

The Baku-Tbilisi-Ceyhan Pipeline: exporting an “environmental timebomb”

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PROJECT SUMMARY

The Baku-Tbilisi-Ceyhan (BTC) project is the most controversial oil pipeline in the world. This dubious honor is due to its damaging geo-political, environmental and social impacts, its role in augmenting the power of corporate interests over national governments, its alleged violation of European human rights law and Turkey's accession partnership, as well as allegations of corruption, incompetence and malpractice. Most importantly of all, however, there is an exceptionally high possibility that the BTC pipeline will suffer a catastrophic accident during its operations. Its sponsors, the UK oil giant BP, have consciously ignored warnings from their own experts about the likelihood of such accidents and pressed ahead with a flawed design, with the approval of major funders including the World Bank and many export credit agencies (ECAs).

Export credit agencies (ECAs) are governmental or quasi-governmental departments that use taxpayers' money to help companies invest and export overseas. ECAs typically provide financial backing in the form of guarantees, insurance or direct loans. Their purpose is to protect companies against the commercial and political risks of not being paid while operating abroad. ECAs underwrite ten per cent of global exports from large industrial countries.



Background:

The Baku-Tbilisi-Ceyhan oil pipeline is being constructed by a consortium of oil majors led by the UK's BP. It covers over 1700 kilometres, wending its way from Azerbaijan on the Caspian Sea through Georgia and eastern Turkey down to the Mediterranean port of Ceyhan. The aim of the project is to deliver Caspian oil to Western markets, while keeping supplies out of the ambit of regional powers like China and Russia. In this context, BTC is an overtly political project, whose route and momentum originates in Washington. As no American oil company would agree to undertake the costly and complex pipeline, BP itself was pressured into adopting the project.

Of the \$4 billion price tag for BTC, \$2.7 billion is provided or underwritten by public sources, including the International Finance Corporation (IFC), the European Bank for Reconstruction and Development (EBRD), and several national ECAs, including the ECGD (UK), Hermes (Germany), Coface (France), SACE (Italy), Ex-Im (USA) and JBIC (Japan). Independent monitors of the BTC project have fiercely criticised the lack of due diligence efforts of these international funding institutions, pointing out the compromising extent to which IFIs have relied on information and factual verification provided solely by BP.¹

Pipeline allegedly violates European human rights law:

In January 2004 the Corner House and the Kurdish Human Rights Project (KHRP) applied to take the European Commission to the European Court of Justice. The case centres on the Host Government Agreements (HGAs), the legal contracts for the BTC pipeline between BP and the three host nations, Azerbaijan, Georgia and Turkey. The HGAs exempt BP from all relevant local environmental and social law, apart from national constitutions, and permit the company to block any new laws affecting the pipeline over the course of its life. The governments may only intervene in the project in the case of an "imminent material threat" which is nowhere defined. The HGAs also oblige governments to maintain the "economic equilibrium" or profitability of the project, guaranteeing BP's profits and externalising project risks onto the three states. In the case of Turkey, the HGAs also appear to move the country away from the *acquis communitaires*

necessary for EU accession. The NGOs' case centres on the failure of the European Commission to act regarding these apparent breaches of Turkey's Accession Partnership.

In the same month, KHRP also filed cases with the European Court of Human Rights on behalf of 38 affected villagers along the route, alleging multiple violations of the European Convention on Human Rights including Article 1 of Protocol 1 (the right to peaceful enjoyment of property), Article 8 (the right to respect for private and family life), Article 13 (the right to an effective remedy) and Article 14 (rights to be secured without discrimination).

Human rights violations alleged by the villagers during BTC construction include: illegal use of land without payment of compensation or expropriation; underpayment for land; intimidation; lack of public consultation; involuntary resettlement and damage to land and property. In Turkey, there has been massive use (almost half of recorded cases) of emergency powers normally reserved for national disasters to acquire land without compensation being agreed.²

Pipeline Safety

Oil and gas pipelines must be wholly impermeable to water, which causes corrosion, widespread leakage and, potentially, massive explosions. On a pipeline like BTC, which is coated with plastic, the most vulnerable areas are the joints, which must be coated in a special sealant.

BP has chosen to coat the Azeri and Georgian sectors of the BTC pipe with sealant SPC 2888 – which chemically cannot adhere to plastic, meaning it will crack, peel off and let in water. The company was forced to secretly suspend work on the project for ten weeks in late 2003 after more than a quarter of the joints in the Georgian sector were found to have cracked. Engineers have called every one of the 150,000 joints coated with SPC 2888 "a potential timebomb."³

Worse still, BP was aware that the sealant wouldn't work before it began using it. BP consultant Derek Mortimore warned the company



that it was “completely out on a limb” in making a scathing critique of the product in November 2002, questioning why it was chosen before all but one product test had been carried out. Mortimore was subsequently fired by BP and alleges that BP managers told him they “would personally ensure [his] bankruptcy”.⁴

The original cause of this safety threat appears to be a questionable procurement process. The total failure of the IFC, EBRD and ECAs to pick up any of these problems has shocked private backers, many of whom based their participation in BTC on assumed high quality IFI due diligence. One major private backer of the pipeline, the Italian bank Banca Intesa, which has already sold off a third of its \$60 million stake at a loss and seeks to dispose of the rest, acknowledged that it was “very disturbed” at the weakness of ECA due diligence on BTC.⁵

Despite BP admitting that the coating system was untried, ECAs required no special due diligence measures and instead misrepresented the coating’s track record as extensive. Concern over the British government’s involvement in BTC led the parliamentary Trade and Industry Committee to undertake a special investigation into ECGD’s \$107 million backing for the project. In November 2004, ECGD officials admitted that the sealant had no relevant track record and was unlikely to survive BTC’s operational life intact.⁶

Independent analysts regard this failure of due diligence from public financiers as symptomatic of a wider tendency to defer to corporate interests. Before ECAs chose to fund BTC, the Baku-Ceyhan Campaign - a coalition of NGOs which has monitored the project for more than three years - presented them with a list of 173 violations of World Bank standards and local and international law along the Turkish leg of the project alone; none have as yet been refuted in detail.

Other Problems Include:

- Allegations by whistleblowers of cost-cutting, corruption and nepotism on the Turkish leg of the project, leading to widespread engineering failures;
- Protests and strikes by local people in all three countries over lack of payment, disruption and environmental and social damage caused by BTC, and by local workers alleging underpayment and discrimination;
- Increasing authoritarianism and political repression in host countries, particularly Azerbaijan, which conducted the first dynastic transfer of power from father to son in the post-Soviet states via elections described by Human Rights Watch as “a well-organised campaign of fraud”⁷;
- Political destabilisation, with both Azerbaijan and Georgia threatening to use oil revenues to settle long-standing territorial disputes;
- Persecution, illegal detention and torture of local human rights defenders in Azerbaijan and Turkey.

END NOTES

01. Baku-Ceyhan Campaign, ‘ECGD’s support for the Baku-Tbilisi-Ceyhan pipeline project’, Submission to the Trade and Industry Committee, 6 September 2004.
02. Caspian Development Advisory Panel, First Turkey Report, December 2003.
03. Derek Mortimore, speech at parliamentary seminar in London, 21 February 2005.
04. Mortimore, op. cit.
05. Michael Gillard, ‘Con-Track of the Century’, Spinwatch.com, 29 November 2004.
06. Roger Gotts, oral testimony to parliamentary Trade and Industry Committee, 23 November 2004.
07. Human Rights Watch, *Crushing Dissent: Repression, Violence and Azerbaijan’s Elections*, January 2004, <http://hrw.org/reports/2004/azerbaijan0104/>

This project fact sheet is part of a series on European export credit agencies and case studies of their controversial financing decisions.

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For more project fact sheets from the European ECA Reform Campaign visit www.fern.org or contact judith@fern.org

