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██████████ S36
Developing Countries, Debt And Export
Finance Team
Room 106/3
Parliament Street
London
SW1P 3AG

PO Box 2200
2 Exchange Tower
Harbour Exchange Square
London E14 9GS
Switchboard 020 7512 7000
Main Fax 020 7512 7649
www.ecgd.gov.uk

Direct Tel: 020 7512 7866
Email: rhall@ecgd.gov.uk

BAKU-TBILISI-CEYHAN PIPELINE

ISSUE

- 1 To provide you with an update on the Baku-Tbilisi-Ceyhan (BTC) pipeline project. I refer you to previous correspondence on this project – the GPDM letter of 6 September 2002, an Email exchange in August 2002 concerning Foreign Content issues, and your Email of 21 November 2002 concerning the reply to the NGO Memorandum. You will recall that in view of the ministerial interest in the project, a meeting was held at FCO in December 2002. Since then discussions have continued on various aspects of the project with other Government Departments, as well as with the project sponsors, lenders, IFIs and other ECAs on the financing of the project and its social and environmental impact. This is not intended to be a full exposition of all the issues raised by this complex project, but essentially to flag up the main ones. We would, of course, be happy to discuss further.

STATUS of key Business Principles issues at 1 MAY 2003

ECGD, as part of the wider Lender Group, is in continuing communication with the project sponsor, BTC Co, and has received a considerable quantity of information. Most key BPs issues are still under discussion, but there are some for which sufficient information has been provided for the Business Principles Unit reach a conclusion. A summary of the current status of BPU analysis is given below.

Climate Change impacts

When fully operational and running at design capacity in 2010, the BTC Pipeline will convey 50 million tonnes per annum of crude oil. The emissions associated with the quantity of crude oil passing through the BTC Pipeline annually are estimated to be between 146,506,800 and 160,191,900 tpa CO₂.

The UN Framework Convention on Climate Change (UNFCCC) forecast of worldwide GHG emissions in 2010 is 38 262 million tpa CO₂-e. The BTC Pipeline crude oil would thus represent approximately 0.38-0.42% of the anticipated global total.

(This information is from Section 5.2.5 of the Supplementary Lenders Information Pack for Turkey.) ECGD has asked DEFRA for comments from its climate change experts on the BTC assertion that *"Under IPCC protocols, GHG emissions are attributed to consumers of fossil fuels, not producers or transporters"*. DEFRA has not yet responded.

- i. ECGD has asked if BTC Co have any further information about the end use of the crude oil being transported to Ceyhan, i.e. is it all likely to be refined into fuels and burned or will a proportion of it be converted into products which will keep the carbon trapped for a longer time? BTC has responded that it will sell the oil on the open market and therefore it will have no control over the end use. The quantification of CO₂ at around 150 million tpa is based on the worst case scenario of all the oil being burned.
- ii. ECGD has also asked if there is a demonstrable long-term market for these volumes of crude oil in the west? Isn't it more likely that demand in the west will reduce while demand in the east increases? BTC is confident that this market exists. The ECGD oil & gas market specialist agrees as this oil is of good quality.

Route selection

BTC Co presented the strategic analysis and quantified risk assessment leading to the decision to route the pipeline through Azerbaijan, Georgia and Turkey to the Lender Group in October. ECGD accepts the conclusion that, if the crude oil is to be exported, the proposed BTC pipeline is the least risk option.

The Government of Georgia has now confirmed that the pipeline will pass through the Borjomi area although, in approving the EIA, it asked for more detailed

of both BTC and the WWF appear to agree that any oil leaking from the pipeline would not contaminate the Borjomi mineral water - although the WWF experts believe that further investigations should be carried out to confirm that assumptions relating to the hydro-geology are correct. Both BTC and WWF also agree that any leaks would contaminate the surface waters although they disagree about the company's ability to clean up any spillages and the consequent potential impact on the reputation of Borjomi mineral water. We have requested further information from BTC about these issues.

Host Government Agreements

ECGD has received many verbal assurances that the project will comply with EU environmental standards but has not yet identified the document(s) in which has BTC Co committed to implementing and operating the pipeline to EU standards? ECGD is continuing to ask for further clarification of this and answers to the following specific questions.

- i. How will EU and World Bank standards be made legally binding on BTC Co?
- ii. How will local people obtain redress from BTC Co in the event of an oil spill or other environmental damage?

The lawyers representing the ECAs and Mott MacDonald, the Lender Group environment consultant, are currently following up on these, and other, questions with the company.

Security arrangements

- i. As part of the Productive Expenditure analysis ECGD & DFID need to know what costs will need to be born by the Host Governments for the provision of pipeline security. (We have seen the press report of a US\$11 million grant from the US to Georgia for setting up a special battalion to protect the pipeline. This is apparently in addition to the US\$64 million to "train and equip" the Georgian military and a similar sum for the Georgian border guards.) BTC considers this to be strictly a host government issue and has provided no information. ECGD has contacted the UK embassy in Tbilisi requesting further information.
- ii. ECGD is also concerned about the possibility that the pipeline security forces could be used to repress specific groups or communities and has asked whether the 'terms of engagement' have been drawn up and agreed for the pipeline security forces? If so, these should these be shared with ECGD and the others in the Lender Group. ECGD will require specialist advice from the HRPD of FCO for the assessment of these "terms of engagement". These "terms of engagement" form part of the request for information passed to the post in Tbilisi.
- iii. BTC Co has established a discussion forum with Amnesty International, International Alert and KHRP (Kurdish Human Rights Project) that met for the first time on Friday 10th January. BTC Co has reported that the discussions were "cordial, intense and ultimately constructive". ECGD has asked for regular updates. We have received no further information so far.

Ukraine
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that for the BTC project they considered the environment and community investment programmes to be sufficient and that it would be outside their scope to try to enforce some form of national development plans based on the pipeline revenues. (In the Chad – Cameroon pipeline the host governments are part of the project and the IFC/World Bank felt that these circumstances meant that a specific national development programme was appropriate.)

Environmental and Social Impact Assessments

- i. The ESIA's for all 3 countries have each been formally approved by the respective government. The Georgian Government set a number of conditions on its approval of the ESIA.
- ii. Although the ESIA's cover the general impacts well, there are some impacts on environmentally sensitive areas that require more in-depth analysis. ECGD is obtaining further information relating to these areas.
- iii. There is the potential for soil erosion in several areas along the pipeline route. However this issue is covered in detail in the specification for ground re-instatement after the pipeline has been laid and is now considered to be a monitoring rather than installation issue. (Further information on re-instatement is contained in Appendix C2 of the Turkey EIA and the Pipeline Construction Specification ILF-SPC-EPL-PLG-001.)
- iv. The pipeline passes through several areas of seismic activity. BTC Co made a technical presentation to the Lender Group relating to the design to ensure that the pipeline does not rupture during any tremors or other movements. Essentially the technique is to route the pipeline across known faults in such a way that movement stretches the pipe rather than bends it. By specifying a pipe wall thickness sufficient to cope with this stretching the designers can ensure that the risk of rupture is negligible. (ECGD has hard copies of this presentation and has also asked BTC Co to produce a short Factsheet about the implications of seismic activity. The Factsheet has not yet been produced.)
- v. The 3 Resettlement Action Plans confirm that no-one will need to be relocated either temporarily or permanently as a result of the project. Some people will temporarily lose access to land they currently use during the installation of the pipeline but they will be able to continue to use the land after the pipeline has been laid. They will receive compensation for this temporary inconvenience. The sites of the pumping stations and the terminal facilities will require the permanent acquisition of land by the company and appropriate compensation will be provided. The Host Government Agreements (HGAs) enable BTC Co to pay compensation in circumstances when the national legislation would prevent payment, for instance, to informal users of land they do not own in Turkey.
- vi. ECGD understands the pragmatic need to avoid identifying any group as an "indigenous peoples" but wishes to understand clearly how BTC Co will ensure that each of the groups that will suffer negative impacts will also receive appropriate benefits. The Community Investment Plan (CIP) involves a degree of competition and there may be some groups that do not obtain any benefits from it. ECGD has therefore asked what BTC Co is planning to do to monitor