

THE CORNER HOUSE

Station Road
Sturminster Newton
Dorset DT10 1YJ
UK

Tel: +44 (0)1258 473795

Fax: +44 (0)1258 473748

Email <cornerhouse@gn.apc.org>

Website: www.thecornerhouse.org.uk

Company No: 3892837

Douglas Alexander MP
Minister for Trade, Investment and Foreign Affairs
Foreign and Commonwealth Office
London SW1A 2AH

18 January 2005

BY EMAIL AND POST

Dear Minister

BTC Pipeline:
Issues Arising from Evidence Presented to Trade and Industry Committee

We have written to you or your predecessor on two previous occasions (19 February and 5th November 2004) to express our concerns over the safety of the SPC 2888 coating system being used by BP on the Azerbaijan and Georgian sections of the Baku-Tbilisi-Ceyhan oil pipeline.

As you know, our concerns were first raised following a report in *The Sunday Times* that BP had ignored safety warnings from one of its own consultants, Derek Mortimore, and failed to report these warnings to the ECGD, the International Finance Corporation and other funders. In his reply (19 March 2004) to our letter of 19th February 2004, Mr O'Brien, then Minister for Trade, assured us that:

- “BTC Co made their choice of coating as a result of an extensive technical exercise, which concluded that the coating was most suitable”;
- “There has been no problem that has had a materially adverse effect on the project”;
- “The BTC project will continue to be constructed to international standards and is on time and on budget for first oil in 2005”.¹

Mr O'Brien also informed Parliament that SPC 2888 had been used extensively in North America on major pipelines where the pipeline is coated with a three layer, high density, polyethylene coating.² Similarly, in a letter to the Trade and Industry Committee, Mr Weiss

¹ Minister of Trade, Letter to Corner House and others, 19th March 2004

² Minister of Trade, Response to Question 179981, Hansard, 28 Jun 2004 : Column 5. Simon Thomas MP asked: “What assessment has been made into the use of SPC 2888 by major pipelines other than the Baku-Tbilisi-Ceyhan pipeline where the pipeline is coated with a three layer, high density, polyethylene coating”. Mr O'Brien replied (without qualification): “The

of the ECGD stated, “The coating . . . has a track record in similar conditions in a significant number of other pipelines”¹

In November 2004, a number of documents relating to the coating issue were made public by the Trade and Industry Select Committee, which is currently holding an inquiry on the ECGD’s involvement in the BTC pipeline.² The evidence in these documents, together with other facts presented to the Trade and Industry Committee, including oral testimony by ECGD’s own staff, strongly suggests that the assurances given by Mr O’Brien to both NGOs and to parliamentarians were unfounded, misleading and inherently unreliable. **We are therefore writing to request that you clarify Mr O’Brien’s responses, correct any misrepresentations made to Parliament and take immediate action to ensure that the safety of the pipeline has not been compromised by Mr O’Brien’s mischaracterization of the threat posed by the choice of SPC 2888.**

To take each of the assurances given by Mr O’Brien in turn:

1. “BTC Co made their choice of coating as a result of an extensive technical exercise, which concluded that the coating was most suitable”

In fact, evidence available to Mr O’Brien at the time of his 17th March letter,³ reveals that, far from being based on an “extensive technical exercise”, the specification for the coating was based on a deeply flawed, inadequate and truncated approval process:

a) The coating was not tested in field conditions on a plastic-coated pipeline such as BTC until *after* it had been selected by BP.

All but one of the eight studies carried out on SPC 2888 to ensure it was the right choice were done long after BP awarded the contract.⁴ Cold weather and curing tests of SPC 2888 were only conducted in the region in August and September 2003;⁵ the results have never been made public. A curing regime was only developed in December 2003 – after the coating had been applied and failed.⁶

b) No alternative anti-corrosion system was evaluated, contrary to best practice

BP consultant Derek Mortimore submitted a report to BP in November 2002 strongly criticising the choice of SPC 2888, since it would not stick to the PE coating on the pipeline. Mr Mortimore tried to organise a demonstration of alternative coating technologies, but BP forced him to cancel it. Mr Mortimore was sacked soon after raising his concerns; BP have tried to discredit him ever since.

c) The tests used to select the coating were skewed in favour of SPC 2888.

The only study performed on SPC 2888 and competing materials before the contract was awarded was carried out by Advantica Technologies in July

WorleyParsons report on the field joint coating issue (SPC 2888), included a case history of use of SPC 2888 on other pipelines. It showed that SPC 2888 had been used extensively in North America.”Hansard 28 June 2004: Column 50W, ‘SPC 2888’

¹ John Weiss, Letter to Trade and Industry Committee, 19 July 2004, p. 3

² Trade and Industry Committee, Memoranda: ECGD Support for the Baku-Tbilisi-Ceyhan Pipeline Project, 16 November 2004.

³ All the information referred to in this section was in the possession of BP as of 17 March 2003 and therefore available to ECGD. In addition, the Baku Ceyhan Campaign had offered to facilitate a meeting between Mr Mortimore and the BTC lenders group, including ECGD. In his letter of 19th March 2004 (op.cit.1), Mr O’Brien declined the offer: “I understand Matthew Trainer, ECGD’s External Affairs Manager, has been in contact with you with regard to your invitation, which I have declined.”

⁴ Trade and Industry Committee, Memoranda, op. cit 4, Second Submission by Michael Gillard, 1st October 2004, para 33.

⁵ Ibid, para 91.

⁶ Ibid, para 14.

2002.¹ On certain tests SPC 2888 was found to perform “poorly”;² other key tests were omitted from the results.³ Nonetheless, SPC 2888 came top in this study.⁴ According to evidence submitted to the Trade and Industry Select Committee, one competitor company, E Wood Ltd, directly accused BP materials consultant, Trevor Osborne, of “slanting” the results of the study in SPC 2888’s favour, forcing BP to carry out an internal corruption investigation.⁵ BP refuses to release the report of the investigation, although it claims that the report clears all parties.

The results for an alternative technology, “shrink sleeves”, were excluded from the Advantica study results altogether.⁶ The manufacturer, ShawCor, commissioned Advantica to repeat its study, also in July 2002.⁷ This time, SPC 2888 failed the crucial tests outright, including those for adhesion and flexibility.⁸

d) **The Lenders’ Group’s own consultant questioned the coating’s appropriateness.**

As pointed out in our letter of 5th November, the 2003 report by Parsons E & C, the independent engineering consultants commissioned by the Lenders’ Group to review the technical specifications for the project, raised serious concerns over the suitability of the selected coating, warning: “The ability to effectively repair coating damage and to coat field joints in a manner that will meet the 40-year design life is questionable for the selected line pipe coating. Parsons E&C recommends that focus be placed on the field joint coating material compatibility with the factory applied pipeline coating. Parsons E&C’s concern is still with the 40-year design life... The possibility of a failure of the pipeline coating system should be evaluated.”⁹

2. “There has been no problem that has had a materially adverse effect on the project”

In fact, the cracking of the coating has had a major material impact on the project, an impact that was also well documented at the time that Mr O’Brien wrote his letter of 17th March:

- a) By early February 2004, *at least 26%* of joints welded and coated in Georgia were known to have developed problems.¹⁰ A known fail rate of 26 per cent cannot reasonably be considered immaterial. Moreover, as documented in the evidence presented to the Trade and Industry Committee:

¹ Ibid, paras 39 and 45 ff

² Trade and Industry Committee, Memoranda, op. cit 4, Second Submission by Michael Gillard, 1st October 2004, para 53. Gillard also notes (para 50): “The Advantica scientists wrote: ‘No single coating material consistently performed well in all tests.’”

³ Ibid, paras 51 and 53.

⁴ Ibid para 52.

⁵ Ibid, para 41.

⁶ Ibid, paras 51 and 53.

⁷ BP auditors investigating allegations of impropriety in the award of the coating contract were informed of the results of these alternative Advantica tests in November 2002 (ibid, para 56). Mr O’Brien, when Minister of Trade, stated that the outcome of the BP auditors’ was shared with ECGD. See: Trade and Industry Committee, Memoranda, op. cit 4, Response of Derek Mortimore to ECGD Submission, p.19; and Minister for Trade, op. cit 1, “BP has shared the outcome of its internal investigation into the procurement of the field joint coating material with ECGD”.

⁸ Ibid, paras 53-55.

⁹ Parsons E&C, BTC Independent Engineering Assignment, Final Report, 2003, p.27

¹⁰ WorleyParsons, Desktop Study Final Report: Field Joint Coating Review, Redacted Version, 15 July 2004, p.20.

- The true proportion of joints with cracked coatings is likely to be far higher – although the full extent of the problem is not known;¹
 - Experience in other pipelines reveals that BP’s chosen solution to the problem of cracking – preheating – does not work.² BP Projects was aware of the relevant reports.³
 - On top of the cracking, a second problem exists with the coating: that it does not stick to the polyethylene outer surface of the pipeline; as such it will peel off and allow water in. The problems with disbondment continue, an internal BP report of 18th June 2004 recording that the plastic coating on the pipeline in Georgia had peeled away from “a large proportion” of the steel pipe;⁴
 - The main mechanism which ECGD and the Lenders’ Group are relying on to detect failures in the coating system, namely cathodic protection, is likely to have been fatally compromised as a result of corrosion due to the failure of the coating system;⁵
 - There is a real risk that a failed coating system could result in stress corrosion cracking. In the event of a coating failure exposing the bare steel, stress corrosion cracking will split open a buried pipeline like a tin can.⁶ The escaping high pressured hot oil and gas could cause a fireball. Given that the South Caucasus gas pipeline is being constructed alongside BTC, using the same coating system, the potential for a catastrophic accident is alarming.
- b) As confirmed by Worley Parsons in its 2004 Desktop Study of the coatings issue,⁷ BP is now in dispute with its contractors over the liability for costs incurred as a result of the cracking problems. The cost to BTC Co of the coating cracking is unknown until those liability questions are resolved. The fact that liability for costs is being debated is a clear indication that the problems are material, in any meaningful sense of the word: if they were not material, there would be nothing to debate. Secondly, if the cost to BTC Co is as yet unknown, the impact on ECGD’s position, and hence on the British taxpayer, is also unknown.
- c) Following its own investigations into the coating failure, Banca Intesa, one of the main commercial banks backing the project, has sought to sell its stake in BTC.⁸
- d) Doubts over the safety of the selected coating have led to a major internal schism between BP’s Projects department, which designed BTC, and

¹ See Baku Ceyhan Campaign, Response to ECGD Remarks on SPC 2888 field joint coatings, Submission to House of Commons Trade and Industry Select Committee, 6 September 2004, para 35ff.

² Trade and Industry Committee, Memoranda, op. cit 4, Second Submission by Michael Gillard, 1st October 2004, para 90. Gillard cites a report from energy company TransCanada which tested the viability of using liquid epoxies on plastic coated pipes. The report found the liquid epoxies failed every test. It concluded that the two materials were incompatible. With respect to curing, the report noted, “The coating may be applied and [dry] to look acceptable, but once [buried] and operation of the pipeline is started, the coating will fail.”

³ Ibid, para 90.

⁴ Ibid, para 119, bullet 1

⁵ Parsons E&C , op. cit 17. As the Parsons Report itself notes: “*In the event of coating disbondment, the coating will insulate the underlying metal from cathodic protection current, while allowing water to ingress and corrosion to occur. FBE does not have this insulation characteristic... Repairs and field joint coating is a major concern for the selected coating system, because it does not lend itself to repair and as a di-electric, does not work well with cathodic protection when it fails.*”

⁶ Trade and Industry Committee, Memoranda, op. cit 4, Submission by Dr. John M. Leeds, para 3:14.

⁷ Worley Parsons, op.cit 18, p.24, para 7.1.

⁸ Morrison, K., “Intesa in talks over exit from pipeline project”, Financial Times, 1 December 2004.

Operations, which refuses to bury the pipeline without fully testing its viability first. Unless Operations managers certify the pipeline as fit for purpose, BP cannot offload the enormous financial liability for the pipeline onto the commercial banks, including the Royal Bank of Scotland.¹

3. “The BTC project will continue to be constructed to international standards and is on time and on budget for first oil in 2005”

In fact, the project continues to flout international standards, not only with regard to quality control, worker safety and construction but also with regard to land acquisition. Most recently, for example, you yourself have acknowledged that land is being used outside of the 28-metre corridor.² Where this land has not been legally expropriated and compensation paid, as documented in a number of cases by non-governmental organisations, its use would constitute a breach of the projects’ legal agreements.³

Evidence presented to the Trade and Industry Committee also suggests that BP is trying to conceal the extent of the coating problem in order to minimise publicity and prevent repairs, construction delays and above all legal liability for future disasters. An internal report of June 18 2004 notes that “cross-cut adhesion testing was limited...based on the acceptable outcome of previous testing and *the desire to reduce repair frequency*”⁴ [emphasis added]. Since the coating in fact failed after the previous testing, there is no justification whatsoever for reducing further tests, except to minimise damage to BP’s reputation and bottom line at the expense of local people and a fragile local ecosystem.

We also note that the project is now running over budget⁵ and that informed sources close to BOTAS have told the Baku Ceyhan Campaign that the Turkish section of the pipeline will not be ready to carry oil until after 2005.

4. SPC 2888 had been used extensively in North America on major pipelines where the pipeline is coated with a three layer, high density, polyethylene coating

In fact, as the ECGD itself has now conceded, the BTC coating system for Azerbaijan and Georgia has never been used anywhere in the world on a major pipeline. As Mr Gott stated in oral evidence to the Trade and Industry Committee on 16th November: “It is the first time it has been used on a pipe with the polyethylene coating”.⁶

¹ Trade and Industry Committee, Memoranda, op. cit 4, Second Submission by Michael Gillard, 1st October 2004, paras 128-132.

² Minister for Trade, Letter to Corner House, 6 December 2004: “The FFM report highlights issues that are a cause for concern to the UK Government, two of which were identified by the lenders’ independent environmental consultant (D’Appolonia) in their most recent quarterly site visit report: compensation for accidental damage and use of land outside the 28 metre right of way.”

³ The project is subject to the requirements of the World Bank’s policy on involuntary resettlement (OD 4.30) which stipulates (para 3b) that compensation paid prior to its use by project developers. In 2003, the BTC SRAP Expert Panel (Review 2003, Part A) had already warned: “BTC Co must direct more attention to eliminating cases where land is occupied prior to payment of compensation. Whilst the number of instances where this has occurred is small relative to the overall number of land transactions, the practice is contrary to World Bank OD 4.30 principles and should be avoided.” It would appear from the most recent 2004 D’Appolonia report that the problem persists.

⁴ Trade and Industry Committee, Memoranda, op. cit 4, Second Submission by Michael Gillard, 1st October 2004, para 109.

⁵ Bases, D, “Azerbaijan sees no finance problem for pipeline”, Reuters, 14 December 2003. According to Reuters, the estimated construction costs had risen by \$400 million over the budgeted costs.

⁶ Minutes of Evidence taken before Trade and Industry Committee: ECGD Support for the Baku-Tbilisi-Ceyhan Pipeline, 16 November 2004, Tuesday 16th November 2004, Q 23.

Oral Evidence Q23

Mr O'Brien's assurances that the coating system had a track record in North America were therefore wholly misleading.

We would point out that the novelty of the coating system had been acknowledged by BP on two occasions prior to Mr O'Brien's statement:

- In September 2002, BP's own Peer Assist Review of September 2002 called using SPC 2888 on plastic pipelines "a step change in present industry practice."¹
- An August 2003 article in BP's house magazine – *Frontiers* - BP design manager Ian Parker noted that, "As far as we know, this is the first time such a system has been employed."²

In sum, the evidence now made public through the Trade and Industry Committee casts grave doubts on the reliability of the assurances made by Mr O'Brien when Minister of Trade with regard to the safety of the SPC 2888 coating system. Given that the bulk of this evidence was in the possession of BP at the time that Mr O'Brien gave those assurances, two conclusions suggest themselves:

1. That Mr O'Brien was not appraised of the evidence: or
2. That Mr O'Brien was aware of the evidence but misrepresented it.

Either way, we would contend that the public and the House of Commons has been misled and that clarification is needed if public confidence in the ECGD and the BTC project is not to be undermined. We would therefore request that you respond urgently to the following questions:

- When did ECGD first learn that SPC 2888 had not previously been used on a pipeline with polyethylene coating?
- When did the ECGD first see the results of the BP-commissioned Advantica Laboratory tests on SPC 2888?
- When did ECGD first see the results of ShawCor tests?
- What assessments were made of alternative anti-corrosion systems by BP prior to the selection of SPC 2888 and when was ECGD made aware of them?
- When did ECGD first learn that the cathodic protection system was vulnerable to being rendered inoperative by coating corrosion?
- Does the ECGD expect project sponsors to provide it with all relevant reports that contribute to their knowledge of the project?
- When was ECGD supplied with a copy of Trevor Osborne's 18th June 2004 report on the field assessment of coating damage to the Georgian pipeline?
- Has the ECGD been informed by BP of any concerns raised by BP's Operations Department with regard to certifying the pipeline as fit for purpose?

In addition, given that the assurances made by Mr O'Brien are no longer tenable, we would urge you to correct any misrepresentations made by your predecessor to Parliament and take immediate action to ensure that the safety of the pipeline has not been compromised by Mr O'Brien's mischaracterization of the threat posed by the choice of SPC 2888.

Yours Sincerely

Nicholas Hildyard, Corner House

¹ Worley Parsons, op.cit 18, p.8.

² Quoted in Knott, T., "The Caspian Connection", *Frontiers*, August 2003, p.22.

Hannah Ellis, Friends of the Earth (England, Wales and Northern Ireland)
Greg Muttitt, PLATFORM
Kerim Yildiz, Kurdish Human Rights Project

cc. Secretary of State for International Development
Chief Secretary to the Treasury
Trade and Industry Select Committee
International Development Committee
Environmental Audit Committee
Chief Executive, ECGD
David Allwood, ECGD