

Part B

**Tina Shari**

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**From:** Adams, Dan (WorleyParsons - Houston) [dan.adams@worleyparsons.com]  
**Sent:** 30 August 2004 19:50  
**To:** Yves-Henri Saliou (E-mail)  
**Cc:** Denis Tison (E-mail); Peter Ball; Rebecca Cox; Roger Gotts; Felicia Swanson (E-mail); Ahmed L. Kebaili (E-mail); Powers, Jimmie (WorleyParsons - Houston)  
**Subject:** Receipt of Letter from Derek N. Mortimore

Yves-Henri,

WorleyParsons received a letter today, dated 26 August 2004, with attachments from Derek N. Mortimore that was addressed to the CEO, WorleyParsons Energy Services LLC. The letter did not provide any new information concerning the field joint coating issue.

The following is the first part of the letter:

**"I am in receipt of your company's report titled: -**

**Desktop Study Final Report  
Field Joint Coating Review  
Reacted Version**

**This report is embedded in an Export Credit Guarantee Department (ECGD) - a division of the Department of Trade and Industry, UK Government, report on their lending to this project. This report has been submitted to the Parliamentary Select Committee on Trade & Industry to the instruction of that committee who are currently investigating various matters. The committee have passed the documentation to me for comment."**

The following are the two last paragraphs of the letter:

**"I hope you are aware that the committee sits in September and after they reach a conclusion in the first matter they are investigating, they then publish all submitted documents on the UK Government website so our whole industry can read your uncalled for comments about me and my very detailed response and total rejection of your report.**

**A copy of this letter is included in my submission to the select committee."**

Attached to the letter was the Cover Sheet, Page 2 of 24 and Page 14 of 24 of the Reacted Version of the Final Report dated 15 July 2004.

Since Mr. Mortimore's letter does not include any new information concerning the field joint coating issue, WorleyParsons sees no useful purpose in responding. It is currently our intention not to respond to this letter.

Regards,

Dan Adams  
Worley Parsons Energy Services

Houston, TX USA  
Direct +1 713 407 7594  
Fax +1 713 350 1300  
<mailto:dan.adams@worleyparsons.com>

**Tina Shari**

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**From:** [Redacted]  
**Sent:** 10 February 2005 16:46  
**To:** [Redacted]  
**Cc:** [Redacted]; [Redacted]@bnpparibas.com; [Redacted]@ifc.org  
**Subject:** RE: BTC - Field Joint Coating



Pipeline  
Corrosion-CP Informat

The following is our response to Question 1:

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"  
6/2/2005 10:00 AM

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WorleyParsons

-----(  
**From:** [Redacted]@ecgd.gsi.gov.uk]  
**Sent:** Monday, February 07, 2005 7:54 AM  
**To:** [Redacted] (ton)  
**Cc:** [Redacted]@bnpparibas.com;  
Swindon  
**Subject:** BTC - Field Joint Coating

Please see the attached letter that ECGD recently received from a group of NGOs, regarding the field joint coating being used on the BTC pipeline in Azerbaijan and Georgia. They are obviously still interested in this issue. ✓

I would be grateful for your comments on the following specific points raised in the letter:

1 "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

## **WORLEYPARSONS ENERGY SERVICES**

### **PIPELINE CORROSION/CATHODIC PROTECTION INFORMATION**

The following provides additional details on corrosion and cathodic protection of pipelines:

1. Carbon steel pipe is routinely coated (to separate it from its' environment), cathodically protected (to prevent it from reacting with its' environment), or its' environment is altered (by inhibition, dewatering, deoxygenation, etc.). Common pipeline practices involve the first two actions for external corrosion protection.
2. No pipeline coatings are perfect after construction, much less after years of degradation. A number of tradeoffs have to be made in the selection of their properties between flexibility and hardness, adhesion and cohesion, compatibility with the planned environmental and operating parameters, and costs of surface preparation, application and repair.
3. Cathodic protection is used to protect any bare steel places on the pipe surface resulting from construction, degradation or damage. Ten to twenty times the original amount of cathodic protection current may be needed as the pipeline coating ages (the coating efficiency may drop from 99.5% to 90%, for example).
4. The mainline coating system utilized for the BTC pipeline is one of the top two coating systems currently chosen for similar pipeline projects. As such, it is obvious that the mainline coating system has passed scrutiny from the industry from the perspective of "risk assessment/risk management".
5. The field joint coating (FJC) and mainline coating repair systems selected for the BTC pipeline, both Protegol and SPC-2888, come from the growing family of field applied epoxy coatings and are being used more and more in the pipeline industry - given their excellent properties of mechanical adhesion, chemical resistance / environmental tolerance, impact damage resistance and flexibility. The mechanical adhesion of these two FJC coatings is a significant improvement over previous FJC coating systems that relied on liquid adhesives to stick the field joint or repair coating to the pipe and/or mainline coating.
6. The BTC pipeline is being constructed in accordance with current industry standards which require the use of proper (and documented) materials, construction methods and post construction pressure testing.
7. The BTC pipeline will also be hydrostatically tested prior to acceptance of the pipeline by BTC and its operations personnel. There is no evidence that BTC personnel are neglecting their current oversight responsibilities or will neglect their future oversight responsibilities. Representing the Lenders, WorleyParsons may wish for BTC personnel to be more proactive in their duties but there is no reason to believe that the BTC project QA/QC standards are not equal to or better than other similar pipeline projects.

**WORLEYPARSONS ENERGY SERVICES**  
**PIPELINE CORROSION/CATHODIC PROTECTION INFORMATION**

8. External corrosion failures of "modern" crude oil pipelines begin with pitting, grows to a pin-hole leak and expands further by continued corrosion and erosion of the edges of the original defect. Repair of an external corrosion failure repair involves de-pressuring and emptying the pipeline section, repairing the failure, investigation and correction of the corrosion problem and clean-up of any spilled crude oil. Spectacular, partial or "full bore" failures on modern pipeline are almost always the result of intentional or accidental third party damage.
9. A review of the draft of the forthcoming NACE technical committee report "External Stress Corrosion Cracking of Underground Pipelines" did not disclose any significant contributory factors that could be associated with the BTC pipeline other than those discussed in general above.
10. Crude oil with the characteristics of that planned for the BTC does not readily ignite (unless significantly heated - which this is not).
11. It is a common industry practice to route parallel pipelines with spacing between pipelines similar to the spacing between BTC and SCP where right-of-way is available (in congested areas the spacing is sometimes decreased to well less than one meter). Integrity failures of one pipeline does not commonly affect neighboring pipelines, especially with the spacing between BTC and SCP) since both pipeline are buried - except in the event of a significant explosion. Even then, adjacent pipelines seldom fail.
12. In light of the above and considering the performance history of tens of thousands of miles of similarly constructed, operated, and maintained pipelines it is extremely unlikely that a "catastrophic accident" and "fireball" will result from external corrosion of the BTC pipeline.

worleyParsons

-----Original Message-----

From: Rebecca Cox [mailto:Rebecca.Cox@ecgd.gsi.gov.uk]  
Sent: Monday, February 07, 2005 7:54 AM  
To: (Houston)  
Cc: @bnpparibas.com; Roger Gotts; Peter Ball; Jeanette  
Sw:  
Subject: BTC - Field Joint Coating

Dan,

Please see the attached letter that ECGD recently received from a group of NGOs, regarding the field joint coating being used on the BTC pipeline in Azerbaijan and Georgia. They are obviously still interested in this issue.

I would be grateful for your comments on the following specific points raised in the letter:

ok

1 "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. 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."

2 "Doubts over the safety of the selected coating have led to a major internal schism between BP's Projects department, which designed BTC, and Operations, which refuses to bury the pipeline without fully testing its viability first."

Best regards,

Rebecca

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**Tina Shari**

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**From:** [redacted]@Parsonsec.com] 362c  
**Sent:** 16 February 2004 16:26  
**To:** Peter Ball  
**Cc:** [redacted]@ifc.org; Rebecca Cox; Powers, Jimmie T; Ahmed L. (E-mail);  
**Subject:** RE: Newspaper allegation on BTC pipe coating

Peter,

S362c

Parsons E&C

-----Original Message-----

**From:** Peter Ball [mailto:Peter.Ball@ecgd.gsi.gov.uk]  
**Sent:** Monday, February 16, 2004 8:06 AM  
**To:** Adams, Dan  
**Cc:** fswanson@ifc.org; Rebecca Cox  
**Subject:** Newspaper allegation on BTC pipe coating

.....  
Dan

This weekend there has been an article in one of the London Sunday newspapers about the coatings used in the BTC pipeline (attached below). We need to be able to effectively answer

questions being put to us about the issue. I have put some questions by your comments from the report. Please could you respond to these today. We will not be using the detail in any statement but any reassurance we make needs to be grounded in fact.

In your draft final report (dated 25th March 2003) you make some points about the corrosion protection system. Are you satisfied that the issue was addressed correctly by BTC?

The newspaper article says that work was stopped in November. We are not aware of any delay; do you have any information about delays?

When was your last visit to the pipeline, when is the next scheduled?

I apologise for the short notice of these questions,

regards

Peter

PS I have copied Felicia as she was acting as the co-ordinator of the RUM.

**Concern:** Some specific decisions on cathodic protection components appear to have been made before detail design had progressed sufficiently to have the necessary information to make such decisions. It is recommended that cathodic protection specifications be limited to performance requirements.

**Resolution:** BTC responded that the basis of the decision was that they had already done the field work and made the decisions for the contractor to allow a more definitive bid. Their explanation is reasonable and Parsons E&C withdraws the concern.

**Concern:** 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.

**Resolution:** 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. BTC responded that the project recognizes the requirements for field joint coating integrity. BTC evaluated the generic materials available in a structured program of testing to determine those best suited to the particular topography and construction techniques to be employed on the BTC pipeline. A scope of work for testing of the candidate materials was prepared which included a testing regime covering all aspects of construction and service requirements, e.g. cathodic disbondment; hot water soak; indentation; impact; resistance to peel; cure; adhesion (steel, FBE and polyethylene); resistance to abrasion; and resistance to gouging (HDD sections). *Did Parsons confirm that the scope of work was acceptable and review the outcome of the testing described?*

If the BTC project uses the 3 layer coating system ( did it use a 3 layer system?), Parsons E&C would recommend that the coating conditions through 'high groundwater' right-of-way areas be monitored and inspected at more frequent intervals than normal and budgets developed to reflect the need to repair/replace the pipeline coating in these sections in later years as indicated by the monitoring and inspection program. This inspection program will satisfy the concern. Did BTC agree to implement this inspection


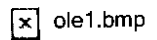
programme? Are we confident it is being implemented? Does Parsons see the inspection reports?

**Concern:** The possibility of a failure of the pipeline coating system should be evaluated.

**Resolution:** BTC responded that it understands these concerns. However, based on experience BTC has concluded that least damage to pipe arriving on site could be provided by polyolefin coating. Is this the 3-layer system referred to above? If not, what is Parsons' view of the polyolefin coating system? BTC also responded that they recognize that a single layer FBE coating provides a film that has characteristics conducive to water vapor transfer that make it conducive to cathodic protection. What is Parsons' view of this?

Also, see the proceeding resolution for additional details.


### SUNDAY TIMES ARTICLE

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February 15, 2004

#### Insight

#### BP accused of cover-up in pipeline deal

 ole2.bmp

ONE of Britain's biggest companies has been accused of failing to disclose crucial information to the government as it sought to secure loans worth more than £1 billion to finance a key construction project. BP, the petrochemical giant, is alleged to have been aware of safety design faults that could have jeopardised the funding.

The disclosure - revealed in leaked documents to The Sunday Times - will embarrass BP, which prides itself on its closeness to Tony Blair.

Allegations of suspected corruption, mismanagement and incompetence were all covered up as BP fought a propaganda war against environmental campaigners lobbying for public backing to be withdrawn.

At stake was one of the world's most ambitious pipelines, which is intended to reduce the West's dependence on oil from volatile regimes. BP leads the Baku-Tblisi-Ceyhan (BTC) consortium building the pipeline.

Environmental groups say the pipeline, which runs for 1,000 miles underground from the Azerbaijan capital Baku, through the Caucasus mountains to Ceyhan on Turkey's Mediterranean coast, will cause an ecological catastrophe if it leaks. But the British government has given assurances that the pipeline had undergone "rigorous assessment" and is safe.

It is understood, however, that ministers were unaware of a report by a leading expert hired by BP who discovered "serious flaws" in the pipeline's design, which would make it highly likely to leak.

Derek Mortimore, a world-renowned pipeline consultant, was called in by BP managers in Azerbaijan to assess a key material used to seal the pipe's estimated 50,000 joints: its paint coating.

The paint plays a vital role in protecting the joints from corrosion. Unusually, however, for such a large project, BP had opted for an untried coating from SPC, a Canadian company. Mortimore, a consultant to BP for more than 30 years, was shocked at what he found.

"We are completely out on a limb," his report to BP warned. "Clearly the use of (this paint) is



going to lead to a serious problem. (In the event of cracks appearing) the cost for repairs could be astronomical. The potential for claims against (BP) is open-ended.

"I have witnessed many failures in specifications . . . but the situation on the pipeline is unique in my 41 years' experience. There is no question in my own and many other people's minds that the wrong system has been chosen through a seriously flawed selection programme."

His fears were realised in November last year when construction was halted after cracks were discovered in the joint coating before burial. An estimated 15,000 joints have already been buried in Azerbaijan and Georgia. Work was suspended on the pipeline until last week.

The findings had potentially catastrophic implications for the project. Consultants estimate that it could cost £500m to dig up the pipeline and recoat the joints with a new material. This has not been done.

Rival suppliers have also claimed there were irregularities in the way BP awarded the £5m contract to supply the paint. Two other companies that competed for the coating contract have claimed the selection contest was rigged.

The tender was controlled by Trevor Osborne, BP's materials consultant. The Sunday Times has learnt that Osborne's own consulting firm, Deepwater Corrosion Services (DCS), was the UK representative of SPC at the time of the selection process. One of Osborne's DCS directors has since joined the Canadian company. Osborne referred all questions to BP last week.

The oil giant carried out a confidential inquiry into procurement fraud allegations in November 2002, which apparently exonerated SPC and BP staff. The company refuses to publish its findings.

It appears, though, that such concerns failed to surface when BP was negotiating with the British government to secure a £56m export credit guarantee loan to underwrite the project. The credit guarantee was crucial - along with the backing of the World Bank and the European Bank for Reconstruction and Development - in persuading the commercial banks to lend £1.3 billion, the lion's share of the project's total cost.

Under the BP-led consortium's agreement with those putting up the money, it was obliged to disclose any event that could have a "material adverse effect" on the pipeline.

But a spokeswoman for the Export Credits Guarantee Department (ECGD) last night confirmed BP had not informed it of any significant problems. In fact, the ECGD had only been informed of minor welding problems in June 2003, she said.

On December 17 last year Mike O'Brien, the trade minister, told MPs his decision to pledge £56m to the project had been made after a "rigorous assessment of the risks and a thorough review of the environmental, social and human rights impacts".

Today's revelations raise serious questions about how rigorous the government's assessment of the project was. MPs on two Commons committees are now demanding to know whether ministers misled parliament and whether they, in turn, had been misled by BP.

The Conservative MP John Horam, a member of the house environmental audit committee, said the ECGD had failed to monitor the project properly and should consider withdrawing its loan.

"If this is a dangerous project because of the possibility of leakage, ECGD should exercise some leverage on the situation," he said.

Yesterday, BP denied the company had acted improperly. It said the pipeline was being produced to the "highest" industry standards.

## **2. BTC PIPELINE COMPANY STATEMENT**

"BTC's pipeline construction, operation, inspection and testing processes are carried out rigorously to the highest industry standards. BTC is confident that its construction techniques and testing regimes ensure that the pipeline will be laid safely and that it will operate safely.

BTC is aware that certain allegations have been made about its practices and these allegations

**Tina Shari**

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**From:** Paul Redman  
**Sent:** 13 October 2005 11:25  
**To:** Tina Shari  
**Subject:** FW: Received E-mail with Internet Address with Following Article

S362c

-----Original Message-----

**From:** Peter Ball  
**Sent:** 13 October 2005 11:16  
**To:** Paul Redman  
**Subject:** FW: Received E-mail with Internet Address with Following Article

-----Orig

**From:** [mailto: [redacted]@worleyparsons.com]  
**Sent:** 14 June 2004 14:55  
**To:** [redacted]  
**Cc:** Peter Ball  
**Subject:** Received E-mail with Internet Address with Following Article

S362c

<<Red Peppers -The Devils tears-.doc>>

Regards,

**Worley Parsons Energy Services**

Houston, TX USA  
Direct +1 713  
Fax +1 713

[@worleyparsons.com](mailto:[redacted]@worleyparsons.com)

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Total construction costs will top \$3.6 billion dollars. Seventy per cent of this is being borrowed from a 'Lenders Group' of international financial institutions and commercial banks, such as the Royal Bank of Scotland.

Yet none of the banks would have risked their cash without the backing of the World Bank, the European Bank for Reconstruction and Development (EBRD), political risk insurers and government export credit agencies such as the UK's Export Credit and Guarantee Department (ECGD).

The ECGD's support came last December, when Trade Minister Mike O'Brien pledged roughly £58m (fifty-eight million pounds) of taxpayer's money to underwrite British businesses working on the BTC project.

This, he assured Parliament, was based on "a rigorous assessment of the risks associated with the project and a thorough review of the environmental, social and human rights impacts."

On February 3, BP signed the \$2.6 billion loan agreement with the Lenders Group at an ostentatious ceremony in Baku.

However, the Commons trade and industry select committee is now investigating whether BP hoodwinked the ECGD by suppressing internal warnings of a major design fault to secure the loan. Committee members will also examine whether O'Brien misled Parliament when he claimed the pipeline, and therefore taxpayers' money, was safe.

One year before construction started last July, two senior BP managers on the BTC project were so alarmed at design proposals from London that they asked Derek Mortimore, a highly respected British pipeline integrity consultant, to investigate.

Of particular concern was the choice of anti-corrosion coating for the 150,000 welds on the pipeline, one of the most important technical decisions on the project.

Mortimore's internal BP reports in August and November 2002, seen by *Red Pepper*, were unequivocal. He warned that BP's choice of a Canadian paint was "utterly inappropriate to protect the pipeline for its estimated design life" of 40 years.

BP, he said, would be burying an "environmental time bomb" because in the cold months the coating would crack leaving the steel pipeline exposed to corrosion and therefore ruptures as one million barrels of high-pressured, hot crude was coursing through it daily.

Mortimore also warned that the performance test to choose the best coating was "seriously flawed". E. Wood, a British company that lost the estimated £5 million contract to the Canadian firm went further and wrote to BP alleging its procurement staff had rigged the test. The oil company responded by carrying out an internal inquiry that exonerated it.

BP then dispensed with Mortimore's services in January 2003. But eleven months later, with the \$2.6 billion loan agreement just weeks from being signed, the field joint coating cracked, as Mortimore predicted.

Work was secretly stalled over the Christmas period as BP panicked. An estimated 15,000 field joints were already buried and could no longer be regarded as safe.

Corrosion experts familiar with the problem say the only acceptable thing to do is to dig it up and recoat using a different material with proven adhesion to plastic-coated steel pipelines.

The remedial costs would run into hundreds of millions of pounds and delay the project considerably, with knock on compensation payments for the host governments in lost oil revenue.

During a series of secret and tense meetings in Baku and London, contractors told BP the coating failure was down to them because the oil company had nominated the Canadian paint as the only material to be used on the field joints.

BP kept all this from the ECGD and the wider Lenders Group. But when we exposed it in the *Sunday Times* on February 15, Mike O'Brien and ECGD officials declined to set up an inquiry or even send his officials to a briefing by Mortimore and other corrosion experts.

The minister's letter to campaigners was grist to the mill of those who refer to BP as Blair Petroleum. Fantastically, O'Brien said the technical problems were "routine" and therefore BP had no obligation to report them under the terms of the loan agreement.

O'Brien also protected his officials at ECGD by claiming an independent engineering company, Parsons, operating on behalf of the Lenders Group had "scrutinised and approved" the choice of coating.

Yet Parsons has confirmed to *Red Pepper* this was not the case. Their reviewer was not a corrosion expert; he did no quality assurance exercise; there was no testing of the Canadian paint; nor did BP disclose to Parsons any background material or the Mortimore reports.

Parsons also confirm BP is a client and the so-called "independent" review was paid for by the BTC consortium.

The Commons select committee has now received full details and will cross-examine ECGD officials and Mike O'Brien in early May.

The minister's position, that companies do not need to report allegations of fraud or bribery if their own internal investigations find no evidence of wrongdoing, makes a mockery of the prime minister's own commitment in September 2002 to tackling corruption in the extractive industries.

The Labour-dominated committee could recommend a full independent audit of the field joint system and refer the procurement fraud allegations to the Serious Fraud Office. This would bring it into a collision course with Tony Blair, who is very supportive of BP's Caspian adventures and enobled John Browne as a People's Peer in 2001.

Sources on the BTC project deny BP's claims that it has cured the cracking problem. Corrosion experts consulted by *Red Pepper* confirm Mortimore's conclusion that the cracking is an indication of a serious problem with the paint's chemistry and symptomatic of its inappropriateness for a plastic coated pipeline it can never protect.