

THE CORNER HOUSE
Station Road
Sturminster Newton
Dorset DT10 1YJ
Tel: 01258 473795
Email: cornerhouse@gn.apc.org

Jeanette Swindon
Business Manager Construction
Export Credits Guarantee Department
2 Exchange Towers
Harbour Exchange Square
London E14 9GS

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Dear Jeanette Swindon,

Baku-Tbilisi-Ceyhan Project

Thank you for your letter of 31 October 2003, inviting further comments on the Baku-Tbilisi-Ceyhan pipeline.

Since submitting our review of the Turkey section of the pipeline – which identified 173 violations of World Bank and project guidelines - a number of new issues have arisen which reinforce our previous concerns. These relate primarily to breaches of OD 4.30 (and thus local law) along the entire length of the pipeline and serious allegations of malpractice in the construction operations in both Turkey and Georgia, including faulty welding being passed as satisfactory. We would stress that, despite approval of the project by IFC, we continue to receive reports that highlight *ongoing* problems in implementation.

In addition, a November 2003 report by Green Alternatives draws attention to continuing, unresolved problems in Georgia relating to: land acquisition; grievance mechanisms; workers' rights and labour relations; potential ethnic conflict; breaches of the environmental conditions attached to the Georgia EIA; the non-implementation of management plans, many of which have still to be agreed despite the commencement of construction; and concerns over the public disclosure consultation process (Annex 1). An accompanying report on concerns raised by Azerbaijan NGOs is also attached (Annex 2).

These concerns are summarised below:

A. Violations of OD 4.30.

Although BTC has consistently denied that resettlement procedures are in violation of OD 4.30, **BTC's own Social and Resettlement Action Plan Monitoring Panel has now explicitly acknowledged breaches of OD 4.30 in all three countries as a result of land being occupied prior to payment of compensation.**¹ The SRAP does not give details of the number of cases involved (noting only that they are small relative to the overall number of land transactions). The breaches are confirmed by the most recent NGO reports from Georgia (see Annexe 1).

We note that under the terms of Turkey's Lump Sum Turnkey Agreement **any** violation of OD 4.30 would constitute a violation of local law, thus breaching ECGD's lending policy which requires projects to meet host government law. NGOs can see no defensible reason why a project that the project sponsor's own monitoring shows to have breached local law should be considered for funding. **We would therefore urge ECGD to condition any funding for the project on all landowners being satisfactorily compensated prior to their land being used for construction.** We believe that to fund the project without such a condition being in place would constitute a breach of the ECGD's own Business Principles and assurances that ECGD staff have given to parliament.

B. Allegation of Faulty Welding, Inadequate Record Keeping and Use of Carcinogenic Materials without Adequate Safety Provisions.

In the past two weeks, we have received information from two independent sources regarding major breaches of standard quality assurance practices, including inadequate record keeping, and evidence that faulty welding has been permitted to go unrepaired (Annex 3). A signed statement from one source who worked as an inspector on the project is attached. The statement has been anonymised to protect its source: however, the source would be willing to meet with ECGD staff on a confidential basis. Given the nature of the alleged management failures – notably the lack of adequate record keeping – BTC is clearly not in a position to give assurances as the quality of welding in the absence of a full audit of quality control records on the Lot on which the inspector worked. **We would therefore urge the ECGD to delay any decision on financing the project until independent auditors have satisfied themselves as to the reliability of: certificates of conformity for welding consumables; stock control methodology; storage methods; quality records for welding inspections; the results of welding tests; the results of cathode protection tests; the qualifications of welders; and the results for the weld tests of employees.**

Two anonymous emails detailing similar breaches of construction standards on another section of the pipeline are also appended (Annex 4). The allegations made in the emails are being followed up.

¹ BTC SRAP Expert Panel Review, Part A. The report states: "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."

C. Conflict and the Use of Oil Funds

We would draw your attention to concerns arising from recent statements by President Aliyev suggesting that Azerbaijan's oil wealth may be used to fund military expenditure, a prospect that is of grave concern given the country's ongoing dispute with Armenia over Karabakh and President Aliyev's avowed intent to "liberate [Azerbaijan's] native lands at any cost." A letter to Executive Directors at the World Bank which outlines NGO concerns in this regard is attached (Annex 5). We believe that the BTC project should not be awarded public money while uncertainties over the use of its revenues are still so prevalent. Any use of BTC revenues which contributed to destabilising conflicts in the region would not only have huge political ramifications but also massive repercussions for the reputation of the ECGD. We strongly urge the UK government to implement a short delay in considering the issuing of ECGD funds while these concerns are resolved.

Finally, we would draw your attention to continuing NGO concerns over the failure of the project to meet IFC standards – and hence host government law as defined by the project agreements. Although the IFC has seen fit to approve the project, these concerns remain (Annexes 6 and 7). We believe strongly that the ECGD must carry out its own analysis of the project, and not rely solely on information from the BTC consortium itself or from the IFC. The ECGD should ensure that the project meets IFC standards, as required by the BTC project agreements, regardless of whether the IFC upholds its own standards or not.

Yours Sincerely

Nicholas Hildyard, The Corner House
Nick Rau, Friends of the Earth (England, Wales and Northern Ireland)
Anders Lustgarten, Baku Ceyhan Campaign
Greg Muttitt, Platform