



Government admits failing BP pipeline was experimental engineering

By Michael Gillard

Senior government officials appearing earlier last week in front of a parliamentary inquiry admitted for the first time that the vital anti-corrosion coating system for a strategic international pipeline project operated by BP had no track record, contrary to assurances given to MPs in June by energy minister, Mike O'Brien.

The Trade and Industry Select Committee began its probe after our revelations in the Sunday Times that BP had ignored internal warnings that the chosen coating would fail to form a permanent bond around the thousands of welds and seal the pipeline from corrosion.

The weld coating cracked last winter within months of construction beginning on the Baku-Tblisi-Ceyhan pipeline, which runs from Azerbaijan, through Georgia, to the Turkish Mediterranean.

BP however secured a \$2.6 billion loan from an international consortium of private and development banks without disclosing this evidence of this major design flaw.

The government's Export Credits Guarantee Department (ECGD) is backing the BTC pipeline project with £60 million of public money. The BTC pipeline is the result of a 'contract of the century' signed ten years ago between the Azeri government and western oil companies to unlock the former soviet republic's enormous oil and gas wealth in the Caspian Sea.

Foreign Secretary Jack Straw last month announced that projects like the BTC pipeline are crucial to energy security as North Sea oil and gas deplete and Britain becomes a net importer by 2010.

ECGD officials, John Weiss, David Allwood and Roger Gotts, also admitted to MPs that BP had not disclosed critical internal reports by consultant, Derek Mortimore, one of the world's best-known corrosion experts, before ECGD underwrote the BTC project. Mortimore had warned in November 2002 that the chosen coating would not protect the pipeline for the required forty years underground. "I felt BP would be

burying thousands of environmental time bombs," Mortimore said last night.

Mortimore was sacked soon after raising his concerns and the managers he reported to were told to keep quiet, BP sources say. Chief executive Lord Browne spurned Mortimore's plea to intervene. "I have never before witnessed a situation where the client proceeded with construction when he knew that a significant element of the works was going to fail and had evidence in his hand of such failure a year before construction started," he told the BP boss by letter in March this year.

Mortimore is one of a number of senior figures in the British oil industry who submitted evidence to the committee containing detailed allegations of mismanagement, incompetence and procurement fraud surrounding the selection of the faulty coating, manufactured by Canadian firm, Speciality Polymer Coatings (SPC).

British firm E.Wood initially hired a lobbyist when it lost the weld-coating contract in what it regards as suspicious circumstances. It also approached BP deputy chairman Sir Ian Prosser, who sits on the board's audit committee. "BP didn't move an inch," said managing director Chris McDonnell. He told the committee that the oil giant is trying to cover up a "highly questionable" selection process that would lead to an "environmental disaster".

BP, which regards itself as a model of good corporate governance and social responsibility, is already under federal investigation in the US over allegations from whistleblowers that it covered up corrosion on a pipeline in Alaska and intimidated staff who raised safety concerns.

Despite the assurances from Mike O'Brien, the committee called for a report from the ECGD. Some MPs are concerned that the government's close relationship with BP has affected its regulatory responsibilities.

The ECGD commissioned an US company, WorleyParsons to do the report. This "independent"

review gave the project a clean bill of health although it criticised BP for inspection failures.

However, the WorleyParsons desktop study was wholly reliant for information on BP and SPC and did nothing to independently verify their claims. Something committee member Linda Perham MP picked up on during the hearing.

Jim Powers of WorleyParsons had admitted to the Sunday Times that BP had vetted the report before MPs saw it. "I'm sure that there were some things that were taken out. Probably names that might have been embarrassing to people or any confidential information," he said. Controversially, Powers admitted BP had also paid for the report.

Our investigation established that BP withheld damaging evidence from the committee, including confidential laboratory results that cast serious doubt on the project's long-term safety and a secret plan to bury the 1000-mile oil pipeline without fully testing whether all welds are properly sealed to prevent leaks.

Internal reports further show BP is suppressing the fact that a major row has erupted between its own staff over the cover-up. Operations managers have accused construction engineers of limiting safety inspections to prevent the true scale of the safety flaws from emerging.

Unless operations managers certify the pipeline as fit for purpose by the year's end, BP cannot offload the enormous financial liability onto the commercial banks, including the Royal Bank of Scotland.

BP has not disclosed negative results from a British laboratory, Advantica Technologies, stating the chosen coating performed "poorly" on certain key tests.

According to a memo attached to the confidential Advantica report in July 2002, the results of these tests were "omitted" from a ranking table. This meant SPC came first.

Performance tests, carried out for a rival coating manufacturer by the same lab two weeks later, revealed the SPC coating "failed" very badly. During the test, which applied a rigorous British industry standard, the SPC coating came off the pipe in large

chunks and showed very poor flexibility. This would have disqualified its use in the UK.

Internal BP correspondence shows that the company's auditors were given these results in late 2002. A year later, the SPC coating started to crack.

The presidents of Azerbaijan and Georgia recently celebrated the completion of a 'Golden Weld' joining the BTC pipeline at their shared border. But an internal BP survey shows that one quarter of all welds in Georgia are considered unsafe.

The same survey reveals that a simple but crucial safety test on the faulty coating was deliberately "limited" because of a "desire to reduce repair frequency".

The survey also reveals an intention to bury without repair any cracks in the coating of six inches or less and admits "many (welds) inspected were contaminated or showed signs of damage other than the cracking phenomena." These findings were also not disclosed to MPs.

Leaked documents from BP's own operations managers, who will run the completed pipeline, highlight concerns that the survey was manipulated to "prove" everything was fine. Defects, which should require BP to dig up the pipe, are being overlooked they say.

The managers wanted an independent inspection but were over-ruled. On one of their own routine patrols, they discovered "rust seeping through the coating".

BP is insisting on using the same controversial coating on the parallel gas pipeline, due for completion in 2006.

The revelations come as environmental campaigners and British motorists unite to condemn BP's bumper profits of £17,000 per minute for the third quarter of 2004, largely due to record oil prices.

SPC referred all our inquiries to BP. But the oil giant has declined to answer our list of forty detailed questions.