in cutting its tax bill, in reducing its payments to host governments.

John Browne, who plays his pivotal role in the Azerbaijan-Georgia-Turkey (AGT) pipelines development, has at least 20 years' direct experience of successfully reducing BP's state tax bill. What is the likelihood of the states of Azerbaijan, Georgia and Turkey getting a good deal out of BP and John Browne, for the 40 years of the AGT pipelines system?

John Browne, the accountant

ALTHOUGH Browne started his career as a geophysicist and engineer, he soon became involved in the financial aspects of the business, and it is in this area that he has made his name. He once commented in an interview: "It gave me a deeper appreciation of why companies existed. Financing is the ultimate thing that

John Browne, Chief Executive Officer of BP. "He has an interesting smile", according to oil analyst Fadel Gheit. "You don't know if he's going to have you for lunch." (Jim Winslet/Financial Times)

brings resources together, the opportunities, the people, the ideas, the creativity. It is all glued together by the flow of finance."[31]

Many of his positions in the company have been financial: in 1984, he was appointed Group Treasurer and set up BP Finance, the 'bank within BP'. He subsequently became Chief Financial Officer of the Standard Oil Company of Ohio (SOHIO) when BP bought SOHIO's remaining shares (it already owned a majority). According to his friend and predecessor as BP Chief Executive, David Simon, Browne is "very strong on the numbers side, financially extremely astute, but the same also goes for the technological side. He understands geopolitics and has got the nose for a deal."[32]

It was in 1983 when Browne's talents came to be noticed by those higher up in the company, that he began to climb the heady ladder of the very top management jobs and that he began to be tipped as a future chief executive. He had recently come

back from a series of postings in the USA and was now a commercial manager in BP's North Sea operation, centred on the Forties field and the Forties Pipeline System (FPS, *see* map on p151).

Browne's coup while managing the Forties field was in spotting a loophole in the fantastically complicated regime of North Sea oil taxation. Browne spotted that because of the way the tax system worked, BP could sell some of the more productive 'units' of its flagship Forties field to independent exploration companies, which would be able to operate the fields at lower tax levels than BP could. The independent companies benefited by cutting their tax bill. BP benefited by selling the units for more than they were worth as BP assets. It was the taxpayer who lost out. The scheme netted BP a windfall of £200 million at the expense of the UK government.[a]

The sale of these 'units' was managed by Lazard's, the investment bank which is now advising BP on the financial aspects of its Baku-Tbilisi-Ceyhan pipeline (*see* Chapter 6).

John Browne, the lobbyist

BP's three decades in the North Sea have really been defined by the company's ability to reduce its tax bill. Its second major coup was in 1993 when the Conservative government of John Major slashed its North Sea tax take. At the time, John Browne was head of BP's global Exploration and Production division and, along with then BP chief executive Bob Horton (until 1992)[33] and subsequent CEO David Simon, Browne had been lobbying hard for a change to the tax rules.

a The tax rules allowed companies to offset their expenditure on exploration drilling against the tax they paid on the oil they extracted (Petroleum Revenue Tax, PRT). PRT was calculated across the whole of a company's UK North Sea operations, so the exploration cost wasn't just recouped from any subsequent production arising directly from it; rather, companies could offset all of their exploration costs against their total North Sea tax payment. The measure had been designed by the UK government as an incentive for oil exploration, so as to keep North Sea oil reserves growing by finding new oil.

[The term 'reserves' refers to the subset of oil and gas resources which have been found and are economically exploitable at current oil price and state of technological development. Thus while the amount of 'resources' remains constant (they are always there), the amount of 'reserves' can grow through either successful exploration or development of new technology to make new resources accessible or affordable.]

But Browne spotted that this measure could be exploited by an asset reallocation. There are basically two types of oil companies operating in the North Sea: those like BP which both explore for oil and subsequently extract it (holding licenses on any resources discovered), and smaller, independent companies that are engaged only in exploration; who always sell on any fields they find rather than extracting the oil themselves. Without any oil production of their own, these latter exploration companies did not pay any PRT (since it was a tax on revenue from the oil produced), and so bore the whole cost of their exploration. BP, in contrast, had large producing fields and spent more in PRT (taxed on its production) than it did in exploration.

Construction of the onshore section of FPS, just south of Stonehaven, northeast Scotland, July 1973 (Press and Journal: Aberdeen)

The UK government cut petroleum revenue tax (PRT) in 1993 on existing oilfields from 75% to 50%, and abolished it altogether for fields developed after that date. BP was widely declared as the biggest winner from the move, and its share price immediately rose by 6.4%,[34] while analysts predicted that profits would be boosted annually by £130–140 million.[35] (US$200–220) Chief Executive David Simon welcomed the changes as "a long-sought and fundamental structural reform".[36]

FPS had played a central role in BP's planning and consequent lobbying efforts for the changes, thus continuing to influence government policy almost 15 years after its construction – 15 years after the pipeline sank from public view.

At the beginning of the 1990s, BP had needed to upgrade and replace FPS, while Shell needed to renew its FLAGS[b] pipeline, the second biggest pipeline system in the UK North Sea after FPS. These two pipeline systems accounted for the majority of the income of the two companies in the North Sea.

The problem for the upgrade plans had been that production from the two large mature oilfields (BP's Forties and Shell's Brent) which fed the pipeline systems was

b Far North Liquids and Gas System.

declining, so the pipeline systems were not generating enough income to finance the upgrades. In order to achieve the necessary income, the companies needed to tie in production from smaller fields surrounding Forties and Brent.

But the old tax regime, where exploration expenditure was offset against PRT (although John Browne had exploited it for BP's one-off windfall in 1983) had militated against this possibility for the two companies. Because the government had set up a regime which had incentives for exploration (in order to boost North Sea reserves), that regime had contributed to new oil being found all over the North Sea, away from the two major pipelines. Now BP and Shell wanted North Sea oil activity to be refocused around their two pipeline systems, so that they could continue to profit from their investments in them. This refocusing was achieved when the government:

- *cut the tax payable on the two mature fields (the reduction from 75% to 50%),*
- *cancelled petroleum revenue tax altogether on new fields (so that the smaller fields surrounding Forties and Brent became viable) and*
- *removed the exploration offset (and so removed the incentive to explore elsewhere in the North Sea).*[37]

In their landmark chronicle of the North Sea oil industry, the three Scottish researchers Charles Woolfson, John Foster and Matthias Beck[c] speculate as to events after John Major's replacement of Margaret Thatcher as prime minister in summer 1990, and Michael Heseltine's arrival at the Department of Trade and Industry:

> *"It is not unduly fanciful to suggest that among the first callers on Michael Heseltine, either separately or together, would have been senior managers from BP and Shell… Precisely whether such exchanges took place directly with Heseltine, whether they occurred before or after Thatcher's fall from power, or whether they occurred at a much more remote level, is somewhat immaterial. Such perspectives did exist at senior management level in the UK oil majors, and it is clear that the period 1990 to 1992 saw a critical change of course in UK energy policy… It matched very closely the particular needs of BP and Shell".*[38]

Thus BP's decision in 1991 to upgrade the Forties Pipeline System may have rested on changes in government North Sea policy that were to result in drastic cuts in the Treasury's tax take.

As well as his financial astuteness, John Browne is also renowned for his toughness in negotiation – and for making sure he knows the subject better than whomever he

c Charles Woolfson is Senior Lecturer in Industrial Relations, University of Glasgow; John Foster is Professor of Applied Social Studies, University of Paisley; Matthias Beck is Lecturer in Economics, University of St Andrews.

is dealing with. "He's a dangerous man to talk to if you don't know what you're talking about", commented Fergus McLeod of BT Alex Brown, the oil industry's top-rated financial analyst.

"He has an interesting smile," adds Fadel Gheit, an oil analyst with Fahnestock & Co. in New York. "You don't know if he's going to have you for lunch." [39]

He has earned the nickname 'Neutron John' for his toughness and his ability to knock down costs while leaving assets still standing. And he blows apart tax payments just as much as any other cost.

The North Sea tax giveaway

WITH the 1993 tax changes, the UK became the second most generous (to companies) oil tax regime in the world after Ireland.[40] The symbolic effect of the change cannot be underestimated – it effectively handed over the UK's remaining oil resources (ie all fields developed after 1993) to the companies for free, with no requirement for the companies to pay the British state or people for what they took away.

HOW STATES OBTAIN INCOME FROM THEIR OIL AND GAS RESERVES

- *Share of production: the state (through a nationalised oil company) is a member of the consortium which develops the fields; it therefore provides its share of the capital and of running costs, but gets to own a share of the extracted oil and gas, which it then sells for a profit. For example, the state of Azerbaijan has a 10% stake in the Azeri-Chirag-Guneshli fields, so provides 10% of the costs but receives 10% of the oil extracted.*
- *Royalties: a percentage of the value of the resources extracted is paid to the state.*
- *Revenue taxes: a percentage of the profits earned from the oil extraction is paid to the state.*
- *Corporation taxes: oil companies pay the same taxes on business profits as any other companies. This does not charge them for their oil or gas, but is simply a standard business tax (although there may be oil-specific complications in accounting rules: for example, in the UK payment of revenue tax and royalties is counted as a cost, thus reducing the taxable profits).*

In the UK, as in most of the rest of the world, the state owns the oil and resources within its national boundaries. Oil-producing countries generally take a share of the

oil through mandatory state participation in joint venture contracts, and 'charge' the oil companies for the share that the companies take, through the mechanisms of royalties and petroleum taxation. The UK, however, never managed to achieve mandatory state participation: following a manifesto commitment to state participation in the 1974 general election, the Labour government failed to impose it – at a time when the greatest developments in the North Sea were occurring.

The subsequent Conservative government under Margaret Thatcher abolished royalties on new fields developed after 1982, leaving Petroleum Revenue Tax as the last remaining payment to the government for the oil that companies extracted. The abolition of PRT in 1993 thus in effect gave oil companies the right to extract oil from new fields and pay the state nothing for it. On fields developed since 1993, oil companies now paid corporation tax only, the tax that all companies pay on their profits for doing business in the UK (and even this was cut under the current Labour government from 33% to 30%).[41] Companies thus extracted oil, took it away and sold it, giving no part of the revenue back to the government.

North Sea oil industry profits almost doubled between 1988 and 1999, from £7.5 billion to £13 billion (US$ 12 billion to $20 billion), while over the same period, government oil revenues dropped from £3 billion (41% of industry profits) to £2.5 billion[d] (20%) (US$ 4.7 billion to $3.9 billion).[42]

In 1997, recognising the oil give-away, new Labour Chancellor of the Exchequer Gordon Brown, who is responsible for the state's finances, began exploring options to raise North Sea taxation. The subsequent lobbying campaign he faced was one of the biggest the country has ever seen. The oil industry argued vigorously that, given the hostile technical environment of the North Sea, the companies would have no choice but to pull out of the UK if tax was raised – and they knew the government would not risk that. BP in particular threatened to withdraw. At a conference in September 1997 on the oil industry and government policy, BP's Dick Olver (*see* page 137) said:

> *"Any fiscal change is likely to alter the way in which oil companies view the attractiveness of the opportunities and options still existing in the North Sea… In the context of this fiscal review any change in UKCS [UK continental shelf] taxation would be assessed not only from the standpoint of individual BP North Sea assets, but also from the totality of our global operations. If the impact*

d Government North Sea tax receipts now come from: corporation tax, PRT from fields still in operation but developed before 1983, and royalties from fields still in operation but developed before 1982.

were neutral, a likely consequence would be sustained or quite possibly increased activity. But if harmful, action would be required to mitigate the detrimental effects and ensure that neither profitability nor shareholder returns were damaged overall."[43]

To give substance to its threat, BP suspended development of its Clair field, west of the Shetland Isles, while Gordon Brown's review was taking place.

Yet, at exactly the time that BP and other North Sea oil companies were 'talking down' the viability of the North Sea,[44] oil companies voted the UK as their favourite country in the world in which to invest for two successive years, 1997 and 1998.[45] This is unsurprising given that, besides its political stability, and supportive and predictable government policy (the UK's 'investment virtues' are commonly claimed to offset its high costs), the UK is also one of the most profitable oil provinces in the world, with a profitability 1.6 times higher than the average for the rest of the world. Indeed, BP's own profitability in the UK in 1997 was twice as high as its non-UK profitability.[46]

Perhaps Gordon Brown was unaware of the full extent of North Sea profitability when he announced in September 1998 that he wouldn't change the North Sea tax regime after all. Three and a half years later, in April 2002, Gordon Brown did sneak in a 10% increase in corporation tax for companies operating in the North Sea, a change which BP claimed would cost the company about £120 million a year.

Still, this wasn't as bad for BP as they asserted. Firstly, the move increased corporation tax for North Sea oil operations from 30% to 40%, having been cut in the late 1990s from 33%. So the change was in fact only a 7% rise over 1997 levels. According to Ian Rutledge, an energy economist at Sheffield University, "Britain has had the weakest fiscal regime in the world, and this will bring us more into line with international standards. I think the oil industry can easily put up with this, although they may make a bit of a hoohah about it".[47] The tax changes also granted allowances for companies to offset taxation against the increase in their investment expenditure.

Secondly, the Chancellor also suggested that he might abolish royalties in future to offset the impact of the 10% rise in corporation tax, and as at July 2002 this outcome looks likely. Total government royalties revenue for the North Sea (from fields developed before 1982, but still in operation) was £600 million in 2000/01,[48] roughly 30% of which would have been paid by BP.[49] Thus, depending on the outcome of the ongoing royalties negotiations (and BP will certainly be lobbying hard for their abolition), the April 2002 tax changes could end up being neutral, or even beneficial, for BP.

The shrinking UK tax regime

Since the establishment of the UK petroleum tax regime in the 1970s, there have been three major changes to it, in 1982, 1993 and 2002. Since the first two of these treated fields developed after the changes differently from those developed before, there are three main types of oilfield, charged tax in different ways: those given development consent before the 1982 announcement, those given development consent between the 1982 and 1993 announcements, and those developed after 1993.

Royalties as % of value of oil extracted, less allowances for some of landing costs, Petroleum Revenue Tax (PRT) and Corporation Tax (CT) as % of profits.

	Production share	Royalties	PRT	CT
Pre-1982 regime				
All fields	0	12.5%	75%	33%
1982-1993 regime				
Fields developed pre-1982	0	12.5%	75%	33%
Fields developed 1982-1993	0	0	75%	33%
1993-2002 regime				
Fields developed pre-1982	0	12.5%	50%	33%
Fields developed 1982-1993	0	0	50%	33%
Fields developed post-1993	0	0	0	33%
2002 regime				
Fields developed pre-1982	0	0[e]	50%	40%
Fields developed 1982-1993	0	0	50%	40%
Fields developed post-1993	0	0	0	40%

Colombian capers

BP's reputation for reducing its tax bill has spread across its operations, not just in the North Sea. It followed the same patterns of tax avoidance and anti-tax lobbying in the two other big projects which have been integral to John Browne's career: those in Colombia and Alaska.

In Colombia, BP and other oil companies put heavy pressure on the government throughout the 1990s to reduce oil tax, royalties and state participation through state oil company Ecopetrol. These efforts all paid off when the Mines and Energy Ministry modified contracts in October 1997 so as to provide incentives for exploration and natural gas production. For unexplored areas, Ecopetrol's share of production could be reduced from 50% down to anything between 25% and 50%, largely on the companies' own terms. BP approved:

e Probable

"BP trusts that these changes will help Colombia maintain its levels of self-sufficiency and attract an influx of foreign investment. This is an important step to improving the competitivity of the sector… It is very positive that Colombia is working to incentivise the production of hydrocarbons."[50]

In 1999, deeper changes were made. While the 1997 cuts had related only to unexplored areas, and allowed a negotiable rate between 25 and 50% in those areas, in 1999, the mandatory production share was cut across the board to 30%. The measures also included royalty relief.[51] A week after the changes were finally approved in July 1999, Ecopetrol president Carlos Rodado Noriega flew to London for discussions with BP and other companies on further investments.

BP has been, perhaps, the most aggressive oil company in Colombia when renegotiating terms for individual projects. As the country's largest foreign investor, it has a lot of clout. In 1996, BP – by now with John Browne at the helm as Chief Executive – threatened to pull out of three contracts in the Piedemonte area if its terms were not improved.

Then Energy Minister Rodrigo Villamizar sided with BP. Some Colombian commentators interpreted this as BP taking advantage of the government's weakness following a corruption scandal in which then President Ernesto Samper was alleged to have taken election campaign contributions from drug traffickers. The Comptroller General[f] accused BP of "taking advantage of the current political crisis to make demands that go against national interests".[52] Eventually, Congress overruled Villamizar, accusing BP of "blackmail".[53] BP did not give up, however.

In February 1998, BP announced that it would pull out of the Piedemonte area for "security reasons". The head of the Colombian Congress, Senator Amilkar Acosta, commented that "Something's very fishy here. This is a smokescreen. The serious thing is that BP is trying to manipulate information."[54] The Colombian government was desperate to persuade BP to reverse its decision, and two months later, Ecopetrol had developed new contract terms, taking a smaller proportion of tax and giving a longer contract. It offered BP the chance to hand back 75% of the area covered by its licence in exchange for the more favourable terms on the remaining 25%.

Discussions moved slowly, and by September 1998, the Colombian government had begun talking with BP about speeding up development of three gasfields within the Piedemonte block. The government needed a gas pipeline from the area, and

f The head of Colombia's principal agency responsible for the national system of fiscal control

therefore a large investor such as BP to build it.[55] In October 1998, BP accepted an offer from the government and began plans to develop the fields. By early 2000, BP had a proposal for a fast development plan in place; in March of that year, Ecopetrol eased the terms of its contract once again, finally accepting what BP had proposed back in 1998.[56]

At it in Alaska

SIMILAR, patterns are seen in the Trans-Alaska Pipeline System – the project on which John Browne worked for the first decade of his career. The journal *Multinational Monitor*, has reported that TAPS has been found to have overcharged the Alaskan government in transport fees for carrying the state's share of the oil and to have underpaid royalties on the companies' share. In 1991/92, the State of Alaska brought charges against the Alaskan oil companies that the companies had undervalued their oil and overvalued transportation costs. BP settled out of court for US$ 185 million and ARCO for US$ 287 million.[57]

Even this payment was only a fraction of what the companies had gained from their financing arrangements. A report by a former oil and gas specialist in the Alaska governor's office found in 1993 that Alyeska (the pipeline consortium led by BP) had overcharged transport fees by more than US$ 2billion, an amount which would grow to an estimated $11.7 to $22.1billion by the year 2015.[58]

In a separate case, BP and other oil companies were also prosecuted by the US Department of Justice under the False Claims Act, for having underpaid royalties for oil produced on federal and Indigenous lands since 1988. BPAmoco agreed in April 2000 to pay US$ 32 million, to the US government and to the whistleblowers who had filed the original complaint, to settle the case. The case related to royalty underpayment across the whole of the USA, but the biggest share was in Alaska.

It is not just the federal and state governments that lost out so as to keep up the profitability of the Trans-Alaskan pipeline companies. In late 2000, the Oregonian newspaper gained access via the US Freedom of Information Act to 4,000 pages of documents from the files of the Federal Trade Commission on BP's 1999–2000 take-over of ARCO. These showed that BP was selling oil to Asian refineries at prices lower than it was selling to US refineries on the West Coast, in order to create a US oil supply shortage. The Commission had uncovered e-mail messages sent between BP managers who talked about "shorting the WC [West Coast] market" in order to "leverage up" the prices there.[59]

BP, the tax avoider

ONE problem for government finance departments trying to tax multinational businesses is that these corporations move their profits around the world to the country of least taxation or to where the rules are most favourable to them. In March 2000, UK Chancellor Gordon Brown attempted to restrict multinationals' ability to do this by requiring British companies' profits to be taxed in Britain rather than overseas. He faced an uproar from business, led by Peter Wyman, the senior UK tax partner at BP's accountants, PricewaterhouseCoopers.

John Browne, BP's chief executive, weighed in, too. He remarked to *The Observer*, with what the national newspaper described as uncharacteristic bluntness: "This is very bad for business. It came totally out of the blue. And it should be scrapped".[60] The lobbying effort was successful. In June, three months after the new rules were announced and just two weeks before they were due to be implemented, the UK Treasury backed down, and announced that the rules would only apply to companies recording profits in offshore tax havens (such as Bermuda and the Cayman Islands).

BP used its multinational status to exploit another tax loophole in 1998, in its merger with Amoco, a move which this time cost the UK government US$ 800m. The loophole allowed companies to avoid stamp duty reserve tax.[g] The Inland Revenue complained that BP had not used the law "as Parliament intended", and the Treasury immediately closed the loophole after the BP merger to prevent other companies following its example.[61] John Browne was the main architect of that merger deal, but accountants PricewaterhouseCoopers handled the tax aspects.

Indeed, BP is famed for its legal avoidance of tax. One oil analyst, Bruce Evers of Investec Henderson Crosthwaite, has described BP as "the master of tax charges".[62] With such an ability to keep profits in the corporate coffers rather than in the state's hands, it is hardly surprising that John Browne is held in high regard by the finance sector. What is more surprising however is that he is not held in lower regard by the governments whose money he has stripped by helping his company reduce its tax bill.

g Stamp duty reserve tax (SDRT) is a tax on transfers (purchase and sale) of company shares. Since 1969, transfers of shares denominated in a foreign currency and held in a depositary or clearance system were exempted from SDRT.

THE PAST INFORMS THE FUTURE

Host state incomes in the AGT pipelines project[63]

Azerbaijan, Georgia and Turkey see future oil and gas revenues – from taxes, shares of resources and pipeline transit fees – as a means of bringing them prosperity. But how much prosperity would they really achieve?

A common thread running through BP's three biggest existing pipeline systems – Forties (Scotland), OCENSA (Colombia) and TAPS (Alaska) – is the company's effectiveness in minimising the amount of revenue that goes to the host state: either by lobbying to change the tax system in its favour, or by using accounting techniques to minimise its tax liability.

One of the major aspects of the pre-construction phase of the AGT pipelines system has been the establishment of the commercial framework of the project, including the taxation and transit fee arrangements. Indications are that BP has obtained through these negotiations an extremely favourable deal. But would citizens of the three host nations consider the terms favourable enough to them and to their countries? What is more, can the host countries expect 40 years of ever decreasing tax take, as has happened in the UK, Colombia and Alaska?

Patience

The Baku-Tbilisi-Ceyhan (BTC) oil pipeline was first conceived in 1992, and by 1993 Azerbaijan and Turkey were already considering it their favoured option for export of Azerbaijani oil. The USA lobbied heavily that the export route should not pass through either Iran or Russia, and by 1998, the USA too was strongly advocating the route to Ceyhan.

Meanwhile BP, the leader of the AIOC consortium developing the major Azeri-Chirag-Guneshli oilfields offshore Azerbaijan, refused to commit itself to supporting any particular export option. Through 1998 and 1999, the US government put increasing pressure on BP to support BTC, but BP publicly maintained that it was not economically viable. In late 1998, BP's John Browne qualified this position with a heavy hint: BTC would not be possible unless " 'free public money' was offered by government to build the line".

By April 1999, Turkey was offering significant incentives on transit fees, and set up a working group with the companies and governments to develop a way forward. Still BP resisted, and in September 1999 a public argument broke out between BP and the US envoy to the Caspian who accused BP of blocking progress on the export route.

Finally, the following month, as intensive negotiations on the governments' terms for commercial investment were taking place with the host governments and the USA in the run-up to the

Istanbul OSCE[h] summit, BP publicly indicated cautious support for the project. BP did however add another hint with its announcement: that the project must be a commercial one rather than a political one. Heavy negotiations continued between BP and Turkey.

Even with this tentative support for the project, BP insisted that it would only be "viable" if Kazakh oil were also pumped through the pipeline. But by April 2000, after further rounds of negotiations with the governments, BP had changed its view to say that Azerbaijani oil alone would be enough. (See Timeline).

We should consider this sequence of events in the context of BP's history of withholding, or threatening to withhold, investment so as to force better terms from the governments – as it did with the Piedemonte fields in Colombia, and as it did with the Clair field in the North Sea. After all, BP was and is the biggest foreign investor in Azerbaijan (as in Colombia), and with the Amoco merger finalised in January 1999, its share of Azerbaijan's economy increased even further. And it was not just Azerbaijan that needed BP's assent. Without BP's support for the BTC route, Turkey would have gained little from Caspian oil. The US would have suffered a foreign policy setback if BP and the AIOC consortium had decided to export through Iran.

BP only began to support the project after heavy negotiations with the governments, in which the governments made concessions on the commercial framework. It seems BP made good use of its strong negotiating position, just as it did in the UK, Colombia and Alaska.

A gift

Some indication of how the governments fared in the negotiations on oil and gas transit arrangement is given by the fact that in August 2001 the World Bank pointed out that Georgia's tariffs for the South Caucasus gas Pipeline (which is intended to run alongside the BTC line, as part of the AGT system) were too low, and insisted that they be increased.

Meanwhile, on the oil pipeline, Azerbaijan agreed to forego transit fees altogether. This concession was made in order to boost Georgia's tariff, but the reason that one of the two countries had to reduce its income was that the oil companies were not prepared to pay any higher a total tariff.

The biggest gift of all, and perhaps what BP had been holding out for, came in November 1999, when Turkey agreed to guarantee the construction cost of the Turkish section of the pipeline: any cost above US$ 1.4 billion would be covered by the Turkish state. This offer was considered a great bargain for the oil companies. Some analysts estimated that the guarantee at this cost figure shaved $600 million off the project cost to the companies.

h Organisation for Security and Co-operation in Europe. It was at this summit that Azerbaijan, Georgia Turkey, Kazakhstan, Turkmenistan and the USA signed the Istanbul Declaration, committing each of the governments to actively supporting and helping to finance the BTC pipeline.

Furthermore, for a project the scale of the BTC pipeline – which is subject to complex political, economic, social and environmental tensions and possible delays – construction risk is an enormous factor. TAPS, for example, was originally planned to cost US$ 900 million, but by the end of construction the project cost had soared to $7.7 billion. Even on FPS, which did not have the unexpected delay experienced by TAPS, overspends pushed up the cost from an original estimate of £330 million (US$ 800 million) to £750 million ($ 1.2 billion).

Will the deal get worse?

On top of the question of how good a deal the host governments managed to obtain from their negotiations with BP and its partners in the first place, it should be asked whether the deal would get worse over time, during the 40 or more years of AGT's operational life.

The history of its operations in Alaska, Colombia and the North Sea illustrate how the company has used its industrial assets to drive down the host state's tax revenue long after the construction of a pipeline system, indeed throughout its period of operation. For example, as of July 2002, BP is still battling with the UK Exchequer over its tax and royalties payments, nearly 27 years after the opening of FPS.

There are already indications that Azerbaijan, Georgia and Turkey may have a similar experience to Alaska, Colombia and Britain, if the 'early oil' project is anything to judge by. For the Baku-Supsa pipeline, Georgia was expecting to be paid a port fee for the use of the Supsa port, as well as the transit fee for the land passage of the pipeline. But tankers refused to pay anything for being loaded at Supsa, resulting in an estimated loss to the Georgian state of US$ 2.5 million per year.

In June 2002 a Greek tanker was detained at Supsa, for its unsettled account, but BP intervened and forced the port authorities to release the tanker without payment, pointing to the terms of the Host Government Agreement for the pipeline. The agreement does not specify a precise arrangement for tankers: BP claims this means that tankers cannot be taxed, but the Georgian government believes no such restriction can be interpreted from the contract. BP has threatened that it will go to international arbitration if Georgia attempts to charge the tankers.

It is certain that the terms of the agreements can only move in one direction. The host governments are specifically precluded from adjusting the terms without approval from BP and the other consortium members. While BP cannot unilaterally change the contract either, it has enormous political clout to insist on such changes. Will the three host governments thus see ever worse terms from the investments in their countries? Are the governments prepared for the struggle ahead?

OIL FUNDS[64] – SHARING THE WEALTH

Many economies which are dependent on natural resources have long utilised special revenue management funds to invest proceeds from non-renewable resources for future generations, or to stabilise their economies from the fluctuations of commodity price shocks. Developed economies such as Norway and the United States have used these funds, as have developing countries such as Venezuela (oil) and Chile (copper). Increasingly, the International Monetary Fund (IMF) and the World Bank have promoted revenue management funds, particularly in oil-rich developing countries. They encouraged, for example, the Revenue Management Plan associated with the Chad-Cameroon oil pipeline (for which construction started in October 2000, and is expected to be completed in 2003), and newly-established oil funds in Azerbaijan and Kazakhstan.

These funds are a response to the pervasive corruption and massive inequality that has characterised many natural resource-rich economies, and reflect a growing awareness that decades of resource exploitation have not alleviated poverty or led to sustainable development. Oil funds and revenue management plans are meant to ensure transparency in the collection and expenditure of oil proceeds. The rationale is that enhanced transparency will lead to greater public scrutiny and therefore provide less opportunity for corruption and waste, but more incentives to spend the money wisely. Some revenue management plans, such as the one for the Chad-Cameroon pipeline, have included civil society playing a role in revenue management. For the Chad-Cameroon pipeline, two places on the nine-member committee are reserved for civil society representatives who will help decide how oil revenues are spent. The committee's effectiveness, however, is heavily compromised by a lack of staffing and budget, and the Chadian President's power to modify the spending allocations by decree.

How oil funds operate

Oil funds have not been confined to developing countries that are rich in natural resources. They are in fact modelled on funds set up in developed countries to ensure that oil receipts are managed for use during economic downturns and for investments in priority social areas. In Norway, the State Petroleum Fund has a savings and stabilisation function. When oil prices are high, the government is likely to earn a budget surplus, which could encourage high spending and potentially inflation. Budget surpluses, however, accrue to the Fund. Low oil prices, which would depress government revenue and thereby create budget pressures, can be offset by drawing on the Fund when expenditures are needed. In this way, the Fund has a stabilising effect on the economy. In addition, the accrued savings can finance priority social expenditures such as pension payments for the increased number of older people in the population.

The US State of Alaska has two oil funds: the Alaska Permanent Fund and the stabilisation fund. The Permanent Fund, set up in 1976, serves as an investment base that generates earnings for Alaskan citizens. It receives at least 25% of all mineral lease rentals, royalties, royalty sale proceeds, mineral revenue sharing payments from the federal government, and bonuses received by the state. The Fund's earnings can be spent annually, with the approval of the stage legislature and governor. Generally, a portion of the earnings is allocated annually as a "dividend" to eligible Alaskan citizens, or reinvested in the Fund. The Fund's principal cannot be spent without amending the state's constitution, which requires a majority vote of the state's population.

The stabilisation fund, set up in 1990, can be tapped if the state government runs a budget

deficit. An annual cap is set on the amount that can be borrowed, and the government must pay the amount back in years of budget surplus.

Oil funds in Azerbaijan

Azerbaijan is hoping that oil is its black gold. But the country lacks transparent and accountable governing systems, and there is no guarantee that increased revenues from oil will lead to sound investments in social sectors, infrastructure or environmental protection. The World Bank and IMF have therefore ensured that an oil fund for Azerbaijan has been set up in the hope that it will lead to sound expenditure decisions.

The Oil Fund in Azerbaijan was created in January 2001 and serves as a development/savings fund, not a stabilisation one. It is meant to spur development in non-oil sectors of the economy.

The Fund records production and sales volumes, prices, taxes and royalties. The Oil Fund will have to report quarterly in the press on total amounts, inflows received, and interest earned on the funds. Expenditures will also be reported, but expenditure outflows are in the beginning stages. Nevertheless, they are presenting complications. The Oil Fund's expenditures are supposed to come from a government approved Public Investment Programme and medium-term expenditure framework, but the government has not produced these documents. More immediately troublesome and ominous is the government's recently expressed desire to tap into the Oil Fund to finance commercial pipeline development. Specifically, the government wanted to use the Oil Fund to finance SOCAR's share of the BTC pipeline equity investments in 2002–2004.

The IMF originally wanted expenditures from the Oil Fund to be subject to parliamentary approval, but agreed to subject expenditures only to presidential approval. Parliamentary oversight over the budget is generally weak in Azerbaijan: even with the regular budget, figures are broken down only into about 25 categories. For example, overall figures for education are reported, rather than disaggregated breakdowns for primary and secondary education.

The IMF hopes that a new Supreme Audit Institution reporting to the parliament and able to audit any budgetary or extra-budgetary programme will bring greater scrutiny to the Oil Fund as well. The Oil Fund will have a board to oversee it, and the president of Azerbaijan appoints the members. Civil society representatives are not proposed as board members in either Azerbaijan or Kazakhstan.

Recommendations

The oil fund in Azerbaijan is heavily controlled by the President. The oversight bodies are given limited information on budget allocations and have little authority to make line item changes. Transparency could thus certainly be improved. It is also disquieting that the Azerbaijani government attempted to use the Oil Fund to fund commercial pipeline commitments, in direct violation of the Fund's purpose to develop non-oil sectors.

More independent oversight could be exerted by including civil society representatives on oversight committees. In addition, effective oversight committees would have the power to hold hearings and question government authorities, subpoena critical documents and issue public reports. The committees should also have a secure budget that enables them to acquire the necessary expertise to scrutinise financial reports and statements. The audits that are envisioned for these funds should be as transparent as possible. For their part, the oil companies should make public all payments to the governments, including taxes, royalties, swaps and bonuses.

PART III
CONSTRUCTION

Community leaders at a public meeting on BP's broken promises, Zaragoza, Colombia, September 2001. Clockwise from top left: Jose Benavides, Señora Manuel Merino, Señora Pedro Menoyas, Pedro Menoyas. (Michael Gillard)

Chapter 9

How 12 metres became 200 metres

Would people living along the AGT pipelines system benefit or be harmed?

Senior Legal Adviser Bob Miller, based in Staines, Middlesex in the UK, heads BP's legal team dealing with Azerbaijan and Georgia. Within the legal sphere lies the issue of settlements reached with landholders along the route of the Azerbaijan-Georgia-Turkey pipelines, for land that is taken or damaged in the construction and operation of the pipelines.

Bob Miller should be aware of other outstanding cases on land compensation faced by BP. He should know, for example, of the case of the smallholders of Zaragoza and Segovia in Colombia. They lost their land to the OCENSA pipeline, which was built by a consortium led by BP. In that case, rather than compensating the smallholders, BP indicated that they should challenge the company in the Colombian courts, if they could find the money to pay for a lawyer.

Will Bob Miller soon find himself fighting similar cases against small landowners in Azerbaijan, Georgia or Turkey?

"Our aim is that countries and communities in which we operate should benefit directly from our presence – through the wealth and jobs created, the skills developed within the local population and the investment of our time and money in people rather than in things, so that we create sustainable human progress."

BP, What we stand for, statement of business policies, February 2001

IF a pipeline is to be built on someone's land, the owner should rightly expect to be compensated for the land they will lose. To determine how much compensation should be paid, one needs to ask how wide the pipeline will be – not just the metre or so diameter of the pipe but also the extent of the land which will be taken

The route of the Oleoducto Central, SA pipeline system in Colombia

up by the pipeline's construction and operation. This is the central problem which a group of smallholders in northern Colombia, who are currently fighting BP in the Colombian courts, are grappling with.

During the pre-construction phase of the OCENSA (Oleoducto Central, SA) pipeline, BP compensated the smallholders for a corridor of just 12 metres (39 feet) across their land. But soon after the pipeline was built, BP brought in security to protect it. In many sections, a curfew was imposed from six o'clock in the evening until six o'clock in the morning over a width of 100 metres (330 feet) either side of the pipeline. On top of this, the productive use of an even wider stretch of land was lost because construction of the pipeline disrupted subterranean water supplies.

The 800-kilometre (500-mile) OCENSA pipeline connects BP's oilfields in the Casanare region of northern Colombia with the Caribbean port of Coveñas (see above map). From there the oil is loaded onto tankers and exported, mainly to the USA. The Cupiagua and Cusiana oilfields, discovered by BP in 1991, were the biggest oil finds in the Western hemisphere since Prudhoe Bay in Alaska (another BP field), and now produce around 50% of Colombia's total crude output. As such, they play

an important economic role for Colombia, not least because, before their discovery, Colombia faced the risk of becoming a net importer of oil. Equally important was the geopolitical role of these oil fields: through developing a closer relationship with the USA, the Colombian government hoped to gain military aid and an international go-ahead to move against left-wing guerrilla movements in the country. For the USA, the Colombian finds were another non-Middle Eastern source of oil and, unlike that from neighbouring Venezuela, a non-OPEC source (*see* page 29). About 90% of the oil from Cusiana and Cupiagua now goes to the US market.[65]

Construction of the Central Processing Facility (which feeds OCENSA pipeline) and pipeline from Cusiana-Cupiagua oilfields, Tauramena, March 1997 (Michael Gillard)

The pipeline is owned by OCENSA, a company especially set up for investment in the pipeline. Shareholders in OCENSA are the four companies investing in the Cusiana and Cupiagua fields – BP (UK/US), Total (France – now TotalFinaElf), Triton (US) and Colombian state company Ecopetrol – plus a Canadian pipeline company, Enbridge, which is contracted by OCENSA to operate the pipeline.[a] Although BP owns only 15% of the pipeline and is not its operator, it is a key player in the OCENSA consortium and is closely involved in important policy decisions. After all, most of the oil the pipeline carries is from two fields operated by BP. In fact, the companies initially managed the pipeline as an extension of the joint venture responsible for the oilfields, and thus BP did most of the work, including obtaining environmental licences from the government, arranging compensation with landowners on the route, and overseeing the early stages of construction. OCENSA was set up only in 1995, and pipeline service companies employed to operate it, when the four partner companies disagreed over some of the plans for the pipeline.

a A role it initially shared with TransCanada Pipelines, until TransCanada sold its interest in 2000

Community benefit?

BEFORE the major pipeline was built in 1995–97, 'Early Oil' (capacity about 150,000 barrels per day) from the Cusiana and Cupiagua fields was piped along the existing Oleoducto de Colombia (ODC) pipeline, which ran from the Magdalena valley (in the south-west, on the other side of the Cordillera Oriental mountains from Casanare) to the port of Coveñas. Most of the OCENSA line was built right alongside this pipeline. This first ODC line, built in 1990/1991, had already caused major problems. According to the UK-based Colombia Solidarity Campaign, moving earth during construction caused avalanches, blocked springs and diverted streams, destroying at least 150 water sources. Subsequent restoration work was poorly conducted, and topsoil was not replaced; sacks containing earth rotted away within a few months and farm animals that ate the synthetic sacking were poisoned.[66]

When the larger OCENSA pipeline (capacity 500,000 barrels per day) was built between December 1995 and August 1997, BP signed contracts agreeing to pay compensation for a strip of land 12 metres wide at a rate of just 400 pesos (US$ 0.39) per square metre[b] of this strip, plus any additional damages. Yet the peasants' lawyers report that the combined effects of additional soil erosion from the pipeline and of the security curfew have meant that, instead of losing the use of a narrow corridor of land, some peasants have lost the use of their entire holdings. Some have been forced to abandon their homes and move to the cities.[67]

As of June 2002, a group of 20 families has outstanding claims against OCENSA for US$ 690,000 in damages caused by the pipeline (another group of five families has claims of US$ 250,000 against the ODC company for the first line).[68] OCENSA has so far refused to make a settlement beyond the original payment. According to their lawyers, 350 small-holding peasants from Zaragoza and Segovia at the northern end of the pipeline:

> *"lost their livelihoods with the large-scale disturbance of the land, which contaminated water supplies and eroded the soil on their farms, making it infertile. The companies are offering derisory compensation of $3,000. Today the peasants are in extreme poverty, going hungry, without land to cultivate, without education and without basic public services."*[69]

BP is no longer the operator of the OCENSA line, but because of its lead role in the pre-construction phase, the legal challenge for compensation issue has been filed against BP.

b = 120 pesos (US$ 0.12) per square foot

House in the Moravia barrio *in Medellín – built on a rubbish dump – where some of the families displaced by the OCENSA pipeline are now living (Michael Gillard)*

Broken promises

DURING construction of OCENSA, the companies laid some sections of the pipeline in non-approved areas, causing greater than expected environmental damage. During testing, it spilled crude oil into the surrounding environment. For the damage caused by these incidents, Colombia's Environment Ministry fined BP and two of its partners (Triton and Ecopetrol) 15 million pesos (US$ 13,000), and ordered them to plant and maintain 60 hectares of trees at a cost of about 180 million pesos ($156,000).[70] Meanwhile, the benefits of oil development to local communities have been limited. A 1999 policy paper by five UK-based development agencies (CAFOD,[c] Christian Aid, CIIR,[d] Oxfam GB and Save the Children Fund UK), reported that:

> *"Studies show that the lives of the poor have not significantly improved since the arrival of the oil industry as measured by the provision of basic services of healthcare, education, and housing. At the same time the poor have suffered disproportionately from the increase in political violence, and from environmental problems, as they are more dependent on their immediate physical surroundings than their richer neighbours."*[71]

c Catholic Agency for Overseas Development

d Catholic Institute for International Relations

Reporting

Toxic drill cuttings and oily sludge dumped in an unlined pit near Rio Chiquito, Aguazul, during development of BP's Cusiana-Cupiagua oilfields (Michael Gillard)

AT best, BP has reported a one-sided picture of its performance in Colombia. For example, BP's location report on Colombia, published in March 2000, proudly stated that "Since the commencement of operations, BP and its partners have spent over US$ 30m on voluntary social investment programmes".[72] It added that it had had conversations with non-governmental organisations (NGOs), including Oxfam, Save the Children, CIIR and Christian Aid.[73] It did not mention, however, that over the period these organisations were in discussion with BP Colombia, its community affairs staff were cut from 60 people in 1997 to 16 in 1999. Nor did it report the NGOs opinion that:

> *"current staffing levels on community affairs [are] insufficient to meet the needs in this area… The need to engage with community stakeholders on issues of concern relating to the impact of the oil industry in general and BP in particular was evident throughout our visit. Some of this relates to existing impact and some to future prospects."*[74]

Similarly, BP's 1998 report on the social impact of its operations in Colombia proudly stated that consultants found in 1996 that BP's environmental standards and performance in Casanare "equalled or exceeded" international expectations. This BP report did not refer, however, to a 20-page report by the Colombian government's independent ombudsman, detailing hundreds of thousands of dollars of fines on BP for serious environmental damage caused by 12 wells and two oil processing facilities during the period 1991–1997, including the biggest fine in Colombian history (US$ 125,000) for serious environmental damage at five oil installations in 1994. The government report also revealed that a local council had asked the Environment Ministry to investigate BP's non-compliance with reforestation obligations under licences awarded between 1995 and 1997.[75]

Meanwhile, for the smallholders who have lost their land or whose land has been destroyed, BP is still refusing to compensate them and is, in effect, forcing them to take an expensive case to the courts.

THE PAST INFORMS THE FUTURE

Community benefits and disbenefits from the AGT pipelines system[76]

BP's consultation leaflet for the Azerbaijani communities living along the proposed AGT pipelines route proclaims the benefits to local people of employment during construction (see Chapter 10). It makes no mention of the possible long-term disbenefits, such as those that farmers in the Zaragoza and Segovia provinces of Colombia are experiencing.

What benefits and disbenefits might the future hold in Azerbaijan, Georgia and Turkey, if the pipelines are built?

No jobs for locals

Evidence gathered during two independent Fact-Finding Missions to the host countries in summer 2002[e] casts doubt on the claim that local people would benefit significantly from employment opportunities during construction.

The Missions found an intriguing contrast between Azerbaijan and Georgia, where BP has promised great opportunities in construction work, and Turkey, where no such claims have been made. Indeed in Turkey, local people and elected officials told the Mission that employment for local people was considered highly unlikely. Why the discrepancy?

One explanation may be that, in reality, the experience in Azerbaijan and Georgia will turn out to be the same as is expected in Turkey, contrary to BP's promises in those two countries. Villagers in Azerbaijan and Georgia told the Mission that when the Baku-Supsa pipeline was built by BP between 1997 and 1999, BP had promised great employment opportunities, which did not materialise. A few villages had a very small handful of their residents employed, on low wages and with unfavourable contracts. Most villages had no-one employed at all.

In Azerbaijan and Georgia, BP has set up registration centres in major towns along the route, where local people can put their names down to be considered for work. Communities that have already had the experience of the Baku-Supsa pipeline are generally quite sceptical about the employment prospects. But for those without this experience, the registration process has only served to encourage unrealistic expectations about possible employment levels. For example, in the town of Tetri Ts'karo in Georgia, an estimated 2,000 people have registered for work. But in fact, if construction proceeds only about 1,700 people would be employed **in the whole of Georgia** *– at least half of whom would be foreign, and many more of whom would be non-local, from elsewhere in Georgia. Thus at most 50-100 people from Tetri Ts'karo might get jobs, out of the 2,000 people hoping for*

e Mission to Azerbaijan and Georgia, June 2002, involving: Green Alternative, CEE Bankwatch, Campagna per la Riforma della Banca Mondiale, PLATFORM, Friends of the Earth US, Ilisu Dam Campaign, Kurdish Human Rights Project, Corner House and Bank Information Center.

Mission to Turkey, July / August 2002, involving: Campagna per la Riforma della Banca Mondiale, Kurdish Human Rights Project, The Corner House, Ilisu Dam Campaign, and PLATFORM

them. Even those jobs would be only for a few months. Similarly, in the expansion of the Sangachal terminal – the only onshore part of the AGT construction which has already started - 8,000 people are registered for work, and only 200 are employed.

There are serious concerns that where expectations run high, there would be significant resentment and tension between those who do get jobs and those who don't. In Borjomi, Georgia, the Fact-Finding Mission was told by a local business leader that he feared the outbreak of rioting from tensions caused by the job allocation process.

Land destroyed

The Fact-Finding Mission to Turkey in July-August 2002 found patterns of land compensation disturbingly close to those in Colombia.

For about 30-40 per cent of its length through Turkey (between Erzurum and Sivas), the Baku-Tbilisi-Ceyhan oil pipeline would run alongside the East Anatolian Natural Gas Pipeline (NGP), which pipes gas from Iran across Turkey. This gas pipeline, completed in 2001, was built by Botaş, the Turkish state pipeline company – the same company that would build the BTC pipeline for BP and its partners. In Turkey, unlike in Azerbaijan and Georgia, construction and operation of the BTC pipeline would be carried out by Botaş, under contract to BP and its partners, through what is known as a turnkey agreement.

Interviewing villagers along the route of the East Anatolian NGP pipeline, the Mission found that – just like BP in Colombia – Botaş had compensated for a corridor eight metres wide, but during construction had damaged a considerably wider area – in some cases up to 150 metres wide. Where the trench had been dug, topsoil had not been returned, resulting in completely unusable, infertile land.

It was not just the land along the pipeline route itself that was damaged. In many cases, access roads were built, or contractors simply drove their machines across fields to access the pipeline corridor. In these cases, no compensation was paid for the damaged land.

In some cases, some of the more wealthy landowners have successfully sued Botaş for damages for the extra lost land. For the majority though, this avenue is unavailable to them because of the cost. Still, going to the courts that is the only remedy that Botaş offers – just as BP has in Colombia.

Communities expect that the experience of the BTC oil pipeline would be just the same –as it too would be built by Botaş.

Paying the dead, depriving the living

In Turkey there are further problems with the compensation regime. Botaş has made it clear that for the BTC pipeline (as for the NGP pipeline) it would only compensate officially registered title-

holders of any land the company takes. Yet across much of Turkey, land has been passed on to subsequent generations without the official transfer of titles, since the Turkish state charges such high taxes and fees for transfer of titles that villagers prefer to use informal methods of land titling, particularly where land is shared between several children and would thus incur a a charge for each transfer. Even where most of the inheritants have left the village, so that only one or two take on ownership of the land, culturally it would be unacceptable for the remaining one or two to publicly claim full ownership by taking the title.

Thus the titles for a very large proportion of the land along the route of the BTC pipeline are actually in the name of people who are now dead. Botaş would pay compensation into special bank accounts in the names of these dead people, but for the new owners – their descendants and inheritants – to get that money, they would have to go through the civil courts, a process that would cost more money than the value of the land: in other words, it would not be worth it.

Village leaders (muhtars) have raised these problems with Botaş, but so far Botaş has been intransigent. It seems now that if the pipeline is built, people would lose their land and their livelihood, with no effective compensation.

Another issue is that in areas of poverty, many people have registered their land at below its true value – sometimes registering it as worth as little as 10% of what they paid for it. The reason for this is that people cannot afford to pay the high land taxes and fees the state charges, so claim a lower land value in order to cut this payment. There are fears that Botaş will only compensate people the amount of money their land is registered as worth, rather than what it is really worth.

The Fact-Finding Mission heard many complaints that compensation for the NGP pipeline had not been fair, and had generally undervalued land – for example, by paying no more for fertile, productive land than for unusable rocky slopes in the mountains.

Thus it seems highly likely that if built, the AGT pipelines system would take away many people's land and livelihoods, without any compensation. Even those landowners who were compensated would likely be paid less than their land is worth. The pipelines system would meanwhile have at best very limited short-term benefits in employment opportunities.

There may also be indirect problems, especially in Azerbaijan, through damage to the economy by oil development. This is the so-called Dutch disease, whereby rapid growth in the oil sector of the economy strangles the non-oil sectors, and leads to their decline, while also pushing access to basic necessities and other resources out of the reach of the majority of the population who have not got richer from the oil (see box, page 151).

These lessons leave us wondering: would people fare any better than those in Colombia, if the AGT pipelines system were built?

The Trans-Alaska Pipeline System

(AP Photo)

Chapter 10

Building big, building fast

What sort of disturbance would there be during the construction of the AGT pipelines system?

Karen St John has been closely involved in the Environmental and Social Impact Assessments of the Azerbaijan-Georgia-Turkey (AGT) Pipelines System. Although she is relatively junior in the company, and has limited ability to influence the execution of the project, she serves as a kind of 'public face' for it. She meets villagers along the pipelines' intended route, and she will often have been asked what people could expect to experience during the construction phase.

She has only worked for BP since 1988, so has not been involved in a construction project of the scale of AGT before. But to answer the villagers' questions, she should have looked into similar projects in BP's history. For example, she may know about the construction of the Trans-Alaska Pipeline System (TAPS). She should understand that severe disruption of communities during construction is an unavoidable part of such a large project. Much of the disturbance caused by the TAPS construction project arose from the sudden arrival in the region of 28,000 young men to work on the pipeline construction, many of them working on short-term contracts.

What sort of disturbance would there really be? What does Karen St John think?

"When BP Alaska touches the wilderness, we try to touch it gently".

BP advertising slogan, 1970[77]

THE BP-led Trans-Alaska Pipeline System (TAPS), which slices through 800 miles (1,280 kilometres) of Alaskan wilderness (see map above), is one of the most controversial pipelines ever built – so much so that its construction was delayed for four years due to legal challenges against it.[78] But despite enormous technical challenges and environmental risks, BP and its partner oil companies appear to have been so desperate to build it that they cut safety and environmental corners throughout the process.

In January 1968, ARCO (Atlantic Richfield Company) announced the finding of some gas from its exploratory well on Alaska's North Slope. On the New York Stock Exchange, shares in both ARCO and its partner company, Standard Oil (later renamed Exxon), shot up. On the London Stock Exchange, those of British Petroleum did as well. Although BP had left the North Slope the previous year after eight years of unsuccessful exploration, it still had massive oil exploration licences in the area. After ARCO's find, BP went back to Alaska and this time struck lucky.[79] The Prudhoe Bay field which it found was to be the biggest oilfield ever found in the USA.

The critical question was: how to get the oil out? The North Slope is on the northern coast of Alaska, well into the Arctic Circle where the sea is permanently frozen. The companies considered various options: icebreaker tanker ships, nuclear-powered tanker submarines to pass below the ice, or a pipeline all the way across Canada to the US Midwest. The cheapest and most attractive option to the companies was a pipeline running south across the whole of Alaska to the (unfrozen) port of Valdez on the southern Alaskan coast, from where tankers could take the oil by sea to refineries further south on the US West coast. This was also the most favourable option politically – it kept control of the export route entirely in the hands of the US and could supply the energy-insecure West Coast of the USA.

A feasibility study was completed by December 1968, and in February 1969 the pipeline project was announced, with construction surveys due to start that spring. By the end of 1969, the oil companies had already bought sections of steel pipe from Japan and were keen to get started on building.

A special company was set up to build the pipeline: the Alyeska Pipeline Service Company, in which BP was by far the largest shareholder, with 49%.[a] Although

a In 1974 the three main companies making up the Alyeska Pipeline Service Company were BP with 49.18%, ARCO with 21% and Exxon with 20% (a few other companies had much smaller shares). Its current partners are the medium-sized US oil company Phillips (which bought ARCO's 22.3% stake in 2000 as part of the US regulators' condition for permitting BP's take-over of ARCO) and ExxonMobil, as well as Amerada Hess and Unocal (both also US), which both have much smaller shareholdings.

Alyeska is a separate company and is controlled by an owners' committee consisting of representatives of all the shareholder companies, BP is the driving force behind it. As two-thirds of the vote is needed to pass any decision, BP has a power of veto. Most of Alyeska's chief executives, and many of its staff, have been seconded from BP.

Touching the wilderness

MUCH of the route of TAPS, with the exception of its very southernmost section, was to pass through an area largely untouched by modern development. As a result, its ecological habitats were unfragmented by roads, towns or factories, and so animals could move freely between ecosystems that blended into each other without the 'hard edges' that characterise more managed landscapes. The impact of industrial development in Alaska has in fact been more severe than in many other parts of the world. Because of the low temperature there, rates of change are slow, meaning that any change caused by industrial development, whether landscape damage or the dropping of litter, persists for far longer than elsewhere.

It was this 'wildness' aspect that attracted the strongest opposition to the pipeline. In March 1970, three US environmental groups – the Wilderness Society, Friends of the Earth and Environmental Defense Fund – filed a lawsuit against the construction of the pipeline. A separate lawsuit had already been filed by indigenous Alaskans, and in the following period, other indigenous groups, Canadian wildlife groups and Alaskan fishing organisations brought further lawsuits. These all delayed building until April 1974,[b] and during the intervening four years, debate raged about whether or not to build the pipeline.

The Department of the Interior's 1971 draft environmental impact assessment claimed, at a technical level, that individual ecological impacts would not be significant, but admitted, at a more systemic level, that:

> *"No stipulation can alter the fundamental change that development would bring to this area… For those to whom unbroken wilderness is most important, the entire project is adverse… because the original character of this corridor area in northern Alaska would be lost forever."*[80]

Following the publication of the assessment, public hearings were held in Washington, DC and Anchorage (Alaska's capital). So great was the opposition to the

b President Richard Nixon gave the final approval for the pipeline project in January 1974, following an act of Congress in August 1973. Construction began in April 1974.

project that hearings ran over time in both cities. The complete record of the hearings consisted of 37 volumes – most of the witnesses were opposed to the project.

Other Alaskans were concerned about the changes the pipeline would bring to their way of life. One Anchorage resident wrote that "We came to Alaska to avoid the 'boomers', not to make big money and leave… this damn oil has come along to bring [my children] back to the very types of life we left."[81] Shortly before completion of its construction, David Brower, founder of Friends of the Earth, described the pipeline as "the greatest environmental disaster of our time".[82]

Dangerous by design

THE potential impact of the pipeline was made considerably worse by sheer carelessness in its design. The original announcement of the pipeline plan in February 1969 proposed a subsurface 'hot' (warm on the outside, because of the temperature of the oil) pipeline. This, according to the US Geological Survey (USGS), would be disastrous. The permafrost would melt, causing major ecological damage to habitats. What's more, it would allow the pipeline to 'float' to the surface, and, according to the assistant chief of USGS, in areas of ice-rich permafrost, "we could expect to see buried pipe swinging in the air". Meanwhile, thawed, water-saturated sediments would tumble down slopes and potentially snap the pipeline.[83] The alternative – an above ground pipeline – would also have environmental impacts, as it would disrupt caribou migration routes, although these at least could be mitigated.

Eventually, spurred by the general controversy over the pipeline and especially the legal challenges on environmental grounds, the US government imposed a number of design requirements on the companies. These included elevating the line above the surface for much of its length, 'snaking' the line to allow for horizontal and vertical movement, automatic leak-detection and valve shut-off systems, incorporating underpasses and ramps to allow caribou and other animals to cross above-ground stretches of the line, using gravel insulation, re-vegetating the route, and preparing spill contingency plans.

Although these measures did not feature in the companies' original plan, and were imposed by the US government, the Alyeska pipeline consortium (led by BP) still tried to claim the credit for them, arguing that they showed the companies' core environmental commitment.

For example, Alyeska's own official history of the pipeline pointed out the re-routing of an 18-mile section of access road, at a cost of US$ 3 million, to avoid nesting

areas of birds of prey, but failed to acknowledge that this was a legal requirement under the 1973 Endangered Species Act.[84] An Alyeska-commissioned report in 1980 claimed that "early on, it was realised that a buried pipeline containing naturally warm oil… would heat the surrounding ground… The decision had to be made to elevate the pipeline", but did not add that the decision came from the Department of the Interior – against the companies' own desires.[85]

Speed

ACCORDING to *Extreme Conditions*, a biography of the Alaskan oil industry, in the building of the pipeline:

> *"Everything was geared to speed. Alyeska was prepared to accept higher construction costs any time the alternative meant delay. Each day lost meant the sacrifice of profits from 660,000 barrels of oil, which was the estimated daily flow at start-up. No-one attempted to peg the precise figure. It was impressive enough to say that at $10 a barrel, oil companies would be giving up $6.6 million of income a day."*[86]

This sense of urgency was initially shared by the oil companies and the state of Alaska, all of which stood to gain financially from the project. Thus they were immensely frustrated by the four-year delay, and looked for any way to speed up the process. To improve its relations with the federal government, in 1971 BP employed as lobbyists in Washington, DC two former aides to the late Senator 'Bob' Bartlett (who is described as 'the Architect of Alaska Statehood'[87]).[88]

They had at least some success. In March 1972, the final environmental impact assessment (EIA) was published. At this point, the government tried to hurry along any remaining consultation. Only 600 copies of the EIA were printed, and just seven of them were made available for public inspection in government offices. The Secretary of the Interior gave 45 days for further comment, but lawyers working for the environmental NGOs complained that it took 28 days to get hold of copies. Still, the groups submitted a rebuttal, which claimed, amongst other things, that the document "blandly accepts at face value the fundamental premises of the oil industry".[89]

The first lawsuit to stop the project came not from an environmental organisation, but from indigenous peoples whose land the pipeline would cross. In March 1970, five indigenous villages claimed that the pipeline consortium had failed to honour a promise made in summer 1969 to employ indigenous workers on the project. The

consortium denied having made the promise, but the plaintiffs said that it was only on this basis that the Tanana Chiefs Conference – the regional indigenous people's political organisation – had agreed to waive its claims to the land through which the pipeline would pass. An injunction was granted against the project.

In October 1971, another suit was filed by the Arctic Slope Native Association against Alaska's leases of public lands for oilfield development in the North Slope. The lawsuit alleged that the leases violated indigenous rights clauses in the Alaska Statehood Act. Ultimately, however, the companies and government managed to turn these lawsuits to their advantage. Indigenous land claims were finally closed in December 1971 with the Alaska Native Claims Settlement Act. It gave indigenous people outright ownership of 44 million acres of Alaska and nearly US$ 1 billion in cash. In return, it denied them rights to choose land within any pipeline corridor chosen by the government. Half of the cash payment would come from oil royalties – so many indigenous communities now supported rapid approval of the pipeline in order to receive their cash sooner rather than later.

But what was probably the decisive turning point in breaking the deadlock occurred when the federal government became as desperate to get the oil flowing as the companies were. When the USA began to panic about the increasing insecurity of Middle Eastern oil supplies (which culminated in the Arab-led energy crisis of October 1973), pressure for construction of the pipeline became unstoppable, and opposition voices became marginalised.

In August 1973, Congress passed a resolution permitting the government to make a decision about the pipeline, and in January 1974, President Nixon signed the authorisation act.

Cowboys

CONSTRUCTION began in April 1974 – and brought many problems of its own. One of the greatest impacts of construction was the arrival of so many workers into the pipeline's area. At its peak, over 28,000 people were employed in pipeline construction.[90] Environmental historian Peter Coates of Bristol University writes in his account of the construction of the TAPS pipeline in Alaska:

> *"Comparisons were rife between Fairbanks and Dodge City, the buffalo hunters' mecca and cattle town of legendary wickedness. Both 'lusty' and 'brawling' towns had large numbers of transient males and plenty of saloons and whores. Fairbanks served as a place for pipeline workers to 'whoop it up' just as Dodge City had catered to soldiers, buffalo hunters, and later cowboys".*[91]

The construction of the Trans-Alaska Pipeline System (AP Photo)

Alaskan journalist and author John Strohmeyer added in his account *Extreme Conditions*:

> *"[It was a] massive invasion of men and machines slicing an 800-mile (1,287 km) corridor north to south across Alaska. There was an urgency to work on the pipeline that was like the fervour of a military expedition. Crews landed by land, sea and air all along the route. Then they raced to see who could move fastest. Nineteen camps, with random names like Happy Valley, Kennedy, and Sheep Creek, were built along the route. Each had a narrow, prefabricated dormitory, complete with dining hall, rec room, and first-aid station. Support planes, barges, and trucks brought in a steady stream of supplies, from the latest tools to thick sirloin steaks."*[92]

Thus, like the damage to the environment, it was not just the way the companies decided to build the pipeline that caused problems – it was the fact that they were building pipeline in the first place. But there were bad practices, too.

After the Alaska Department of Environmental Conservation's staff person responsible for monitoring pipeline construction left his job in February 1975 after a disagreement with his employer, he spent the following two years highlighting the pipeline's repeated breaches of water pollution laws.[93]

In fact, there were so many breaches of good practice that, during 1975 and 1976, one weekly magazine carried a regular 'Pipeline watch', which reported project mismanagement, alleged violations of state and federal rules, forgeries of safety certificates for X-rays of pipe welds, embezzlement, thieving and bribery.

In June 1976, the Subcommittee on Energy and Power of the House Committee on Energy and Commerce heard of the problems. The subcommittee chair later recalled:

> *"At that hearing we discussed, among other issues, thousands of faked X-rays of welds, intimidation and harassment of inspectors, including death threats, sections of the pipeline ripping open during pressure tests, and sections of the pipeline floating to the surface of rivers. We learned of a total collapse at that time of Alyeska's inspection system, and the total absence of Federal Government oversight."*[94]

According to Coates, most of the national press felt Alyeska had not lived up to its promises.[95] But the pressure for speed did not stop. To try to compensate for the delay, the companies decided that once the pipeline was completed, they would ramp up oil flow to full capacity more quickly than planned.[96]

Oil began to flow through the pipeline in June 1977 – but immediately ran into problems. First, an earth-moving vehicle crashed into the pipeline and caused a leak. Then another section of the pipe cracked as liquid nitrogen was injected into it for cooling. A few days later, oil that had sprayed out started a fire, killing one man and injuring others. The following February, a sabotage (with unclear motives) led to the spillage of 8,000 barrels of crude, which was discovered not by Alyeska but by a private pilot and led to criticisms of both the pipeline's security and its leak detection equipment.

This inauspicious start set the pattern for the following decades of operation. Between 1970 and 1986, the federal Bureau of Land Management recorded over 300 spills of more than 100 gallons, totalling more than 70,000 barrels of spilled crude.[97]

An unpublished report by the US Fish & Wildlife Service in 1987 concluded that:

> *"Fish and wildlife habitat losses resulting from construction and operation of the Pipeline System and Prudhoe Bay oilfields were greatly underestimated in the EIS [environmental impact study]. They included the direct loss of 22,000 acres from gravel fill and extraction, the even greater indirect losses of habitat quality due to the secondary impacts of construction (dust, siltation, erosion, impoundments, contaminants etc), and blockage of fish and wildlife access to habitat by roads, pipelines, and causeways. Some of these indirect impacts were not predicted in the EIS, and the observed magnitude or frequency of others were greater than expected".*[98]

With this past in mind, the environmental disaster that occurred in March 1989 – the grounding of the Exxon Valdez (at which we shall look in Chapter 12) – is perhaps not such a surprise.

THE PAST INFORMS THE FUTURE

The impacts of construction of the AGT pipelines system[99]

BP's Azerbaijan consultation leaflet promises that disruption to communities will be minimised. How much disruption will there really be?

The experience of BP's Alaska pipeline shows enormous disturbance to local people from the construction activities. While to some extent it might be possible to reduce impacts on local people through technical measures, as BP proposes, many of the greatest impacts are unavoidable due to the sheer scale of the construction project. What is more, initial indications from the AGT project, and experience from two recent pipelines built in part of the same corridor by the same companies, suggest that the technical measures would not in reality be applied as rigorously as has been promised.

Is BP's description of the AGT project – perhaps aspirationally – just describing the positive aspects of its approach, and neglecting to inform people of the problems? In its report of extensive consultation, is it similarly focusing on case studies of sections of the route where its consultation has been more thorough, and not revealing the fuller picture of the whole pipelines system and sections it has missed?

Project consultation

In June 2002, an NGO Fact-Finding Mission travelled along the Azerbaijani and Georgian sections of the pipelines route. The Mission was surprised to find that, contrary to what it had heard from BP and ERM, a majority of the villages it visited had not been consulted.

In Georgia, of the 20 villages the Mission visited:

- *six were consulted to a reasonable degree,*
- *two were partially or inadequately consulted,*
- *one just had leaflets delivered by an unknown third party,*
- *eleven did not receive any information at all about the pipelines project from the companies, so the main source of information about the project for local people was the national media.*

Of these last eleven, five villages were not formally visited by the company at all at any point. Three had visits from the companies only to recruit construction staff, and three had visits only to survey land.

People living on the route were not aware of the planned start-date for AGT construction work: even those who had signed up for possible employment had not been told when that work might begin. Communities had only a rough idea about the AGT corridor route. Some landowners whose land the pipelines would cross had not yet been informed (or approached at all) by the companies. In many cases, people were very ill-informed about what the project would involve and what the risks and impacts might be, or even whether the pipeline would be above or below ground.

Only about half of the villages surveyed by the Fact-Finding Mission knew about the local consultation meetings in June 2002. In general people did not know about the environmental and social impact assessment nor consultation process, nor how they could express views on the project.

Even where consultation had occurred, it was generally not arranged in advance, and often was just with people in the street, rather than going door-to-door. This practice will have skewed the consultation towards just male respondents, who tend to be the ones present in the street, while women are generally busy elsewhere.

The Borjomi Bottle Mineral Water Company – one of the biggest employers in the region, and a famous brand across the Former Soviet Union, known for its healthful properties – had never been approached by project companies. This is despite the fact that the pipelines would pass through the area where the springs are located, and so the mineral water company has a vital interest in environmental impacts of the pipelines project on the quality of mineral springs in the Borjomi district. In particular, project sponsors had never contacted the geologists of the mineral water company, the only people who would be able to provide them with specific technical information about the location of springs. The water company complained that it had not been given detailed maps of the final corridor route, and had not been informed about available dispute mechanisms in case of an accident which could affect the springs.

In the case of the Borjomi-Kharagauli Natural Park, the Mission was told that BP and its partners had not contacted the natural park administration, nor consulted with the environmental experts of the park administration during the drafting of the ESIAs. BP just sent a copy of the non-Technical Executive Summary of the project ESIAs to the park administration at the beginning of June 2002.

In Azerbaijan and Turkey too, the consultation has been at best partial. Numerous key stakeholders and impacted communities have not been consulted. For example, the Fact-Finding Mission held a meeting with 17 non-governmental organisations in Ganja, the second city of Azerbaijan, through whose territory the AGT pipelines would pass. The Mission asked the 17 NGOs present if any of them knew about the ESIA and the consultation process: none of them did. The mission to Turkey visited seven villages, of which only four had been consulted. Nor had the fishermen of Yumurtlik been consulted, even though their fishing would be directly affected by disruption and pollution from both the expanded marine terminal and the three supertankers per day leaving it.

Those that have been consulted generally only received incomplete information. For example, few people know which land the pipelines would cross, when construction would begin, what the risks of the project would be, or what would be the mechanisms for redress or dispute settlement.

The village of Haçibayram in north-eastern Turkey gives a good example of the inaccurate reporting of the consultation process. BP and its partner Botaş claim to have consulted the village by

telephone. Yet it was abandoned during Turkey's war against the PKK (see Chapter 11) and has been deserted for five years. Now there are neither telephones nor people to answer them. Some ex-residents still use the village but have never been approached by the companies.

The abandoned village of Haçibayram, north-eastern Turkey – where BP is proud to claim 100% consultation of inhabitants (Greg Muttitt, PLATFORM)

The consultation is made particularly problematic in these countries by the lack of freedom of expression. Because in each country the state is strongly committed to the AGT project, and is indeed a participant in it, any criticism about the project, and especially opposition to it, by local people would be seen as an act of defiance against the state, and could make the critic a potential target for surveillance, harassment or intimidation. In this context, it is difficult to see how BP believes it has reliably, effectively and genuinely consulted with people along the route on their opinions on the project.

Construction impacts

Local employment opportunities on the AGT pipelines project would be very limited (see chapter 9), the workforce instead coming mainly either from elsewhere in the host countries or from overseas. BP estimates that 10,000 construction workers will be employed in total along the whole route – a massive influx into the region that would bring its share of social and economic problems. There are concerns for example that the surge in demand would force up food and housing prices, making life more expensive and more difficult for local people.

In the one onshore part of the AGT pipelines system where construction work has already started – the expansion of the Sangachal terminal, south of Baku – these problems are already seen occurring. The Fact-Finding Mission was told by the mayor of a nearby IDP[c] settlement that the construction work had brought great local benefits, and that most people from the settlement had been employed. But while he was speaking, a group of residents interrupted him and shouted that he was a liar. (Mayors in Azerbaijan are appointed by the state, rather than being elected). It turned out that members of the mayor's family had been given jobs, but very few others locally. Meanwhile, atmospheric emissions and gas flaring from the terminal had caused serious health problems for some of the residents of the settlement.

In relation to potential disruption from the presence of workers, BP's consultation leaflet states that "strict discipline will ensure that disturbance to local populations is minimised". The Fact-Finding Mission examined the workers' code of conduct which was displayed in a company office near the Sangachal terminal works. The code contained 12 points, 11 of which related to behaviour on the

c Internally displaced persons – these were from Karabakh

site itself, on security, safety and discipline. Only one rule related to communities, which was that non-business access to local villages was forbidden **during normal working hours**. *In other words, there was no restriction on what workers could do in local villages outside working hours. The rules were only displayed in English.*

The experience of the 'Early Oil' project has been equally grim. The port of Supsa, at the end of the Western Route Export Pipeline, was before the arrival of the oil project a thriving market town. Then during the two years in which local men were employed building the terminal, the labour shortages caused the rest of the economy to collapse. Once the temporary construction phase was over, there was little work to return to. A report on the website, Eurasianet, describes the scene now:

> *"Outside the train station men sit and wait. And wait. And wait. There is no work in Supsa, so the most predominant image is groups of men of all ages sitting and waiting. Waiting for the day to end, for the next bottle of wine, vodka or chichi (Georgian vodka made from the skins of grapes, a by-product from the wine making process). Waiting and watching."*

Physical damage

As well as social disruption, pipeline construction would cause physical damage. As we noted in Chapter 9, during the construction of the East Anatolian Natural Gas Pipeline (NGP) in 2000-2001 (alongside which about 400 kilometres of the Turkish section of the Baku-Tbilisi-Ceyhan pipeline would pass), fields and crops were badly damaged by construction machinery. Roads to villages were also badly damaged by heavy machinery driving over them during construction of the NGP line. One village near Erzurum told the Mission that it had previously had a good asphalt road, which was completely torn apart during construction. Afterwards, Botaş turned up with two truckloads of gravel to lay down as a new road. Although this was far below the standard of what they had had previously, the villagers had to accept, as otherwise they would have got nothing. The NGP pipeline was built by Botaş, the same company that would build the BTC pipeline, under a turnkey contract with BP and the other consortium members.

Similar problems were found by the Fact-Finding Mission to Georgia. When BP built the Baku-Supsa 'early oil' pipeline, whose route the AGT pipelines would follow for around 500 kilometres, many local roads were destroyed by the construction machinery. BP promised at the time to rehabilitate these roads after construction, a promise that was not kept. In one village, construction activities also damaged a water pipeline supplying the village. BP refused to repair the water line, and the villagers had to carry out and pay for the work themselves.

The bulk of the reassurances given in BP's consultation leaflet relate to the construction phase of the project. However, experience of previous pipelines in the region has been that similar promises were not kept, and now those communities are understandably sceptical. Having breached people's trust once already, how can BP and Botaş convince people that this time it really will be different?

CORRUPTION ALLEGATIONS AND OIL DEVELOPMENT IN THE CASPIAN REGION[100]

Corruption is a routine feature worldwide in the award of major infrastructure contracts, such as oil and gas development projects, by governments to companies.[f] Its impacts on development, democratic accountability and Third World debt are profound, with the burden falling most heavily on poorer sections of society. So it is of grave concern that oil developments in Azerbaijan, Georgia and Turkey have all been tainted with corruption allegations.

The impacts of corruption

Every year, Western businesses pay huge amounts of money in bribes to win friends, influence and contracts. These bribes are conservatively estimated to run to US$ 80 billion a year – roughly the amount that the UN believes is needed to eradicate global poverty. Those paying the bribes include multinational and national companies, consultancy firms and even government agencies – national export credit agencies coming in for particular criticism.[g]

Worldwide, the amount of money lost to corruption that could, and should, be directed towards public services and to the development of democratic institutions is significant. According to Transparency International, a global anti-corruption network, on average, 5% of national budgets go astray because of corruption.

Corruption also affects the selection of development projects, as well as their quality, financial viability and distributional outcome. As the Asian Development Bank (ADB) notes, corruption diverts "resources away from social sectors and toward… major infrastructure projects"; reduces the life of assets, "as resources are directed away from maintenance and toward new projects and equipment"; and encourages "the design or selection of uneconomical projects because of opportunities for financial kickbacks and political patronage.

The ADB warns that the "costs of corruption are often borne disproportionately by the poor, while the provision of public goods and services is skewed towards the rich, the powerful and the politically well connected." UK Parliamentarian Hugh Bayley is more blunt: "Bribery is a direct transfer of money from the poor to the rich."

Corruption in the Caspian Region

Corruption is widely acknowledged to be a major problem within all three of the countries through which the proposed Baku-Tbilisi-Ceyhan oil pipeline would pass. In 1999, Azerbaijan was ranked as the world's third most corrupt country under Transparency International's corruption index, which is based on the number of reported incidents involving corrupt officials. A report by the World Bank and the European Bank for Reconstruction and Development similarly reported high incidence of corruption in Georgia and Azerbaijan. The Bank has also highlighted problems of corruption in Turkey, noting in a 2001 report that contractors in Turkey have traditionally been asked to pay up to 15% of the value of state contracts to politicians as "campaign contributions".

In 2001, the Norwegian Institute of International Affairs (NIIA) published a report on corruption and the oil industry in Azerbaijan, based on in-depth interviews with politicians, opinion formers and non-governmental organisations. The report, Local Elites meet Foreign Corporations, noted

f Although the focus of policy discussions around corruption is often on the developing world, fraud, embezzlement and bribery are equally pervasive in the North – and their economic impacts are no less detrimental. In the United States alone, fraud and corruption claim US$ 400 billion per year.

g According to a French secret service report, the official export credit agency of France paid around US$ 2 billion in bribes to foreign purchasers of 'defence equipment' in 1994.

that the bonus payments that the oil companies make when they sign contracts are widely viewed as a major vehicle for corruption. "It was claimed that this money never appears in the accounts; in other words, it disappears, clearly into the dictator's own pockets." The report went on to comment: "In this context it is stressed that the oil companies have no moral right to deny that they share responsibility. President Aliyev and the oil companies have acted in concert, and so both are guilty."

The NIIA also noted that it was "a common perception that the Western oil industry is aggravating rather than ameliorating the culture of corruption, and that the danger of future oil revenues disappearing into the pockets of a corrupt clique is acute." Interviewees stressed that "collaboration with a corrupt regime is itself corrupting". Many argued that the oil companies "should stop propping up the Aliyev regime" and talk instead to civil society groups and the democratic opposition parties.

Although many of those interviewed "would not go so far as to say that the companies want to be corrupt", it was generally argued that, when operating in Azerbaijan, "they cannot avoid being caught in the net". This opinion applied particularly to contracts relating to Azerbaijani infrastructure – "as soon as the companies enter this arena, they tumble into the culture of corruption and become a part of it". The NIIA also reported that interviewees felt that "the Western oil industry is capable of playing a much more active role in combating corruption than it actually does."

The sums that are alleged to have been embezzled through corruption are huge. In 1998, the Azerbaijan authorities charged Rasul Guliyev, former speaker of the Azerbaijan parliament, with misappropriating $12 million from a US$ 300 million oil contract in 1992–93. Guliyev, who is now in exile in the USA, hit back alleging that President Aliyev had accepted payments of US$ 50 million and implying that the Aliyev family had salted away hundreds of millions of dollars of state earnings from the oil, cotton and mineral sectors. The money was alleged to have been deposited by the family in Lloyds TSB, a UK high-street bank.

Worrying Allegations

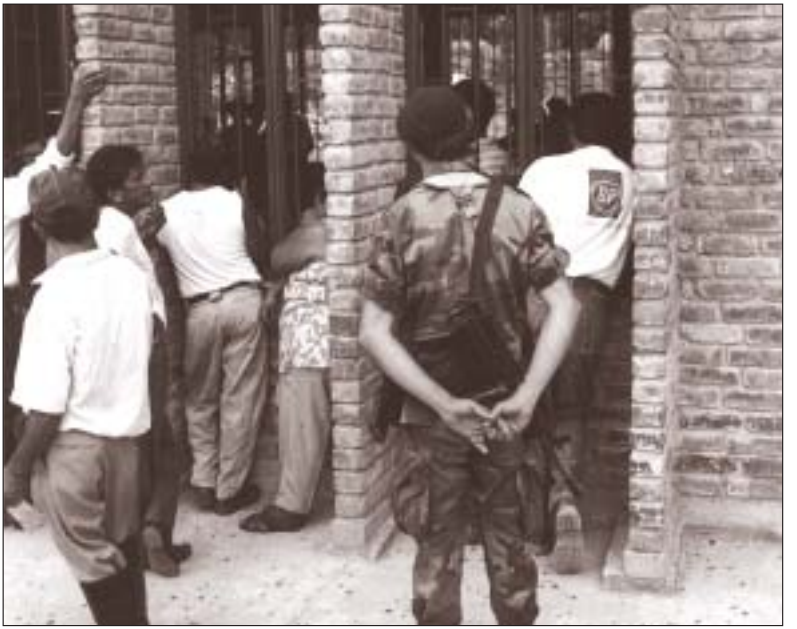
In seeking to "explain" corruption in developing countries such as Azerbaijan, Georgia and Turkey, most commentators have tended to dwell on the "bribe-takers", not the "bribe givers". Less emphasis has been placed on investigating possible connections between corruption and the institutional culture, bureaucratic practices and priorities of the oil companies themselves. Yet a number of allegations have been made against the oil companies involved in the Caspian that are sufficiently serious to merit independent investigation.

In that context, it is of grave concern to note allegations in the UK press in respect of the BP's operations in Azerbaijan. In March 2001, for example, The Sunday Times reported that Turkish intelligence sources had alleged that BP had backed the 1993 military coup which ousted Azerbaijan's elected president Abulfaz Elchibey, and installed Heydar Aliyev, a former KGB operative, in his place. According to The Sunday Times, "Turkish secret service documents allege middlemen paid off key officials of the democratically elected government of the oil-rich nation just before its president was overthrown." BP was alleged to have supported the coup in the hopes of a better deal on oil concessions. The allegations, which are denied by the company, remain unsubstantiated.

Less dramatic, but nonetheless troublesome, is BP's own admission to a UK House of Commons Select Committee that it pays "facilitation payments" where they are" essential to ensure business efficiency". Significantly, the Committee took the view that it saw "no difference between bribery and facilitation payments."

PART IV

OPERATION



Soldiers from the XVI (16th) Brigade of the Colombian Army and BP staff observe a community meeting about BP's oilfield developments, El Morro, April 1996 (Michael Gillard)

Chapter 11

Line of fire

Would the AGT pipelines system exacerbate conflict?

John Sullivan is BP's Head of Security and is based in Britannic House, the company's Headquarters in London. His remit, however, is global. On 3rd July 2001, John Sullivan met with Georgian President Eduard Shevardnadze, to discuss the security of the Georgia section of the Azerbaijan-Georgia-Turkey Pipelines System. If it is built, John Sullivan's department will coordinate security for the entire length of the pipeline system in Azerbaijan, Georgia and Turkey.

BP's security department also has an intimate understanding of the history of the OCENSA pipeline in Colombia, which was built by a consortium led by BP. John Sullivan should know from that case that the safety of the pipeline was a question not of engineering, but of politics, militarisation and conflict. Throughout the 1990s, BP in Colombia produced oil and gas, and constructed pipelines and other facilities, even though the country had long been at civil war. The pipeline was certainly responsible for exacerbating the violence and tension. BP dealt with this by investing heavily in security – an approach that has led to accusations of serious human rights abuses.

The regions through which the AGT pipelines system may pass are subject to a number of actual, or potential, violent conflicts. What would be the impact of the pipelines on these conflicts? What kind of security arrangements would John Sullivan set up to protect the pipelines, and the US $21 million of oil and gas that pass through them every day? What would be the impact of those arrangements on human rights?

AT BP's annual shareholder meeting in April 2002 in London, company chairman Peter Sutherland lost his temper when asked about human rights issues in Colombia. "This Annual General Meeting…not going to be allowed to become a pantomime for the discussion of political issues that we on the board and you, most of the shareholders, are not concerned with", he fumed.[101] Perhaps it was unsurprising that he was so sensitive, as BP has, since 1996, been heavily criticised by journalists, human rights groups and politicians for the human rights consequences of its operations in Colombia.

There has been a civil war in Colombia for nearly four decades, and over 35,000 people have been killed in the last ten years. Two main left-wing rebel groups have been engaged in guerrilla conflict against the state. The FARC[a] attacks the military and political institutions of the state, while the ELN[b] tends to destroy physical infrastructure such as oil pipelines and electricity cables, and is renowned for frequent kidnappings. Partly in reaction to the guerrilla groups, right-wing paramilitary units have sprung up, some growing from the government having legalised vigilante activities as a means to fight crime, and others set up by powerful, land-owning and drug-trafficking interests. The paramilitaries are widely recognised to be responsible for most of the extra-judicial executions, torture and 'disappearances' in Colombia, but with a common enemy in the guerrilla, they are generally ignored or tolerated – or even co-operated with – by the government, police and armed forces.[102]

The guerrilla

IN one of the worst tragedies of Colombia's conflict, at least 70 people were killed in the village of Machuca (in Antioquia state) in October 1998 when the ELN guerrilla group blew up BP's OCENSA pipeline. According to press reports, one survivor described a 50-metre fireball roaring along a river before hitting the village, where it engulfed wooden homes where villagers were sleeping.[103]

The guerrilla groups oppose the extraction of oil by foreign companies, and have frequently attacked oil infrastructure, especially pipelines – even though the pipelines are underground. Furthermore, the sheer value of the oil inevitably serves to exacerbate political tensions. In 1999, five British development agencies – CAFOD,[c]

a Fuerzas Armadas Revolucionarias de Colombia, Revolutionary Armed Forces of Colombia

b Ejercito Nacional de Liberacion, National Liberation Army

c Catholic Agency for Overseas Development

Christian Aid, CIIR,[d] Oxfam GB and Save the Children Fund UK – commented that:

> *"BPXC (BP Exploration Colombia) has seriously underestimated the implications that its investments in a region of violent conflict would have for the security of the poor in the region. Given the country's history of conflict around strategic resources such as oil, the company's presence risks polarising local society, thereby a) creating victims of the armed conflict and b) contributing to increasing poverty, as a result of disputes over distribution of revenues, however unwittingly."*[104]

It remains open to question whether BP was quite so ignorant of the impact of pumping US$ 7 million worth of crude oil per day[e] through such a politically volatile region. When OCENSA was built, Colombia's other major pipeline – run by Occidental Petroleum – had been in existence for nine years (since 1986) and had a reputation for being frequently attacked by the guerrilla groups.

Thomas G Finck, chairman and CEO of BP's pipeline partner, Dallas-based Triton Energy, seemed to know what was likely to happen. He commented during the construction of the OCENSA pipeline that the companies had built excess capacity and backup systems into the production plan and pipeline – allowing any damage to the line to be repaired without much disruption to the flow. "What people don't realize is that as many times as the Occidental line has been attacked, other than polluting the environment it really hasn't affected their operations significantly", Finck explained.[105]

The paramilitaries

THE right-wing paramilitary groups have been responsible for numerous assassinations and massacres in Colombia. Their main target is anyone who sympathises with the guerrillas, but by extension this stretches to anyone who criticises the government, the paramilitaries or the oil companies. As a result, numerous trade unionists, environmental campaigners and community activists who have criticised BP and the other oil companies have been murdered.

On 13th April 1995, for example, Carlos Mesías Arriguí Cerquera and Gabriel Federico Ascencio, two peasant activists, were shot dead by gunmen in Arriguí Cerquera's residence and shop in Yopal. The assassins fled on a motorcycle and have not been caught. Arriguí was president of the Asociacion Departamental de Usuarios Campesinos (smallholders association) in Casanare, and leader of a work stoppage protest in El Morro against BP in January 1994.[106]

d Catholic Institute for International Relations

e The average throughput of the pipeline is 350,000 barrels per day. An average oil price of $20/barrel gives $7m/day

The Colombia Solidarity Campaign reports that in 1997, farmer Eliodoro Torres and his nephew were murdered. Torres had sold part of his land to BP for a production facility, and then later complained that the constant flaring of gas was preventing his cattle from breeding. After his assassination, his widow took up the case with the oil companies, and her son was later assassinated. In a subsequent legal case that she lost, the local court did not even allow her to give evidence.[107]

Carlos Arriguí Cerquera (Michael Gillard)

The British ITV television documentary programme *World in Action* was told by Gabriel Narvaez, an adviser to the El Morro Association, a community group in the oil region, that "to speak against the large state programmes, or those of the multinationals, is an act of suicide. It is almost like condemning oneself to death."[108]

In none of these three cases is there a suggestion that BP is directly responsible, even though the paramilitaries seem to have believed they were acting in BP's interest. BP's responsibility lies rather in its decision to invest in a region where it should have known its presence would exacerbate the violent conflict.

In other cases there have been accusations of greater knowledge of paramilitary activities, and even involvement, by BP.

A BBC2 television documentary in 1997 alleged that ex-Colonel Fabiano Augusto Bejarano Bernal participated in paramilitary activities, including human rights violations, while working for BP as a security officer. The company dismissed Bejarano in November 1996.[109]

BP's private security firm, Defence Systems Colombia (see below), employed former Colombian army commander General Hernan Guzman Rodriguez, whose name appears in the 1995 report on State Terrorism in Colombia produced by international and Colombian human rights lawyers, including Pax Christi and the World Organisation Against Torture. The report says that there is "abundant evidence and testimony" linking Guzman to the paramilitary group MAS,[f] which is responsible for 149 murders from 1987 to 1990. Guzman denies these allegations.[110]

f *Muerte a Secuestradores*, Death to Kidnappers

The army

OIL companies operating in Colombia are required by the Colombian government to pay a US$ 1 per barrel 'war tax' to help finance army and police protection of oil facilities.[111] According to journalists who investigated the case, in 1995, BP signed three-year collaborative agreements with the Colombian Defense Ministry, worth US$ 11.6 million, of which BP would provide $2.2 million,[112] on top of the mandatory 'war tax'.

Much of BP's payment was spent on the XVI (16TH) Brigade, an army unit assigned specifically to protect BP's oil installations. The agreement called for BP to provide security and communications equipment, administration materials, "information," engineering and health services, helicopter time and land transport.[113]

According to British journalists Michael Sean Gillard and Melissa Jones,

> *"The army brings to Casanare a US-designed counter-insurgency strategy of dirty war, known locally as "quitarle agua al pez" or draining the fish tank. Instead of fighting the guerrillas, the army and pro-government paramilitary death squads target people they consider sympathisers."*[114]

In 1995, residents of the village of El Morro set up a roadblock to demand compensation for damage to an access road by BP lorries. According to British national newspaper, *The Guardian*, the brigade commander protecting BP claimed that the blockade was guerrilla-inspired and unleashed a crackdown against its organisers. Two of the blockade leaders were assassinated and others were threatened. Government human rights lawyers investigated the killings and reported that BP's military protectors were "out of control".[115]

On 3rd June 1996, Marcos Mendoza was shot dead in his home, allegedly by the Guías de Casanare Battalion of the Colombian army. Mendoza had earlier participated in a work stoppage in protest against BP.[116] Three months later, in September 1996, a protest against BP took place at Tauramena. Security forces were called in to tackle the protest, and a photographer covering it was killed.[117]

In September 1996, Member of the European Parliament Richard Howitt was part of a European Parliament delegation to Colombia. While there, he was handed an unpublished report, written in July 1995, by a commission including the President's human rights adviser, the Attorney General and the Ombudsman, which accused BP of gross human rights violations.

BP's Central Processing Facility, Tauramena, oil from which flows into the OCENSA pipeline (Michael Gillard)

The report alleged that oil companies handed photos and videos of local protesters near its Casanare oilfields to the army, which released their names. Many protesters were later assassinated, kidnapped or beaten by the army or, more often, by paramilitary groups. According to journalists who saw the report, an army colonel described in it how valuable the army found oil companies' security systems and how videotapes recorded by the oil companies at community meetings were used by military intelligence. He explicitly mentioned BP in a taped testimony to government lawyers on the Commission as sharing such information with the military. [118]

BP has always strongly denied this sharing of information and even claimed in 1997 that the colonel had written to them, denying that he had named BP, but the company has refused to make copies of this supposed letter available when quizzed by journalists. BP has also claimed to be exonerated by an investigation by the Colombian Public Prosecutor's office (La Fiscalia) into the allegations, published in 1998. In fact, the investigation was closed because of lack of evidence, even though it did not interview the colonel, or the authors of the 1995 report given to Howitt. According to *The Observer*, this prompted several NGOs including Amnesty International to complain that the issue had not been properly investigated. The investigation did, however, find in the XVI (16th) Brigade's files 18 irregular payments by BP totalling US$ 312,000 between May 1996 and August 2001. BP had told the investigation that this was for "extras", including "intelligence work".[119]

A joint investigation by the British *Guardian* and Colombian *Espectador* newspapers, published in October 1998, concluded that:

- *In May 1997, BP provided 60 pairs of night-vision goggles to the notorious XIV (14th) Brigade, which operates in Segovia, through which the OCENSA pipeline passes. In previous incidents in Segovia (not connected with the oil industry), evidence had implicated the XIV Brigade in the massacre in 1988 of 43 men, women and children, and in April 1996 of 14 people.*
- *Between July 1996 and February 1997, BP and OCENSA discussed supplying the Brigade with armoured attack helicopters, the "anti-guerrilla special weaponry and ammo", small robotic spy planes (drones) and secure communications equipment.*

Following intense public criticism, BP attempted to distance itself from responsibility for the army's human rights abuses. In June 1998, it renegotiated its contracts such that payments for security would be made to the state-owned Ecopetrol as a conduit to the Defense Ministry, instead of directly from the companies to the army.[120]

The private security firm

IN June 1996, BP contracted private security company Defence Systems Colombia (DSC) to protect its sites. But journalists found that DSC was being used to train the police (who were assigned to protect the oil facilities) in counter-guerrilla tactics, such as lethal-weapons handling, sniper fire and close-quarter combat (rather than simply defensive operations for the BP sites).[121] A former DSC security adviser, who previously worked for BP Colombia, told ITV's *World in Action* programme:

> *"The police are now being trained in military subjects. They are getting more involved with patrolling activities that are the normal requirements of an infantry unit, which is definitely being seen by the population as another military force in the area. The people are scared to death, you can see it on their faces as you go through the villages, you see them, no one is smiling. You see people watching every move you make, you can feel the tenseness in the air."*[122]

BP now admits that DSC trainers wear police uniforms on the oil installation sites, but denies it is providing lethal military training to the police.

The 1998 investigation by *The Guardian* and *El Espectador* newspapers interviewed someone who worked for DSC as part of a 35-strong team of former Colombian officers. He revealed his own involvement in a spying operation targeting perceived guerrillas and "subversives" in communities in and around the pipeline. His job was to nurture informants in the local community, to find out about union and community leaders, and to attend and monitor community meetings. The informants were paid from a secret fund at OCENSA's security department. He added that the information is regularly shared with the Colombian defence ministry and local army brigade.[123] The investigation also found that Silver Shadow, an Israeli security company contracted to OCENSA, had offered "a state-of-the-art investigation-intelligence and psychological warfare 18-day seminar", tailored "to suit OCENSA/BP special requirements" along the pipeline. BP and Silver Shadow discussed using former Israeli intelligence officers to train OCENSA security staff in interrogation, targeting and running informants in the field and investigation of private individuals.[124]

BP reacted to *The Guardian*'s investigation by sacking its chief security officer, Roger Brown, and asking DSC to conduct an internal inquiry.[125] Roger Brown was moved

to Venezuela where he later started working for BP again.[127] MEP Richard Howitt commented:

> *"What they are seeking to do is to minimise public attention of this problem by the sacking of Mr Brown and individualising the impact of the allegations against them. They are trying to say it's only one bad apple, when my research has shown that there's a pattern of threats and abuse against people who speak out against BP in Colombia."*[126]

A pertinent solution?

BP has consistently responded to criticism of its role in Colombia by arguing that it has no choice but to work with the national police and army, and to employ its own security. This raises an obvious question, as was posed by Tessa Kingham MP, a member of the UK House of Commons Select Committee on International Development's 1998 inquiry into economic development and conflict:

> *"Do you [BP] feel that by having any kind of contact with a brigade that has been implicated in human rights abuses and massacres of innocent civilians those are the kinds of bedfellows that BP should have? Do you not feel that it would be in order for a reputable company to have no contact with these people at all? . . . Would you then consider it to be pertinent not to put your profits above human rights abuses and people's lives and actually withdraw from that situation?"*[128]

THE PAST INFORMS THE FUTURE

Conflict, militarisation and the AGT pipelines system[129]

BP's consultation leaflet for Azerbaijan talks of safety, in a technical sense, but what is the risk of the AGT pipelines system causing conflict and bloodshed? BP's history in Colombia shows a company which decided to extract vast quantities of wealth and resources from within a quagmire of conflicting forces, between the guerrillas, the paramilitaries, the army and private security firms.

In many ways, there are disturbing parallels between Colombia and the countries through which the AGT pipelines system is intended to pass. Given the many conflicts in the Caucasus and in the Kurdish region of eastern Turkey, will BP find itself at some point in the next 40 years caught in a similar quagmire of conflict, a conflict inflamed by its own activities? Will the state-led militarisation, which would be imposed to secure the pipelines system, contribute in the long-term to political instability, and diminish regional security? Will BP become associated with human rights violations carried out by its associates and allies to protect the pipelines system?

A region of simmering conflicts

All three host countries for the AGT project have suffered recent conflicts, and in all three countries tensions remain, which may directly affect the pipeline system, if it is built.

Nagorno-Karabakh: Armenia vs Azerbaijan, 1988-1994 (conflict region 15 km (10 miles) from AGT pipelines system)

Nagorno-Karabakh is located in the south-western interior of Azerbaijan (ie not touching any of its borders). In 1988, demonstrations took place, in which Nagorno-Karabakh's majority ethnic Armenians called for the region's secession from Azerbaijan, and unification with Armenia. Violence broke out, which escalated over the following months and years, until by 1992 the Armenian Karabakh army had driven the Azeris (about 50,000 in number) out of the region. By this stage the conflict had developed into a full-scale war, which saw a number of counter-offensives by Azerbaijan. Azerbaijan was losing militarily however, and in 1993 Armenian Karabakh forces invaded the parts of Azerbaijan surrounding Nagorno-Karabakh, expelling all of the Azeri civilian population that lived there. As a result, up to 800,000 Azeris became refugees, displaced to the rest of Azerbaijan, and 20% of Azerbaijan's territory became occupied by Armenia. That same year, the Republic of Armenia's army got involved in the war. Fighting continued until a ceasefire was agreed, with Russian mediation, in May 1994. At least 25,000 people were killed in the war. The conflict remains unresolved.

Georgia vs South Ossetia, 1990-1992 (conflict region 55 km (35 miles) from AGT system)

In 1989-1990, as the Soviet Union was disintegrating, there were calls from South Ossetia (in northern Georgia) to break away from Georgia and unify with North Ossetia (on Russia's southern border). This developed into a two-year conflict with the Georgian government, in which at least 1,000 people died. Relations between South Ossetia and Georgia have since improved, although there is still no formal settlement.

North Ossetia vs Ingushetia, 1992 (220 km (140 miles) from AGT system)

In 1992, war broke out between the neighbouring southern Russian republics of Ingushetia and North Ossetia, over the disputed region of Prigorodny. Intense fighting only lasted a week, killing 400 and displacing 40-60,000 Ingush. A ceasefire was imposed by Russia, who sympathised with the Ossetian side. Subsequent Russian attempts to broker negotiations have largely failed, and violence sporadically breaks out, especially against Ingush people still living in Ossetia.

Georgia vs Abkhazia, 1992-1993 (130 km (80 miles) from AGT system)

The Abkhazia region in north-western Georgia sought greater autonomy from Georgia following the collapse of the Soviet Union, and in 1992 the Georgian army entered Abkhazia to try to break its independence movement. But in 1993, Abkhaz forces, with support from Russia, drove Georgian troops out of its territory. A truce was declared in 1994, but tension has persisted, with several outbreaks of fighting followed by renewed ceasefires, throughout the 1990s. Georgian guerrilla soldiers have been operating in Abkhazia (without the sanction of the Georgian government), and clashes between them and the Abkhaz escalated through 2001, nearly breaking out into another war. There remains mistrust on both sides, the Abkhaz suspecting that the Georgian government may restart the war with American support, and

the government fearing Abkhazia's political closeness to Russia. The conflict displaced 250,000 civilians (70 per cent of the population), most of them Georgian, and killed between 10,000 and 20,000 people.

Russia vs Chechnya, 1994-1996 (110 km (70 miles) from AGT system)

The Russian republic of Chechnya declared independence in 1991, at the collapse of the Soviet Union, and in 1992 adopted a Constitution, defining the Chechen Republic as an independent, secular state governed by a president and a parliament. In 1994, however, Russia sent in troops to reclaim the republic and crush the independence movement, and reduced the capital Grozny to ruins. Russia's refusal to grant independence to Chechnya is widely recognised to have been motivated by the desire for control over the Baku-Novorossiysk oil route (see chapter 3). The Chechens counter-attacked successfully, driving the Russian troops back. A truce was signed in 1996, making Chechnya effectively independent. Between 60,000 and 100,000 were killed in the war, many of them civilians.

Russia vs Dagestan, 1999 (80 km (50 miles) from AGT system)

Next door to Chechnya is Dagestan, another republic within the Russian Federation. During the first war in Chechnya, a number of Dagestani fighters took part on the Chechen side, mostly religious radicals. Partly inspired by this experience, in 1999 they joined with two Chechen warlords and attempted to turn Dagestan into an independent Islamic state. They were crushed by the Russian army within a few weeks, during which time about 1,000 people were killed. Russia decided that Chechnya was the root cause of the problem, and reinvaded, beginning the second Chechen war. Sporadic clashes and bomb attacks continued, both in Dagestan and in Russia, and the republic remains unstable.

Russia vs Chechnya, 1999- (110 km (70 miles) from AGT system)

After the Dagestan war, and following a series of bombings in Russian cities, Russia re-invaded Chechnya in late 1999. Russia captured Grozny in early 2000, after which the Chechen rebels moved into the mountains, and guerrilla warfare continued. Despite Russian claims on several occasions that it had won the war, fighting continues. Official Russian figures put the military death toll from the second Chechen war at 13,000 rebels and 3,000 Russian soldiers. Estimates of civilian deaths range from 9,000 to 14,000. Russia has been widely criticised for committing serious human rights violations during the war.

Turkey vs PKK, 1984-1999 (pipeline passes through edge of conflict region)

In 1984, the PKK (Kurdistan Workers Party) began an armed struggle for an independent Kurdish state, against which Turkey reacted heavily. The 15-year armed conflict between the PKK and Turkish security forces caused the deaths of more than 30,000 people – most of them Kurds and many of them non-combatants – along with the destruction of more than 3,500 villages and hamlets in the Kurdish regions and the internal displacement of an estimated three million people. Today, the unilateral PKK cease-fire, established in 1999-2000, remains a precarious one. Turkey has been widely condemned for the human rights abuses it has carried out against the Kurds, both within its conflict with the PKK and more generally.

Militarisation in the Caspian region in the 1990s

Against a background of persistent conflict (see box opposite), Azerbaijan, Georgia and Turkey are heavily – and increasingly – militarised. Due to the unresolved conflict with Armenia, Azerbaijan still keeps strong armed forces. Chinese and Russian support of Armenia has led Azerbaijan to seek military co-operation with the West and Islamic countries.

Since regaining its independence in 1990 from the Soviet Union, Georgia has been only partially successful in establishing an effective military force under the control of the government. Most of its armed units have been drawn from formerly independent militias and guerrilla groups, whose loyalty to local commanders still supersedes the troops' allegiance to the Georgian government. Non-payment of salaries and high desertion rates plague the military's development. Georgia's security is threatened by its location just south of the strife-torn Russian republics, including Chechnya, Dagestan and Ingushetia, and also from within by conflict with the separatist regions of Abkhazia and South Ossetia, where Russian influence has recently strengthened.

Turkey has a substantial military capacity, military expenditure accounting for an enormous 5.6 per cent of GDP. Many soldiers are deployed in Kurdish regions. As recently as May 2002, Turkish security forces, backed by warplanes and attack helicopters, attacked the Kurdish Tunceli region, which the planned AGT pipelines would skirt. From 1987 until summer 2002, Tunceli remained under State of Emergency rule, which allowed regional governors to exercise quasi-martial law powers.

Azerbaijan and Georgia have resisted Russian attempts to bring them more closely into security arrangements of the Community of Independent States. After the collapse of the Soviet Union, Azerbaijan and Georgia became members of the NATO-led 'Partnership for Peace' initiative, and have also integrated into the Georgia, Ukraine, Uzbekistan, Azerbaijan, Moldova regional co-operation group, known as GUUAM. Turkey remains a key NATO member and a strategic US ally; its airbases (including Incirlik, near the end of the BTC oil pipeline – see chapter 3) are used by the US for bombing raids against Iraq, and more recently Afghanistan.

Since 11th September, 2001, Georgia and Azerbaijan have significantly increased their cooperation with the USA. Both countries immediately provided the USA with rights to fly over their territories for military operations. In March 2002, the US Defense Department pledged US$ 4.4 million in military aid to Azerbaijan with the reported aims of countering terrorism, promoting stability in the Caucasus, and developing trade and transport corridors. But the most important US military interest in the region is in Georgia. In February 2002, the US government said it would provide Georgia with military support worth US$ 64 million, and promised to dispatch 180 crack troops and to train up to 2,000 Georgians in anti-terrorism and counter-insurgency operations, chiefly in the Pankisi Gorge, where Al Qaeda fighters (as well as Chechens) are believed to have taken refuge. The pipeline route would pass about 100 kilometres (60 miles) away from the Pankisi Gorge area.

Strong cultural and political links exist between Turkey and Azerbaijan. Turkish officers have served as advisers to the Azerbaijani armed forces, and Turkey will reportedly modernise Azerbaijan's armed forces within the framework of a new programme named 'Arms in Exchange for Gas'. Given the planned volumes of shipments of Azerbaijani gas to Turkey, Baku could receive arms and military equipment to the value of up to US$ 60 million over the next five years. Shipments would then progressively increase after 2007 and could exceed $150–170 million.

In the last few months, Azerbaijan and Georgia have signed an anti-terrorist agreement with Turkey. Bilateral cooperation details will be worked on by a working commission to be set up no later than July 2002. The Georgian Defence Minister also indicated that Georgia is interested in sending officers to study in military schools in Azerbaijan.

Pipelines exacerbate tension

In developing countries, the construction and operation of pipelines have often triggered further tensions, militarisation and conflicts on a local scale. Because of the international nature of the AGT project, potential conflicts might develop also on a regional scale, thus undermining the already weak stability of the region.

There is already evidence that some groups may be disposed to sabotage the pipelines system. If these fears are realised, the human toll could be devastating, as it was when the ELN attacked the OCENSA pipeline at Machuca in Colombia.

Upon returning to Baku from internal exile in 1997, ex-President and Azerbaijan Popular Front (AzPF) Chairman Abulfaz Elchibey warned that AzPF partisans in the Gazakh and Agstafa regions might take military action against the Baku-Supsa pipeline if the project did not "serve the interests of the Azerbaijani people".

In Turkey, the PKK has a history of targeting oil installations. During the height of their armed conflict with Turkish security forces in the 1990s, similar to guerrilla targeting of the OCENSA pipeline in Colombia, the PKK identified Turkish pipelines and oil refineries in the Kurdish regions as legitimate military targets.

In July 1991, PKK guerrillas raided Turkish Petroleum's (TPAO's) research camp in Kurtalan and blew up 15 vehicles. Five months later in December 1991, the PKK destroyed TPAO's Selmo oil wells near the city of Batman with rocket fires. Then, in less than five weeks between 31 August and 5 October 1992, the PKK attacked three different pipeline sites in the Kurdish regions. First, on 31 August, Shell's depots near Diyarbakir, were attacked and oil tanks were set on fire. Less than two weeks later, on 12 September, the PKK raided the Selmo oilfields a second time, setting fires and killing three engineers. Then, at the beginning of October, the TPAO pumping stations and

factories near Sason were attacked and set on fire. In one of its most serious pipeline attacks on 10 July 1996, the PKK set fire to part of the Kirkuk-Yumurtalik pipeline (Turkey-Iraq) in Silopi, Iraq. These fires could not be controlled for days. Six months later, in January 1997, the PKK attacked Kirkuk-Yumurtalik again, this time in the town of Mardin.

The AGT pipelines system would pass directly through areas around Erzurum where the PKK has been very active.

As the box above shows, in Azerbaijan and Georgia the AGT pipelines would pass close to Nagorno-Karabakh (15 kilometres), Abkhazia (130 kilometres) and South Ossetia (55 kilometres), all of whom might consider themselves enemies, respectively of Azerbaijan or Georgia: even if not now, then quite possibly at some point within the next 40 years.

Pipeline militarisation

Meanwhile, there are clear indications of the host states' plans to militarise the region of the pipelines system, which would carry grave risks for stability in the region and for human rights.

Since 1999, Georgia has already lined the Baku-Supsa pipeline with military posts and has been conducting joint military exercises with Azerbaijan to promote pipeline security. Conspicuously, Georgian President Shevardnadze has also remarked publicly on several recent occasions that Georgia intends to join NATO,[g] and this decision is motivated at least in part by a desire to cast itself as a long-term, stable oil partner.

On 3rd July 2001, BP Vice President John Sullivan and Georgian President Eduard Shevardnadze discussed security for the construction and operation of the BTC oil and SCP gas pipelines. At the meeting, they agreed to set up an inter-departmental commission with the participation of law enforcement structures, which would guarantee the security of the construction and operation of the oil and gas pipelines. A few days before this meeting, President Shevardnadze had publicly announced that the Georgian State Guard Service would be responsible for the security of the transportation of Caspian oil and gas resources through Georgia. He also revealed that a special unit of the service had been policing the Baku-Supsa oil pipeline for the past two years.

As the region has recently become further militarised following September 11th 2001, US-led anti-terrorism initiatives have been directly linked to the need to increase security along the east-west energy corridor. In April 2002, Azerbaijan and Georgia signed a new military agreement designed to increase oil and gas pipeline security, alongside anti-terrorist and anti-separatism efforts. At the end of the meeting, the Vice President of the Azerbaijani state-owned oil company SOCAR, Ilham Aliyev (who is the son of Azerbaijani President Aliyev), publicly admitted that the protection of the BTC pipeline would involve the United States as well as Azerbaijan, Turkey and Georgia.

g North Atlantic Treaty Organisation (see page 30)

Following increasing US deployment in Georgia in 2002, a BP spokeswoman commented, "The pipelines will of course benefit from the military presence".

The potential creation of a 'militarised corridor' along the pipelines' route in Turkey's Kurdish regions poses the serious threat of an escalation in State violence in these war-ravaged regions. Responsibility for the security of the pipeline in Turkey would rest with the Turkish State Gendarmérie. Considering Turkey's continued failure to commit to serious human rights reform – most particularly, the on-going impunity of those responsible for torture in custody and extra-judicial killing – the increased militarisation that would potentially accompany the development of the AGT pipelines could also bring with it a massive blow to the cause of peace in Turkey. The PKK has maintained a three-year cease-fire, but it is a delicate one that would not be aided by an increased military presence in the Kurdish areas, where people continue to suffer gross human rights violations at the hands of the State. Significantly, the Council of Europe passed a highly critical resolution in July 2002, condemning the severe and ongoing human rights abuses committed by Turkish security forces and naming the Gendarméries as one of the forces in urgent need of reform.

Human Rights: Turkey and the Kurds

In Colombia, the increased conflict following BP's arrival went hand-in-hand with serious human rights violations by the various actors within the conflict. Due to its role as the investor, BP was unable to distance itself from these violations. Turkey too has an extremely bad human rights record, especially in relation to the Kurds.

Although the AGT pipelines system would not pass through the predominantly Kurdish regions of south-eastern Turkey, it would pass through areas of north-eastern Turkey where Kurds make up around 40 per cent of the population. In these areas, the Turkish State has committed gross human rights abuses, violently suppressing free expression, and harassing and imprisoning democratically-elected Kurdish officials and supporters of legally-registered, pro-Kurdish political parties.

Kurds in Turkey have for decades been subjected to gross human rights violations and economic disadvantages. They bear the hallmarks of systematic persecution from a State intent on destroying the Kurdish identity by silencing the Kurdish language and other cultural expressions through violence or censorship. Since the foundation of the Turkish State in 1923 under the leadership of Mustafa Kemal Atatürk, Turkey has refused to recognise the existence of a separate Kurdish ethnic community within its borders. Officially, under the 1923 Treaty of Lausanne, all inhabitants of Turkey were defined as "Turkish": to define oneself as belonging to any other ethnic group was regarded as an act of defiance against State authority. In 1924, an official decree banned all Kurdish schools, organisations and publications. Use of the words "Kurd" and "Kurdistan" was forbidden and references to them were removed from Turkish history books.

Over the course of the next decade, the newly established State used brutal methods, including mass deportations, in an attempt to pacify the rebellious Kurdish south-east of the country and to try to assimilate the Kurds into the Turkish population forcibly. In June 1934, Law 2510 divided Turkey into three zones: (i) localities to be reserved for the habitation of persons possessing Turkish culture; (ii) areas to which persons of non-Turkish culture could be moved for assimilation into Turkish culture; and (iii) regions for complete evacuation. At that stage, almost all Kurdish villages were renamed with Turkish-sounding names. Parents could not register their children with distinctively Kurdish names. The Kurdish language was forbidden in written and spoken form. Kurdish folklore, music, clothes and colours, and the celebration of the Kurdish new year festival, Newroz, have all been banned at various times.

Today, more than 15 million Kurds live in Turkey, are still denied basic human and cultural rights, and face the continuing horrors of forced assimilation, involuntary displacement, repression and human rights abuses. Beyond regular reports of the United Nations, the Council of Europe, the US State Department's Bureau of Human Rights, and the Organisation for Security and Cooperation in Europe, Turkey's abysmal human rights record has been well-documented by more than 300 judgments involving Turkey which have been handed down by the European Court of Human Rights. Turkey's record at the European Court reveals it to be by far the Court's worst offender in cases that involve the most serious of human rights abuses including extra-judicial killing, 'disappearances' and torture in custody.

Against this background of conflict and human rights abuses, we might wonder whether the question posed by Tess Kingham MP about BP in Colombia might one day be posed about BP in Azerbaijan, Georgia and Turkey: "… Would you then consider it to be pertinent not to put your profits above human rights abuses and people's lives, and actually withdraw from that situation?"

The Exxon Valdez *grounded on Bligh Reef, Prince William Sound, March 1989 (The Office of Response and Restoration, National Ocean Service, National Oceanic and Atmospheric Administration)*

Chapter 12

The sound of silence

How safe would the AGT pipelines system be for the environment?

David Woodward, or "Dejvid Vutvort", as he is known locally, is President of BP Azerbaijan, based in Baku. He is one of the BP managers most involved in the AGT project.

This is not David Woodward's first experience of a pipeline system. From 1994 to 1998, he was vice president of BP Exploration Alaska, where his role was to 'optimise performance' from the Prudhoe Bay oilfield – in other words, to maximise throughput of oil through the system, while minimising costs.

Woodward will know well from his Alaskan experience that a pipeline is part of a 'complete system', from drilling rig to tanker terminal, and that if a breakdown occurs in any one section, the sheer momentum of the rest of the system can turn that breakdown into a major disaster. The Exxon Valdez *spill occurred five years before David Woodward arrived in Alaska, but still during his time there that same pressure to extract and transport maximum quantities of oil was ever present.*

When operating at capacity, the AGT pipelines system would transport one million barrels of crude oil, and at least 20 million cubic metres of gas, per day. Resources worth about US $21 million would pass through the pipelines every day. The pressure on the staff operating the system to maintain the flow at full capacity would be enormous. To export this crude oil to Western Europe may require nearly 1,000 tanker shipments per year, perhaps 40,000 shipments in the AGT project's lifetime, from the tanker terminal at Yumurtalik, just south of Ceyhan on Turkey's Mediterranean coast.

How safe would this system be?

"This pipeline is being built to conform to the highest standards for quality and safety, thus ensuring both its environmental and operational integrity."[130]

Alyeska Reports, newsletter, July 1976

IN the early hours of 24th March 1989, the tanker Exxon Valdez ran aground on a reef in Prince William Sound off the south coast of Alaska. The ship was just three hours out of the port of Valdez, where it had picked up a cargo of oil that had been pumped down the Trans-Alaska pipeline from the Alaska North Slope. That night, and over the next 12 days while the ship lay punctured on Bligh Reef, over 11 million gallons (260,000 barrels) of oil poured out into the water and coated about 1,300 miles of shoreline.

Devastation

SCIENTISTS estimate that the oil spill directly killed between 260,000 and 580,000 birds, between 3,500 and 5,500 sea otters, and 200 harbour seals (from a population of 1,500-2,500),[131] plus 250 bald eagles, up to 22 killer whales, and billions of salmon and herring eggs,[132] not counting the ongoing effects of reproductive damage and starvation due to death or contamination of prey. Nearly 200,000 of the birds killed were murres, which live long and breed slowly, laying only one egg per year. Some colonies lost up to 70% of their members, then failed completely to reproduce for the following two years.[133] Beaches and tide-pool areas were also badly damaged, both by the spill itself and by the effects of the cleanup techniques. Much of the kelp, which is basic food for the ecosystem, was destroyed.

In 2001, a US Fish and Wildlife Service study looked over eight years at populations of the 17 species of seabird impacted by the spill. It found that, 12 years after the spill, four showed only a "weak to very weak" recovery from the disaster. Nine "showed no evidence of recovery", while four continued to show signs of being increasingly affected by the pollution from the spill.[134]

Yet the Alaska Oil Spill Commission's final report in 1990 pointed out that:

> *"The neglected victims of the* Exxon Valdez *spill are not the birds and sea mammals, nor the fish and crustaceans, which have been given so much attention by the media, they are the people… The natural harmony of Prince William Sound, the relationship of its people to its lands and waters, its bountiful resources and its beauty have been disturbed indefinitely."*[135]

Fishing makes up a considerable part of the economy along the coast and was heavily impacted by the spill – and not just in 1989, the year of the spill itself. Fish populations were affected over the following years (from 1992 onwards) because they did not reproduce in 1989, and by the impacts of persistent pollution. The salmon catch was tiny in both 1992 and 1993. In 1993, the herring catch was a mere 30,000 tons, compared to a more usual 130,000 tons.[136] Many

The cleanup effort on Prince William Sound's oiled beaches (National Oceanic and Atmospheric Administration/Department of Commerce)

of the herring that were caught were covered with open sores. The herring population picked up again in the mid-1990s before plummeting again to 5% of pre-spill levels. [137]

There are 15 indigenous communities in the oil spill area that all rely to some degree on hunting and fishing. Harvests of fish, shellfish and seals were heavily reduced following the spill. The total quantity of harvest has now broadly recovered, but this has largely been achieved by people spending more effort and travelling greater distances. On top of this, however, was the cultural impact: the years of decline disrupted opportunities for young people to learn hunting and fishing practices and techniques. More than half of those indigenous people interviewed in 1998 by the *Exxon Valdez* Oil Spill Trustees said that the traditional way of life had not recovered since the spill.[138]

Meanwhile, people's mental health declined, as did community cohesion in the affected area. In Kodiak, there were eight suicides, and the Kodiak Mental Health Department reported a 700% increase in its workload.[139] Drug and alcohol abuse increased, as did crime. And tensions and resentment developed when some fishermen were offered lucrative jobs by Exxon to clean up the spill, while others suffered with lost or diminished livelihoods.

Foreseen

THE *Exxon Valdez* disaster was the realisation of many people's worst fears, articulated even during the construction of the pipeline. The pipeline's draft environmental impact assessment (EIA) in 1971, for example, was criticised for not considering the danger of tanker spills in Prince William Sound – including by former Interior Secretary Stewart Udall and by the Environmental Protection Agency (EPA).[140] The fishing town of Cordova, just along the coast from Valdez, was strongly opposed to the pipeline. In April 1971, the Cordova District Fisheries Union (CDFU), supported by several other fishing and local business groups, filed suit against the Departments of the Interior and of Agriculture for failing to consider protection of their livelihood. The CDFU newsletter reported that over half the adult population of Cordova attended their public meeting about the pipeline plan. According to one fisherman, "When something threatens your bacon and beans, it sort of dumps part of a worldwide problem right in your lap".[141] Cordova was one of the communities worst impacted when the spill finally happened. In July 1972, the Canadian Wildlife Federation and its British Colombia affiliate also filed a lawsuit against Alyeska, the pipeline consortium, and the US Department of the Interior, concerned about spillage from tankers.

These fears were dismissed at the time by BP and the other oil companies. One BP official, LR Beynon, testified at the EIA hearings that:

> *"From my own experience and the studies of many other workers in the pollution field, I am satisfied that tanker traffic to and from Port Valdez, and operation of an oil port there, will not cause any significant damage to the marine environment or to fisheries' interests. The contingency plan which will be drawn up will detail methods for dealing promptly and effectively with any oil spill which may occur, so that its effect on the environment would be minimal".*[142]

Other officials were even more confident. In May 1972, the President of Alyeska (the oil company consortium led by BP), was quoted in a newspaper article as saying, "We are aiming for zero spillage, and we have every reason to believe our efforts will be successful".[143]

But following a 1991 US General Accounting Office investigation, the chairman of the House Interior and Insular Affairs Committee, George Miller, complained that:

> *"The Congress authorized the pipeline in 1973 only after assurances from the oil industry and the Nixon administration that it would meet the toughest standards for the protection of the public and the environment… Now we have learned that the government turned its responsibility over to the industry and the industry betrayed its promise to the public."*[144]

Neglect

MUCH of the media debate in the wake of the spill looked for who was to blame. And in many people's memory of the disaster, it is the image of the drunken skipper, Captain Joe Hazelwood, which persists. Hazelwood was indeed under the influence of alcohol, but a focus on the individual has served to hide the more systemic factors behind the spill. The State of Alaska's report into the incident concluded that:

> *"Industry's insistence on regulating the Valdez tanker trade its own way, and government's incremental accession to industry pressure, had produced a disastrous failure of the system… The grounding on Bligh Reef represents much more than the error of a possibly drunken skipper: it was the result of the gradual degradation of oversight and safety practices that had been intended, 12 years before, to safeguard and backstop the inevitable mistakes of human beings."*[145]

Exxon is the company name most often associated with the spill. Exxon was responsible for the shipping – it owned and supervised the tanker that ran aground – and clearly bears the greatest culpability for the disaster… but not all of it. The tankers shipping out from Valdez are part of the complete system of oil export; shipping was just Exxon's part of this system. The terminal at Valdez was run by Alyeska, the Trans-Alaska pipeline consortium (*see* Chapter 10) led by BP (and partnered by Exxon, ARCO and a few smaller shareholders), which thus had responsibility for spill prevention and preparedness. Tragically for Alaska's coastline, BP and Alyeska neglected that responsibility in order to cut costs and boost profits.

In all spill contingency plans and in dealings with regulators, Alyeska was assigned responsibility for taking charge of any cleanup operation. In its original project description, Alyeska claimed that as much as possible of the cleanup equipment would be stored on tugs and would be on site within eight hours. Yet when the *Exxon Valdez* grounded, Alyeska handed control of the cleanup operation over to Exxon 36 hours after the grounding. The owners' committee of Alyeska had secretly decided in meetings that responsibility for spills in Prince William Sound would lie with the shipper, not with Alyeska, but they had not told the regulators of this, and the shippers had not prepared contingency response plans. Alyeska still hadn't found some of the equipment in the warehouse after 14 hours.[146] The tanker was finally surrounded by a containment boom 35 hours after the accident, by which time the spilled oil could not be contained. Exxon had never reviewed Alyeska's contingency plans, so carried out its response more or less on an *ad hoc* basis.[147]

George Miller, who headed the Congressional hearing into the *Exxon Valdez* spill, stated in a *Scottish Eye* television documentary in 1990 that:

> *"British Petroleum is a major mover and shaker within the consortium that operates Alyeska; that led the way time and again to fight stringent environmental controls; to fight the replacement of assets for oil spill recovery; to fight stronger controls on the operations of this system…"*[148]

An investigation by the *Anchorage Daily News* seven months after the spill found warnings of disaster that had been repeatedly ignored.

By law, companies are required to have oil-spill contingency plans in place to enable them to respond to spills. In 1976, Randy Bayliss of the Alaska Department of Environmental Conservation (DEC) wrote to his superiors to point out that:

> *"Alyeska's Valdez Terminal Oil Spill Contingency Plan, in almost every major facet, contains mistakes and inadequacies, demonstrates microscopic thinking and, worse, omits major functions that are necessary… The initial plan is so bad, the department should consider prosecution for violation of solid waste regulations."*[149]

In December 1977, DEC inspectors visited Alyeska's warehouses and smallboat harbour in Valdez to check on the spill control equipment Alyeska had promised to maintain. The inspectors found much of the equipment broken, missing or in a poor state of repair – and Alyeska had violated regulations by not notifying the regulators of this.[150]

In October 1984, Alyeska invited regulators to observe an oil-spill drill in the dock at Valdez. An hour after the equipment was deployed, the main containment boom sank. Another boom was too short to contain the imaginary spill. The exercise was then called off when weather conditions worsened, which the company said threatened the safety of its deepwater equipment – even though this was what the company would use in case of a real spill in the rougher seas outside the port. Following the botched drill, the head of the Alaska branch of the Environment Protection Agency wrote in a letter to the Coast Guard that "at this time, EPA is not confident Alyeska is prepared to efficiently respond to a major spill event".[151]

Eighteen months later, Alyeska failed to control a 700-gallon spill, even though it was in the port of Valdez itself. An internal report from the Department of Environmental Conservation found that "Cleanup equipment did not function, cleanup personnel were not available, supervision was lacking".[152]

In 1990, the State of Alaska sued BP and other owners of the Alaskan pipeline for not responding promptly and adequately to contain and remove spilled oil from the *Exxon Valdez* – which Alyeska settled with a US$ 31 million payment. The following year, Alyeska settled with thousands of indigenous people, fishermen, business owners and others injured by the spill, this time paying out US$ 98 million in settlement, plus

about $35 million in legal fees.[153] A General Accounting Office study in 1989 found Alyeska inadequate and slow in its response to the *Exxon Valdez* spill.[154]

Pipeline pressure

YET while safety systems were consistently found to be inadequate or failing, the rate of export continued to be maximised. The Chair of the Alaska Oil Spill Commission commented in a TV documentary:

> *"Why did they leave [the shipping lanes]? Because it was company policy for a lot of companies, including Exxon, to encourage their captains to get up to sea speed as soon as they dropped the pilot, maximise the time element, and if there was ice in your path… leave the tanker lanes, and go around the ice. That wasn't the decision of Captain Hazelwood, that was the decision of the companies."*[155]

Even while the *Exxon Valdez* still lay on the rocks, BP, Exxon and ARCO were reported to be demanding that the Coast Guard lift the safety restrictions imposed after the spill. The rules allowed tankers to travel by daylight only, and required them to be escorted by two tugs and be under the supervision of a harbour pilot – rules which the companies argued was holding up the flow of oil to their West Coast refineries and customers.[156]

By 1981, Alyeska had disbanded its dedicated full-time oil spill team, relying instead on workers in other jobs to cover in case of spills.[157]

Congressman George Miller observed in a TV documentary that:

> *"The list of violations against these oil companies for the operations at this facility [the Valdez terminal] runs down the street and around the corner. They have sought every bend in the road to do it their way, whether or not that was in compliance with state or federal regulations and where they've been caught, they're fully prepared to pay a fine. It's cheaper to operate out of compliance than it is to operate in compliance… No, they're not in compliance – that's what they pay attorneys for."*

Continued failings

THE neglect of safety and environmental systems that led to the *Exxon Valdez* disaster and the inability to contain it is the same throughout the whole pipeline system. In 1993, after a series of whistle-blowers had highlighted major safety problems with TAPS, the US Bureau of Land Management commissioned an audit of the pipeline's systems. The audit found that:

- *regulatory compliance and quality control/checking systems were inadequate or non-existent;*
- *"massive violations" of the National Electric Code existed, which could cause fires or other pipeline failures;*
- *safety margins of essential systems had not been maintained.*[158]

The investigation also found that, in more than 400 places, the earthquake protection for the pipeline no longer functioned, and that the leak-detection system might not detect spills smaller than 10,000 barrels of oil.[159] While the audit was taking place, some Alyeska employees placed falsified safety plans in files when in fact none existed.[160] According to the *Anchorage Daily News*, the audit team said that the profit-oriented "mindset" of senior Alyeska management was at the root of the problem.[161]

At the hearings earlier in 1993 that sparked the audit, Alyeska President David Pritchard acknowledged that there were both technical and organisational problems, and promised that they would be addressed. But in January 1997, an inspector reported that 56 of the audit's action points had not been implemented, including the earthquake monitoring system, leak detection system, non-mainline pipe supports, preventive maintenance procedures and calibration of installed instruments.[162]

In July 1999, nearly six years after the damning audit, a group of six experienced TAPS managers revealed that the problems raised in 1993 had still not been resolved, nor had the culture of the operation changed. They reported that several "Class 1 Imminent Threats"[a] found in the 1993 audit had still not been rectified. Record-keeping was "totally dysfunctional", with equipment and materials quality records/drawings – which detail maintenance, inspection, purchasing, deficiency/non-conformance identification and design – not maintained, and in many cases not retrievable. In some cases, records were falsified to make it appear to regulators that the records were retrievable. According to the whistle-blowers, Alyeska executive management instructed Alyeska middle management personnel to disregard and/or circumvent the safety regulations,[b] and to "tone down," alter or delete negative reports including internal audits and surveillance reports.[163] They reported one incident where:

> *"To save money, Alyeska management allowed two 6 inch natural gas pipelines to leak for over one year at Pump Station #3, which also incidentally housed dozens of pipeline workers. The "mechanical fix" that Alyeska implemented to mitigate the gas leak was to prop the door open to vent the explosive gases."*[164]

a These are defined as imminent threats capable of causing "death or severe injury, loss of containment of oil or its by-products in excess of requirements, loss of design safety margin to a level below normal operating conditions, complete indeterminacy of design safety margin".

b Specifically the Alyeska Code of Conduct, Alyeska Quality Manual, Alyeska Safety Manual, Alyeska Emergency Operating Manual and the Alyeska Regulatory Compliance Matrix

In that incident, the leaks were repaired only after the regulator was notified by a watchdog and safety campaigner.

The report of an internal investigation was presented to the US Congress and US government regulators in September 1999. It found that the quality programme, integral to pipeline safety, had not been consistently implemented. It found "numerous examples" where problems had resulted in either "no action or untimely corrective actions". It found that the whistle-blowers' concerns were known to senior executives but overlooked. It found that the organisation of crucial engineering design drawings was "weak", which prevented employees from doing their job safely and efficiently.[165]

Shooting the messenger

BUT BP does not seem to have appreciated the constructive highlighting of system weaknesses by its employees. Instead, BP and its partner companies have often responded with intimidation. In September 1984, a Washington-based oil broker, Charles Hamel, flew to London to speak to BP officials about evidence that pollution was being covered up at the Alyeska terminal. He handed over detailed accounts from laboratory technicians reporting they had been required to empty test tubes of oil-polluted water and refill them with clean seawater. Seemingly in response, Hamel's 'phone was tapped, his home bugged with listening devices and his post intercepted. Alyeska employees who sent him information were fired.[166] Hamel filed a lawsuit in October 1992 against Alyeska, claiming that it had violated the Racketeer Influenced and Corrupt Organizations (RICO) Act and the Fair Credit Reporting Act by stealing documents and conducting unauthorised video and audio surveillance from February 1990 to December 1990. Hamel received a reported US$ 5 million settlement from Alyeska.[167]

Congressional hearings in July 1993 learned that pipeline inspectors, rather than being encouraged to uncover problems (which should have been their role), were routinely castigated by Alyeska when they did so. Indeed, five inspectors had, over the previous few years, filed suits against Alyeska for harassment. The chair of the hearings, John Dingell, concluded that:

> *"For their efforts, it appears that [the inspectors] have been threatened, harassed, intimidated, and have been fired. The only modicum of improvement that we can see since our earlier hearing is that during 1975–1976, inspectors received death threats, bullet holes in the windshields of their trucks, and one inspector had his truck crushed by a section of 48-inch pipe when, for some*

> *curious, inexplicable reason, it rolled down an embankment. In 1992, by contrast, an Alyeska official only threatened to break the arm of an inspector if he wrote another non-conformance report. This appears to be progress, but very small progress indeed".*[168]

At these hearings, ARCO admitted to the use of 'blacklists' of inspectors who raised problems.[169]

Under government pressure, Alyeska set up an Employees Concern Program in 1995 for workers to report problems confidentially. In 1997, it was discovered that an Alyeska lawyer had ordered a covert probe to download files containing whistle-blower names and allegations from the Program's computer.[170] The whistle-blowers of July 1999 reported that:

> *"Alyeska executive management instructed middle management personnel and/or their direct employees that issuing audit reports, nonconformance reports, corrective action requests, stop work orders, surveillance findings and other reports could negatively influence their performance appraisals, future assignments (including relocation to undesirable locations) and even continued employment."*[171]

So, by intimidating and attacking any critics of their operations, including those who are running them day-to-day, BP and Alyeska would appear to have undermined an essential safety feedback mechanism – and thus contributed to the risk of further serious accidents.

THE PAST INFORMS THE FUTURE

Environmental risks in the AGT pipelines system[172]

BP's consultation leaflet claims that the pipeline "will be built to the highest international standards". What does this mean?

In itself, that seems like a reassuring statement. However it is rather less so when put alongside the story of the Trans-Alaska Pipeline System (TAPS), and the very similar promise made by the Alyeska consortium during its construction in 1976: "This pipeline is being built to conform to the highest standards for quality and safety, thus ensuring both its environmental and operational integrity."

In fact, fears about the AGT pipelines system are actually greater than those for TAPS, as the environmental and political conditions bring greater risks and pressures than those experienced in Alaska.

AGT already has a local precedent for lax environmental performance, in the 'Early Oil' project. The Chirag-1 platform has consistently discharged its wastewater directly into the Caspian Sea, in contravention of the Environmental Impact Assessment for the project. And there have been a number of accidental spills along the Baku-Novorossiysk and Baku-Supsa pipelines, due to causes including corrosion, and technical errors (see chapter 3).

If the AGT pipelines are built, should communities along the route expect a similar, or even worse, experience to that of Alaska?

Risks from earthquakes

Turkey lies in a major earthquake zone, and one of the most serious fault lines in Turkey runs directly from Sivas through Erzinçan to Erzurum: exactly the intended route of the Baku-Tbilisi-Ceyhan pipeline. At a conservative estimate (looking just at areas that are right on the route and ignoring the very frequent earthquakes in places like Varto, Bingöl and Muş which are close enough to cause serious damage), there have been at least 17 major earthquakes since 1924, measuring from 5.5 to 7.9 on the Richter scale, directly along the pipeline route.

Erzinçan has been completely destroyed and rebuilt on two separate occasions: after the 1939 earthquake which measured 7.9 and killed almost 33,000 people, and again more recently in 1992 after a 6.8 earthquake killed 653. In 1983, Erzurum was hit by a 6.9 earthquake, which killed nearly 1,200 people. The entire region is permanently under duress: in the first seven months of 2002, there were no fewer than 44 minor earthquakes (all under 4.5 on the Richter Scale), in various locations along the pipeline route.

The AGT pipelines system would be in place for 40 years – making it almost inevitable that a major earthquake would seriously affect it at some point in its lifetime.

BP addresses the earthquake risk by ensuring the pipeline crosses fault-lines at an optimised angle. In the TAPS pipeline, BP (after the public pressure of four years of scrutiny – see chapter 10) allowed for earthquakes by building the line such that it could move and bend during earth tremors. In Turkey, there would be no such flexibility in the pipeline, because it would be buried underground. Frequent earthquakes in Turkey are powerful enough to knock down buildings, even to level entire towns and cities, as they did with Erzinçan twice. Would the pipeline really be able to withstand this?

Risks to tankers

The port of Yumurtalik suffers a terrible storm about twice a year. The storm is called Yarikkaya, which translates as "the rock cut in 2 pieces", and has been known to sink ships. While the ships that have been lost to Yarikkaya have all been smaller than the supertankers that would carry Caspian crude oil out of Yumurtalik, how safe would that export be, especially when ships' captains are under pressure to move the oil out quickly?

Understandably, the greatest fears about a development such as this pipelines system come from those who stand to be most affected. Just as fishermen around Prince William Sound were among the strongest opponents of TAPS, the fishermen of Yumurtalik stand to be some of the most affected by AGT. BP claims in its Environmental Impact Assessment that it has consulted these fishermen. Yet when one of the authors of this book met the fishermen – as part of a Fact-Finding Mission in July 2002 – he was shocked to discover that they had not been consulted at all. In fact, the fishermen did not even know the pipeline would come to Yumurtalik, let alone that the tanker terminal would be expanded and supertankers used to export the oil.

There is a further lesson from the Baku-Supsa case. Tankers leaving Supsa (carrying early oil from the Western Route Export Pipeline from Baku) have refused to pay any fees for services to the port authorities: a position supported by BP, which threatened legal action based on the interpretation of the pipeline Host Government Agreement (see chapter 8). But officials are also worried that they are not being allowed to check tankers in accordance with international conventions. While the port carries responsibility for spill prevention and contingency plans, as in Valdez, if the port authorities' powers are restricted, the risk of an accident can only be increased.

Furthermore, the standards of the Supsa oil terminal do not meet guidelines for special zones under the 1973–78 MARPOL Convention for the Prevention of Pollution from Ships, which require oil terminals to be equipped with adequate reception and wastewater facilities.

Exacerbated by institutional and political factors

In the AGT pipelines system, the pressure on staff to maintain the flow rate, of resources worth US$ 21 million every day, would be enormous. In Alaska, safety systems were ignored, while staff who highlighted any problems were routinely intimidated or even sacked. Would staff be any more encouraged to point out safety problems in AGT, where unions are at best completely marginalised (see chapter 13), as are political opposition parties, where there is no independent scrutiny, negligible media freedom, and where the location is far from the watchful eyes of BP's home country?

When the Exxon Valdez *grounded, part of the reason the spill became a major environmental disaster was that responsibility was not clearly defined. The Alyeska consortium, which operated the Valdez terminal, had statutory responsibility, and had developed a contingency plan along with regulators, but hours after the grounding handed over responsibility to the ship-owner, Exxon. The companies later shifted responsibility again, publicly blaming the captain of the tanker. In the case of the Turkey section of the AGT pipelines system, including the Ceyhan / Yumurtalik terminal, there is an added complication in the assignment of responsibility, as the pipeline would be operated by Botaş, through a turnkey agreement.*

While the patterns of corporate behaviour were clearly culpable in the Exxon Valdez *disaster, it was also a failure of the regulatory system. But what would happen in AGT's case, where the oil companies' contracts legally over-ride the national regulatory systems? According to the BTC pipeline Host Government Agreement between Turkey and the oil companies, for example, no new environmental law or measure can be introduced which exceeds international norms for oil industry pipelines.*[c] *Furthermore, the Turkish state does not have the right to stop the flow of oil, except where there is an immediate and serious emergency.*[d]

The TAPS pipeline was – on paper – one of the safest ever built. After the sustained public challenges against the project, the final design was technically very sophisticated, leading to great confidence that it would be environmentally safe. Yet still there exists an ongoing lax attitude to safety standards and a serious hostility to whistleblowers. With the lessons of TAPS, the technical reassurances being made now about the AGT pipelines system are rather less comforting.

Will the AGT pipelines system be the cause of environmental disaster during its 40-year lifetime? How seriously would BP and its partners prioritise safety standards so as to prevent such a disaster?

c APPENDIX 5: 3.3 "If any regional or intergovernmental authority having jurisdiction enacts or promulgates environmental standards relating to areas where Pipeline Activities occur, the MEP Participants and the Government will confer respecting the possible impact thereof on the Project, but in no event shall the Project be subject to any such standards to the extent they are different from or more stringent than the standards and practices generally prevailing in the international Petroleum pipeline industry for comparable projects."

d 5.2 … "the Government hereby commits the State Authorities to perform and guarantees to each of the MEP Participants: … (iii) that the State Authorities shall not act or fail to act in any manner that could hinder or delay any Project Activity or otherwise negatively affect the Project or impair any rights granted under any Project Agreement (including any such action or inaction predicated on security, health, environmental or safety considerations that, directly or indirectly, could interrupt, impede or limit the flow of Petroleum in or through the Facilities, except under circumstances in which continued operation of the Facilities without immediate corrective action creates an imminent, material threat to public security, health, safety or the environment that renders it reasonable to take or fail to take, as the case may be, such action and, then, only to the extent and for the period of time necessary to remove that threat)"

BLOW OUT

a voice for the offshore worker

Issue No. 1 6 July 1989

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A DAY OF REMEMBRANCE

REMEMBER OUR DEAD

At a meeting in Glasgow on the 13th of June, the Offshore Industry Liaison Ctte issued a call to all offshore workers, to take 24 hour strike action on July 6th.

The call was made in response to an appeal by Bob Ballantine, a Piper survivor and member of the Piper Alpha Support Group. He urged offshore workers to make the 6th of July a "day of remembrance", not only for the men who died a year ago on Piper but for all those workers who have lost their lives in the industry over the past 26 years. It was proposed that the stoppage become an annual event in memory of our dead colleagues.

Delegates at the meeting pointed out that it was entirely appropriate that North Sea workers should stop work on the 6th as a mark of respect. Indeed the Piper Enquiry is itself expected to stop work on that day.

Reports were heard of the anger of construction workers throughout the North Sea, and their determination to put an end to the unacceptable situation that exists throughout the industry and that came to a head with the death of 167 men on that day a year ago.

Caterers, who have already shown considerable support for construction workers during the recent strikes on the platforms, are being asked to "feed the men" during the day of action. And especial plea was made to workers on the drilling and production sides of the industry. They were called on to join construction workers in action. Delegates stressed that this struggle ain't over but be for a "Continental Shelf Agreement", that would protect all offshore workers with acceptable safety standards as well as decent wages and conditions, and protection from gangster employers. The point was also made that when safety fails you can die whatever your job classification.

That "safety is the first priority on the North Sea", is an often repeated line. Only we, who stand to lose our lives in this industry, have safety as a first priority. On July 6th workers throughout the industry will remember our colleagues who have died. Government and oil companies will be told that their regime is unacceptable.

If you're going offshore on July 6th, refuse to fly (if the helicopter services are the victims of Piper Alpha's ruin)

The O.I.L. Ctte call on all exploration workers on the rigs, to join the action on July 6th " day of remembrance".

Dealing 1977 crews and Arnot deck crews supported the stoppage on River Rivers on June 6th.

FORTIES

North Sea Strikes

by a shop steward on "Forties"

The first issue of Blowout, *the magazine of North Sea oilworkers' union, OILC, 6th July 1989*

Chapter 13

The lethal machine

How safe would the AGT pipelines system be for those who operate it?

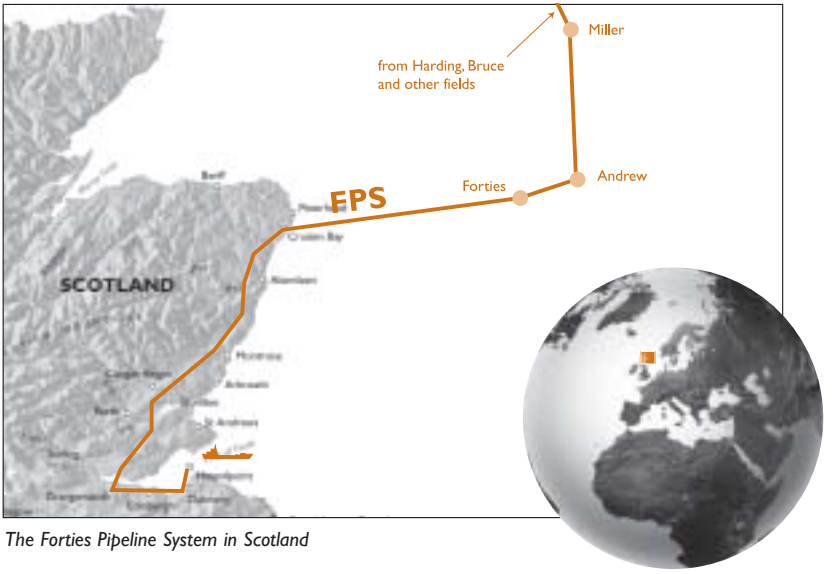
Dick Olver is the Chief Executive of BP's Exploration and Production division. He is thus responsible to the board of directors for the Azerbaijan-Georgia-Turkey pipelines system. Also falling within his zone of responsibility is the Forties Pipeline System in the Scottish North Sea.

From his years of experience, Dick Olver will know that the impact of an industrial complex such as the Forties Pipeline System (FPS) is felt not only during its construction phase, but also throughout its operational life. The experience of the Forties Pipeline System illustrates that risks to the safety of the workforce extend well beyond the pipeline itself. FPS comprises not just land and sea pipelines, but also oilfields in the North Sea and a refinery at Grangemouth, near Edinburgh. Throughout their operation, Grangemouth and the offshore rigs and installations have had a litany of safety disasters, for which cost-cutting, outsourcing and de-unionisation by the company arguably take a large share of the blame.

In offshore Azerbaijan, where unions are more severely marginalised, and external scrutiny of operations is non-existent, how safe will the workforce be? How accurate and honest is BP's consultation leaflet when it states: "BP puts safety before profit, and is therefore serious about this issue"?

IN the North Sea – the waters off the eastern coast of Britain, which is the home country of the two multinationals (BP and Shell) that dominate oil production there – one would expect oil activities to operate to high standards. But still today the memory of Piper Alpha, the production platform[a] that exploded in 1988 killing

a Operated by US oil company Occidental



The Forties Pipeline System in Scotland

167 people, lingers on. Despite numerous safety initiatives introduced by the companies since then, the same patterns of cost-cutting, maximising production levels and preventing worker involvement in operational decision-making leave untouched the fundamentally unsafe conditions that make the North Sea ripe for another disaster. Meanwhile, at the other end of FPS, BP's Grangemouth refinery has been consistently criticised for its poor safety record and repeatedly prosecuted. Exactly the same three structural driving forces – cost-cutting, productivity and de-unionisation – are largely to blame.

Pipeline geopolitics

IN the late 1960s, Britain's oil multinationals were feeling somewhat insecure, following the nationalisation of foreign oil provinces, especially in the Middle East, and the disintegration of the British Empire. Relations with the Middle East were worsening, in part due to an escalation in the Arab-Israeli conflict. The strategic priority for the UK and US oil industry was to find oil in politically stable zones, and vast sums were invested in exploration in Canada, Alaska, Australia and the North Sea. The three Scottish researchers, Charles Woolfson, John Foster and Matthias Beck, comment that:

> *"The discovery of North Sea oil in 1969 was not, therefore, accidental. It was a product of the strategic planning required by the geopolitical character of the oil industry."*[173]

One problem, however, was that in these 'politically stable' areas, oil extraction would be considerably more expensive than in the Middle-Eastern countries.[b] Yet controlling a significant output of oil outside OPEC[c] could enable the US/UK oil industry to limit OPEC's ability to set oil prices as it wished.

The biggest cost for the almost simultaneous new oil finds in both Alaska and the North Sea was the up-front capital. According to Woolfson and his colleagues, "It is generally agreed that the initial success of OPEC in negotiating production quotas and increasing oil prices between 1970 and 1971 was not achieved without some co-operation from the oil majors".[174] OPEC later went on to push the price up much further than the majors wanted. Their co-operation did not extend to 1972, and certainly not to the big price jumps of 1973, but at the time they were aiming to raise the price enough to facilitate major oil developments in these 'politically secure' areas. After low oil prices in 1969, the rises in 1970 and 1971 were enough to make it possible[d] to develop the two big North Sea finds – BP's Forties and Shell's Brent fields.

Still, to have the necessary impact on the world's oil economy and to temper OPEC's power, the development would have to be quick, and would require 20% of the UK's industrial investment for a decade. Since neither the UK government nor the UK's finance sector in the City of London had this much available, development was achieved with the injection of US capital, and with it came the US companies. As a result, to a large extent, the culture, companies and policies of the US oil industry were imported into Britain.[175] For BP's own investment, initially £330 million (US$ 800 million),[e] 60% of the capital came from the US banking system (under a consortium led by investment bank Morgan Guarantee), and 20% from the US State.[176] The resulting US dominance of the North Sea's oil industry structure, culture and participation has been described as "the political economy of speed".[177]

b Oil production in the Middle East was and is cheap because the fields are very large, onshore and at smaller depths below the surface. Due to the size of the fields, less equipment is required to extract it, and because the oil is accessible the necessary equipment is less expensive. In contrast, oilfields elsewhere in the world are smaller, and often less accessible. This is especially the case in the North Sea, where fields are extremely small and complex, and the operating conditions (primarily weather) are difficult.

c Organisation of Petroleum Exporting Countries (see page 29)

d Development became possible with high oil price both because the companies were earning more revenue from their existing production, some of which could be put into the new developments, and because the financial favourability of projects was enhanced, and so it became easier to attract external capital.

e Overspends pushed up the eventual cost to £750 million (US$ 1.2 billion)

Pipeline uncontroversial

BP discovered the Forties field in October 1970, announced that it was a major find in May 1971, and in December 1971, announced details of its development programme. The following month, the company ordered production platforms for the field. The government approval process was far smoother than that in Alaska. Just one year later, in January 1973, BP obtained approval for the onshore pipeline and in the spring of 1973 for the offshore section.

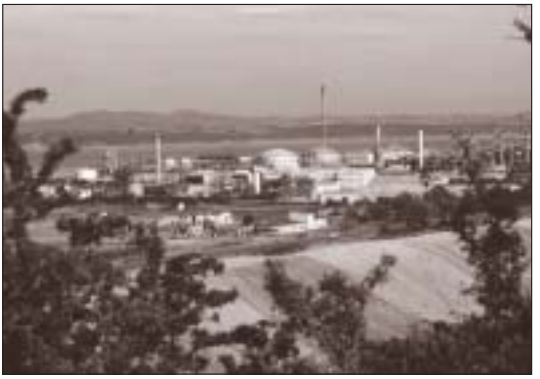
The pre-construction phase of FPS thus passed without controversy. The UK's Department of Trade and Industry reported that, during the consultation phase for the onshore pipe, there were only five statutory objections to the route proposal, all of which were withdrawn after negotiations with BP, which made slight adjustments to the route. For example, the pipeline's route under the River Tay was changed so as to minimise its effect on salmon fishing.

In contrast to the Trans-Alaska Pipeline System (TAPS), BP's consultation, construction techniques and operation procedures for FPS were largely acceptable to those living on or near the route, but in common with TAPS some impacts of pipeline building could not be avoided. During the development of FPS, and of the North Sea oil fields generally, *The Times* newspaper reported in 1974 on the changes it was forcing on the crofters (tenant smallholders) who made up 40% of the population of the Scottish Highlands. It quoted one observer as saying:

> *"The crofting community is rundown, aged and vulnerable. The signs are already bad, with large areas virtually sterilised because they have been bought as an investment at prices local people cannot afford. The local community gains nothing from these people. Their children do not use the local school; they do not rely on the buses, the doctors, or the shops, and so all these services slowly deteriorate. With 'bare land as God made it' selling for more than £6,000 an acre and people paying £18,000 or more for a crofter's cottage, what chance has the local community?"*[178]

Problems at one end of the pipe...

FPS is far more than just a pipeline (*see* Chapter 2). The system includes more than 30 offshore oil and gas fields, 106 miles of offshore pipeline from the Forties field to Cruden Bay (near Aberdeen), the oil terminal at Cruden Bay, 300 miles of onshore pipeline from Cruden Bay to Kerse of Kinneil (near Edinburgh), the oil and gas separation plant at Kinneil, the refinery at Grangemouth, the tank farm (storage facility) at Dalmeny and the tanker loading terminal at Hound Point.



BP's refinery at Grangemouth, Scotland (Friends of the Earth Scotland)

While FPS has caused relatively few problems, the refinery at Grangemouth to which FPS delivers its oil, has a chronic safety record.

Through the 1990s, there was a series of accidents at the plant. In 1990, three workers were killed when two explosions occurred within the space of ten days. BP was subsequently found to be to blame, and was fined £750,000 (US$ 1.2 million) for violating the Health and Safety at Work Act.[179] Four years later, in August 1994, a serious fire occurred, and again the company was prosecuted, fined £50,000 (US$ 78,000) and ordered to donate £100,000 (US$ 160,000) to local charities.[180] Then in 1998, 55 workers at the refinery were exposed to dangerous asbestos dust for two days.[181] Following an investigation in July 2000, the Health and Safety Executive (HSE) ordered BP to improve its asbestos safety procedures.[182]

Yet despite these serious safety breaches, working conditions seem to have things got worse rather than better, with the consequence that by 2000, workers were receiving trauma counselling, so dangerous were the conditions they had to work in.

In June 2000, a steam pipe at the plant exploded, throwing debris into surrounding streets and releasing scalding steam. Local residents claim it was only because the incident happened late at night that no one was injured or killed.[183] Two days later, a serious fire broke out, the seventh safety incident in that year. Fifty firemen, with 14 fire engines, fought for seven hours to bring the blaze under control. The accident clearly highlighted the failures in the safety systems: one of the two on-site fire engines broke down on its way to the fire, for instance.[184] The Health and Safety Executive set up a dedicated office on the site, but just ten days into its investigation, evacuation alarms failed to go off when explosive gas leaked around the plant.

BP pleaded guilty to the breaches of the Health and Safety at Work Act for both the steam pipe explosion and the fire, and was fined £1 million (US$ 1.6 million) – the largest ever fine of its kind in Scotland. Sheriff Albert Sheehan said:

> *"Clearly there has been what can only be described as a gross dereliction of the duties incumbent on the accused [BP] and there was considerable potential danger to plant operators and members of the public. It was a matter of chance that no more serious accident took place."*[185]

Despite local demands, BP refused to release reports on its safety procedures.[186]

...and at the other end

FOR those who work in the North Sea oil industry, the memory of the Piper Alpha tragedy is inescapable – the oil platform owned by US oil company Occidental blew up in 1988, killing 167 workers. While some things have improved (especially on the regulatory side) since then, the culture of the oil industry has not sufficiently reformed to prevent a similar disaster occurring again. The oil companies of the North Sea work cohesively and collectively, and while there are some differences of detail and of degree, broadly the same practices exist on all companies' installations. BP's FPS is no exception.

FPS consists of one large, mature oilfield with five platforms in it (Alpha, Bravo, Charlie, Delta and Echo), plus 32 smaller, newer, connected fields. The oil from all of them passes down the pipeline to Cruden Bay and on to the Grangemouth refinery (*see* Chapter 2). On the main Forties field, BP had received the largest fine[f] of any company before the Piper Alpha disaster, when a blowout occurred on Forties Delta platform in 1983, causing a fire that raged out of control for nine hours and injured 11 men.

Since the mid-1990s, however, the Forties field itself has not been subject to prosecution, although BP's outlying fields, the oil from which is piped into FPS, have been. In October 1998, an explosion occurred on BP's Bruce platform, and two mechanics suffered burns. The company admitted contravening Health and Safety at Work regulations and was fined the maximum penalty, £20,000.[187] (US$ 31,000) More recently, a worker was injured on the ETAP[g] field when he was crushed by a container during lifting operations. That case is still being investigated by the Health and Safety Executive.

But the greatest breaches of safety lie not in what does happen, but what could happen. Take, for example, two recent cases from BP's other fields in the North

f The fine was only £15,000 which is indicative of problematic levels of penalties: non-compliance with health and safety regulations is cheaper than compliance.

g Eastern Trough Area Project

Sea.[h] In October 2001, BP was fined £140,000 (US$ 220,000) (plus £64,000 (US$ 100,000) costs) for putting its workers at risk in a gas leak in December 1998 at its Leman gas field.[188] The leak occurred because of corrosion and wear on a 25-year-old part. The company accepted that the risk had existed before the date of the incident and that it should have understood the hazards associated with it – it received the third largest fine in the history of the North Sea.

Even worse was a major gas leak in the Northwest Hutton field in July 2000 when 57 people were on board the oil platform. Alarms put the platform into hazard status, and it was evacuated, but two individuals could not be found for 20 minutes, as they could not hear the alarms where they were working. Thankfully, the gas did not ignite; a single spark could have turned the accident into a major disaster. Four days later, the Health and Safety Executive arrived to investigate, and while they were there a second leak occurred, prompting them to shut the platform down for several months.[i] The inspector found that "The blowdown and flare system is not working properly… [There are] a significant number of deficiencies in the organisation, training, procedural matters and hardware", and noted that "The overall emergency response to the event was poor". Even worse, the platform started up again the day after the first leak without anyone knowing the cause of the incident.[189]

Cutting costs

AS in Alaska, what is most shocking about the number of dangerous accidents is not that they happen, but that they could have been avoided if the companies had taken a different approach. In FPS, warnings of impending problems were plenty. The causes of the life-threatening safety problems at both ends of the pipeline lie primarily in the company's approach of maximising production while minimising costs..

Following the incidents at Grangemouth in 2000, financial analysts examining BP's problems suggested that cutting down on the numbers of skilled personnel within the company might have played a role.[190] Local Member of Parliament Michael Connarty went further and placed the blame clearly on the practices of downsizing (cutting staff numbers) delayering (reducing the number of middle managers) and outsourcing (employing separate contractor companies to undertake sections of

h Neither the NW Hutton nor Leman fields are part of the Forties Pipeline System, but as part of BP's North Sea operations, they come under the same management, and so will be subject to the same practices and culture.

i The platform has been shut down again since re-opening because of a fire.

work for BP). "They have pushed this delayering too far," he said. "Middle management is now missing and that is the great problem."[191]

In 1998, the refinery had cut back its staffing levels by another 200 people and a further 400 in 1999. Similar patterns can be seen in the North Sea platforms. In 1999, the North Sea union OILC[192] observed:

> *"The operators, never slow to miss a trick, used the public's mistaken impression of impending doom in Britain's oilfield to turn down the screws even harder. The result? Mass job losses with a concomitant reduction in vital safety-critical maintenance. This industry is now repeating the mistakes of the mid-eighties when, in a vicious drive to cut costs, essential maintenance programmes were shelved. This cost many men their lives — as the record shows — and, post-Piper Alpha, cost billions of pounds to sort out. We are back on the very same road. The pre-Piper Alpha crisis is repeating itself."*[193]

In many cases, since staffing levels had already been so heavily cut – from 37,000 in 1990–91 to 26,400 in 2000[194] – further cost reductions are now being achieved, especially on BP's Forties platforms, through multi-skilling workers – making workers responsible for more tasks. According to one BP worker on the Magnus field:

> *"The bottom line is that 'lifting costs' must be cut at all costs. Since 1989 we have been reducing these costs by 10 per cent per year, which has resulted in a lot of job losses both on and offshore… Over the years we have seen standards drop. You just have to look at the amount of incidents there have been on Forties that the HSE [Health and Safety Executive] has had to take action on."*[195]

A further structural problem in the North Sea is that about 80% of the workforce are employed by outsourced contractors rather than directly by the oil companies themselves. This situation is driven by the companies' desire for "flexibility" to increase or decrease the numbers of people they employ in line with the booms and busts of the oil industry. It allows them to keep their costs down by forcing their suppliers to compete for their business, each putting in as low a cost estimate as possible which can be realised only by employing fewer people and/or paying them less. But outsourcing is not generally helpful in terms of safety. Temporary contract workers are (by design of the operators) more transient, making it harder for the contractor or operator to maintain a high level of training. Moreover, as workers move between installations, the cohesion, team-building and trust that forms the basis of collective safety protection are lost. Furthermore, when companies compete for contracts, a race to the bottom in standards ensues in which the operators employ those offering the lowest bid, however that may be achieved. The line of responsibility for maintaining safety then becomes blurred between the operator and the various contractors.

Standby vessels

BP also courted controversy in 2000 by announcing its plans to stop providing emergency standby vessels[j] at all its installations – this provision is common practice to meet regulatory requirements for a system to recover people from the water to be in place. Instead, BP said it would cover the whole of its North Sea operations with six rescue helicopters. The plans were unanimously condemned by all the unions, which generally favoured a combination of helicopters and boats because each is suited to different situations and conditions. Helicopters cannot fly through gas or fire, for example, nor in bad weather conditions, and cannot carry large numbers of passengers if a whole platform had to be evacuated; they have advantages, however, in their flexibility (eg to lift workers from platforms rather than just from the sea; their ability to fly direct to hospitals on shore etc) and their speed. The workers' unions pointed out that the tragedy of Piper Alpha would have been even worse, had BP's new plan been in place. Brian Orrell of the National Union of Marine, Aviation and Shipping Transport Officers pointed out that:

> *"The Super Puma helicopter can carry 20 persons. A second helicopter will be very far away. But what happens if you are number 21? What happens if you are number 41? And what happens if you are number 61? Sixty-one persons were rescued by standby boats in the Piper Alpha disaster. Four helicopters, including an infield aircraft,[k] took part in research and rescue operations for the Piper Alpha but rescued no one. They could not do the job in the conditions of the emergency."*[196]

BP claimed to have consulted its workers about its proposals and claimed that they were supportive of them, but unions disputed the quality of the consultation and doubted the level of support BP claimed. While BP claimed that the change neither increased nor decreased costs and was driven by safety effectiveness, most believed otherwise. After a strong campaign by all the offshore unions, BP backed down in January 2002, accepting in a meeting with the Emergency Response and Rescue Vehicle Association that helicopters alone would not be sufficient in the event of an accident. As of June 2002, BP has not yet announced the details of its plans, as it is still likely to make some changes in the current system.

Indeed, BP has cut its standby vessel complement before. In 1994, it announced a plan to cover the three Brae platforms and the Miller platform in the North Sea with two vessels rather than three by stationing its vessels between the platforms rather

j Standby vessels are large boats stationed close to oil rigs to rescue workers should they fall off the rig into the sea and to evacuate the rig in a serious emergency (such as the explosion on the Piper Alpha platform).

k That is, stationed on a platform.

than close to them. Again, BP was criticised for not consulting the workforce. Again, the following year, reduced its standby vessel complement at the Forties field from three to two vessels, covering the five platforms. This practice of 'sharing' standby vessels has now spread across the North Sea. Roger Spiller, North Sea general secretary of the MSF trade union, commented:

> *"BP has been obsessive about reducing costs. From what we have seen over the past 18 months, commercial interests have been put before safety."*[197]

Never mind the safety problems – keep cutting

Troublingly, despite recent safety failures, both the Grangemouth refinery and the North Sea oil fields are continuing to cut their costs. Grangemouth announced in November 2001, before the ink had even dried on its safety review following the incidents in the year 2000, that it would cut its workforce by an enormous 40% (from 2,500 to 1,500), on top of the staff cuts it had already made over the previous three years.

Four months later, BP Exploration announced the cutting of 500 jobs, 200 of them at its Aberdeen headquarters and 300 from offshore and onshore facilities. John Wall, Scottish national secretary of the Amicus union, commented that:

> *"We believe the cuts will have a massive impact on health and safety, and that it's only a matter of time before someone pays with their life."*[198]

At the same time as implementing these cuts to its own workforce, BP has made even more extreme restructurings to its contractor base, changes which have involved the loss of 800 jobs. On its platforms in the southern North Sea, BP plans to cut back to the extent that each platform would no longer have its own maintenance team; instead, a roving maintenance 'campaign team' would rotate between the platforms. In some cases, up to one-third to one-half of staff numbers would be cut, and even greater reliance placed on multi-skilling. Jake Molloy, general secretary of the Offshore Industry Liaison Committee (OILC), pointed out that maintenance staffing was being cut so far back that some platforms would be in danger of "falling apart" because they could not keep up with routine maintenance. "A system whereby teams drop onto platforms to carry out routine maintenance is absolute madness", he added.[199] As of June 2002, details of these changes have not yet been published. BP's southern North Sea operation includes the Leman field, which just six months earlier, in October 2001, had received the North Sea's third largest fine ever for a major safety breach. Similar changes are believed likely to follow for the central and northern North Sea.[1]

1 The North Sea is divided into three sectors: southern (gas), central (oil and gas) and northern (oil).

Attacking the unions

North Sea oil workers protest at BP offices, Aberdeen, about sackings of trade unionists (Mike Gibbons, Blowout*)*

Arguably, those who know best about the safety or otherwise of a system are those who operate it, those who observe it day-to-day, and those who stand to suffer if it goes wrong. One might hope, therefore, that BP would encourage its workforce to be its eyes and ears on safety. Not so. Besides cutting costs and boosting production, this is the third structural driver behind the poor safety culture at the two ends of FPS: the companies' desire to assert their political power over their staff and to restrict or prevent unionisation.

At the Grangemouth refinery, BP ceased to recognise unions in 1995 after a ballot of the workforce. Campbell Christie, secretary general of the Scottish Trades Union Congress, claimed that:

> *"There has been a concerted effort by all of the major oil companies to render the unions effectively powerless. BP conducted two ballots via the Industrial Society between December 1994 and March this year, with apparently poor results. There was bullying and bribery and then a third ballot, after which the company declared that it had a majority. The workers were sent letters spelling out the terms of their new personal contracts. These included £1,500 lump sum payments and a 6% wage rise in return for abandoning collective bargaining. It is absolutely appalling that a major firm like BP should go to such underhand lengths to force the issue and carry out a series of quite illegitimate balloting practices"*[200]

John Elliott, Grangemouth district secretary of the Transport and General Workers' Union, said:

> *"Staff feel that because there is no longer any protection, they are pressurised into doing things which they would have objections to if they had a union voice."*[201]

In the North Sea, the oil companies worked hard from the beginning to prevent unionisation, and they were successful for two decades. It was only after the 1988 Piper Alpha disaster that worker discontent and frustration crystallised into organising, beginning with two years of strikes and leading to the birth of the OILC union. Unions have faced an ongoing struggle ever since. Former OILC general secretary Ronnie McDonald has noted that:

> *"Employers have used every trick since then to break organised opposition, every variant of the divide and rule ploy from core crews to the atomisation of work groups, multi-skilling and craft dilution."*[202]

The government-sponsored enquiry by Lord Cullen into the Piper Alpha disaster recommended that workers be involved more in safety issues, and it is now widely recognised that allowing worker participation, and demonstrably respecting the workers' role in understanding how systems work and upholding safety, is crucial to an effective safety culture. But this does not seem to be recognised by the oil companies. They continue more or less to approach safety in a top-down, prescriptive way, inevitably failing to gain worker enthusiasm for their various safety initiatives.

Following a compensation settlement to one worker who had been sacked – according to OILC for voicing concerns about the safety consequences of down-manning and multi-skilling – OILC commented:

> *"We hear so much about creating a 'safety culture' these days. It appears some are willing to pay for the culture they want, one of oppression and intimidation."*[203]

THE PAST INFORMS THE FUTURE

Working conditions and union rights in Azerbaijan[204]

BP's Azerbaijan consultation leaflet says that its planned pipeline system would be safe and "will pose no threat to nearby residents". But how safe would it be for those who operate it?

The experience of FPS in Scotland illustrates that safety concerns extend well beyond the pipeline itself. Despite this system being operated in BP's home country where there is an independent trade union movement, an uncorrupted judiciary and a strong culture of investigative journalism, elements of the pipeline system – the refinery at Grangemouth and the offshore rigs and installations in the North Sea – have had a litany of safety disasters.

In Azerbaijan and Turkey, independent unions are not permitted, and those who attempt to organise the workforce face intimidation, sacking and possible arrest. How safe will workers be where they don't have the protection of a union, nor of external scrutiny? How much priority do the companies really give to safety systems?

On a trip to Azerbaijan in June 2002, an NGO (non-governmental organisation) Fact-Finding Mission met with the Committee for Oil Industry Workers' Rights Protection (COIWRP) in Baku. What they learned from the committee was disturbing.

Terms and conditions of employment

In Azerbaijan, employees of foreign oil companies are subject to a two-tier system that favours foreign workers over Azerbaijanis, in which Azerbaijani people are only able to get unqualified and

unskilled jobs. In theory, when companies need skilled workers, they are legally required to ask the Ministry of Social Protection if Azerbaijan has the right kind of specialists, and only if it does not, can they invite them in from abroad. However, in practice, the companies don't even recognise the existence of this Ministry, and the Minister recently complained on television that foreign companies would not even allow his staff in their buildings.

As a result of this discrimination, Azerbaijanis earn considerably less than foreign staff. Even President Aliyev complained about the wage gap claiming in May 2001 that foreigners were earning three times as much as locals.

The COIWRP union reports that when BP hires Azerbaijani people, it selects English-speakers rather than those with technical skills. There is also a strong degree of nepotism, such that it is only possible to get a job if one is a friend or relative of a manager, or of a member of the recruitment staff. This bias does not only affect companies' direct employees. As in the North Sea, many functions are outsourced, and oil companies also favour foreign subcontractors over Azerbaijani companies. Tender terms of reference are often weighted in favour of foreign companies, and Azerbaijani companies sometimes struggle even to obtain copies of the terms of reference for tenders. According to COIWRP, only a tiny fraction of subcontracts on the Azeri-Chirag-Guneshli field Phase 1 development have gone to Azerbaijani companies.

Even for those who do get a job, there is great insecurity. Since 1997, 1,400 oil industry workers have been laid off by foreign companies. Employment contracts offer little or no protection. Some contracts are written only in English, which Azerbaijani speakers have to sign even when they don't understand them.

Safety conditions are often poor, and fatalities are common, especially from drowning. COIWRP told the Fact-Finding Mission of one case where an oil company (not, in this case, BP) bought sub-standard safety suits for US$ 10 each, but recorded the cost as $50 each. This act of corruption landed the company with safety suits that were not appropriate for their purpose, and thus put people's safety at risk.

Unions

In the North Sea, improvements in safety that have come about in the last 13 years (although they do not go far enough) have come about largely due to pressure from the unions. But in Azerbaijan, oil companies do not recognise independent trades unions, and have no contacts with them. The only active independent union, COIWRP, has not even been able to register as an NGO with the Ministry of Justice.

Instead the companies recognise the official, state-controlled Azerbaijan Trade Union (ATU). It was created in 1997 in a meeting in the main hall of the SOCAR (state oil company) building. The hall holds 250 people; the front 10 rows of the ATU inauguration meeting were filled with

SOCAR managers, including Natiq Aliyev (President of SOCAR). Head of the union Jahangir Aliyev (no relation) was appointed personally by Natiq Aliyev, and everything Jahangir says must be approved by Natiq. Since 1999, SOCAR's annual report has claimed a progressive attitude to union rights, but actually this refers only to the official, ATU union.

In fact, ATU not only lacks independence, but, according to COIWP, it actively works with SOCAR to undermine the rights of workers. In 1999, a joint decree by SOCAR and ATU called for changes to three articles of the labour code which had stated that permanent workplaces should not be allowed to employ people on short-term contracts. Following the SOCAR / ATU initiative, this protection was abolished. Now many workers have been put on short contracts: even those who have worked for a long time for a company can now be switched onto short-term contracts and laid off within a year.

In 1999, Azerbaijan's labour law was also amended with a new article which states that workers may be fined or jailed for protesting.

These two new provisions make it easy for companies to neutralise any criticism or awareness-raising by workers of safety problems.

The co-chair and one of the founders of the COIWRP union, Mirvarie Gahramanly, has been subject to repeated intimidation. She has been arrested three times, the first time in 1998 after she criticised SOCAR Vice-President Ilham Aliyev (the son of Heydar Aliyev, the President of Azerbaijan). She was arrested again in January 1999 after she made a statement against SOCAR corruption. When she visited the USA in March 2002 to meet Congressional representatives and talk to the media about oil industry worker conditions in Azerbaijan, she was first demoted from her job in SOCAR, and then fired, and then arrested again on her return.

The Azeri, Chirag and Guneshli fields, which would feed the AGT pipelines system, are out of sight of the shore. Against the background of denial of workforce rights and intimidation of unionists, how safe do workers feel out on an installation in the middle of the Caspian Sea?

WILL OIL BRING PROSPERITY? "DUTCH DISEASE" AND EXTRACTIVE ECONOMIES[205]

Azerbaijan is at the beginning of its "Third Oil Boom". On the face of it, the development of the oil industry would seem to provide an automatic path to increased standards of living in the country. With billions of dollars flowing into the national economy through inward investment, how could it be otherwise?

Yet the prospects for economic development are not as secure as they might appear. On the contrary, if the experience of other mineral-rich countries which have relied on resource extraction as the prime means of wealth creation is indicative of Azerbaijan's future, the country's economic performance could be detrimental to both the poor and the country's long-term economic stability. As Oxfam America notes in its recent report, Extractive Sectors and the Poor:

"Not all forms of economic activity are equally good at promoting development… Extractive sectors tend to be capital-intensive and use little unskilled and semi-skilled labour; they are geographically concentrated and create small pockets of wealth that typically fail to spread; they produce social and environmental problems that fall heavily on the poor; they follow a boom-and-bust cycle that creates insecurity for the poor; and they are generally run by the state, or by large corporations, in ways that lead to high rates of corruption, repression and conflict."

Indeed, argues Oxfam, far from helping to relieve poverty, oil exports "often appear to make it worse".

One explanation for this is that the boom in the oil sector often occurs at the expense of others sectors of the economy – a phenomenon known as "Dutch Disease". As David Hoffman, writing in *NBR Analysis*, the journal of The National Bureau of Asian Research, explains: "Dutch Disease occurs when disproportionate investment into a specific extractive industry (oil, in this case) causes wages and price distress in other sectors, ultimately leading to distorted growth of services, transportation and other non-tradeables at the expense of non-oil industry and agriculture." The non-oil sector's competitiveness is further undermined by the appreciation of the exchange rate that results from the boom in oil exports. Meanwhile, an over-dependence on a single commodity – oil – makes the country vulnerable to the damaging impacts of the sharp price fluctuations that characterise the oil market.

Dutch Disease and Azerbaijan

The oil boom in Azerbaijan is still in its infancy. Nonetheless, according to Hoffman, Azerbaijan's economy already exhibits a "strong susceptibility to Dutch Disease". Skewed patterns of investment, for example, are evident: in the late 1990s almost three-quarters of the foreign investment (which comprises 68% of total investment) was concentrated in the oil sector.

Other commentators share Hoffman's view. According to Mary Kaldor and Yahia Said, "Investments in oil and related sectors have so far failed to have perceptible positive spill over effects on the rest of the economy." They point to "the emergence of a dual economy in Azerbaijan whereby growth in the oil sector is consistently combined with decline in the rest of the economy."

There are also worrying signs that exchange rate appreciation is damaging the non-oil sector. Since the mid-1990s, the real exchange rate of Azerbaijan's currency – the manat – has appreciated markedly, an appreciation which Kaldor and Said view as a "direct consequence of

the discovery of large oil reserves, foreign investments and sign-up bonuses paid to the government for production sharing agreements." Although the Government of Azerbaijan devalued the manat in 1999, Kaldor and Said are unconvinced that such measures will contain the decline in the non-oil sectors of the economy caused by the high exchange rate: "Real currency appreciation is likely to resume with the continued development of Azerbaijan's oil reserves and growing oil revenues."

Engendering debt, corruption and conflict

Dutch Disease is not an automatic consequence of the development of oil resources. Governments do have a number of fiscal and monetary instruments at their disposal to counteract the effects of exchange rate appreciation, whilst skewed investment can be countered through programmes to diversify the economy.

The marked historical failure of mineral-rich countries to take the appropriate measures to counter Dutch Disease, however, suggests that there are deeper structural reasons why the development of oil and other extractive industries frequently results in economic instability and widespread impoverishment for the more vulnerable sectors of society. As Tony Hodges notes of the experience in Angola:

"Possibly more important [than Dutch Disease] are the economic consequences that arise from the effects of oil wealth on the vision and attitudes of a country's rulers… High and rising oil revenues have tended, despite the occasional adverse price shocks, to encourage complacency about the dismal state of the rest of the economy."

Oil development may also profoundly affect the nature of government, encouraging corruption and concentrating economic power in the hands of a small minority. Again, Angola provides an example:

"Oil revenues [have] had a profound consequence for the nature of the state and the system of governance. First, the rent from oil has given [the Presidency] far larger resources with which to dispense patronage than would have been the case in a non-oil state. The term 'oil nomenklatura' has been used generically to encompass the nexus of elite families, interrelated through marriage and political allegiance, who have benefited from this 'manna'."

According to Hodges, "many Angolans now believe that by engendering conflict, mismanagement and corruption, mineral wealth is ultimately responsible for the country's decline and the plight of its people".

Benefiting whom?

Azerbaijan is not Angola. But the risks that oil development will also cause conflict and benefit the minority at the expense of the majority are high. Corruption is already pervasive in the country (see section, "Corruption Allegations and Oil Development in the Caspian Region", page 103), and there is already disgruntlement that the country's oil wealth is not benefiting the mass of people.

Ultimately, whether or not Azerbaijan avoids the downward economic spiral that oil extraction has caused in many other oil-rich countries will depend on the ability of its people to exercise democratic control over the country's oil wealth in a transparent and accountable manner. Currently, the prospects of achieving such control are slim. And, worryingly, oil development is itself making them slimmer still.

PART V

POST-OPERATION

BP's petrol station at Wandsworth, London, with new wind turbine and photovoltaic panels on the canopy (Pallab Chatterjee, Friends of the Earth)

Chapter 14

The century ahead

What would be the impact of the AGT pipelines system on climate change?[206]

Bob Malone would like to think of himself as an environmentalist, and is especially interested in the issue of climate change. He is involved in the US EPA's[a] Climate Leaders initiative, and serves as a board member of the California Climate Action Registry. Congressman Mark Udall (of Boulder, Colorado) commented in early 2002 that "I really have the sense that Bob gets it. I left our meeting with a feeling of optimism."

Bob Malone is Regional President of BP America. He is responsible for the whole range of activities, including exploration, production, distribution, refining and marketing. Before that, he worked from 1993 to 2000 on the Trans-Alaska Pipeline, including as Chairman of the TAPS Owners Committee, and finally as Chief Executive Officer of the Alyeska consortium (see chapters 10 and 12).

One of his proudest moments in his current job was launching the installation of photovoltaic panels on the canopies of petrol (gasoline) stations in Colorado – the move which won him Congressman Udall's plaudits. Said Bob, "BP believes that safeguarding the environment and maintaining secure energy sources are not mutually exclusive – we can do them both".

But this solarising of petrol stations provides a good illustration of the fundamental contradiction in Bob Malone's – and BP's – approach. It is a non-polluting way of delivering polluting products.

BP is the second largest petrol retailer in the US. The Azerbaijan-Georgia-Turkey pipelines system – which Malone's former Alaska colleague David Woodward is developing – is a delivery system which would bring oil and gas to those who consume them. It would enable the USA to continue emitting ever greater quantities of greenhouse gases, while the rest of world tries to restrict emissions.

a Environmental Protection Agency, the government environmental regulator

When BP discusses the climate impact of the AGT pipelines system, it talks about the emissions from pumping stations, or from terminals – not from the products which the pipeline delivers. Just like with the solarised petrol station, BP attempts to focus on the mechanism of delivery, so as to deny responsibility for the products it delivers.

BY the end of the operation phase of a pipeline system, international and political interest in it has generally disappeared, as the system's geopolitical importance has waned. At this stage, it remains for the system to be decommissioned: the process of dismantling the line, taking it out of the ground, cleaning up any ongoing pollution, and 'repairing' the ground it has passed through or over. Only in the mid-1990s did the oil industry begin to address the issue of how to decommission its infrastructure properly – its old approach of leaving the issue to worry about later, or just doing the job as cheaply and easily as possible, generated widespread controversy when Shell attempted in 1995 to sink its Brent Spar storage buoy in the North Sea.[b] In the case of the AGT system, the companies have ducked responsibility for decommissioning, instead opting to hand over the rusting remains to the host governments, leaving it to them to clean up the mess. But whereas one can at least conceive of how such a clean-up of the land and water might take place, the aspect of the system which cannot be decommissioned in this way is its atmospheric legacy: the greenhouse gas pollution which the system has enabled to be released into the air.

Beyond Petroleum?

The BP consultation leaflet reproduced at the front of this publication has a short section entitled 'About BP'. Its second paragraph runs as follows:

"Our main activities are exploration and production of crude oil and natural gas; refining, marketing, supply and transportation of oil and gas; and manufacturing and marketing of petrochemicals. We have growing activities in gas production and power generation, including solar power."

b The Brent Spar storage vessel had come to the end of its useful life, and Shell brought it out of service, ready to dispose of it. Shell decided, with the support of the UK government, to tow the Spar out into pristine Northeast Atlantic Ocean and then just sink it. But the Spar contained tonnes of toxic drilling muds, plus oil residues and radioactive waste, and some scientists predicted that the Spar would break up on its way down to its intended resting place 150m below the surface, dispelling its waste into the water column. A campaign was waged against the decision, led by environmental organisation Greenpeace, with much media coverage. Following extensive protests across Europe, and occupation of the Spar by Greenpeace activists, Shell was forced to back down and reconsider its disposal options. After a long consultation process, Shell finally decided much later to instead clean and then cut up the Spar, and recycle it for use in the construction of a harbour in Norway. The Spar would have set a precedent for the dumping of at least 60 of the Brent Field's 400 oil platforms at sea. Since the Brent Spar incident, European countries surrounding the North Sea have invoked a moratorium on the sea dumping of platforms.

The phrase that stands out from this description is the last – 'including solar power' – because all the other activities described involve the production of fossil fuels. BP, like every other oil and gas company, is fundamentally wedded to fossil fuel production. This statement is so obvious that it may seem puzzling as to why it needs to be made at all. But over the last five years or so, BP has made strenuous efforts to present an image of itself that it is not wedded to fossil fuels. These efforts are most neatly encapsulated by the symbols of its July 2000 re-branding: the new 'Helios' logo (shown on the front of the leaflet) and the slogan 'Beyond Petroleum'.

The environment-friendly image that the company has been working hard to promote – part of which is manifested by its investments in solar power – is driven by its recognition of the serious challenges that climate change poses. These challenges are relevant to almost every division of BP, not least the AGT pipelines system.

How climate change takes place

THE climate is changing. Human activities – particularly burning fossil fuels but also to a lesser extent land-use changes, like deforestation and intensive agriculture – have increased concentrations of carbon dioxide (CO_2), the most significant greenhouse gas, in the Earth's atmosphere. Greenhouse gases trap the sun's radiation in the atmosphere instead of letting it escape back into space, thereby increasing global average temperature and changing the world's climate.

The 2001 report of the world's highest scientific authority on climate change, the United Nations body known as the Intergovernmental Panel on Climate Change (IPCC), is unequivocal. "There is new and stronger evidence that most of the warming observed over the last 50 years is attributable to human activities." The panel predicts that global warming will continue. According to its projections, global temperature will increase by between 1.4 and 5.8 C against 1990 levels by 2100. The IPCC warns that this rate and level of change is "very likely to be without precedent" during at least the last 10,000 years.[207]

Scientists have already documented a wide range of impacts that are consistent with global warming. These include changes in sea level, snow cover, the extent of ice and rainfall, along with more persistent, frequent and intense El Niño events,[c] coral reef

c 'El Nino' is a warmwater current that flows periodically along the coasts of Ecuador and Peru. It is associated with a fluctuation of surface pressure and circulation in the Indian and Pacific Oceans called the El Niño Southern Oscillation. El Niño events affect wind patterns, sea surface temperature and rainfall throughout the Pacific region and even in other parts of the world.

bleaching, and shifts in plant and animal habitats, some of which are likely to result in extinctions. All these changes affect human beings, for instance by affecting water supply, agriculture, infrastructure and disease patterns.

Victims of climate change: floodwaters surrounding houses in Dhaka, Bangladesh (Digital Vision)

Those least responsible for climate change suffer its worst impacts. According to the IPCC: "The impacts of climate change will fall disproportionately upon developing countries and the poor persons within all countries, and thereby exacerbate inequities in health status and access to adequate food, clean water and other resources." This is because climate change will be more severe in tropical and sub-tropical regions, where most developing countries are located, and because poorer people are usually more vulnerable in that they have fewer resources to protect themselves (because of, for example, poorer health and nutrition, and limited access to infrastructure and institutions).

How the AGT pipeline system would contribute to climate change

The fossil fuel industry can be seen as part of a complex system that transfers carbon from geological underground reserves, where it is safely locked away, to the atmosphere, where it contributes to global warming. All the elements in this transfer system are important: the oil or gas well or coal mine, the terminal, the pipeline, the tanker, the oil refinery, the gas distribution network, the petrol station, the car or truck engine, the power station, the electricity grid and the light bulb.

The geological strata of the Caspian Region hold vast reserves of oil and gas. According to BP, proven oil reserves in Azerbaijan and Kazakhstan already amount to 15 billion

barrels. Proven reserves of natural gas in Azerbaijan, Kazakhstan and Turkmenistan equal 5.5 trillion cubic metres, again according to BP.

As exploration continues and technology makes previously inaccessible reserves accessible and affordable, increases in proven reserves are expected.

The Baku-Tbilisi-Ceyhan (BTC) oil pipeline would ensure that Caspian oil is burnt in the car and truck engines and power plants of Western Europe, the USA and the Far East. The South Caucasus Pipeline (SCP) would ensure that Caspian gas is burnt in the power stations of Turkey and the West. Once burnt, the oil transported daily along the BTC pipeline at a rate of one million barrels daily (when it is operating at full capacity after 2008) would contribute 160 million tonnes of CO_2 to the atmosphere every year. This is equivalent to nearly 30% of the UK's CO_2 emissions for 2000 (557 million tonnes).[208] Once burnt, the 6.6 billion cubic metres of natural gas that would be transported annually along SCP (when it is operating at full capacity after 2007) would contribute 13 million tonnes of CO_2 to the atmosphere per year.[209] The climate impact of the SCP system would be even worse if it leaks.[d]

Meanwhile, the AGT pipelines system would play a key role in sustaining BP's continued growth in its rate of extraction of oil and gas – wherein each year BP extracts 5.5% more than it extracted the previous year (*see* Chapter 4). Despite its claims to have reduced the climate impact of its own operations (from emissions from its platforms, refineries and petrol stations), BP is specifically aiming to sell ever more climate-altering products – and building the AGT system would facilitate this contradiction.

Hypocrisy surrounding treaties on climate change

In 1992, at the Rio de Janeiro United Nations' Conference on Environment and Development (UNCED), widely dubbed the 'Earth Summit', governments signed the UN Framework Convention on Climate Change, agreeing to take action to avoid dangerous levels of global warming. Rich countries made a collective commitment to stabilise their emissions at 1990 levels by the year 2000, and to provide money to help poorer countries reduce their vulnerability to climate change and switch to clean technologies. Few countries have kept their promises.

d Natural gas, or methane, is about 20 times more potent as a greenhouse gas than carbon dioxide – thus if gas escapes unburned, the climate impact is worse than that of the carbon dioxide produced by burning it. One cubic metre of methane gas has an equivalent climate forcing effect to twenty cubic metres of carbon dioxide.

FOSSIL FUELS VERSUS RENEWABLES: THE ECONOMICS OF CLIMATE CHANGE

The solution to climate change lies both in reducing the amount of energy we use, for instance by using public transport instead of cars, and in the gradual replacement of fossil fuels with new renewable energy sources, such as technologies that harness energy from the sun, wind, waves and ocean currents, crops and agricultural waste products (biomass), underground heat (geo-thermal energy) and small scale hydropower. The prevalent approach of government and industry to this technology substitution is emphatically a market-based one whereby low-carbon technologies are expected to compete with high-carbon ones and slowly take their place through consumer choices. If renewables are to compete, their price relative to the price of conventional forms of energy must therefore decrease.

The opening of new fossil fuel reserves such as those in the Caspian keeps down the price of fossil fuels by ensuring that they remain relatively abundant on global energy markets. Thus, investment in fossil fuel projects like AGT counteracts and undermines investment in renewable energies and strangles their development which remain relatively more expensive. Furthermore, if government funding agencies, such as multilateral development banks and export credit agencies, support projects like AGT, public money is clearly being used in a way that only adds to climate change instead of supporting the transition to a safe energy future. This is one of the reasons why many organisations including Friends of the Earth International are calling on governments and international institutions to stop using taxpayers' money to support fossil fuel projects.

The Kyoto Protocol was negotiated in 1997 to provide legally enforceable, national emissions reduction targets under the 1992 Convention, but agreement on rules for the Protocol's implementation were concluded only at the end of 2001 at a conference in Marrakech, Morocco. The Protocol is expected to come into force sometime in 2002, finally putting a real cap on CO_2 emissions from those industrialised countries that ratify the treaty by passing it into national law. Because the Kyoto Protocol will result in, at best, a few per cent reduction in the greenhouse gas emissions from ratifying countries, it is only a small first step in combating climate change. To go further, the international process must deliver at least 75% reductions in industrialised country emissions (against 1990 levels) by the year 2050.[210] Kyoto only agreed an average 5% reduction by 2012.

Targets under the Kyoto Protocol count emissions in industrialised countries at the point of release, that is, at the point where fossil fuels are combusted, in a power plant, for instance. This means that Kyoto controls do not apply to the upstream fossil fuel sector directly, but are instead supposed to increase the price of fossil fuels by restricting the amount of carbon allowed in the economy. Because the targets are still

weak, they have not yet had a major effect on fossil fuel investment patterns. But governments could easily take steps to reorient global investment away from fossil fuels towards clean and renewable sources of energy and energy efficiency.

Billions of dollars are already spent every year supporting private investment in the global energy sector by multilateral development banks, like the World Bank, and national export credit agencies, such as the UK's Export Credit Guarantee Department (ECGD). Instead of using these funds to finance continuing fossil fuel dependency and technological lock-in, taxpayers' money could be used to support clean and renewable sources of energy.

Export credit agencies supported upstream fossil fuel projects and fossil fuel power projects in developing countries worth US$ 73.8 billion between 1995 and 1999 and only $2 billion worth of renewable energy.[211] The World Bank has provided US$ 20 billion of fossil fuel financing for upstream projects and power plants since 1992, leveraging billions more in private funds.[212] Just as BP's massive oil and gas exploration activities make a mockery of their claim to be concerned about the issue of climate change, so do government subsidies for such activities make a mockery of their international climate commitments.

Like so many fossil fuel projects in the past, the Azerbaijan-Georgia-Turkey pipelines are on course for support from a range of international financial institutions, including the International Finance Corporation and the European Bank for Reconstruction and Development. These institutions are offering what BP's Chief Executive referred to as "free public money",[213] apparently ignoring communities around the world who are extremely vulnerable to climate change.

The USA and its impact on the climate

The USA consumes more than one quarter of global oil production[214] and is responsible for one quarter of the world's carbon dioxide emissions while accounting for only 4.5 per cent of the world's people.[215]

The current Bush administration published its National Energy Policy in 2001, based on the findings of the National Energy Policy Development Group led by Vice President Dick Cheney. The Group advocated the construction of 1,300 to 1,900 new power plants over the next 20 years, or between one and two power plants per week. According to the document, "[US] prosperity and way of life are sustained by energy use." According to President Bush, "the goals of this strategy are clear: to ensure a

steady supply of affordable energy for America's homes and businesses and industries."[216] The United States imports 52 per cent of its net requirements in oil, and 15 per cent of its net requirements in gas.[217] In this regard, the report recommends "that the President make energy security a priority of [US] trade and foreign policy". It is in light of these realities that we can understand the drive behind US policy in the Caspian Region over the last decade (*see* Chapter 3).

In March 2001, even before publication of its energy policy, the Bush administration rejected the Kyoto Protocol at the behest of supporters in the energy sector and has since failed to come up with any plan for clear, quantitative domestic emissions reductions; meanwhile, other countries have used US inaction as an excuse to weaken their own efforts. The world's biggest polluter is still outside the agreement and shows no sign of returning within the lifetime of the current government.

It is expected that US carbon dioxide emissions will be 30 per cent above 1990 levels by 2012,[218] instead of seven per cent below as agreed in Kyoto. US per capita emissions are twice those of the EU,[219] pointing to an even more wasteful, fossil fuel-dependent lifestyle. If European public money is used to support a pipeline whose output is sold at least in part to the US, European taxpayers will be supporting the energy profligacy of the US while it remains outside the Kyoto Protocol.

The Azerbaijan-Georgia-Turkey pipelines system and the future of the Earth's climate

Carbon dioxide released into the atmosphere has a lifespan of 50 to 200 years. So, fossil fuels burnt today could contribute to global warming for the next two centuries.

The operational lifespan of the proposed AGT system is projected to be more than 40 years; thus the pipelines would be bringing oil and gas to the world market until at least 2040. With this in mind, we can calculate that the fossil fuel infrastructure that BP is currently working to put in place would have an impact on the Earth's climate stretching to the year 2240.

It is thus in the realm of climate change that the Azerbaijan-Georgia-Turkey pipelines system would have its longest-lasting impact. But BP's leaflet distributed by Environmental Resources Management fails to mention this vital issue. This, the greatest of all the pipeline's environmental impacts and one of the greatest of its social impacts, is not being adequately considered in BP's Environmental and Social Impact Assessment study.

PART VI
CONCLUSION

People living on the route of the proposed pipeline (top to bottom) Shahlik (central Azerbaijan), Akhali Samgori (eastern Georgia), Akifiye (central Turkey). (Yury Urbansky/CEE Bankwatch (Shahlik and Akhali Samgori); Greg Muttitt/PLATFORM (Akifiye))

Chapter 15

Imagining the AGT pipelines system

In darkened rooms across the world, the pipeline is there before our eyes. On silver screens and televisions, British agent 007 – James Bond – and physicist Dr Jones are in a life and death struggle to prevent the international anarchist, Reynard, from exploding a bomb in the Main Export Pipeline route from Baku to Ceyhan.

Bond survives (of course), but faces another tricky encounter to prevent the terrorists from exploding a nuclear device on a submarine in the Bosphorus beneath the cityscape of Istanbul. Reynard's devilish plan is to make the Bosphorus impassable to tankers bound to the West from Novorossiysk, thereby ensuring that the Baku-Tbilisi-Ceyhan (BTC) pipeline is the only viable export route for Caspian oil. The terrorist's paymaster is the oil company, 'King', which is constructing the pipeline, and intends to make itself the controlling power in what Reynard calls "The bright starry oil-driven future of the West."

THE Bond film, *The World is not Enough*, was released in London on 22nd November 1999 – a mere four days after the historic signing of the Istanbul Declaration (*see* Chapter 3). On the 18th November, at the OSCE (Organisation for Security and Cooperation in Europe) Summit in Istanbul, the leaders of Azerbaijan, Turkey, Georgia, Turkmenistan and Kazakhstan, together with that of the US, signed the Declaration on the building of the BTC oil pipeline. If a pipeline system had been resolutely launched, however… it was blown up four days later in a movie.

If the Azerbaijan-Georgia-Turkey pipelines system were built and completed as planned by 2004, the pipeline's fictional version would have anticipated the real life version by six years. To make the film, director Michael Apted constructed a set in Pinewood Film Studios in west London, simulating a section of the Main Export Pipeline route.

The film indicates the extent to which the pipeline has already intruded upon the cultural imagination of the West, particularly in Britain and the USA. As has happened so many times before in the history of the West, a vision of the world is dreamed up in the metropolis and then realised in distant 'elsewheres'. For some, the idea is not abstract; it is something they want to make a reality. Those organisations which plan to realise that imagination – the governments, oil companies and financiers – are based in London, Washington DC and other capitals of the West.

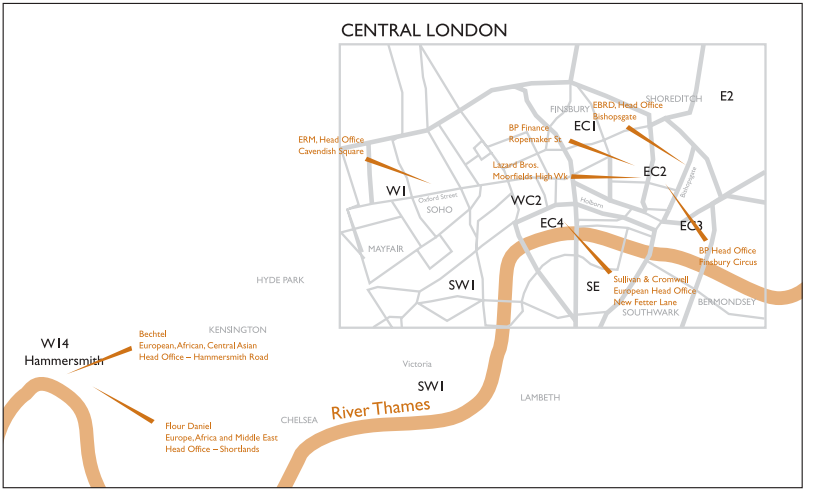
The AGT pipelines system is an idea fundamentally created in institutions in London and Washington – to meet the needs and desires of those institutions – and then realised in Azerbaijan, Georgia and Turkey. The pipeline is built in the mind of the city long before it is constructed across fields and villages.

The 'global' and the 'local'

UNTIL the publication in summer 2002 of the Environmental and Social Impact Assessments, no detailed maps of the pipeline routes were available to the general public. Thus while communities were being surveyed, while people were wondering what the impact of the developments would be on their lives, it was not possible to find out even where the pipelines (if built) would pass. Even the *Petroleum Economist*, the trade journal publisher which produces authoritative resource and infrastructure maps for the energy industry, had the route wrong: in maps published as late as autumn 2001, *Petroleum Economist* incorrectly showed the BTC pipeline in Turkey going south from Erzurum to Batman, then turning west through Diyarbakir to Ceyhan, when in fact the planned route is west from Erzurum to Sivas, then south to Ceyhan.

Indeed, it has been easier to make a map of the pipeline in the mind of the city than in the fields and villages. Drawing an exact route of the pipelines through Azerbaijan, Georgia and Turkey has been more difficult than drawing a map of the institutions and companies that are driving it forward – a map of central London.

The pipelines do not exist physically. They have not been built, they cannot be visited. They exist only in the imagination – in stories and conversations, letters and articles, agreements and contracts, plans and drawings, filing cabinets and computer hard drives. Although there is already some building work at the terminal of Sangachal south of Baku, the physical construction of the BTC pipeline itself is not due to begin until spring 2003, when the snows have melted on the Allahuekber Daglari, the mountains around Erzurum.



Map of Central London with locations of key institutions connected with AGT

In the constant debate about 'globalisation' versus 'localisation', there is often a tendency to think that only places such as the villages of eastern Turkey or western Azerbaijan are truly 'local'. This confuses politics with geography. The company boardrooms and offices of cities such as London and Washington are localities, too – they are the 'locals' most known to the authors of this book and the planners of the pipelines. If the pipeline project in the current pre-construction phase exists in the imagination, then its presence is stronger in the locality of the cities than in the locality of the villages. And the crucial differential between the locale of London and the locale of western Azerbaijan is the differential of power. For it is in the minute locality of London offices and meeting rooms, work stations and boardrooms that decisions are made that affect those localities of western Azerbaijan, that effect those distant 'elsewheres'. Those decisions that have a global impact are made in specific 'locals' – 'locals' that have a global reach.

Three reminders

As we try to distil our understandings about the future of the AGT pipelines system, it is vital to remember three things:

- *The pipelines system does not yet exist – and may never exist.*

- *The literature produced by BP and its contracted companies – such as the leaflet reproduced at the front of this book – assures any reader that all would be fine with the pipeline system.*
- *The experience of BP's past informs its current and future practice – it can also inform us about its current and future practice.*

At present – and possibly for many years to come – we cannot know for sure what the precise environmental and social impact of the AGT pipelines system might be. No-one can – not ourselves, the authors of this book, nor BP, nor the companies that work for them such as ERM. The question of the future impact of the pipeline is a matter of speculation for all concerned – but speculation that can be guided and informed by stories of other pipelines in other parts of the world and by reports of the events in the Caspian Region over the past 12 years. We have related some of these stories and reports and now we draw some of their common strands together.

Doing so is detective work, not of some past incidents, but of some possible futures. In most detection work, the detective has to reconstruct the sequence of events that led to an incident that has already taken place. In this case, the major incident has not yet taken place – the pipelines system has not been built. Our detective work is to reconstruct (and construct) the sequence of events that will have led up to that future incident, if it does take place.

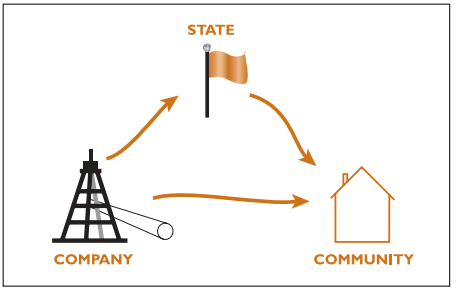
To pick our way through this complex case, we return to BP/ERM's consultation leaflet and ask seven straightforward questions that derive from its presuppositions and its section entitled Some Common Concerns.

1. *Would the states of Azerbaijan, Georgia and Turkey benefit from the pipeline system?*
2. *Would people living along the pipelines benefit or be harmed?*
3. *What sort of disturbance would there be during the construction of the pipelines?*
4. *Would the pipelines exacerbate conflict?*
5. *How safe would the pipeline system be for the environment?*
6. *How safe would the pipeline system be for those who operate it?*
7. *What would be the impact of the pipelines on climate change?*

An interplay of forces

IN order to use our knowledge of the past to infer possible and likely futures, it will help to understand some of the conditions affecting the impacts of an oil and gas infrastructure development, and to use these as the basis of a comparative.

All oil exploration and production projects, such as the AGT pipelines system, involve an interplay between three forces: the company, the state and the community. Each of these forces has a number of sub-divisions: for example, within the community, we would include civil society organisations and, in many cases, the company's blue-collar workforce.



The triangle of forces, however, provides a simple model of the factors behind a development. The balance between these three forces varies according to the circumstances of each project. What is common to all cases, however, is that the state tends to favour development (whether for economic, ideological or political reasons), and so in general aligns itself with the company. In some cases, where a community favours a development, that community may have an opportunity to benefit from a constructive relationship with the company and state. In other cases where a community opposes a development, there can be a bitter struggle.

Some communities are happy to have oil development, others not. Most often they are divided. The company and the state try to alleviate discontent from disaffected communities or to suppress it – with a wide variety of methods ranging from social investment to tacitly condoning paramilitary activity.

Big pipeline projects tend to have major geopolitical significance – indeed, they are often driven by geopolitics, as all the case studies in this book illustrate. This tendency is even greater in the AGT project. Both the Forties Pipeline System (FPS) and Trans-Alaska Pipeline System (TAPS) were built against the background of an increasingly insecure Middle Eastern oil supply, as has certainly become the case now with AGT. FPS and OCENSA pipeline had a key role in the repositioning of the host countries into closer political alliance with the USA, as is the case with the AGT pipelines system and its host countries. The result is a partnership between a state with enormous political interests and a company with enormous economic interests.

The experience of the AGT pipelines system, if it is built, may depend upon the interaction between these three forces of company, state and community. Different kinds of interactions occurred in each of the three pipeline systems in Alaska,

Colombia and Scotland from which we have drawn stories. These three existing pipelines all run within the borders of nation states, whereas the AGT pipelines would run across three distinct countries. The likelihood is that a different response, a different balance between all these three forces, would take place in the three different nations. Indeed, the balance of forces may even vary in different regions within each of the countries. To imagine the AGT pipelines system, we should compare its conditions to those in our case studies.

In Scotland, the conditions for the construction and operation of the pipeline were optimal. There was no difficult terrain, no mountains to cross, no seismic zones, and only limited technical challenges on the bed of the North Sea. There was no (significant) political tension within the state. A key factor in the history of the Forties system has been that the community has been able to criticise and scrutinise the company's operations. In Grangemouth, for example, the local Member of Parliament has been a vociferous critic of the refinery's safety record. Major national newspapers such as *The Guardian* and *The Times* have often criticised the oil companies' policies in the North Sea. Moreover, the city in which there is the greatest circulation of those newspapers, London, is also the city where BP's core staff are based. Around the country are the students who will be recruited to become future company management. In this sense, BP's reputation in the UK is more important to it than in Colombia or Alaska. So, the development of FPS occurred carefully and within favourable conditions.

In Alaska, there were enormous environmental and technical difficulties: the permafrost, ice and earthquake zones, and the requirement to drill in and cut through a vast area of untouched wilderness. There was plenty of political dispute, but ultimately the communities were split, some wanting the preservation of their wilderness, others wanting the economic development. As in Scotland, scrutiny and critique of the company have been possible, but Alaska is more remote than Scotland – remote in particular from the important areas of the USA (the 'Lower 48 States'), where the company's reputation is crucial. Furthermore, Alaska's economy quickly became utterly dependent on the oil sector, whereas Scotland's economy, and to a greater extent the UK's economy, has remained diverse.

In Colombia, there were some significant environmental challenges relating to biodiversity and the rainforest, but by far the most problematic factor has been violent political struggles. The land through which the pipeline passes is frequented by guerrillas, who have declared oil installations a military target, and by paramilitary groups, who are known for their violence and brutality against oil industry critics such as unions and peasant groups. Meanwhile, the state has been

keen to defend its oil interests – for reasons of both economy (revenue and balance of payments) and politics (relationship with the US and undermining the guerrilla) – and has not been afraid to use violence, and to condone violence by the paramilitaries. This is the most remote of the three cases from BP's key reputation centres of the UK and US. Consequently, the company's reputation was damaged only through critical reports in the international media.

In Azerbaijan, there is greater control of information and media by the State in order to prevent organised criticism. In Turkey, the state is known to use 'disappearances', torture, arrests and extra-judicial killing to attempt to silence its critics. The media has very little freedom to criticise, and those who criticise the government and establishment are systematically marginalised in political and social life. In Georgia, too, there is tight control of criticism of the establishment. Once again, the area is outside the main field of vision of BP's most important constituencies, and so BP is less likely to apply rigorous environmental measures.

Would the states of Azerbaijan, Georgia and Turkey benefit from the AGT pipelines system?

AZERBAIJAN, Georgia and Turkey regard projected oil revenues as a source of great prosperity. In Azerbaijan, oil-related revenues currently make up about half the government's annual budget revenues, amounting to US$ 331 million in 1999.[220] Meanwhile, in Georgia, officials forecast that transit fees for the AGT pipelines alone would add some US$ 292 million a year to the government's budget.[221]

Yet the experience of BP's past pipelines suggests there are limits to the benefits states can expect from oil development. In all three of our case studies –the North Sea, Alaska and Colombia – BP lobbied to decrease the state's tax take, and in some cases it has used clever accounting to reduce its tax payments. In fact, this is probably the clearest common thread running through the three cases. It seems that the company will do everything in its power to minimise the amount of the proceeds of its development that go to the state – through tax, royalty and state participation – and, indeed, BP Chief Executive John Browne's prowess at this is a major reason for his high reputation in financial circles.

The experience of the North Sea shows that it is not enough for a project to be profitable – the company always wants it to be *more* profitable. And cutting payments to the state is one important way of achieving this.

Is a similar process already happening with the AGT project? BP publicly expressed support for BTC pipeline only in October 1999, after several rounds of lengthy negotiations with all four governments (Azerbaijan, Georgia, Turkey and the USA), and after the governments had made substantial concessions – especially the Turkish government's agreement to cover cost over-runs in construction.

2 Would people living along the AGT pipelines system benefit or be harmed?

AT the local level, BP has emphasised in all recent developments its commitment to investing in community development. This is highlighted in the consultation leaflet for the AGT pipelines project: "BP also supports social development initiatives all over the world, including community development, education and environment projects."

But in Colombia – where the pipeline was built in the 1990s when social development projects were fashionable in oil investments – Oxfam has reported that community development projects have not been receiving the commitment they needed, nor meeting local needs. When it is argued that BP's investment provides community and public facilities through social investment, it should be remembered that BP also takes them away – by depriving the state of oil revenues. The reduced tax take amounts to hundreds of millions of dollars, whereas social investment is, at best, in the order of millions. So, there is, in fact, a net loss to the public sector, not to mention the de-democratisation of public facilities and resources, and the consequent political constraints and conflicts of interest when a single private investor controls those facilities.

BP also points in its AGT consultation leaflet to local benefits through employment. But there are doubts about this. A June 2000 report by World Bank economist Jonathan Walters stated that: "Oil production tends to employ relatively few people, and in Caspian countries, procures little of its equipment and supply needs locally."[222] Not only is the oil industry capital-intensive (so employment is small per dollar invested); much of the work is highly skilled, so ready-trained labour is imported. In Alaska, the pipeline consortium became embroiled in disputes with the local indigenous population over breaking promises to provide employment. Much of the skilled workforce for the Azerbaijan oil developments would come from Aberdeen in Scotland. Indeed, the experience of existing pipelines along the route of the AGT system – built by the same companies – is that local employment was minimal, and on poor terms.

Scar left by the East Anatolian Natural Gas Pipeline (NGP) near Erzurum, north-eastern Turkey. The BTC pipeline would run alongside the NGP for 40% of its length in Turkey, between Erzurum and Sivas. (Greg Muttitt, PLATFORM)

The AGT pipelines – like BP's previous pipelines – are not designed to provide oil and gas for the communities through which they pass. The TAPS and OCENSA lines were both designed mainly for the main US market (the Lower 48 states), not for Alaska or Colombia – just as AGT is designed for Europe (and possibly the USA). The oil that did stay in the respective countries was at the downstream end of the pipeline, not in the communities along its route. FPS did feed the Scottish fuel market, as well as exports, but it differs from TAPS, OCENSA and AGT in that the land section of the pipeline is short and the terminus is in the host country. The vast majority of AGT oil and gas would be exported. What would stay in the host countries (some oil for the Turkish market and some gas for the transit countries) would be at centralised national locations – not communities on the route, despite their severe fuel poverty.

3 What sort of disturbance would there be during the construction of the AGT pipelines system?

THE BP consultation leaflet reassures the reader that "strict discipline will ensure that disturbance to local populations is minimised". Yet whatever the company's rules and means of enforcing them, there would be major impacts from the sudden arrival of thousands of construction workers. For example, in TAPS, the massive influx of transient, non-local men in new territory encouraged anti-social behaviour, alcohol problems and prostitution. The fluctuating employment patterns of

Borjomi mineral water bottling plant, Georgia – not consulted about the impact of pipelines on mineral springs they would pass close to. (Greg Muttitt/Bank Information Center)

the oil industry can make many of the newly-arrived workforce unemployed within a short space of time, triggering a range of social problems. With a pipeline, men tend to arrive for construction work, and stay on afterwards, looking for other work in the contracted local economy after the short-term cash injection has passed. This problem occurred in Supsa, the Georgian town at the end of the Western Route Export Pipeline, whose route the first part of the AGT pipelines would follow. Before the pipeline and terminal were built, Supsa was a thriving market town. Then, for two years, men were employed building the terminal. After that, nothing. A report on the website, Eurasianet, describes the scene now:

> *"Outside the train station men sit and wait. And wait. And wait. There is no work in Supsa, so the most predominant image is groups of men of all ages sitting and waiting. Waiting for the day to end, for the next bottle of wine, vodka or chichi (Georgian vodka made from the skins of grapes, a by-product from the wine making process). Waiting and watching."*[223]

Just as much of a problem can be caused by the arrival of the wealthy – company managers and consultants – in the oil region as they buy up land and houses, pushing property prices beyond the reach of local people, and bring their own expatriate bars, restaurants, telephone companies and other service providers. Scotland's oil development damaged traditional lifestyles and caused the over-pricing of land. In Azerbaijan, the same trends are already visible in Baku.

Military bases east of Erzurum, about 2–3 kilometres from the planned BTC pipeline route. Behind the bases a Turkish flag and the words "Önce Vatim" are carved into the mountainside: "The State comes first!" (Greg Muttitt / PLATFORM)

The BP/ERM consultation leaflet mentions only the construction phase of the AGT project – three years out of the 50 or more years of the project's whole lifetime from pre-construction to post-operation. In the North Sea, workers have had much better pay, terms and conditions, even some collective bargaining rights, during 'hook up' – the period before the oil begins to flow when the company is investing capital and using expensive equipment, but is not yet receiving any income. Financial demands mean that the company cannot afford any delay. In Colombia, community affairs staff dropped from 60 to 16 once construction was complete. Perhaps this is because once the project is built (once the oil is flowing), the company worries less about potential opposition to its plans. In AGT, where BP so far has – it claims – been more sensitive to the possible impacts of the pipeline system,and where the company has made many promises about local benefits, oil has not yet begun to be pumped.

4 Would the AGT pipelines system exacerbate conflict?

THE AGT pipelines have been designed so that oil and gas resources worth US$ 21 million would pass through them every day.[224] What could be the impact on a community of the passage of so much wealth? Throughout the history of the oil industry, such developments have often exacerbated social tensions, as different

Fishing boats at Yumurtalik – 180 families in Yumurtalik depend on fishing; if the pipelines were built and the Yumurtalik marine export terminal expanded, fishermen would lose some of their fishing area and be at risk from both persistent pollution and the possibility of major spills. Yet they have not been consulted about the project. (Greg Muttitt/PLATFORM)

regions or communities compete with each other and with the governments and companies for a fair share of the proceeds.

The three host countries of the AGT pipelines have all experienced conflict in recent years: Azerbaijan with Armenia, Georgia with Abkhazia and South Ossetia, and Turkey with the Kurdish people. The pipelines are designed to operate for at least 40 years, so we need to consider potential conflict not just in the immediate future, but over the next four decades as well. The two existing pipelines that form a supporting role in the AGT pipelines system have already generated conflict or the fear of conflict: the Northern Route Export Pipeline (Baku-Novorossiysk) with Chechnya, through which it passes; and the Western Route Export Pipeline (Baku-Supsa) with Armenia, as it passes a mere 50 kilometres (30 miles) from Nagorno-Karabakh, the area of Azerbaijan that is occupied by Armenian forces.

Because of the amount of income which oil exploitation generates, pipelines often become symbols for the disenfranchised of how resources are unfairly distributed. This makes a pipeline a target for attacks and the subject of political disputes. Where tension already exists, a pipeline is likely to exacerbate it. Of our three case studies, this has been seen most clearly in Colombia. In one tragic incident there, 70 people

were killed after a guerrilla attack on the pipeline in Machuca. In the countries of the AGT pipelines system, there are similar risks. Indeed, during the height of their armed conflict with Turkish security forces in the 1990s, similar to guerrilla targeting of the OCENSA pipeline in Colombia, the PKK (Kurdistan Workers Party) identified Turkish pipelines and oil refineries in the Kurdish regions as legitimate military targets. Between 1991 and 1997, they attacked oil facilities at least seven times, including in July 1996 when they set alight the Kirkuk-Yumurtalik pipeline between Turkey and Iraq at Silopi in Iraq, which burned for several days.

While attacking the pipeline can have terrible consequences, more persistent violence can arise from the state's response to such attacks or the perceived threat of them. The daily flow of oil and gas worth US$ 21 million along the AGT pipelines would certainly be defended at all costs. Evidence of this can be seen in Georgian President, Shevardnadze's boast about the use of soldiers to defend pipelines at the opening of the Baku-Supsa pipeline, or in the 4th July 2001 meeting about security in Georgia between BP's Head of Security, John Sullivan, and Shevardnadze. Evidence can be seen, too, in the new security pacts that have been signed between Azerbaijan, Georgia and Turkey, and the recent US military deployment in the region.

5 How safe would the AGT pipelines system be for the environment?

BP'S consultation leaflet promises that "The pipeline and all facilities will be built to the highest international standards, and will pose no threat to nearby residents". BP also promised when it built the TAPS that "This pipeline is being built to conform to the highest standards for quality and safety, thus ensuring both its environmental and operational integrity". But in its first ten years, over 300 spills of more than 100 gallons, totalling more than 70,000 barrels of crude, poured from the TAPS pipeline. The management of TAPS has been consistently accused of cutting environmental standards in order to save money. The AGT pipelines are planned to cross at least nine major watersheds of the Kura, Coruh, Oltu, Aras, Euphrates/Firat, Dogankent, Goksu, Kizlirmak and Ceyhan rivers (*see* map, page 12). Environmental problems have already occurred on AGT's two supporting pipelines. For example, in 1997, 7,000 barrels of oil were discharged from a corrosion hole along the Northern Route (Baku-Novorossiysk) pipeline. Technical accidents, such as the buried pipeline becoming uncovered and landslides, also stopped oil transportation through both the Northern and Western Route Export Pipelines for several days in 1998–1999.

Drilling rigs, offshore Azerbaijan. Working conditions on these rigs are very unsafe, and unionisation is not permitted. (Nino Gujaraidze/Green Alternative)

The risks are exacerbated by geology. The AGT pipelines system is planned to pass through a region of high seismic activity. For example, the city of Erzurum has a long history of earthquake damage, while the town of Erzincan to the west of Erzurum was devastated by an earthquake in 1983.

The AGT system is more than just a pair of pipelines: it needs to be seen as a complete system that stretches from offshore oil platform to tanker terminal. A single failure in any one part of the system could have enormous environmental consequences. In the Alaskan case, the failure of just one element of the complete system caused one of the 20th century's worst environmental disasters: in March 1989, the *Exxon Valdez* tanker ran aground in Prince William Sound and spilled 258,000 barrels of crude oil into the sea. That disaster was arguably caused by the companies behind the pipeline pursuing lax safety standards over three decades. If the BTC oil pipeline is built, it would deliver one million barrels of crude oil per day to the tanker terminal at Yumurtalik, just south of Ceyhan on the Turkish Mediterranean coast, from which the oil would be exported by nearly 1,000 tanker shipments per year. If the pipeline is built, how safe would the animal, plant and marine species of Turkey's south coast be, or how promising the economic prospects of fishing and tourism in the region?

The AGT oilfields have already caused problems. Since 1997, when the Chirag-1 platform begun to operate, it has generated wastewater which is discharged directly into the Caspian Sea, in contravention of the stipulations of the environmental impact assessment. The impact on sturgeon and salmon has been severe, and waste discharges have been linked to the deaths of a number of seals.

BP's leaflet has a closed frame of enquiry. It starts from the assumption that the pipelines system will be built, within parameters determined by 'economic realities'. Only from that point does it ask how negative impacts for communities and the environment can be minimised. It is not open to the question of why someone might not want a pipeline at all, or to impacts that are systemic and which cannot be reduced if the pipelines are built. This problem is well explained by Peter Coates is his study, *The Trans-Alaska Pipeline Controversy*:

> *"The pipeline's potential impact on specific aspects of the natural environment and its biota (for example, the effect on fish spawning of siltation caused by removing gravel from streams) were identifiable, to some extent quantifiable, and, with careful planning and construction, mitigable in part. What could not be measured and was not amenable to any form of redress was the inscrutable spiritual, emotional, psychological, philosophical, and symbolic injury perpetrated by any pipeline."*[225]

6 How safe would the AGT pipelines system be for those who operate it?

BP'S consultation leaflet states that: "BP puts safety before profit, and is therefore very serious about this issue". But when oil is found and development begins, it is in the oil company's interest to get the oil to market as soon as possible – each day of delay is a day for which the company will not receive revenue from the oil. The rush to get oil flowing often leads to the cutting of environmental and safety corners in construction – after all, any fine will be far smaller than lost income because of delay. Environmental corners were cut in the construction of both the OCENSA and TAPS, and certainly in the TAPS operation phase.

Cutting corners does not stop once the oil is flowing. Oil companies measure their success by their profitability, and so constantly seek to expand their profits – which entails maximising production levels and minimising costs. For example, after years of inadequate maintenance and short staffing, BP's Scottish refinery at Grangemouth and its offshore platforms have had a litany of safety disasters. Furthermore, despite record profitability in the North Sea, BP has used the argument of supposedly

difficult and expensive fields, and a tough operating environment, to justify deeper cost-cutting, often at the expense of safety. The AGT pipelines (and especially BTC) have been characterised by public doubts about their economic viability, despite BP's keenness for the project. Will BP use these public doubts as an excuse for excessive cost-cutting?

Oil companies such as BP are also keen to prevent the development of a well-organised or politically threatening (as they see it) workforce, and would rather maintain full control themselves rather than attempt to cooperate. In FPS, despite national legislation to protect trade union rights, BP and its partners have fought hard against the recognition of unions and have routinely intimidated workers, including when workers point out safety problems. Given the restrictions that operate on trade unions in Azerbaijan, Georgia and Turkey and the lack of freedom of expression, who will protect and speak up for the pipeline workers' rights to a safe working environment?

7 What would be the impact of the AGT pipelines system on climate change?

BP is fundamentally an oil and gas company. The world's climate is changing, and the burning of fossil fuels is the main driver in this process, which is having a dramatic effect on the environment worldwide and is disproportionately having an impact upon the world's poorer communities. As a major producer of fossil fuels, BP thus plays a key role in climate change, particularly by bringing new sources of oil and gas to the world's consumers. As BP's annual report for 2001 states, the role of the BTC pipeline is "to transport oil from the Caspian Sea to global markets".

The 365 million barrels of oil and 730 million cubic metres of gas that may pass through AGT each year would, once burnt, contribute 170 million tonnes of carbon dioxide to the Earth's atmosphere – equivalent to 30% of the annual emissions of the United Kingdom. As BP and others recognise, the AGT pipelines system is the key to unlocking the vast majority of the Caspian's oil and gas reserves. Consequently, it is also a vital part of the machinery that extracts carbon from beneath the Earth's surface and transfers it into the atmosphere – the machinery that in effect enables the process of climate change.

If built, AGT would contribute to the disruption of the Earth's climate, producing floods, droughts, sea level rises, storms and all their attendant impacts on human

communities such as people in Bangladesh, Honduras and Mozambique have already encountered. If built, AGT would be an actor in climate change. Surely ERM, in their Environmental and Social Impact Assessment of the pipelines, should consider this most global of impacts? Yet there is no mention of it as a possible concern in the leaflet they distributed to local people.

Zones of sacrifice and the question of responsibility

Referring to Mexico and Nigeria, John McNeill writes in his history of oil exploration in *Something New Under the Sun – An Environmental History of the Twentieth Century*:[226]

> *"The Niger Delta (in Nigeria) at the end of the century, like Tampico (in Mexico) at the beginning, became a zone of sacrifice. The Ogoni, like the Huastec and Totonac, lacked the power to resist the coalition of forces that created and maintained the twentieth century's energy regime."*[227]

As we have stressed, we do not know for sure what the environmental and social impacts of the oil system that may stretch from the Caspian Sea to the Mediterranean coast would be. But if it were the cause of the ecological damage, social disruption and human rights abuses, that we, the authors of this publication, fear, then a new "Zone of Sacrifice" would have been created in the early years of the 21st century.

We have tried to describe the coalition of organisations and individuals which have, to this point, worked hard to develop what may become a key part of this century's energy regime. These forces have laboured with diligence and creativity on aeroplanes and laptops, by telephone and e-mail. Their effort and imagination should be recognised but, at the same time, those involved should be kept aware of their responsibility.

The AGT project arises out of a complex web of companies and institutions (*see* Chapter 6) – all, ultimately, working in concert. Within these organisations are a large number of individuals (*see* Chapter 5) who all play their part in the realisation of the AGT pipelines. Many of these individuals may have personal concerns about the social and environmental impacts of the project, may be anxious about 'things going wrong', but their ability to raise their doubts and to do anything about them may be severely limited.

Unfortunately for such concerned participants in the project, when accusations of serious ecological or social abuses do come to light, past experience shows that BP has tended to scapegoat a particular individual – security chief Roger Brown over the human rights and security scandal in Colombia, Captain Joseph Hazelwood in the

spill from the *Exxon Valdez* – rather than address the problems that have been brought to public attention. The outsourcing of operations enables the corporation to lay the blame for ecological or social abuses at the door of the sub-contractors, as it did with the human rights abuses in Colombia and workers rights abuses in the North Sea. The issue of the corporation's responsibility as the contracting company is rarely raised. We can expect this pattern to take place on the AGT pipelines system if it is built. For example, Turkish engineering company Botaş may well be held responsible for any abuses in Turkey, despite the fact that it holds no ownership stake in AGT and that it would be operating under contract to BP and its partners.

There have been a series of pivotal moments during BP's involvement in the AGT pipeline system:

- *the decision to begin negotiations for exploration rights over the Azeri-Chirag-Guneshli oil fields;*
- *the decision to consolidate their involvement in Azerbaijan with the signing of 'The Contract of the Century' and the acceptance of its inevitable consequence of building export pipelines;*
- *the decision to build the Northern Export Route Pipeline and the Western Export Route Pipeline;*
- *the decision to back the BTC oil pipeline as the Main Export Route pipeline;*
- *the decision to go ahead with the construction of the AGT pipelines system.*

All these decisions, except the finishing touches of the last, have been made. All of these decisions will have been taken at the core of BP itself.

Our task in this book has been to act like detectives, trying to piece together the sequence of events that have led to the current point in the development of the AGT pipelines system.

As we have stressed, the project may never be realised – its future hangs in the balance. But whatever transpires, we can still ask: Who was responsible for the decisions above? Who was responsible for the more detailed work which made those decisions – and perhaps the whole project – possible? John Browne? Terry Adams? John Sullivan? David Woodward? Michael Townsend? Dick Olver? Or more junior staff, such as Karen St John or Bob Miller? Who will be held responsible for any social and environmental impacts they have?

Chapter 16

Our common concerns

THE leaflet distributed by BP to local communities along the AGT route in Azerbaijan invites comment on the proposed pipelines system. We remain concerned that public money may be used to finance a project with which there are substantial human rights and environmental problems. Given how much has been left unsaid by BP, communities living in the route of the pipelines could consider asking the following questions of BP:

- **Would the project be safe?** *The experience of BP's existing pipeline systems shows that they have often been far from safe over a period of several decades. Why does BP believe that AGT should be any different from its previous pipelines?*
- **Even if the pipelines are built to the highest international standards, would these be sufficient to ensure safety?** *For example, has the risk of bomb attacks against the pipelines been fully evaluated? If so, what is the balance of priority between safety of the oil (in getting it to market) and safety of communities living along the route?*
- **Would the AGT pipelines system be safe in relation to the global atmosphere?** *Has BP assessed the lifespan impact of the pipelines system on climate change?*
- **Should a project with these risks and likely impacts be supported by public money?** *In what sense is it in the 'public interest' – either in Azerbaijan, Georgia and Turkey, or in Europe and the USA where taxpayers would subsidise it? Or for the publics around the world, those who will suffer the impacts of climate change?*
- **Would AGT bring development to local communities in the long-term?** *Would local communities receive additional oil, gas and electricity supplies as requested? Or would they just dream of the oil and gas flowing under and close to their houses without any direct benefit from the resources that ultimately belong to them?*
- **If the project proceeds as planned, and the kinds of environmental and social impacts that have been observed on other pipeline systems take place, who will be held responsible?** *Are all those who are currently making decisions – in companies, governments, contractors and other organisations – on the future of AGT prepared to take responsibility for these eventualities? Are they fully aware of the responsibilities they are taking on?*

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8 See *Index on Censorship*, Vol. 26, no. 4, July / August 1997

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21 BTC pipeline (2003-2005): $2.9 bn; ACG field development phases 2 and 3 (2003-2008): $7.5bn; Shah Deniz field development (2002-2004): $1.7 bn; SCP pipeline (2003-2004): $1 bn. Plus remainder of phase 1 expenditure on ACG (total $3.2 bn). Richard Paniguian (BP Group Vice President for the Caspian and Middle East), May 2002, presentation to 2002 Deutsche Bank Oil and Gas Conference

22 BP's average annual global capital expenditure is about $9 billion [$8.8 bn in 2001; source: BP plc, Financial and Operating Information 1997-2001, p.32], so the company will spend $54 billion globally over the next six years.

23 BP plc, Financial and Operating Information 1997-2001, p.42

24 Section written by Antonio Tricarico, Based on: Samir Isaev, 'The Production Sharing Agreements and the legislation of Azerbaijan, Concerning the environment', 2001. Additional sources: David I. Hoffman, 'Oil and Development in Post-Soviet Azerbaijan', *NBR Analyses*, Volume 10, Number 3, August 1999

25 Fortune Global 500 List, at www.fortune.com

26 *The Times*, 4/4/73, 'Alaska pipeline "sure to go ahead"', by Anthony Rowley, p.21

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36 *Financial Times*, 18/3/93, 'Oil equities knocked by tax reforms'

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"The main elements of the current UKCS fiscal regime are:

- Royalty… Royalty is not payable for any field approved after 31 March 1982
- Petroleum Revenue Tax (PRT)… A significant reform to PRT was introduced in the 1993 Finance Act… PRT was abolished for fields approved on or after 15 March 1993…
- Corporation Tax (CT), which is charged on the profits of oil and gas companies in much the same way as in any other industry. In the case of new fields this is now the only tax on profits."

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