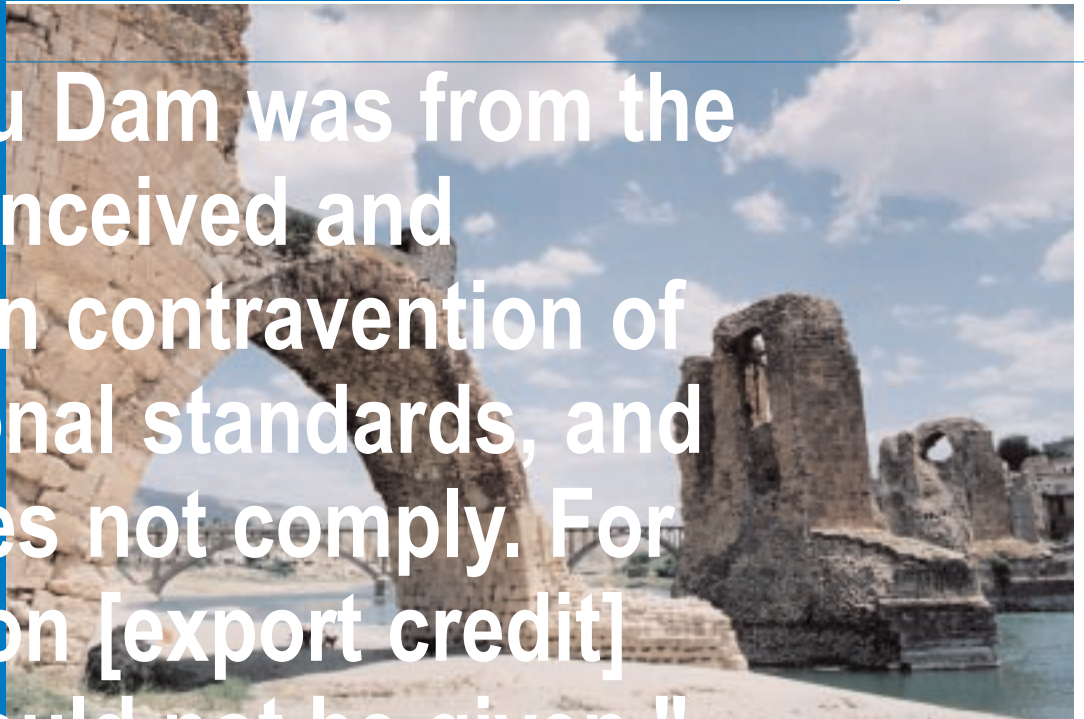


**balfour beatty : counter-report 2000**

# **2000 : balfour beatty's annus horribilis**

**ilisu dam campaign**

**"the Ilisu Dam was from the outset conceived and planned in contravention of international standards, and it still does not comply. For that reason [export credit] cover should not be given."**



**International Development  
Select Committee, July 2000**

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The Ilisu Dam Campaign works to stop British involvement in the Ilisu dam project and to highlight the wider policy implications for Britain's ethical foreign policy, sustainable development and for peace and security in the region.

Photocredits: photographs courtesy of Angela Barber, Dean Bialek, Hannah Rumsby, Richie Andrew and Birmingham Friends of the Earth.

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## 2000: balfour beatty's annus horribilis

Mark Thomas, a Director of the Ilisu Dam Campaign, addresses a public rally against the Ilisu Dam in October 2000



### Summary:

## Reputational risks - a growing shareholder concern

When it comes to reputation, 2000 was not the best year in Balfour Beatty's corporate scrapbook.

The year began with the company being taken to court on corruption charges over the Lesotho Highlands Water Project and ended with the Hatfield rail crash, in which four people died and 30 were injured on a stretch of line for which Balfour Beatty had the maintenance contract. (See pages 8-9.) The Health and Safety Executive (HSE) has since stated that it is considering bringing corporate manslaughter charges against six senior executives, including Balfour Beatty staff, for failing to replace the defective rail thought to have been a major cause of the crash.

Sandwiched in between the Lesotho charges and the Hatfield tragedy, the company's flagship hydropower project, the Ilisu Dam, was castigated by two UK parliamentary committees and was described by the chair of the Parliamentary Committee on Human Rights as "this miserable dam"; and the offices of Balfour Beatty-Massachusetts Electric were raided by the FBI in connection with fraud allegations relating to the company's contract for constructing Amtrak's electric system for the Northeast Rail Co. (See pages 8-9.)<sup>16</sup>

With corporate governance an increasingly important focus of shareholder concerns - the UK Shareholders' Association lists corporate governance as its prime concern - shareholders in Balfour Beatty may reflect that for a company to brush with the law once in the space of a year is unfortunate: to do so three times could be described as more than careless.

Under the Institute of Chartered Accountants new Turnbull rules, adopted by the Stock Exchange, company directors in listed companies are now obliged to take account of all "significant risks", including social and environmental risks, which could damage a company when carrying out its duties. Moreover, the code

requires that directors put in place internal controls to manage these risks and review them regularly to ensure their effectiveness.

In the light of the new rules, shareholders will undoubtedly be looking to Balfour Beatty for reassurances that:

1. Any reputational risks to the company are justified financially and do not threaten future shareholder value;
2. Steps have been taken to contain unjustified reputational risks and to ensure the company's standing;
3. The company's strategy for containing reputational risks matches or betters that of its peers and strengthens its future competitiveness.

Although Balfour Beatty has yet to report under the new Turnbull rules, there are strong grounds for believing that the company is not in a position to give shareholders adequate assurances on these key concerns.

## REPUTATIONAL RISKS AND SHAREHOLDER VALUE

### A. The Balance of Risk and Reward - The Case of the Ilisu Dam

All companies take risks: nonetheless, shareholders rightly demand assurances that those risks are well managed and they will not damage the company's reputation and value.

In the case of the Ilisu Dam, shareholders may question whether or not management has got the balance of risk and rewards right.

Balfour Beatty is heading the construction consortium for the project, which would be built in the Kurdish region of Southeast Turkey, an area that has been wracked by a 17-year long war and which remains under emergency rule. The company has applied to the British Government for a \$200 million export credit guarantee in support of its contract. In December 1999, the Department of

Trade and Industry announced it was "minded" to support the bid.

Criticism of UK support for the project is widespread and growing. In the past nine months, over 5,000 people have written to Prime Minister Tony Blair to urge the government not to support Balfour Beatty's export credit application. There has been saturation media coverage of concerns over the project's environmental and human rights impacts, with highly critical editorials in the Financial Times, the Guardian, the Daily Express, and coverage on the BBC News, Newsnight, Channel Four News and ITV's 'Tonight with Trevor MacDonald'.

The damage that such criticism is doing to Balfour Beatty's reputation must be compared with the contribution to expected profitability from Ilisu. Far from providing a major boost to bottom line profit, the company's own figures suggest that the project will be worth under \$2 million a year to the company, which is less than 1 per cent of group profits.<sup>1</sup> Even this small margin may be under pressure because of the risks and controversies associated with the dam which have already led to slippage in the project schedule. Shareholders may also wish to seek assurances that the time expended on the project by senior management is justified financially.

Significantly, ABB and Skanska, two leading members of the original Ilisu consortium, have already withdrawn from the project. Skanska, which had a 24 per cent share in the project, has yet to be replaced. Although the company told the Financial Times that the decision resulted from unspecified negotiating problems which were unrelated to public protests over the social and environmental impacts of the project, company spokesperson Thor Krussel told the Turkish newspaper Ozgur

Politika that the firm did not participate in projects which are "not to the benefit of society and the environment." In an interview with the London Guardian newspaper, Krussel also pointed out that the company's environmental policy had been updated so that the company was now committed to "caring about people and the environment" in all its work. Krussel stated: "Skanska will abstain from participating in construction projects when in our judgement a project will result in serious risks to the environment or to society at large."

### B. Lost Contracts

The failure to manage reputational risks inevitably has implications for future profitability, particularly if there is a risk that contracts will be lost, either directly or indirectly.

Here, again, there are grounds for shareholder concern. Corruption allegations, for example, have already led to Balfour Beatty's former parent company, BICC, being temporarily excluded from one potentially lucrative market. In 1996, the company was banned for five years from bidding for new government-related projects in Singapore after a civil servant, Mr. Choy Hon Tim, was convicted for taking payments for supplying confidential information on capital projects for which BICC was bidding. The company denied the charge, but the Singapore authorities insisted on the ban.<sup>2</sup>

In the UK too, the loss of contracts has been linked in the public's mind (rightly or wrongly) to adverse publicity surrounding the company. Most recently, Balfour Beatty's East Coast rail maintenance contract was cancelled in the wake of the Hatfield rail disaster. The contract - worth over £250 million over five years, with an option to extend it to 10 years - went to rival firm Jarvis Facilities.

### C. Potential Blacklisting

Looking to the future, there is a small but significant risk, with potentially nuclear consequences for shareholder value, that the company could be debarred from World Bank contracts should the courts uphold the corruption allegations in the Lesotho Highlands Water Project (LHWP).<sup>3</sup> The LHWP, Africa's largest civil engineering project, involves the construction of five dams in Lesotho's Maluti Highlands over 30 years, due for completion in 2020.

Under its anti-corruption rules, the World Bank is committed to blacklisting any company convicted of corruption in a World Bank funded project. Given the Bank's involvement in the LHWP, Non-Governmental Organisations (NGOs) are pressing the World Bank to blacklist all of the companies being prosecuted, including Balfour Beatty, if they are convicted.

In September 2000, the World Bank's President James Wolfensohn responded to such demands by giving NGOs an assurance that he will act on the decision of the Lesotho Court: *"What we have to do is to get a judicial decision on the issue. We cannot anticipate it, but we can follow it and I can assure you that we will be doing that and that there has been no fractional move away from the policy that, if there has been corruption in a World Bank project, that we will blacklist the company that is concerned."*

Although the legal grounds for the World Bank taking action against companies working on components of the LHWP that were not directly funded by the Bank may be contested, the political pressure on the Bank to take action is likely to be intense. Either way, Balfour Beatty's reputation, if convicted in Lesotho, is likely to undergo further erosion, to the detriment of the company's value.

In addition, many ECAs, whose backing is increasingly important for companies seeking infrastructure contracts in the Third World and Eastern Europe (two potential growth markets for Balfour Beatty) have now introduced - or are introducing - tighter anti-corruption measures. These include the possibility of demanding the repayment of credits that have been awarded for corruptly obtained contracts.

The UK Export Credits Guarantees Department, which backed Balfour Beatty's involvement in the Lesotho Highlands Water Project, is one of the ECAs to have instituted new anti-corruption measures. According to the ECGD, *"The effect of the various new declarations and policy provisions is that any exporter found engaging in a corrupt activity (as defined in the documentation) may find that its insurance cover is avoided or terminated."*

The ECGD's new Business Principles also state that the ECGD *"will promote the full implementation of the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions"*. Sanctions that the OECD considers appropriate in the event of bribery being established include:

*"Exclusion from entitlement to public benefits or aid; temporary or permanent disqualification from participation in public procurement or from the practice of other commercial activities; placing under judicial supervision; and a judicial winding up order."*<sup>4</sup>

Similar anti-corruption measures are to be introduced by all OECD Export Credit Agencies. In December 2000, the OECD's Working Party on Export Credits and Credit Guarantees agreed to an Action Statement on Bribery and Officially Supported Export Credits. The Action Statement promised that: *"In the event that . . .*

*bribery is established after an application is submitted . . . measures shall be taken such as refusing to provide support or, in the case that support has already been granted, denying payment of a claim, seeking refund of any funds provided, referring evidence in connection with the bribery to appropriate national authorities."*<sup>5</sup>

Whilst the risks of Balfour Beatty losing future export credit agency support as a result of corruption allegations involving past contracts are slim, the new rules accentuate the urgent need for the company to institute rigorous internal controls in order to ensure that corruption does not jeopardise its prospects of future ECA support.

### D. Damaging PFI Prospects

Debarment from World Bank contracts would impact a small but significant part of Balfour Beatty's business.

More threatening to shareholder value is the possibility that uncontained reputational risks will affect future contracts in the UK, where the company currently carries out the majority of its business. The company's bid for the London Tube public-private partnership contract has attracted critical attention from the Campaign Against Tube Privatisation, which includes unions RMT and ASLEF.

With Balfour Beatty assuming a higher public profile through its bids for PFI contracts, the risk of similar campaigns emerging in the future is real and significant. With PFI contracts seen as a major engine of future growth, this will be of concern to shareholders.



## Containing risks - has the company got a credible strategy?

Given the growing importance of reputational risks, shareholders will rightly want assurances that the company has in place a credible strategy for containing unjustified reputational risks. At a minimum, such a strategy would include:

- candidly acknowledging reputational risks where they arise;
- ensuring that shareholders are accurately appraised of such risks and the steps taken to address them; and
- ensuring that the company is actively engaged in - and responsive to - discussions and debates that affect the company's operating environment and standing.

Unfortunately, evidence from the hydropower sector suggests that such a strategy does not exist and that the company has missed key opportunities for enhancing its reputation.

### MISLEADING SHAREHOLDERS?

This impression is underscored by the reaction of the company to its critics and by its less than frank statements to shareholders on the issue of Ilisu.

In response to a letter from Friends of the Earth, for example, Lord Weir has stated with regard to the company's reputational risks: *"I see no reason to accept that our corporate reputation is, or should be, in any way damaged other than by false representation of our position."* Given the adverse publicity that has surrounded the company during the past year - notably over Ilisu and Balfour Beatty's involvement in it - such denial is unconvincing and hardly reassuring.

Shareholders may also be concerned that the company's

account of its involvement in Ilisu, as laid down in a statement to shareholders issued for distribution at the 2000 AGM<sup>6</sup>, is potentially misleading, particularly for shareholders who are not familiar with the history of the project. Discussing the Environmental Impact (EIA) for the Project, for example, Balfour Beatty states,

*"As soon, therefore, as the consortium discovered that Turkey had not yet conducted a formal Environmental Impact Assessment [EIA] for this project, it commissioned an international group of consultants to produce one. The first draft report (March 1998) indicated that, whilst in some ways the impact would be neutral or positive, there were also serious concerns and specific measures would have to be taken by Turkey to avoid unacceptable consequences. Following various independent reviews of that original report, and discussions with potential providers of finance, a number of key issues have emerged as critical. These have become the subject of inter-governmental discussions. Meanwhile, as the original report is now two years old, an update is under way with the objective of producing a more definitive edition by the summer of 2000."*

Not only does this statement beg the question of what management shortcomings allowed Balfour Beatty to become involved in this highly controversial dam before an EIA had been undertaken, its suggestion that the new EIA will merely be an "update" of the first EIA, required because the 1998 report is "now two years old", gives an impression as the report's completeness that is highly misleading. "Updating" suggests little more than dotting the 'i's and crossing the 't's on an otherwise complete, comprehensive and thorough report. In fact, considerably more than this will be required.

Shareholders should be aware of that the original EIA was found to be deficient in a number of important respects and that it was not deemed by independent reviewers, including a team commissioned by the UK government, to meet international standards of best practice.<sup>7</sup> Significantly, the UK government's review does not indicate that the EIA was a "draft" (as now claimed by the company) but refers to it throughout as the "the Ilisu EIA".

Although the UK government's review, undertaken by Environmental Resources Management, described the EIA as "well prepared", it highlighted a number of key areas which the report had entirely overlooked. The report gave no consideration, for example, to the cumulative effects of the dam in conjunction with other projects. No information was made available on the effects of altered river flow on wetlands downstream. In addition: *"Little or (in most cases) no details are provided regarding the time-tabling of proposed data collection and mitigation measures, the institutional responsibilities and capacities for their implementation, the estimated resources needed (financial and manpower related) and the proposed methods or sources of finance."*

In effect, the new EIA was required not because the 1998 EIA was "now two years old" but because it did not meet international standards. The only sense in which it could be said to have needed "updating" was that many of the necessary studies had not been done "to date".

Shareholders may wish to press the company for an explanation as to why the company failed to inform them in its shareholders' briefing on Ilisu that the original EIA fell short of international best practice.

## FAILURE TO ENGAGE WITH THE WORLD COMMISSION ON DAMS

Further evidence that management lacks a coherent, credible strategy for containing reputational risks also comes from its failure to engage with the World Commission on Dam's historic industry-wide review of the hydropower sector

The World Commission on Dams (WCD) was set up by the World Bank and the International Union for the Conservation of Nature in 1997 *"to review the performance of large dams and make recommendations for future planning of water and energy projects"*. The Commission was chaired by Kader Asmal, South Africa's then Minister for Water, and consisted of industry leaders (including Goran Lindahl, at the time CEO of ABB), Honorary President of the industry-sponsored International Committee on Large Dams (ICOLD), academics with expertise in the energy and water sector, respected civil servants, and members of the NGO community. The Commission was also supported by a WCD Forum, a 68-member consultative group set up by the WCD and consisting of key representatives from government, the private sector, multi-lateral development agencies and affected communities.

The WCD's independence - reflected in the composition of the Commission - is widely acknowledged; and its report, based on two and a half years of in-depth research and consultation, constitutes the most comprehensive, global review of the economic, social and environmental impacts of dams to have been undertaken. The WCD published its report, *Dams and Development*, in November 2000.

Given the importance of the WCD - in particular, its remit to draw up new guidelines for the industry - shareholders would have been justified in

expecting their company to have taken an active role in the Commission's work, as its leading competitors have done. A number of international companies, including ABB, Alstom, Atlas Copco, Coyne & Bellier, Enron, Harza, Hydro-Quebec, Lahmeyer, Voith Siemens and Skanska, all assisted the WCD in developing guidelines for the future of water and energy development: Balfour Beatty, however, took no part in the WCD process, apart from attending its launch and a press seminar organised jointly with Reuters. The company made no formal submissions to the WCD.

This failure to engage with a process that will inevitably impact on an area of business to which the company is committed will rightly be of concern to shareholders. The company's non-engagement not only ensured that its voice went unheard in drawing up new guidelines for the industry but also that to many observers it appeared "out of the loop", with potential damage to its standing in the sector.

## REPUTATIONAL RISK AND COMPETITIVENESS

The company's failure to engage with the WCD calls into question its business strategy with regard to the hydropower sector.

The WCD's guidelines are now widely acknowledged as the benchmark for international best practice. Indeed, any company wishing to remain in the hydropower sector without damage to its reputation will, in the opinion of many commentators, need to adopt these guidelines.

Already a number of Balfour Beatty's peers have thrown their weight behind the guidelines, as have some key institutional players in the field of international development.

On the day of the launch of the WCD's report, for example, Skanska, until recently a partner of Balfour



Beatty in the Ilisu dam construction consortium, announced it would adopt the WCD's new guidelines. Skanska's press release stated, "*Skanska intends to apply the guidelines for major hydropower projects recommended by the World Commission on Dams ....*" Axel Wenblad, Vice President of Environmental Affairs of the Skanska Group, said, "*We find the Commission's work to be extremely valuable. It represents a major stride for sustainable development, with open and transparent processes in which all affected parties can participate, particularly those groups that are affected directly. Our hope is that the Commission's work can serve as a model for dealing with other types of controversial infrastructural projects. At Skanska, we hope that the Commission's new criteria and guidelines become accepted globally and we are prepared to actively strive toward these being accepted among the stakeholders concerned.*"<sup>8</sup>

Other companies and industry associations have also welcomed the WCD's report. Harza, a major hydropower development firm, wrote in a letter to the Washington Post, "*The report offers a unique insight into dams and their benefits and associated costs. The report proposes a sound approach to the future development of a very old, yet important, water resource technology.*"<sup>9</sup> An editorial in Hydro Review Worldwide, a leading industry publication, stated "*...as Commission Chair Kader Asmal has declared, the 'real work' must now begin. This work includes reducing the broad findings of the Commission into practical, implementable policies and practices. These, in turn, can lead to the creation of socially beneficial, politically acceptable, and affordable and financeable developments - including new dam based water resource projects.*"<sup>10</sup>

Multilateral development banks have also responded favourably to the WCD's report and are considering adoption of its guidelines. In January 2001, the African Development Bank announced, "*The [WCD's] criteria, guidelines and standards, provided in the report, would be particularly useful during the planning, design, appraisal, construction, operation, monitoring and decommissioning of dams financed by the Bank. We plan to incorporate the criteria and guidelines during the development of Bank's technical guidelines to support our recently completed policy on Integrated Water Resources Management.*" The Asian Development Bank told the WCD's Commissioners in December 2000 that "*ADB will re-examine its own procedures, including our environment and social development policies, and determine the extent to which the report's recommendations may necessitate changes in these procedures.*"

So too, bilateral government funders have supported the WCD's report. The German Ministry of Development announced it would not only review its own guidelines but also strive to ensure the WCD guidelines' implementation in multilateral fora. The UK government has also responded favourably, with Chris Mullin, Parliamentary Under-Secretary of State for International Development, announcing that the Department for International Development "*...will offer support to governments in developing countries wanting to implement the Dams Commission report. We are willing to provide assistance on applying criteria and implementing the guidelines.*"<sup>11</sup>

The management of Balfour Beatty has responded lukewarmly to suggestions that it should endorse the WCD guidelines, both to secure its position as an industry leader and to restore the damage to its reputation

incurred through involvement in Ilisu. In a letter to Friends of the Earth, Lord Weir states:

*"There is also at this stage, as you will recognize, complete uncertainty as to how in practice promoters of dams will interpret the W.C.D. principles and seek to implement them and what external reactions will be. As doubtless you will also do, we await with interest the first specific example of what happens in practice."*<sup>12</sup>

Shareholders may regret that Balfour Beatty appears to be reacting passively to the WCD process, surrendering the leadership role to its peers. This appears to reinforce the view that the company has yet to develop a proactive, coherent approach to reputational risk that will ensure its future competitiveness.

## RESTORING BALFOUR BEATTY'S REPUTATION

This briefing argues that Balfour Beatty's value is threatened by adverse publicity surrounding the company; that management has no coherent strategy for managing reputational risks, with significant implications for future earnings; and that the company's competitors in the hydro sector have stolen a lead on the company by recognizing the business significance of endorsing the WCD Guidelines.

Developing a strategy for containing reputational risks will take time. However, committing the company to the WCD principles would show leadership in a key area of corporate social responsibility and help rebuild Balfour Beatty's damaged reputation. It would also bring commercial benefits in competing for business, particularly in the public sector, and is likely to help reassure investors in that Balfour Beatty is moving in the right direction, with positive consequences for the share price. We therefore urge shareholders to vote FOR Resolution 15.

## Group activities - a range of concerns...

### Hatfield Rail Crash

Health and safety concerns



Four people died and more than 30 were injured in the Hatfield train crash last October. In January 2001, a preliminary Health and Safety Executive (HSE) report found that a broken rail was the "substantial" if not the only cause of the crash. Balfour Beatty was the rail maintenance firm responsible for inspecting the track at Hatfield at the time of the crash. Six senior executives may face corporate manslaughter charges in connection with the crash, including staff at Balfour Beatty. If the case does reach court, it would be alleged that executives had failed to take action to replace the defective rail thought to have been a major cause of the accident.

Days before the HSE's report was published, Railtrack announced that Balfour Beatty had lost the £250m contract to continue to operate on the East Coast main line, instead naming a rival firm, Jarvis, as the preferred bidder.<sup>13</sup>

### Birmingham Northern Relief Road

Environmental concerns



In September 2000, a joint venture company comprising Carillion, Alfred McAlpine, Balfour Beatty and AMEC was awarded the £485.5 million contract to design and construct the highly controversial Birmingham Northern Relief Road, the UK's first toll road. The motorway would destroy 27 miles of the West Midlands' green belt and damage two nationally important nature sites (Sites of Special Scientific Interest).

Local people and Friends of the Earth have campaigned against the road, targeting both investors, such as Abbey National, and the construction companies involved. Hazel Barnes of the Alliance Against the BNRR warns: "We haven't gone away, and we don't intend to. There's a lot of anger about this motorway and those involved need to know it."<sup>14</sup>

### London Underground

Health and safety concerns



The Campaign Against Tube Privatisation (CATP, comprising the railworkers union, RMT, ASLEF and concerned citizens) has held a number of demonstrations at Balfour Beatty offices over its bid for the London tube PPP contract.

Balfour Beatty has been shortlisted for the contract and has attracted CATP's concerns over the company's health and safety record.

### FBI raid Balfour Beatty offices

Fraud allegations



In June 2000, dozens of federal agents and local police seized computers and records from the offices of Balfour Beatty-Massachusetts Electric, the joint-venture partnership constructing Amtrak's electric system for the Northeast Rail Co.

FBI and Amtrak officials said that the 7 a.m. raid was conducted to execute a federal search warrant in a joint investigation by the FBI and the Office of Inspector General of the National Railroad Passenger Corp.

Amtrak Inspector General Fred Weiderhold said investigators were trying to determine why Balfour Beatty had submitted hundreds of requests for reimbursement for changes in the project since it began in 1996 and that have inflated the original contract cost by some \$280 million. The amount paid Balfour Beatty has grown to \$600 million.<sup>15</sup>

## Lesotho Highlands Water Project

Prosecution for alleged bribery

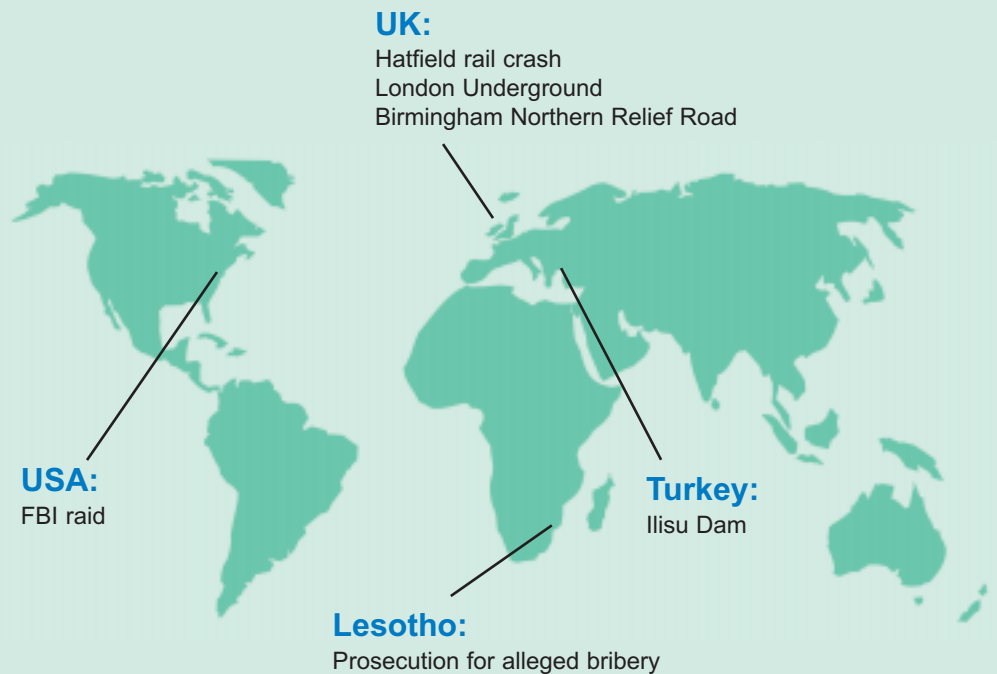


The Lesotho Highlands Water Development Project hit the headlines in August 1999 after the Lesotho government accused Masupha Sole, the former CEO of Lesotho Highlands Development Agency, of taking nearly \$2 million in bribes from several major companies and two consortia, including the Lesotho Highlands Project Contractors (LHPC), of which Balfour Beatty is a part. The charge sheet listed details of who allegedly paid Sole.

In November 1999, the Lesotho authorities announced that the companies were to be prosecuted for having "wrongfully, unlawfully and corruptly made payments/transfers" to Sole. The case against the LHPC comes before the court again in August 2001.<sup>16</sup>

The World Bank has promised an internal investigation of the charges. The Bank can debar companies found guilty of corruption from bidding on Bank-funded projects.<sup>17</sup>

## ...across three continents



## A history of problems

### Heathrow Tunnel

In February 1999, Balfour Beatty was fined a record £1.2 million for breaches in health and safety during its construction of a new rail link to Heathrow airport. The fine was the highest ever meted out by the Health and Safety Executive (HSE) for incidents involving no loss of life. The judge called the incident "one of the worst civil engineering disasters in the United Kingdom in the last quarter of a century . . . It is a matter of chance whether death or any serious injury resulted from these very serious breaches."<sup>18</sup>

Balfour Beatty was one of two companies contracted to construct tunnels for the £550 million rail link. One of the tunnels collapsed in October 1994, leaving a

crater which dragged down car parks and shook buildings, and crushed parts of the Piccadilly Line.

### Channel Tunnel

Balfour Beatty was one of five UK companies contracted to build the Channel Tunnel, linking England and France. All five were found guilty of failing to ensure the safety of seven workers who were killed during the construction period. Each of the contractors was fined between £40,000 and £125,000.

In one case, the prosecutor claimed that the breaches were a continuing danger that the contractors had done nothing to prevent. Commenting on the circumstances surrounding the death of a 26-year old worker, the judge said, "The

failure in this case is one of the worst this court has heard about in the past years. This accident happened because the safety procedures in place were not properly supervised and carried out."<sup>19</sup>

### Cardiff Bay Barrage

Balfour Beatty was the lead contractor for the Cardiff Bay Barrage - a 1.1km dam replacing tidal mudflats with a 500-acre freshwater lake, completed in 1999. The project was criticised by local citizens, campaign groups such as Friends of the Earth, and the European Commission for its impact on the environment. The project inundated important habitats for birds, including the threatened redshank and dunlin.<sup>20</sup>



**Left** March 2001, Friends of the Earth and the Ilisu Dam Campaign protest at Balfour Beatty's London Headquarters

**Far right** Balfour Beatty's AGM 2000; protesters demonstrate inside the AGM calling on the company to withdraw from Ilisu

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## The Ilisu Dam

**1** The ancient town of Hasankeyf, which will be flooded by the Ilisu Dam

**2** A construction workers' union representative announces a 'green ban' on Balfour Beatty

**3** October 2000; rally in Parliament Square protesting against the Ilisu dam



## 78,000 people affected

It is predicted that the Ilisu dam will affect up to 78,000 people, the majority of them Kurds

## Threatens water wars

The Ilisu dam is planned for the River Tigris and could disrupt downstream flow to Syria and Iraq

## Cultural heritage destroyed

The Ilisu dam will flood over 300 square kilometres, including the ancient town of Hasankeyf, dating back 10,000 years

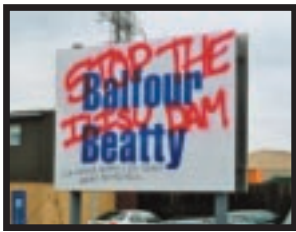
### THE ILISU DAM

Balfour Beatty is lead contractor for the consortium that will build the controversial Ilisu Dam in the Kurdish region of Southeast Turkey.

The area has been ravaged by an armed conflict and is still under Emergency Rule. Human rights abuses - including torture and disappearances - are common.

Unsurprisingly there has been considerable concern over the prospects for a just resettlement of those affected by the project.

At the time that the company became involved, however, no resettlement plan had been prepared, in contravention of international standards. The numbers to be resettled have also been grossly underestimated. In July 1999, the company stated: "*Although this area of Turkey is relatively sparsely populated, a total of some 12-16,000 people are likely to be affected*".<sup>21</sup> In 2000, however, a report commissioned by the Export



Credit Agencies considering support for the project estimated that up to 78,000 people could be affected.<sup>22</sup>

A number of human rights abuses directly associated with the dam have already been documented: dam critics have been subjected to intimidation<sup>23</sup> whilst organisers of a rally to celebrate the history of Hasankeyf were forbidden by the local Governor from distributing a petition expressing concern over the dam. Such human rights abuses raise major concerns about the likelihood of a successful development outcome to the Ilisu project.

The dam will flood 183 settlements as well as internationally important archaeological sites, including the ancient town of Hasankeyf, which dates back 10,000 years.

### ILISU - "THIS MISERABLE DAM"

The project has been severely criticised by a number of UK parliamentary Select Committees, trade unions,

environmental groups, human rights groups and the media. (See page 3.)

In March 2000, the Trade and Industry Select Committee concluded, "...we share the view of Ministers that the greatest remaining obstacle to granting export credit for the dam is the prospect of a programme of displacing thousands of local residents without proper consultation, compensation and resettlement."<sup>24</sup>

The International Development Select Committee was still more damning: "The shotgun wedding approach to export credit that we find in the case of the Ilisu Dam... is the worst form of export credit practice", noting that "the Ilisu Dam was from the outset conceived and planned in contravention of international standards, and it still does not comply. For that reason [export credit] cover should not be given."<sup>25</sup>

Returning from a visit to the Ilisu area, Ann Clwyd, chair of the parliamentary Human Rights Group and a

prominent member of the International Development Committee, called Ilisu "this miserable dam".<sup>26</sup>

Balfour Beatty has also come under pressure over its involvement in the Ilisu dam project from its main trade union, the Union of Construction Allied Trades Technicians (UCATT). In September 2000, UCATT's Southeast Regional Council (which represents a quarter of UCATT's national membership) passed a resolution announcing a 'green ban' on Balfour Beatty and the Ilisu dam. The resolution "...unequivocally states our opposition to the proposed Ilisu Dam" and says, "Being the premier trade union for construction workers, [UCATT will] encourage all UCATT members and construction workers within our region to refuse to undertake any works on the contract."<sup>27</sup>

## Resolution No. 15: balfour beatty and the World Commission on Dams

### WHEREAS:

- It is important for Balfour Beatty to reduce its exposure to poorly contained or unacceptable reputational risks;
- Balfour Beatty continues to suffer from exposure to such risks, ranging from its involvement in controversial construction projects (such as the Ilisu dam in Southeastern Turkey) to the prosecution in Lesotho for bribery of the Lesotho Highlands Project Contractors' consortium of which Balfour Beatty is a member;
- A model for developing water and energy projects in a way which minimises potential controversy and reputational risks has recently been developed by the highly authoritative World Commission on Dams, with the involvement of companies such as ABB, governments, the World Bank and non-governmental organisations. These benchmark standards have been adopted by leading construction company Skanska, which has also withdrawn from the Ilisu Dam project, and are now being considered for adoption by multilateral development banks and export credit agencies;
- The World Commission on Dams' Report identifies specific stakeholders, such as the private sector, to whom its recommendations are addressed;

### WE RESOLVE:

1. That the company recognises the importance of the principles, criteria and guidelines of the World Commission on Dams' Report;
2. That the company hereby adopts as formal company policy that it shall endeavour to ensure that all future hydropower contracts in which it is involved comply with the Set of Guidelines for Good Practice (contained in Chapter 9 of the Report);
3. That the company considers the potential to use those Guidelines in other areas of its business;
4. That the Business Practices Committee reports to shareholders on the company's implementation of the Guidelines.

## ENDNOTES

1. Response to oral question to Tim Sharp (Balfour Beatty) at Socially Responsible Investment and Construction Seminar organised by the UK Social Investment Forum, July 2000. (Figures should be regarded as an estimate.)
2. Alejandro Reyes 1996, 'Keeping a City Clean: Multinationals are Banned over Graft', *Asiaweek* web-site: <http://www.asiaweek.com/asiaweek/96/0301/biz3.html>, accessed 20 April 2001.
3. As a member of the Lesotho Highlands Project Contractors (LHPC), Balfour Beatty is currently being prosecuted in Lesotho, on corruption charges arising from the consortium's involvement in the Lesotho Highlands Water Project. In a judgement given in October 2000, in a similar case against the Highlands Water Venture (HWV) consortium, the Court of Appeal in Lesotho ruled that partnerships per se could not be charged because they lacked legal personality. The prosecuting authority in Lesotho has yet to decide against which of the individual members of HWV it will now proceed. The effect of the Court of Appeal's ruling is that a similar procedure will be adopted in the charges against LHPC when the matter comes before the court in August 2001.
4. Commentaries on the Convention on Combating Bribery of Officials in International Business Transactions, OECD, Paris, [www.oecd.org/daf/nocorruption/20nov2e.htm](http://www.oecd.org/daf/nocorruption/20nov2e.htm), para.24.
5. "OECD Export Credit Community Agrees to Co-Ordinated Action to Deter Bribery in Government-supported Export Credit Transactions", Statement, OECD ECG 6 December 2000.
6. Balfour Beatty, 'Ilisu Dam Project: Information for Shareholders', 9 May 2000.
7. The UK's Export Credit Guarantee Department (ECGD) commissioned Environmental Resources Management to conduct a desk study of the EIA. ERM concluded: "The scope of work to date would need to be extended to bring the analysis to international best standards."
8. Skanska press release, "Skanska supports the World Commission on Dams' recommendations for long-term sustainable hydropower projects", Skanska, 16 November 2000.
9. Letter to *The Wall Street Journal*, from Edward F. Carter, Director, Managing Partner, Harza Engineering Company, 30 November 2000.
10. *Hydro Review Worldwide*, 'Reaction to the Final Report', Viewpoint, on: [www.dams.org](http://www.dams.org) accessed 12 March 2001.
11. Keynote address of Chris Mullin MP to Institute of Civil Engineers/British Dams Society Seminar, "After the World Commission... Dams in the Future", 1 February 2001.
12. Letter to Friends of the Earth from Lord Weir, Chairman, 15 February 2001.
13. *Guardian Unlimited* 'Hatfield rail crash inquiry may name names', Keith Harper, Monday January 22, 2001.
14. Web-site <http://www.beep.dial.pipex.com/bnrr/pr281000.htm> accessed 20 April 2001.
15. Web-site [http://www.zwire.com/site/news.cfm?newsid=516310&BRD=1281&PAG=461&dept\\_id=7573&rft=8](http://www.zwire.com/site/news.cfm?newsid=516310&BRD=1281&PAG=461&dept_id=7573&rft=8) accessed 20 April 2001. See also [www.newhavenregister.com](http://www.newhavenregister.com), [www.ctnow.com](http://www.ctnow.com), and [www.wtnh.com](http://www.wtnh.com).
16. See footnote 3.
17. *Business Day*, Johannesburg 18 November 1999.
18. Mr. Justice Cresswell, quoted in the *Financial Times*, 16 February 1999.
19. *Financial Times*: 23 November 1990, 19 November 1991, 29 April 1992 and 27 November 1993.
20. *Financial Times*: 4 March 1994, 15 April 1994 and 1 June 1994.
21. Balfour Beatty, "Ilisu dam and hydro-electric power project; project briefing", July 1999.
22. Ayse Kudat, "Ilisu Dam's Resettlement Action Plan (RAP) - Achieving International Best Practice". Distributed to export credit agencies 16 August 2000, unpublished.
23. In February 2000, for example, the Mayor of Hasankeyf was forced to cut short a visit to Europe after receiving anonymous threats. The Mayor had been scheduled to talk to the Minister responsible for the UK's ECGD.
24. Select Committee on Trade and Industry, Sixth Report, 9 March 2000.
25. International Development Select Committee, "ECGD, Developmental Issues and the Ilisu Dam", July 2000.
26. Ann Clwyd MP visited the Ilisu region in July 2000. On her return, she reported that her visit had left her "disgusted" at the Turkish government's lack of meaningful consultation with the thousands who will be affected by what she called "this miserable dam" and "shocked" at the scale of human misery and suffering that Ilisu would unleash. The dam, she said, would "result in serious human rights abuses for the Kurdish minority, cause environmental havoc and could even spark off war in the region." See: Ann Clwyd, "Stop this Miserable Dam - Ann Clwyd Returns from Turkey", Press Release, 17 July 2000.
27. UCATT "Ilisu Dam Statement" passed by London South East UCATT Regional Council meeting held Friday 22nd Sept 2000.

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