



Department of Trade and Industry

19 March 2004

The Corner House
Station Road
Sturminster Newton
Dorset
DT10 1YJ

Dear Sirs,

Re: BTC Oil Pipeline Allegations

Thank you for your letter of 19 February concerning the Sunday Times' allegations about the joint coating used on the BTC Pipeline.

The allegation is that the BTC Pipeline Company ('BTC Co') failed to disclose to ECGD (a) an internal BP report by Derek Mortimore raising concerns about the safety of the coating chosen for the pipeline, and (b) allegations of procurement fraud in the selection of the coating. You further assert that BTC Co's withholding this material constitutes a breach of ECGD's loan terms, and that the hairline cracks that have appeared in the coating of the pipeline might have a significant impact on the project's financial viability.

BTC Co did not inform the ECGD about the problems with the field joint coating material. I am told this was because both parties properly regard the testing and use of the coating as a routine part of the pipeline construction process. The problems with the application of the coating were detected by the inspection regime in place on the pipeline - evidence that the monitoring regime is doing its job.

ECGD has been told that the allegations made in the Sunday Times article - that work was halted on the pipeline from November 2003 until February of this year, and that it could cost £500 million to dig up the entire pipeline to check for buried cracks - are, wrong in important respects. Work was halted on the application of coating for a brief time only (other work continued), and pipe joints with hairline cracks were identified in the process of transferring the coated sections into the ground and were repaired prior to burial.

There has thus been no problem that has had a materially adverse effect on the project and this was reflected in the brief duration of the halt in work on the pipeline, which remains on time and on budget for completion in 2005. As a result of the limited nature of the problem, BTC Co was under no obligation to report the findings of the report to ECGD.

BTC Co and BP have provided ECGD with more information about the coating, in response to allegations about its suitability. I understand that BTC Co made their choice of coating as a result of an extensive technical exercise, which concluded that the SPC coating was the most suitable. The choice of coating was scrutinised and



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*From The Minister of State for
Trade, Investment and Foreign Affairs*



approved by Parsons E & C, the independent engineering company operating on behalf of the project lenders and ECAs.

A separate coating process was used on the Turkish section of the pipeline. As for whether the Georgian or Azerbaijan Ministries of the Environment were informed of the findings of the Mortimore report, this is a matter for BTC Co.

You raise the question of alleged impropriety in the procurement process. BP has shared the outcome of its internal investigation into the procurement of the field joint coating material with ECGD. Their report concluded that any allegation of impropriety was unfounded. Consequently, this matter was not material to ECGD's assessment of the project and there was no onus on BTC Co to inform them.

Therefore there is no merit in your call for a public inquiry into the allegations reported in the Sunday Times. The BTC pipeline project will continue to be constructed to international standards and is on time and on budget for completion for first oil in 2005. I remain satisfied that ECGD's due diligence procedures were followed before coming to a decision to provide cover for the BTC pipeline project.

I understand Matthew Trainer, ECGD's External Affairs Manager, has been in contact with you with regard to your invitation, which I have declined.

Yours sincerely

MP: Mike O'Brien (Approved by the Minister and signed in his absence.)