

Mike O'Brien MP
Minister of State for Trade and Investment
Foreign and Commonwealth Office
London

19th February 2004

Dear Minister,

**Baku-Tbilisi-Ceyhan Oil Pipeline:
Allegations that BTC Co. failed to disclose material facts relating to
pipeline safety prior to approval of loan finance.**

We are writing to draw your urgent attention to well-sourced and documented allegations published in *The Sunday Times* of 15 February that BTC Co. failed to disclose to the Export Credits Guarantee Department (ECGD) the findings of a highly critical internal BP report, dating from November 2002, on the safety of the BTC oil pipeline prior to ECGD approving a loan for the project. It is also alleged that BTC similarly failed to fully disclose allegations of procurement fraud by its sub-contractors. A copy of *The Sunday Times* investigation is attached for your convenience.

The withholding of material information relating to the safety and probity of a project constitutes a clear-cut breach of the lending procedures of the ECGD and of those other international financial institutions which have backed the BTC project. As such, the allegations in *The Sunday Times* raise serious concerns over the integrity of the borrower and the safety and financial viability of the project: if proven, they are in our view of a sufficiently egregious nature to warrant immediate termination of the loan approved by the ECGD.

We would therefore urge you to instigate an immediate, independent inquiry into the allegations and to suspend all further disbursement of funds to the BTC project pending the outcome of the inquiry's investigations.

The documents and other materials on which *The Sunday Times'* allegations are based clearly establish that:

1. In May 2002, BP senior managers, who had already raised their concerns internally, commissioned Derek Mortimore, a leading pipeline integrity consultant, to assess the viability of a proposed epoxy coating to protect the pipeline joints in Azerbaijan and Georgia;
2. Derek Mortimore submitted his report to BP senior management in Baku on 10th November 2002.
3. The report expressed grave concern over the coating material that had been specified by BP for use on the pipeline. The nominated product was SPC 2888 from

Canada. The coating had no track record on plastic coated pipeline. In the view of Mortimore the specification was "underdeveloped and incomplete." His report went on: "As a field joint coating specification on a major pipeline, it is utterly inappropriate as it does not confirm a protective system that can be successfully applied in all the conditions under which this pipeline will be constructed, nor does it confirm the integrity of the protection for the design life of the pipeline."

4. Mr Mortimore warned BP: "We are specifying material and application that is not 'best industry practice' or even 'normal industry practice' we are in fact completely out on a limb, we cannot identify any pipeline owner who uses the epoxy by this application on PE [polyethylene] field joints any where in the world." Elsewhere Mr Mortimore states: "Clearly the use of [SPC] is going to lead to a serious problem." Mortimore warned that the SPC coating would not stop the ingress of water over time and therefore not protect the field joint. *The Sunday Times* has interviewed two other leading experts in this field who confirmed Mr Mortimore's conclusions. He continued: "The cost of repairs could prove astronomical. The potential for claims against [BP] is open-ended. I have witnessed many failures in specifications . . . but the situation on the pipeline is unique in my 41 years experience. There is no question in my own and many other peoples' minds that the wrong system has been chosen through a seriously flawed selection programme."

5. Despite the concerns raised by senior BP managers and Derek Mortimore, BP did not change the single nominated coating. The first pipe joints were coated in August 2003.

6. In November 2003, cracks were discovered in the joint coatings on which SPC had been used.

7. An estimated 15,000 joints have already been buried in Azerbaijan and Georgia.

8. Consultants contacted by *The Sunday Times* say they should be dug up. It is estimated that it could cost £500 million to dig up the buried pipes and recoat the joints with an industry proven coating that would provide the necessary protection for the design life. It is a contractual obligation that the specified coating must last a minimum of 40 years.

9. Complaints were made to BP by rival suppliers that irregularities had occurred in the way that BP awarded the estimated £5 million contract to SPC. A confidential inquiry was carried out by BP into the selection process and procurement fraud allegations in November 2002. The inquiry apparently exonerated SPC and BP staff. The findings of the inquiry have never been made public and BP refused to discuss or provide a copy of the investigation report to *The Sunday Times*.

We note that BP and BTC Co. were in possession of the Mortimore report at the time that key negotiations were taking place on the route of the pipeline through Georgia. As you will be aware, the Georgian Ministry of Environment expressed grave concern at the time over BTC Co.'s proposal to take the pipeline through the Borjomi National Park, the source of Borjomi mineral water, Georgia's main source of export income. Permission to route the pipeline through Borjomi was finally given on 1st December 2002. Yet at no time, either prior to the decision or after it, did BTC Co. make any

public statement on Mortimore's findings. On the contrary, both BTC Co. and BP continued to assure the public that the pipeline would be built to the highest international standards.

We also note that no mention of Mortimore's findings were made in the report prepared by IFC staff for the IFC Board meeting on 30th October 2003 that considered IFC financing for the Baku-Tbilisi-Ceyhan oil pipeline. This would suggest either that the information was withheld from the IFC board by IFC staff or that IFC staff had not been informed.

Finally, we note that the ECGD told *The Sunday Times* that BTC Co. had not disclosed prior to the approval of support on February 3, 2004 the findings of the Mortimore report or that some of his concerns, namely the complete failure of the protective coating system, had taken place leading to a major stoppage over the Christmas 2003 period.

On the basis of the above, there are strong grounds for suspecting that BTC Co. withheld material information from the public institutions from which it sought funding for the project. We believe that there is thus an urgent need to institute an immediate, independent inquiry into *The Sunday Times'* allegations in order that public confidence in the project and the institutions supporting it can be restored.

Specifically, we would ask you to respond as soon as possible to the following questions:

- Were ECGD staff informed by BP, BTC Co or members of BTC Co. about the findings of the Mortimore report? If so, when? And what action was taken?
- Were you or your staff informed of the findings of the Mortimore report prior to a decision being made on funding the BTC pipeline? If so, when?
- Was the Georgian Ministry of the Environment informed of the findings of the Mortimore report prior to the EIA for the Georgian section of the BTC project being approved on 1 December 2002?
- Was the Azerbaijan Ministry of the Environment informed of the findings of the Mortimore report? If so, when?
- Was the faulty coating used along the Turkish section of the pipeline? And if so, were the Turkish authorities informed?
- Were ECGD staff informed by BP, BTC Co or members of BTC Co. about the discovery of cracks in joints coated with SPC 2888? If so, when? And what action was taken?
- Were you or your staff informed about the discovery of cracks in joints coated with SPC 2888 prior to the decision to fund the project or disburse funds approved for the project? If so, when? And what action was taken?
- Has BP or BTC Co. informed ECGD of the possible costs involved in rectifying the

use of faulty coating? If so, when? What are the implications for the financial rate of return on the project?

- What measures were taken by ECGD staff to check the specifications of the coating supplied by SPC?
- Who will pay the extra compensation costs involved should pipes that have already been laid need to be dug up and recoated?
- What will be the impact of any construction delays that result from rectifying the faulty coating on the short-term financial viability of the project?
- Were ECGD staff informed by BP, BTC Co or members of BTC Co. about the allegations of fraud in the procurement of the coating? If so, when? And what action was taken?
- Were you or your staff informed of the allegations of fraud in the procurement of the coating? If so, when?
- Were the results of BTC Co.'s internal investigations into fraud allegations conveyed to ECGD staff? If so, when? And what action was taken?

The Baku Ceyhan Campaign is prepared to facilitate a meeting between your office, ECGD staff, other ECAs, the IFC, EBRD, institutional investors in BP and the private banks backing the project. Mr Mortimore has been contacted and is willing to brief the meeting on the technical issues. So too is Michael Gillard, the journalist behind *The Sunday Times* investigation. We are currently seeking a neutral venue where such an information-exchange meeting might take place.

In the event that you are unwilling to take up this offer, we reiterate that, given the extremely serious nature of the allegations made in *The Sunday Times*, we believe that nothing less than a full, independent inquiry will suffice to allay public concern over the future safety of the pipeline. We therefore urge you to institute such an inquiry as soon as possible and to suspend further disbursement of ECGD support for the project until the inquiry has reported. Should the inquiry find that BTC Co. has withheld material information on safety, as alleged, we believe that ECGD would have no option but to void its support for the project.

Mr Mortimore has asked it be pointed out that his only objective has been to help BP build a safe pipeline.

We look forward to hearing from you and hope that you will take up the offer of a briefing from Mr, Mortimore and Mr. Gillard.

Yours Sincerely

Nicholas Hildyard, The Corner House

Greg Muttitt, Platform

Nick Rau, Friends of the Earth (England, Wales and Northern Ireland)

Kerim Yildiz, Kurdish Human Rights Project

Anders Lustgarten, Baku Ceyhan Campaign