

UNDERWRITING COMMITTEE

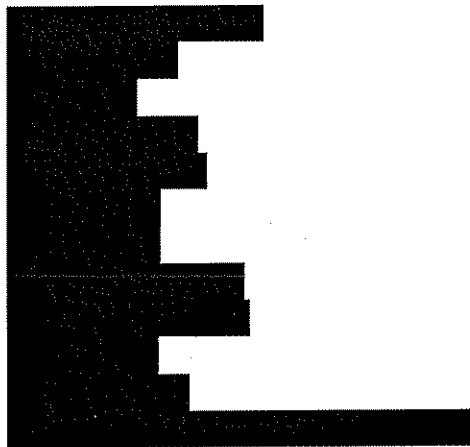
UC (03) 30TH MEETING

MINUTES OF THE MEETING HELD ON 5TH DECEMBER 2003

PRESENT:

Mr J Weiss (UC Chairman)
Mr V Brown
Mr M Pentecost
Mr R Gotts
Mr A Faulkner
Mr N Ridley
Mr J Croall

s40

**1 UC (03) 79 – The Baku-Tbilisi-Ceyhan Pipeline Project**

1.1 The Chair set out the order of the meeting as:

1.1.1 An outline of the processes leading to the current submission.

1.1.2 Presentation and discussion of BD2's paper

1.1.3 Presentation and discussion of the BPU Review.

1.1.4 Next Steps

1.2 BD2 outlined the multiple stages of the underwriting process leading to this submission. It was noted that DFID had not yet reported to HMT on the Productive Expenditure criteria for Georgia.

2 BD2 Paper

s40 2.1 [redacted] presented the paper for BD2, updating the Committee as follows:-

- To date about 1/5th of the pipeline had been welded.
- Signature of project documentation was currently scheduled for 15th January 2004;
- ABN Amro had made an application for a US\$ 150m Project Line of Credit. Preliminary applications had been received from Bechtel, John Brown and BP. Another 10 UK firms had made preliminary enquiries;

s43 - Premium was confirmed as being [redacted] (against the OECD benchmark of 16.38% prior to permitted exceptions);

s27
and
s43

[redacted]

s27
and
s43

[redacted]

s43

- A revised Insurance Schedule, approved by our insurance consultant had been produced. The PML would now be US\$ [redacted] (US\$ [redacted] in the UC paper); all risk insurance was set at [redacted] of PML; terrorism cover was set at [redacted]; 3rd Party liability was US\$ [redacted].

§27 [REDACTED]
 [REDACTED]
 [REDACTED] GIOC, who was able to commit the Georgian Government, would sign the documents.

2.2 The following issues were addressed In general discussion:-

(a) **Corruption Warranty.** [REDACTED]

§43 [REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]

(b) **Georgian HGA Acknowledgement.** [REDACTED]

§27 [REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]

(c) **Georgian Litigation.** The Georgian Green Alternative litigation was discussed, including the possibility of subsequent

§42 [REDACTED] appeals [REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]

§27
and
§43

(d) **Territorial disputes.** BD2 noted that the FCO had cleared this section of the underwriting paper. CRED advised that jurisdiction over the Caspian Sea and its resources had previously been settled under the former Soviet regime. Since the collapse of that regime, the matter remained unresolved. This issue only affected a small part

of the ACG field. It was agreed to note the situation and keep track of any developments.

(e) **Sponsor Support.** BD2 confirmed that the Senior Leaders had resolved the amount of the cap based on [REDACTED]. s27 and s43

(f) **Permitted Expansions.** [REDACTED]

s27
and
s43

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

[REDACTED] ORPRA confirmed that changes in material factors, such as tariffs, gave rise to a low risk as the oil field was extremely large with unusually low production costs. There would have to be no oil being pumped to have a negative effect on revenues and thus debt service. The current proposals were agreed.

(g) **Complaint under OECD Guidelines for Multinational Enterprises.** The complaint is still under investigation by DTI. The Guidelines, although voluntary, applied to all MNEs based in the UK; only Turkey (as an OECD member state) amongst the three host governments, was a signatory to the Guidelines. However, the Joint Statement signed by the Host Governments and BTC last May confirms their intention to work together to ensure that the policies and principles embodied in the Guidelines are implemented and that the Project Agreement structure reflects the Guidelines.

(h) **Pipeline Welds.** BD2/BPU advised that notification of problems with early welds had been received and forwarded to BTC Co [REDACTED]

reg. 12(5)(e)

[REDACTED]
[REDACTED]
[REDACTED]

reg 12(5)(e)

[REDACTED] The BTC process for inspecting all the pipeline welds was described to the committee. In general Parsons, the Lenders' technical consultant, could only inspect the weld inspection records (which BTC Co. had stated were satisfactory) but would be expected to visually check where pipes remained exposed. ORPRA confirmed the basis of the completion test. This was limited to the equivalent of ½mbpd as some pumping stations necessary for pumping 1mbpd would not be ready. Hydrostatic pressure tests would be carried out prior to filling the pipeline with oil. It was agreed that no further action was required.

(i) Vires for Reimbursement contracts. [REDACTED]

s42

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

(j) Public international law issues. [REDACTED]

s42

[REDACTED]

3 BPU Review

3.1 In presenting their review, BPU referred to the paper before the committee and outlined

- the key dates and activities occurring pre and post financial close in respect of the Environment & Social review.
- the wide range of documents they had reviewed.
- the leak prevention/minimisation systems being employed.
- the key contents of the ESAP and the improvements achieved by ECAs

3.2 In general discussion:

- BPU stated that outstanding issues included:

- return of land usage rights in Turkey;
- Ceyhan fishermen report and compensation
- clarification of ongoing ecological monitoring
- agreement on definition of Class III changes
- clarification of an individual's right to stop work
- clarification of reporting incidents to Lenders
- agreement on details of Operations ESAP
- agreement on Oil Spill Response Plans

– BPU advised that they expected all the outstanding issues to be satisfactorily resolved and confirmed that, even if further improvements were not made, they would not change their recommendations.

3.3 The following issues were addressed in general discussion of the BPU Review:-

(a) Climate Changes and Unsustainable Consumption of Natural Resources

– The BPU's recommendations on these issues were discussed. ORPRA noted that the development of the natural resources under the Caspian Sea was inevitable. The Pipeline project merely provides a means for bringing the oil to market; and that means had itself only a negligible effect on climate change save that it will probably accelerate the consumption of the oil flowing through it. The matter was deferred for further discussion.

(b) Terms of Engagement The difficulties of imposing approval of the terms of engagement for the security forces provided by the three Host Governments as a condition precedent to a future drawdown were discussed. It was noted that BTC Co. was not in a position to dictate such terms to the three Host Governments. The matter was deferred for further discussion.

(c) Section 3.7.1 Monitoring of health & safety

– GMD asked how this would be achieved, by whom, and what sanctions they could apply. GMD also noted that the Agent Bank would have to be proactive.

– BPU advised that, if BTC Co was employing practices that were unsafe, then BTC Co would probably not be complying with the Operations ESAP. This would thus give rise to default remedies that would be available as a matter of course. It was agreed that this formed part of the normal consideration of loan conditions (covenants, etc) that are included in support for this type of project. There was therefore no further specific action arising from the BPU recommendation.

(d) Advice from Embassies

– The Chair considered that this was an underwriting issue. It is normal underwriting practice to take account of market conditions and those would include internal (e.g. CRED) and external consultation (e.g. FCO) as appropriate. BD2 confirmed that appropriate market advice had been sought and would be updated as necessary.

4 Next Steps

4.1 The Chair set out the need (a) to settle outstanding issues and (b) to seek HMT consent. In addition the Minister should be informed of ECGD's conclusions in due course with a view to his writing to other government departments in order to inform them of ECGD's intention to approve the project.

4.2 ECGD's decision was to be published on the web site and a note of decision made available.

4.3 The Chief Executive noted that the timing (albeit not really within ECGD's control) was less than ideal. It would have been preferable to avoid making a public announcement of ECGD support so close to

Christmas, bearing in mind that Parliament would rise on 18th December.