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Summary of Concerns raised with Commons Trade & Industry Committee

The Baku-Ceyhan Campaign has been analysing and monitoring BP's controversial Baku-Tbilisi-Ceyhan (BTC) oil pipeline for more than three years. We are profoundly concerned by the inadequacy of due diligence and monitoring work carried out by the Export Credits Guarantee Department (ECGD) before, during and after its decision in December 2003 to award the BTC project some \$107 million in loan guarantees.

We regard the ECGD's due diligence as deficient and lacking in rigour, independence and depth from the start. We note that the ECGD has constantly relied on BP to a compromising extent, for both information on the project and reassurances over the many substantiated concerns that we and others have raised. By contrast, the ECGD has never given a detailed response to any of the allegations of safety violations, human rights abuses and technical failures submitted to them, either in the planning stage of the project or during its implementation. Likewise, the monitoring procedures instituted by ECGD have not picked up a single one of these problems which have all been brought to public attention by the Campaign or other independent parties.

Our concerns focus on three main areas:

Environmental risk

One of the most safety-critical elements of an oil pipeline is its system for protecting the steel pipe from corrosion. If the steel comes into contact with water, it will gradually be corroded, potentially resulting in a leak, rupture or spill. This is especially the case for a pipeline like BTC, which will be in place for 40 or more years. For this reason, pipes are covered in a waterproof coating.

In November 2002, BP consultant Derek Mortimore submitted a report on BP's chosen material for coating thousands of pipeline joints in Azerbaijan and Georgia. He noted that the chemical composition of the material, SPC 2888, meant that would not stick to the polyethylene (PE) exterior of the pipeline, causing leaks, corrosion and serious damage to the surrounding environment. Mr Mortimore called SPC 2888 "utterly inappropriate" and "chosen through a seriously flawed selection programme."

By November 2003, widespread cracking had been reported in coated joints all along the Azeri and Georgian sectors, causing BP to suspend construction. BP admitted that 26% of Georgian joints were faulty; our estimate is that over 12,000 joints are problematic. A *Sunday Times* article suggested it would cost £500 million to dig up and recoat them. BP claims to have repaired the cracks; but since SPC 2888 does not stick to PE-coated pipelines, pipeline safety cannot be guaranteed.

ECGD's analysis of the BTC project made no mention of Mr Mortimore's concerns; indeed, it has now emerged that BP failed to disclose the coating problem to funders. Although BP admits that using this material is a "step change" in practice, however, ECGD failed to put in place any special due diligence measures to investigate its safety. Instead it insisted that the coating had been widely used, despite being unable to cite a single example of it having been used on an operational PE-coated pipeline.

Significantly, ECGD's monitoring systems failed to pick up the coating problem, which it learned about through the press. Even after the problems were revealed, the former Minister refused to take action against BP, claiming that there had been no "immediate material problem" with the coating.

Both BP and ECGD have attempted to justify the choice of the material through a third party report by Parsons Energy and Chemicals. Under threat of legal action, ECGD has finally released the Parsons report. The report not only fails to clear BP and ECGD, it further indicts them. It says of SPC 2888 that “these coatings are not fully compatible with the polyethylene [exterior] and will pull off.” Even more damningly, it also says of the coating for the Turkish sector of BTC, about which no concerns had been raised, “Currently, there are four reported catastrophic failures of this coating system on large diameter pipelines.”

Beyond ECGD’s failure to pick up or take action on the coating problem, two fundamental question remains: why did BP take such an extraordinary risk to pipeline safety and its own reputation by choosing a coating with no track record on PE pipes? And why did ECGD fail to assess the risks of such a novel coating?

Pipeline safety

We have received detailed testimonies from several pipeline experts formerly employed on the Turkish sector of the BTC project, who report a complete absence of many of the fundamental safety features in managing the construction. For example:

- Engineers were not given access to the construction site. As a result, construction had to proceed without the necessary advice and oversight, and may have been implemented wrongly, greatly adding to the risk of failure and spills.
- Proper specialists were not hired for crucial elements of engineering – such as the crossings of seismic faults. In consequence, the pipeline may be highly vulnerable to earthquake damage, which could lead to a catastrophic spill.
- Engineering specifications – such as the correct way to weld the pipes together – were not followed. Thus, many of the key features designed to protect the pipeline’s integrity over its 40-year life were not implemented, again adding to the risk.
- Quality records were not kept as the construction proceeded, so that it has been impossible to assess whether the pipeline is safe, and to rectify any errors that are discovered.
- Professionals who warned of dangers in the pipeline construction were ignored and their reports suppressed; in some cases, they were sacked for raising concerns.

Furthermore, it is disturbing that such reports are widespread. The Baku Ceyhan Campaign spoke to ten people who worked on the project, all but one of whom reported major such problems. Consistently, experts who have spent careers of more than 20 years working on pipeline construction have described it as “the worst project I’ve ever worked on.”

The experts also report that health and safety policies are routinely not complied with, putting workers at risk, and that non-paying of bills has left a swathe of bankrupted local businesses across the country.

The experts are agreed on the root cause of the problems: BP has no control over its Turkish contractor BOTAS, which the experts accuse of nepotism, incompetence and disregard for project standards. Campaigners warned that the severe financial penalties facing BOTAS if it failed to complete the Turkish section of the pipeline on time (with the company facing fines of \$500,000 a day) would create major institutional incentives to cut corners, save money and rush the work.

However, these warnings were ignored. Indeed, the ECGD refused to meet with the professionals alleging misconduct, and ECGD has never even replied to our concerns.

Human rights abuses

We contend that the ECGD and other funders never made a credible effort to take the human rights context of the region into account when assessing the BTC project. For example, in October 2003, just as financial institutions were deciding whether to fund the pipeline, Azerbaijan became the first of the post-Soviet states to dissolve into a one-family oligarchy, handing power from President Haidar Aliyev to his son Ilham in an election described as “fraudulent” by both the OSCE and the EU. Thousands of members of the opposition were detained and tortured, hundreds sentenced to prison and several killed.

Similarly, the Kurdish minority in eastern Turkey, through which the project travels extensively, have long been subjected to organised state campaigns of repression, surveillance and at times extra-judicial killing. The Gendarmerie – the military police outfit responsible for many of the human rights violations against the Kurds – has been given responsibility for ensuring the security of the BTC pipeline.

We believe that to claim that local people in these politically volatile regions have been ‘consulted’ about their receptiveness to the BTC project is at best highly naïve; on our visits to the area, we were constantly told that dissent was impossible, since “this is a state project.”

The treatment of critics of the project have borne this out. Ferhat Kaya, a human rights defender in north-east Turkey who has advised landowners on how to obtain compensation for their land, was detained in May 2004 by the local police for over two weeks. He states that the police hit and beat him repeatedly, pointed a loaded gun at him and that he was showered with shattered glass. He was called a “traitor” and a “terrorist”, denied proper hospital treatment, and now has “extreme pains in my back and abdominal region”. The trial of the police officers accused of assaulting him collapsed when the prosecutor refused to endorse the charges against them; instead Mr Kaya himself is on trial for damaging the police station.

Mayis Gulaliyev, a human rights activist in Azerbaijan, who has travelled along the pipeline route to interview local people about their concerns, has his emails monitored by the Ministry of National Security and has been threatened repeatedly and beaten up on at least one occasion.

In approving support for the pipeline, the ECGD publicly stated that it was satisfied that the project complied with the UK’s international human rights obligations, notably under the European Convention on Human Rights (ECHR). It failed however to respond to the concerns raised over inadequate consultation of local people, expropriation without adequate compensation and a range of other potential human rights violations.

Significantly, thirty-eight applications have now been filed with the European Court of Human Rights by affected landowners in Turkey, charging multiple violations of the ECHR.