

**International Fact Finding Mission
Preliminary Report**

**Azerbaijan, Georgia, Turkey
Pipelines project**

Azerbaijan Section

Green Alternative

National Ecological Centre of Ukraine

CEE Bankwatch Network

Campagna per la riforma della Banca mondiale

Platform

Friends of the Earth US

Bank Information Center

Ilisu Dam Campaign

The Corner House

Kurdish Human Rights Project

September 2002

Green Alternative

Chavchavadze 62
Tbilisi 380062
Georgia
Tel. +995.32.22 38 74

National Ecological Centre of Ukraine

P.O. Box 89
01025 Kiev-25
Ukraine
Tel: +380-44-238-62-60

CEE Bankwatch Network

Kratka 26
100 00 Praha 10
Czech Republic
Tel: +420.2.74 81 65 71
www.bankwatch.org

Campagna per la riforma della Banca mondiale

Via Tommaso da Celano, 15
00179 Roma
Italy
Tel.: +39.06.78 26 855
www.crbm.org

Platform

7 Horselydown Lane
London SE1 2LN
UK
Tel.: +44.20.74 03 37 38

Friends of the Earth US

1025 Vermont Ave. NW
Washington, DC 20005
USA
Tel: 202-783-7400
www.foe.org

Bank Information Center

733 15th Street NW
Suite 1126
Washington, DC 20005
USA
Tel: 202-737-7752
www.bicusa.org

Ilisu Dam Campaign

Box 210
266 Banbury Road
Oxford OX2 7DL
UK
Tel: +44.1865.20 05 50
www.ilisu.org.uk

The Corner House

Station Road
Sturminster Newton
Dorset DT10 1YJ
UK
Tel: +44.1258.47 37 95
<http://cornerhouse.icaap.org/>

Kurdish Human Rights Project

Suite 319, Linen Hall
162-168 Regent Street
London W1B 5TG
UK
Tel: +44.20.72 87 27 72
www.khrp.org

Contents	Page
Executive Summary	4
1. Introduction	6
2. General Concerns	10
2.1 Centralized control of the project	10
2.2 Government influence over the free expression of opinion	10
2.3 Human rights	11
2.4 Corruption	12
3. Project impacts along the route	13
3.1 Consultation and ESIA process	14
3.2 Availability of official documents	15
3.3 Social development issues	15
3.4 Local employment issues	16
3.5 Compensation	17
3.6 Environmental issues	17
4. Cultural Property Impacts at Gobustan	18
5. Issues relating to oil development	19
5.1 Economic benefits of oil development	19
5.2 Labor rights	20
5.3 The oil fund	21
6. Conclusions	21

Executive Summary

An international and independent Fact-Finding Mission (FFM) consisting of 7 people representing 7 national and international non-governmental organizations (NGOs) visited Azerbaijan from June 6-10, 2002. The purpose of the mission was to assess the likely environmental, social and human rights impacts of the proposed **Azerbaijan-Georgia-Turkey (AGT)** pipelines project. This project consists of two pipelines laid into the same 44-meter-wide corridor: the **Baku-T'bilisi-Ceyhan oil pipeline (BTC)** and the **South Caucasus gas Pipeline (SCP)** from an expanded terminal at Sangachal on the Caspian Sea in Azerbaijan, through Georgia to the Turkish port city of Ceyhan.

BP and other project sponsors are treating the two pipelines as separate projects and preparing a separate Environmental and Social Impact Assessment (ESIA) study for each of them. Because both pipelines will be built in the same corridor, impacting the same people and environment, and built by the same companies, the Fact-Finding Mission considers the two pipelines as one single project referred to as AGT. The Mission planned to carry out its survey in Azerbaijan in the context of information and data contained in the ESIA studies.

Unfortunately, as a result of government intervention, the mission was cut short. Due to the almost constant official surveillance, the FFM was limited in its ability to have a meaningful dialog with affected communities. In addition, the central government took an active role in controlling the FFM's interface with the public and in quieting any dissent. Azerbaijani NGOs clearly conveyed that in the presence of government, people will not freely express their concerns and the full extent of their criticism. Indeed, many people exhibited distrust of the government. Yet despite this atmosphere, people were concerned enough that opposition to the AGT pipeline project was clearly evident.

Because the AGT pipelines would parallel the route of the Baku-Supsa 'Early Oil' pipeline, most AGT project affected communities have experienced the Baku-Supsa construction (1997 to 1999) which has affected their view of BP and the AGT project. Those interviewed by the FFM generally described their experience with Baku-Supsa as negative and are skeptical about the benefits that the new AGT project is claiming to bring to local communities. Expectations for jobs, social development, energy, road improvements, and environmental management were not met for Baku-Supsa and people see little purpose in repeating this experience. In one location, the Umid settlement for internally displaced people, the situation already appeared quite volatile and may escalate if expectations are not addressed.

There are also concerns that for any benefits to be realized, development decisions and implementation must happen at a regional and local level. NGOs are getting mixed messages and there is confusion about the Community Investment Programme that was discussed by BP during earlier consultations and about how regional and local development projects will be selected. NGOs feel the project will not benefit the people especially if it is completely centralized and regions are not able to address their own regional issues.

However, it appears that the project is being run completely from Baku with little regional involvement. Many Baku-based organizations have serious concerns about the value of the AGT project for Azerbaijan and about the centralized control by the government and the companies:

corruption is a significant problem in Azerbaijan; oil funds that were meant for social and non-oil industry development are now being used to fund more oil development. In addition, allegations of human rights abuses and retribution for protesting against the government contribute to an environment in which open debate of the project is difficult.

The first step to open discussion is access to relevant information. But even in just the few locations visited by the FFM, it was evident that the distribution of information and availability of official documents was inadequate and inconsistent. Communities and NGOs were not informed about the ESIA or the process for contributing comments and the Host Government Agreement, while reportedly a public document, in practice was not available to the public during the consultation period.

The questions and issues raised by project affected communities and NGOs interviewed by the FFM indicate that project sponsors have not informed communities, coordinated with regional and local community leaders, nor adequately addressed concerns. A history of corruption, human rights abuses and the misuse of oil funds raises further questions about the true benefits of this project. The project sponsors should ensure that the concerns and demands of the people of Azerbaijan are freely expressed and fully addressed.

1. Introduction

An international and independent Fact-Finding Mission (FFM) consisting of 7 people representing 7 national and international non-governmental organizations (NGOs) visited Azerbaijan from June 6-10, 2002.¹ The purpose of the mission was to assess the likely environmental, social and human rights impacts of the proposed Azerbaijan-Georgia-Turkey (AGT) pipelines project by surveying villages that would be affected by the project (according to the definition² given by project sponsors³).

The **Azerbaijan-Georgia-Turkey (AGT)** pipelines project consists of two pipelines laid into the same 44-meter-wide corridor: the **Baku-Tbilisi-Ceyhan oil pipeline (BTC)** and the **South Caucasus gas Pipeline (SCP)**. The pipelines run from an expanded terminal at Sangachal on the Caspian Sea in Azerbaijan, through Georgia to the Turkish port city of Ceyhan. The AGT pipeline route parallels the corridor of the Western Route Export Pipeline, better known as the Baku-Supsa oil pipeline,⁴ for essentially the entire length within Azerbaijan, with a few exceptions, from the Sangachal terminal on the Caspian Sea to the Georgian border.

The FFM had planned to carry out its survey based on information and data, such as pipeline routing and impacted communities, contained in the Environmental and Social Impact Assessment (ESIA) studies produced by project sponsors for the AGT project. Unfortunately, as a result of government intervention, the mission was cut short and the FFM left Azerbaijan without completely fulfilling its goals.

As a result, just five sites along the route were visited:

- Umid, a camp for Internally Displaced Peoples (IDPs) built two years ago just outside the Sangachal terminal;
- Gobustan National Reserve, a site under consideration for world heritage status due to the presence of 10,000 year old petroglyphs;
- A roadside restaurant in central Azerbaijan, past which both the AGT pipelines system and the Silk Road project would run;
- A village of just over 1000 people in central Azerbaijan; and

¹ People from the following organizations visited Azerbaijan as part of the Fact Finding Mission: Green Alternative, National Ecological Centre of Ukraine, CEE Bankwatch Network, Campagna per la riforma della Banca mondiale, Platform, Friends of the Earth US, and the Bank Information Center.

² Pipeline affected communities are defined as those that are located “within a 2km corridor of the route,” or are “within 5km of major facilities and 2km of pipe yards.” Executive Summary, BTC project ESIA, Azerbaijan, Draft for Disclosure, page 1-9.

³ On August 1, 2002, the BTC Owners signed documents creating the BTC Pipeline Company. The largest shareholder in the company is BP (38.21%) followed the State Oil Company of the Azerbaijan Republic (SOCAR) (25.00%); Statoil (9.58%); Unocal (8.90%); TPAO (7.55%); Eni (5%); Itochu (3.40%); and Amerada Hess (2.36%). In addition, TotalFinaElf has acquired the right to purchase a 5% interest in BTC Co. The SCP Owners include BP, which is leading the project design phase, Statoil, TPAO, Luk-Agip NV, TotalElfina, OIEC and SOCAR. The operator of the gas pipeline still has to be selected.

⁴ The Baku-Supsa oil pipeline was built from 1997 to 1999 and inaugurated on 17th April 1999. It connects the Caspian Sea and the Black Sea and transport crude oil from Azeri offshore fields to tankers which will ship it through the Bosphorous Straits to the Mediterranean Sea and western markets. It was built by the Azerbaijan International Operating Company (a consortium consisting of BP, Unocal, SOCAR, Lukoil, Statoil, ExxonMobil, TPAO, Pennzoil, Itochu and Delta Hess – these members being very similar to those of the consortium building the BTC pipeline), in co-operation with the Georgian International Operating Company.

- Ganja, the second largest city in Azerbaijan and the location of a workers camp for the AGT project.

In order to gauge the social and political context within which the project would take place, the FFM set up meetings with various organizations in Baku which included the IMF Resident Representative for Azerbaijan, the Social Democratic Party of Azerbaijan (an opposition party), the Committee of Oil Industry Workers' Rights Protection (COIWRP – an independent trade union) and several environmental, human rights and development NGOs, including the Open Society Institute of Azerbaijan and others who preferred to remain anonymous.⁵ The FFM also met approximately 25 NGOs in Ganja.

In addition, Manana Kochladze of Green Alternative and CEE Bankwatch Network and Dr. Antonio Tricarico, Executive Director of Reform the World Bank Campaign, were invited to present papers at the oil conference held at the Kafkaz University in Baku on June 6 and 7, 2002. Ms. Kochladze presented a paper on “Oil infrastructure and social revenue,” while Dr. Tricarico presented a paper titled, “The battle over Caspian resources: What kind of sustainable investment is possible in the Caspian region?” Both presentations led to a discussion with participants about corruption issues in Azerbaijan.

While the FFM's shortened stay in Azerbaijan did not allow the collection of data from a large and representative sample of communities, initial indications from those visited give rise to some serious concerns.

Objectives and planned methodology

The Fact-Finding Mission aimed to assess the environmental and social impacts and proposed remedial measures of the project, in the context of the project sponsors' published Environmental and Social Impact Assessment. The trip to Azerbaijan was immediately followed by a similar mission to Georgia, whose findings were published on August 1st 2002, and late July to Turkey, whose findings were published on 31st August 2002.

More specifically, the FFM's objectives were to:

- Assess the adequacy of the consultation process conducted as part of the Environmental and Social Impact Assessment (ESIA) for the project;
- Assess the extent to which affected communities had been informed about the social and environmental impacts of the project, the legal agreements of the project signed between the government and the companies, and of their legal rights with respect to damages and compensation;

⁵ Because of the high level of state intimidation against critics, it has been deemed necessary to omit the names of several of the sites and organizations in order to protect the individuals and communities interviewed. This information is available from the authors on an as-needed basis

- Record the concerns expressed by affected communities and assess the extent to which they are being addressed by the project developers;
- Assess the proposed arrangements for compensating those affected by the project;
- Make an initial assessment of broader social and environmental benefits and impacts of the project.

The methodology used by the Mission consisted of 30 minute (minimum) in-depth interviews with local community leaders, local officials, affected people and NGOs, and also with other organizations in Baku. The process was qualitative, beginning with open-ended questions about people's opinions on the project, and following up with specific questions about issues such as consultation and the compensation process, as a "spot check" of BP's claims in the ESIA.

Intervention in the Mission's work by the government of Azerbaijan

The Council of the President was notified of the FFM's visit and mission. As a result, representatives of the central government along the planned route of travel limited the ability of the FFM to have a meaningful dialog with affected communities.

Based on experience in other fact finding missions, work in the Caucasus region, and consultations with Azerbaijani NGOs, the FFM anticipated that project-affected people might be hesitant to talk openly in front of the government. The FFM decided to keep all individual comments anonymous and to approach local people and NGOs first upon arriving to a village, and elected officials second. After speaking with the community and the elected government, the FFM would then speak with the local representative of the central government (the "mudir" – see below, the administrative system of Azerbaijan). However, in most locations, the mudir was alerted to the FFM's arrival and was waiting to receive us making it difficult to talk with people directly and giving the perception that the FFM was associated with the government.

At Gobustan the mudir of the district and two officials were waiting at the Park headquarters for the FFM to arrive. Again at Umid the FFM was greeted on arrival by the mudir. Upon entering the city limits of Ganja after 9 p.m., the FFM was greeted by a representative of the appointed government. The mudirs and their staff, as well as several other individuals encountered, attempted to influence the conversation such that criticism of the project would not be heard by the FFM. This intervention is described further in section 2.2 of this report. Only during the two unscheduled stops in central Azerbaijan did the FFM manage to meet local people in the absence of government monitoring.

After the first day of travel, filled with interference from local appointed government officials, an official government representative came to the hotel where the FFM was staying and informed the FFM that he would escort the group for the remainder of their stay. At this point the FFM decided that it was in its best interest to forego the rest of the trip in Azerbaijan and proceed directly to Georgia.

The Administrative System of Azerbaijan

The Republic of Azerbaijan is divided into 76 administrative districts (65 rural rayons and 11 cities). The governors of these units are appointed and removed from holding positions by the President of the Azerbaijan Republic. The appointed governors are called “mudirs” by the local people and will be referred to as such in this report.

In December 1999, the first municipal elections in Azerbaijan were held for local administration officials. The State designated 2665 municipalities, 20% of which contain 500 or less people. Each municipality elected a council of 5 to 19 members, depending on the population of the municipality, for a five year term.

The municipal government is authorized to impose local taxes and payments, approve a local budget, and implement local programs of social security and economic development. However, municipalities cannot duplicate operations being undertaken or planned by State organizations or State programs. The relationship and the division of powers and responsibilities between the appointed governors and the locally elected councils are still unclear and in a continuing process of clarification and resolution.

The informal leader of a community is known as the Aksakal.

2. General Concerns

2.1 Centralized control of the project

The AGT pipelines project, and oil development in general, is of key importance to the government of Azerbaijan, with President Aliyev taking a personal role in the major decisions relating to oil. Power is extremely concentrated in the Presidents' hands, and any critical voices (whether opposition parties, NGOs or journalists) are marginalized.

Some NGOs commented that the situation is comparable to the Soviet era, where Azerbaijan is now effectively a colony of western oil companies rather than of Russia. Others describe the companies as exploiting the existence of the authoritarian regime in Azerbaijan – recognizing that on any issue or project it is only important to get agreement with one person, the President.

The AGT project appears to be completely centralized with the government's position being reinforced through the regional appointed officials as discussed in the following section. Some NGOs have even been told that what was supposed to be a regional Community Investment Programme run by BP is now being administered only from Baku.

- **Due to the apparent centralization of control of this project, and of political power in general, serious debate about and scrutiny of oil developments is extremely difficult. This leads the FFM to question how genuine and effective BP feels its consultation processes can have been.**

2.2 Government influence over the free expression of opinion

As discussed earlier, the mudirs and their staff met the FFM upon arrival to a location and attempted to influence the conversation such that any criticism of the project was downplayed. At Gobustan the mudir of the district and two officials were waiting at the Park for the FFM to arrive. The mudir had no information about the route of the pipeline and said he had not had any contact with BP. Yet the deputy mudir quickly assured everyone that there will be no problems with the pipeline because the decision makers (central government and the companies) will take everything into account.

At Umid the FFM was again greeted on arrival by the mudir who told the FFM that people are happy about the project because they get jobs and are treated well by the employers. People began to gather and several began to shout that the mudir is lying and tried to engage the FFM. The mudir's assistants attempted to calm the dissenters and move them out of earshot of the FFM but they continued to come back. As the FFM was leaving, a very heated and emotional argument broke out between a local woman and the mudir. The FFM was told by the mudir's staff not to listen to the dissenters because they are "liars and alcoholics."

- **The situation in Umid appeared quite volatile. Distrust and discontent with the mudir was clearly exhibited. Many of the issues raised by the community had to do with employment for the AGT project and are addressed in a later section of this report.**

Upon entering Ganja the FFM was again greeted by the mudir. Only during one unscheduled stop did the FFM manage to meet a representative of the people (the aksakal) who was not appointed by the President. Even then, when our guide said that our group wanted to talk about the AGT pipeline, the people immediately said that the AGT project is good for Azerbaijan. When the FFM introduced themselves and explained they were not from the government, people began to express their concerns and doubts.

- **The FFM noted that the local communities that were visited exhibited distrust of the appointed government and may be hesitant to openly express opinions contrary to, or questioning that of the government. Against this background, it is difficult to see how BP can have carried out a full and open consultation process on the pipelines project, where the state has widely publicized much of its support for oil developments, and where people are generally afraid to say anything which is counter to the position of the state.**

In Ganja the FFM met with a group of approximately 25 NGOs. The organizer of the meeting made it clear that NGOs would not speak freely and the meeting should not be held if a government representative attended or it was perceived that the FFM was associated with the central government. At the meeting NGOs commented that the local elected government stays quiet about the pipeline because it is afraid of the authorities.

- **It appears that the project is being run completely from Baku with active participation on the part of the regional appointed officials to quiet any dissent. Local mudirs said they had no authority to negotiate on pipeline issues and knew little about the project except to say that it would be good for Azerbaijan and that the government will make sure everything is fine.**

2.3 Human rights

Azerbaijan is criticized by human rights organizations for its poor human rights record in areas such as employing arbitrary arrest and detention, especially of critics of the government, and for using torture and physical abuse against detainees.

For example, Ms. Mirvarie Gahramanly, co-chair and one of the founders of the COIWRP independent oil workers' union told the FFM how she has been subject to repeated intimidation. She stated that she has been arrested three times, the first time in 1998 after she criticized the State Oil Company of the Azerbaijan Republic (SOCAR) Vice-President (and President Heydar Aliyev's son) Ilham Aliyev. She was arrested again in January 1999 after she made a statement against SOCAR corruption. When she visited the USA in March 2002 to meet with United States Congress members and talk to media about oil industry worker conditions in Azerbaijan, she was first demoted in her job at SOCAR, then fired, and then arrested again on her return.

While the Mission was in Azerbaijan, there was continuing media coverage of civil unrest and riots in the Nardaran suburb of Baku that began on June 3. The community had a history of protesting about the social conditions in which they lived, including on May 7th, 2002 when a

peaceful mass demonstration took place in which about one thousand residents participated, calling for an improvement of the social and economic situation, including access to energy sources, and for the dismissal of the current appointed representative of executive power (mudir) in the village. On June 3, seven of the villagers who called for the removal of the mudir were called to the Executive Office and arrested. According to COIWRP, the Human Rights Center of Azerbaijan and the Azerbaijan National Committee of Helsinki Citizens' Assembly, hundreds of villagers gathered to demand the prisoners' release, blocking the entrances to the village. Police with shields and truncheons tried to disperse the crowd who threw stones and bottles with fuel. The police opened fire against the assembled crowd, killing one and wounding upwards of 60 people.⁶

- **The poor human rights record of Azerbaijan and the treatment of people protesting about their poor social conditions inhibit the ability of project affected people and others to voice concerns.**

2.4 Corruption

Corruption was a concern raised by almost every group the FFM talked with. According to Transparency International's 1999 Index, which ranks countries according to the number of reported experiences with corrupt officials, Azerbaijan ranked 96th out of 99, with only three countries scoring worse.. The findings of TI are confirmed by the results of an investigation put together by the World Bank and the European Bank for Reconstruction and Development. The findings claim that the level of official corruption equal USD 1.4 billion.⁷

Corruption has been alleged at all levels of administration in Azerbaijan. As the FFM traveled along the pipeline route, it was stopped about every 30 minutes by a policeman expecting a bribe. It was also widely commented by individuals and NGOs that 20% of the cost of any project goes into the pockets of senior government officials.

Nepotism is another aspect of corruption which seems to operate at many levels. Several interviewees in Baku told the FFM that to get a job in an oil company one has to know or be related to someone in the recruitment department. In the village of Umid, the FFM found that few local people had been given jobs in the expansion of BP's Sangachal terminal, but local people claimed that family members of the mudir had already received jobs.

- **Corruption at all levels of administration in Azerbaijan leads to strong concerns that both revenues and negative impacts from the AGT project will be distributed highly inequitably.**

⁶ June 5, 2002, Declaration of Monitoring Group of Human Rights Organizations, received via email and 6/6/2002: Azerbaijan: police arbitrarily arrested and shot various demonstrators in Nardaran, World Organization Against Torture, <http://www.omct.org>.

⁷ "Intervention, corruption and capture: the nexus between enterprises and the state," by Joel Hellman and Mark Schankerman, Working paper No. 58, EBRD, 2000.

3. Project impacts along the route

Since the route of the AGT pipeline parallels the Baku-Supsa ‘Early Oil’ pipeline, most of the communities who will be impacted by the AGT project have experienced the construction (1997-1999) and operation of the Baku-Supsa project. While the situations in each of these locations varied significantly, a common theme emerged: people told the FFM that they had gained nothing from the Baku-Supsa project and are skeptical at best and in some cases defiant about the pending AGT project and any benefits the population can expect.

In one village in central Azerbaijan, the people reportedly told a BP representative that there were no benefits from the first pipeline so they do not see why there should be a second. A few people from the village had taken jobs at a pump station but said they were paid only 20-30% of the agreed salary. They had no written contracts and the company would not talk with them when they complained. They said they feel cheated and do not trust BP.

In Ganja, NGOs clearly conveyed that in the presence of government, people will not freely express their concerns and the full extent of their criticism. Yet despite this atmosphere, people were concerned enough that they did express opposition to the project. NGOs said that the people had learned their lesson during Baku-Supsa and “are not stupid anymore,” and they “will not let it happen like that again.” Their expectations and the government’s and companies’ promises about the Baku-Supsa related socio-economic development for local affected communities have not been met.

- **The experience of Baku-Supsa has generally been described as negative by those interviewed by the FFM because of previous broken promises by BP of both jobs and social development. Project-affected people in this region are now skeptical about the benefits that the new AGT project is claimed to bring to local communities.**

One exception was a restaurant owner along the AGT project (and also the Silk Road project) who felt the AGT project would be good for Azerbaijan and good for his business as it would bring outside workers in who would eat at his restaurant. He was not in the area when Baku-Supsa was built.

The ESIA for Azerbaijan states that “consultation revealed that most communities are generally positive towards the BTC project, as their perception is that any disruption will be temporary and offset by potential economic benefits both to their community and to Azerbaijan.”⁸

- **The FFM questions BP’s interpretation of the communities’ attitudes as most support for the project is contingent on the fulfillment of expectations that BP admits will not be met.**⁹

⁸ Environmental and Social Impact Assessment: Baku-Tbilisi-Cheyhan Pipeline Project, Azerbaijan (Draft for Disclosure), May 2002, p. 1-25.

⁹ “There was clear evidence, however, of the communities having some expectations which will not be realized as a direct result of the project...the level of anticipated employment is higher in terms both of numbers of jobs to be created and length of employment...[and] villagers living in communities with poor energy supply clearly associated the construction of energy pipelines with immediate provision of energy to their houses, which is not possible from

3.1 Consultation and ESIA process

In general, people along the pipeline route are not well informed about the pipelines project. This was evident from the FFM's meetings with communities along the route, and was an issue raised by several NGOs that the FFM met in Baku.

In one village in central Azerbaijan, the Aksakal (community leader) told the FFM that an English woman came to the village 3-4 months ago and went directly to the school, not the Aksakal. She spoke with teachers and gave them a leaflet. People interviewed said that all other information has been learned from TV and the newspaper. This contradicts BP's assertion that "quantitative interviews were held with the...most senior government representatives, or the person who is commonly understood to be the community leader."¹⁰

In Ganja, BP held two meetings with NGOs to discuss the project. However, when the FFM met with many of the same NGOs, several were asking technical questions about the project. When the FFM referred to the ESIA, none of the 17 NGOs in the room at the time were aware of the ESIA or the process for commenting.

- **Neither the Ganja-based NGOs nor the project-affected people of the village visited were informed about the ESIA or the process for contributing comments.**

3.2 Availability of official documents

On June 7, 2002 at approximately 5:30 pm, the FFM phoned Ramiz Aszyev of the Environment Ministry Expertise Department and asked to inspect the Host Government Agreement (HGA)¹¹ for the BTC project. He said that they do not have it and suggested the FFM ask BP or go to the Akhundov Library. An Azeri NGO representative present at the time said he had recently checked the library and it was not available. The HGA was just recently posted on the project website.

- **The HGA, while reportedly a public document, in practice was not available to the public during the sponsor's consultation process.**

One well-respected NGO told the FFM that documents like the HGA are available but they are "expensive", implying that bribes are required.

high pressure export pipelines." Environmental and Social Impact Assessment: Baku-Tbilisi-Cheyhan Pipeline Project, Azerbaijan (Draft for Disclosure), May 2002, p. 1-26.

¹⁰ Public Consultation and Disclosure Plan – BTC and SCP Pipeline Projects, Azerbaijan (Draft for Disclosure), May 2002, p. 23.

¹¹ The Host Government Agreement is the contract signed between the companies and the government of Azerbaijan which define the legal framework of each of the two projects and the obligations of both parties.

3.3 Social development issues

In addition to the issue of jobs, NGOs in Ganja were concerned with the condition of roads, complaining of the damage done by construction crews during the Baku-Supsa construction, whereas village residents hope to get gas supply and schools since many villages are without electricity.

Local NGOs had many questions about regional development and how both the AGT project and BP would benefit the region. NGOs were told by BP that BP was developing a Community Investment Programme and that proposals were being accepted and considered. Many organizations present at the meeting said they submitted proposals for various development projects including, among others, a proposal to renovate a nearby sanatorium for the workers camp which could then be given to the city for use as a hotel or for housing, and a proposal to improve the skills and circumstances of disabled people. After following up with BP, one organization was recently told that the strategy has changed and now all development funds will be administered from the Baku office.

- **NGOs are getting mixed messages and there is confusion about the Community Investment Programme that was discussed by BP during earlier consultations and about how regional and local development projects will be selected.**

Of the 25 NGOs present, many had submitted proposals for a social project but all said they had not had their proposal accepted, either during Baku-Supsa construction, or during the preparatory phase of the AGT project – despite promises from BP that funding would be available, and consequent high expectations from the NGOs. The FFM was specifically asked to pass on the message that regional issues need to be addressed and that they should be decided at the regional level, not in Baku.

- **Many Azerbaijani NGOs feel the project will not benefit the people, especially if it is completely centralized and regions are not able to address their own regional issues.**

3.4 Local employment issues

The primary concern of project affected communities and NGOs is employment.

NGOs in Ganja stated that during construction Internally Displaced People and local people should have the advantage, local recruitment offices should be created, and local factories should get the supply orders. Local enterprises need the investment rather than the Baku based enterprises. They allege this did not happen for Baku-Supsa and that BP's current strategy is to employ outside engineers and contractors and that there is no real employment for local contractors.

- **In general, there is a belief that the project should provide many jobs to local people, but based on the experience of Baku-Supsa local affected communities are skeptical that it will happen.**

In Umid there is a BP recruitment office staffed by Ms. Elina Humbatova of Tenken-Azfen Alliance, a subcontractor of BP, which is located in the same building (one of two offices) as the local mudir's office. This is one of three recruitment offices in the district. She said that 8000 people have already been registered in a recruitment database for this district alone, 282 from Umid. Of these 8000, only 200 have been selected for employment, 180 of whom have received some temporary work while 20 are waiting to be called. She is responsible for registering the people but a BP representative visits the recruitment office twice a month and takes any employment decisions.

The mudir claimed that 90% of the men in Umid were employed (about 100 people) but was accused of lying by several in the camp. One woman complained that IDPs get the jobs before the local people and another complained that the mudir's brother and brother's wife both got jobs. Others said that outsiders come to fill the jobs.

The FFM was also told about a cement plant nearby that employs some of the local people. It was recently privatized and many were laid off. This situation combined with the expectation for jobs from the AGT and Sangachal terminal expansion project has created a potentially volatile situation.

- **There appear to be some tensions between IDPs and locals that are being exacerbated by the project. Locals are claiming that IDPs get first preference for jobs. There were also claims of nepotism in the hiring process. Tensions are especially exacerbated by BP's approach of registering everyone who may be interested in employment, leading to unrealistic expectations that jobs will actually materialize.**

There are also concerns about the impact of the construction phase on local communities. BP's consultation materials for Azerbaijan say that strict discipline at worker camps will ensure that disruption to communities is minimized. The ESIA states that BP will develop a "code of conduct for camp workers, camp rules and disciplinary procedures."¹² However, the Fact-Finding Mission examined the workers' code of conduct which was displayed in a company office near the Sangachal terminal works. The code contained 12 points, 11 of which related to behavior *on the site itself*, on security, safety and discipline. Only one rule related to communities, which was that non-business access to local villages was forbidden *during normal working hours*. In other words, there was no restriction on what workers could do in local villages outside working hours. It appeared that the rules were only displayed in English.

- **There appear to be inadequate measures to protect communities from disruption during the construction phase, in particular in relation to worker discipline – in contradiction of the ESIA.**

¹² Environmental and Social Impact Assessment: Baku-Tbilisi-Cheyhan Pipeline Project, Azerbaijan (Draft for Disclosure), May 2002, p. 1-17.

3.5 Compensation

No individuals that the FFM spoke with had been approached regarding compensation for land or knew anyone who had, even in villages which will be directly impacted. One cattle herder interviewed at the roadside by the FFM said he had heard that the land nearby had been purchased 3 months prior but people in the local village knew nothing about it. They also do not know to whom they should go to if there is any environmental damage from the pipeline, nor if they feel the compensation for their land is unfair.

In Azerbaijan, the government manages the compensation arrangements for the oil companies. The Government evaluates the cost of compensation and settles with citizens. According to Azerbaijani NGOs, the compensation arrangements say nothing about arbitration in the event of disagreements.

- **The FFM believes that this approach violates the ownership rights of landowners along the route, who are given no opportunity to negotiate.**

3.6 Environmental issues

Many of the environmental concerns relating to the AGT pipelines project which were raised with the FFM were related to the negative experiences with the Baku-Supsa 'Early Oil' pipeline.

A major concern of both NGOs and subsistence farmers is the agricultural quality of the land after pipeline construction. BP has committed to removing and reserving the topsoil before digging the trench and then replacing it after construction. But the same promise was made for the Baku-Supsa pipeline and was reportedly not kept.

According to reports by one environmental NGO, at one village near a cleaning station for the Baku-Supsa pipeline, the waste that is removed from the inside of the pipe is dumped in an open pile, rather than being properly disposed of.

Decommissioning of the pipelines is also a major concern. Under the current contracts, after the 30 year life of the project the pipelines will be given back to the government, therefore decommissioning becomes the government's responsibility. However, the government seems to have no decommissioning plan. Some NGOs feel a decommissioning fund should be established.

Some NGOs are also concerned about the ecological impacts of the AGT project on specific sensitive sites. One NGO pointed out that the BTC route passes through Gobustan desert, where there is a rare species of reptile. The NGO was especially worried as they had heard SOCAR Vice President Ilham Aliyev on the radio questioning the importance of environmental precautions during pipeline construction. Another environmental NGO highlighted the Tavos region, where there is much underground water which would be damaged by any spill. One organization called for an economic assessment that accounted for all environmental damage or losses due to oil development and questioned whether there would be any real profit to the people of Azerbaijan given losses in agricultural land due to various pipelines, railways, and other associated structures.

- **Given the reported failures of BP to meet environmental obligations for the Baku-Supsa project, Azerbaijani NGOs are concerned about the environmental impact of the AGT project and skeptical that BP has fully addressed all concerns and will fulfill its promises.**

4. Cultural Property Impacts at Gobustan

Gobustan is located approximately 60 km South of Baku and 20 km south of the Sangachal terminal. The Gobustan reserve is an extremely important cultural site for Azerbaijan with a potential for tourist development.¹³ It is seen as a unique source of knowledge for the period from 10,000 B.C. to the Middle Ages in the fields of history, culture, art and archaeology and it contains petroglyphs (cave paintings) dating back more than 10,000 years in over 20 caves in the region. Archaeologists have also discovered 10 skeletons thought to be over 9,000 years old. In 1966 Gobustan was declared to be a national reserve and put under the protection of the State of Azerbaijan. The Azerbaijani Ministry of Culture has applied to UNESCO for the Gobustan Cultural Reserve to become a World Heritage Site. The application is currently under review.

According to the ESIA, the BTC pipeline will cross through 900m of the park and will have no impact on the petroglyphs. However, the mudir of the Gobustan district thought that it would pass through approximately 10 km of the reserve. One of the archaeologists told the FFM that he attended a meeting where he was told approximately where the pipeline would go and that it would cross approximately a half a kilometer of the reserve but he had not seen a map. The FFM phoned the manager of the reserve who said he was aware of a map and would check on the routing.

The routing through the national reserve is especially problematic because due to lack of funds for the reserve, the caves containing the petroglyphs are open, and access to them is not restricted. Thus there is the possibility of damage to the petroglyphs from workers entering the caves. Meanwhile, due to the shortage of resources, the reserve is cutting back on its archaeological staff. There may therefore be insufficient capacity to manage and mitigate any damage caused to the reserve by the pipelines project.

- **Archaeologists and managers of the Gobustan reserve lack accurate information about the pipeline route and potential impacts on the 10,000 year old petroglyphs.**

¹³ The IFC's (World Bank's) Policy on Cultural Property (OPN 11.03) is to "assist in their preservation, and to seek to avoid their elimination." It also states "The Bank normally declines to finance projects that will significantly damage non-replicable cultural property, and will assist only those projects that are sited or designed so as to prevent such damage."

5. Issues relating to oil development

5.1 Economic benefits of oil development

Many Azerbaijanis doubt the contention that oil will bring economic development to the country. One NGO commented, “I clearly remember the day of signing of the Contract of the Century [the production sharing agreement for the Azeri-Chirag-Guneshli oilfields, signed September 1994]. Everybody was very happy, as they expected the deal would bring the country wealth. People expected that the crude oil wouldn't all be exported; they expected revenues; they expected development of social services; they expected development of other industries. But now we are just extracting the oil – and none of the other expectations have been realized.”

Many fear that Azerbaijan will suffer from ‘Dutch disease’, wherein the country’s economy is strangled rather than boosted by oil development, and the non-oil sectors actually go into decline.

Mr. Michael Merced, the IMF Resident Representative told the FFM that he did not believe that poverty in Azerbaijan would be alleviated by oil development, since the oil industry provides few jobs and even those do not go to the poor. Agriculture, in his view, is much more important for poverty reduction. This view was echoed by NGOs.

Several NGOs complained that the oil is all to be exported, rather than being refined and used in Azerbaijan. Even as an export, they argued that Azerbaijan would benefit far more from the value added revenue in refining and Azerbaijan should develop its ability to process the oil. Refined oil products are now imported – which is bad for the country’s balance of payments. Furthermore, there is no quality car oil in Azerbaijan - the main product available is mazut, a heavy, low quality oil product, which is used for generating electricity. In addition, Azerbaijan used to have a greater refining industry exporting processed oil products to Russia, but this has now contracted. Refining provided skilled jobs for Azerbaijanis, which are not available if the oil is exported as crude. Azerbaijan still has the people trained to work in refining, and continues to turn out highly educated petroleum engineers from its University. But with the high level of unemployment, especially in skilled jobs, thousands of highly-educated Azerbaijanis have already left the country for the Former Soviet Union, the Middle East, or for the West.

Some NGOs and political parties believe that the BTC oil pipeline is politically motivated, hence it would not bring economic benefits to Azerbaijan, whereas a different, more economically viable export route (such as through Iran) would have been better. Several organizations further believe that Azerbaijan lost out in the ‘Contract of the Century’ (the production sharing agreement for the Azeri-Chirag-Guneshli oilfields) and subsequent deals, due to the bargaining effectiveness of the foreign oil companies.

COIWRP independent labor union contended that foreign oil companies tend to favor foreign subcontractors over Azerbaijani companies, so that Azerbaijan misses out on much of the service provision economy. The terms of reference for tenders are often weighted in favor of foreign companies, and Azerbaijani companies sometimes struggle even to obtain copies of the terms of reference for tenders. According to COIWRP, only a tiny fraction of subcontracts on the Azeri-Chirag-Guneshli field Phase 1 development have gone to Azerbaijani companies. For example, BP contracted a UK company to provide emergency response capacity for its offshore operations.

But the contracted company has no ships - in the event of an emergency, it would have to ask to borrow ships from BP.

COIWRP also alleged that in Azerbaijan, employees of foreign oil companies are subject to a two-tier system that favors foreign workers over Azerbaijanis, in which Azerbaijani people are only able to get unqualified and unskilled jobs. When foreign oil companies hire Azerbaijani people, rather than hiring those with the best technical skills, they select only English-speakers, says COIWRP, which is a violation of the Azerbaijan constitution. In theory, when companies need skilled workers, they are legally required to ask the Ministry of Social Protection if Azerbaijan has the right kind of specialists, and only if it does not, can they invite them in from abroad. However, in practice says the independent labor union, the companies don't even recognize the existence of this Ministry, and the Minister recently complained on television that foreign companies would not even allow his staff in their buildings. As a result of this discrimination, Azerbaijanis earn considerably less than foreign staff.

5.2 Labor rights

COIWRP, which focuses on labor rights, provided the following to the FFM. For the few people who do get a job with the oil companies, there is great insecurity. Since 1997, 1,400 oil industry workers have been laid off by foreign companies and employment contracts offer little or no protection. Some contracts are written only in English, which Azerbaijani speakers have to sign even when they don't understand them. They have also handled the claims of four women who were laid off for being pregnant (two were later reinstated).

In Azerbaijan, oil companies do not recognize independent trades unions. The only active independent union, COIWRP, has not even been able to register as an NGO with the Ministry of Justice and is not recognized by the government.

Instead the companies and government recognize the official, state-controlled Azerbaijan Trade Union of Oil and Gas Industry Workers (ATU), which was created in 1997 by SOCAR.¹⁴ The head of the union, Jahangir Aliyev (no relation), was appointed personally by the President of SOCAR, Natiq Aliyev. Since 1999, SOCAR's annual report has claimed a progressive attitude to union rights, but actually this refers only to the official ATU union, says COIWRP.

“Not only does ATU lack independence, but it actively works with SOCAR to undermine the rights of workers,” says COIWRP co-chair Mirvarie Gahramanly. In 1999, she continued, a joint decree by SOCAR and ATU called for changes to three articles of the labor code which had stated that permanent workplaces should not be allowed to employ people on short-term contracts. Following the SOCAR / ATU initiative, this protection was abolished. Now many workers have been put on short contracts so that even those who have worked for many years for a company can now be switched onto short-term contracts and laid off at the end of the contract. In 1999, Azerbaijan's labor law was also amended with a new article which states that workers may be fined or jailed for protesting.

¹⁴ Project Underground, Drillbits & Tailings: June 21, 1997, p. 6.

Against this background, there is no protection for the workforce from exploitative contracts, or to argue for safer working conditions.

5.3 The oil fund

Azerbaijan is hoping that oil will lead it to economic and social development. But the country lacks transparent and accountable governing systems, and there is no guarantee that increased revenues from oil will lead to sound investments in social sectors, infrastructure or environmental protection. The World Bank and IMF have therefore ensured that an oil fund in which revenues from oil development are deposited has been set up for Azerbaijan in the hope that it will lead to sound expenditure decisions. The Oil Fund in Azerbaijan was created in January 2001 and is meant to spur development in non-oil sectors of the economy.

However, individuals, NGOs and the IMF alike criticize the fund's lack of accountability and transparency. Although the Fund records production and sales volumes, prices, taxes and royalties and must report quarterly in the press on total amounts, inflows received, and interest earned on the funds, expenditures are much less transparent. The IMF originally wanted expenditures from the Oil Fund to be subject to parliamentary approval, but agreed to subject expenditures only to presidential approval, therefore, the President has full control over how the money is spent. An observation board has been established as part of the oil fund regulations, but all of the board members are appointed by the President and all members are high ranking government officials except one, the President of the Academy of Science. One NGO emphasized that as long as members are appointed by the President, it wouldn't matter if half of the board were from civil society organizations because they would still be subject to the President's wishes. For real change the mechanism must be radically altered.

At the time of the Mission the government of Azerbaijan was proposing to use the oil funds to support the BTC project. Many Azerbaijani NGOs are angry about this proposal, as the oil fund is intended specifically to develop non-oil sectors of the economy and to prevent resource dependence. Mr. Merced of the IMF said that the IMF and the World Bank are also very critical of this proposal and were then working on a joint letter expressing their displeasure. However, recently the State Oil Fund of Azerbaijan (SOFAZ) announced that it would be supporting 20% of SOCAR's investment in the BTC pipeline.

6. Conclusion

Due to the almost constant presence of a representative of the central government, the FFM was limited in its ability to have a meaningful dialog with affected communities. The NGOs and individuals exhibited distrust of the government and were hesitant to express any opinion contrary to the government propaganda. Based on the active role the government took in controlling the FFM's interface with the public and the reaction of people to the actual or perceived presence of the government, the FFM questions the project sponsors' consultations with project-affected communities, the interpretation of their responses, and the ability of the project sponsors to engage communities in dialog in this project.

Even in just the few locations visited by the FFM, it was evident that the distribution of information and availability of official documents was inadequate and inconsistent. One village the FFM surveyed said they had received only a leaflet about the project that was given to the school, not the village leader. Neither the Ganja-based NGOs nor the project-affected people of villages spoken with were informed about the ESIA or the process for contributing comments. Archaeologists and managers of the Gobustan Reserve lack accurate information about the pipeline route and potential impacts on the petroglyphs. And the Host Government Agreement, which sets out the fundamental legal framework of the project, while reportedly a public document and now available on the project website, was not available to the public during the consultation period.

Because the AGT pipelines would parallel the Baku-Supsa route, most project affected communities have experienced the Baku-Supsa construction. Those interviewed by the FFM generally defined their experience as negative and are skeptical about the benefits that the new AGT project is claimed to bring to local communities. For example, the desire for jobs is extremely high and it is unlikely that expectations will be met. The situation in IDP settlement of Umid already appeared quite volatile and may escalate if expectations are not addressed. The FFM questions the sponsor's interpretation of the communities' attitudes as most support for the project is contingent on the fulfillment of expectations (such as for jobs and energy supply) that the sponsor admits will not be met.

There are also concerns that for any benefits to be realized, development decisions and implementation must happen at a regional and local level. NGOs are also getting mixed messages and there is confusion about the Community Investment Programme that was discussed by BP during earlier consultations and how regional and local development projects will be selected.

However, it appears that the project is being run completely from Baku with active participation on the part of the regional appointed officials to quiet any dissent. Many Baku-based organizations have serious concerns about the value of the AGT project for Azerbaijan and about the centralized control by the government and the companies: corruption is a significant problem in Azerbaijan; oil funds that were meant for social development are now being used to fund more oil development. In addition, allegations of human rights abuses and retribution for protesting against the government contribute to an environment in which open debate of the project is difficult.

The questions and issues raised by project affected communities and NGOs interviewed by the FFM indicate that project sponsors have not informed communities, coordinated with regional and local community leaders, nor adequately addressed concerns. A history of corruption, human rights abuses, and the misuse of oil funds raises questions about the true benefits of this project. The project sponsors should ensure that the concerns and demands of the people of Azerbaijan are freely expressed and fully addressed before the project moves forward.