

## **Azerbaijan-Georgia-Turkey Pipelines Highlight Ills of Extractive Industry**

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The IFC and other international financial institutions are considering the possibility of financing the Baku-Tbilisi-Ceyhan Main Export Oil Pipeline (BTC) and Baku-Tbilisi-Erzrum Gas pipelines. CEE Bankwatch Network and other NGOs are demanding that they not finance the project until the project is able to demonstrate real development benefits to the public in the Caspian region. Also, there must be full access to all documents related to the project and a proper assessment of the existing social, economic, and environmental impacts.

### **Background**

Baku-Tbilisi-Ceyhan, the main export oil pipeline, and the Baku-Tbilisi-Erzrum pipeline represent a new concept of energy corridor development that would connect the Caspian Sea Coast to the Turkish Mediterranean, to provide oil and gas for the European market. The Baku-Tbilisi-Ceyhan (BTC) pipeline (1760 km long) will be a dedicated pipeline system transporting up to one million barrels per day "50 million tonnes per annum" of crude oil from an expanded Sangachal terminal near Baku in Azerbaijan, through Georgia, to a new marine terminal at Ceyhan in Turkey on the Mediterranean coast. The BTC project is currently in the midst of a 12-month, USD 150 million engineering phase led by British Petroleum. Construction is targeted to begin mid-2002 and the project is planned to be fully operational by 2004-2005.

The political significance of the project has been recognised by the US Government, who indeed directly advocates the continuation and expansion of export routes in its National Energy Security Policy. The project depends on the political and financial support from Western Governments and International Financial Institutions. According to British Petroleum CEO John Browne, the BTC option makes sense only "if 'free money' was offered by governments to build the line." Therefore, IFC, EBRD, EIB, US Ex-Im, US OPIC, and JEXIM are in various stages of consideration of the project.

### **Benefits for the region**

While there are high expectations regarding budgetary income, increased employment opportunity and access to energy carriers from oil and gas pipelines both in Azerbaijan and in Georgia, the situation already seems to be rather different.

The oil sector itself provides only a restricted amount of employment and income opportunities, particularly for the poor. Taking into account the high level of corruption in the region (Azerbaijan and Georgia are ranked by Transparency International as being among the most corrupted countries), the non-transparent budgetary system, the existing burden in oil revenues management and difficulties even for the IMF to oversee spending, these concerns are easily understandable. Even more, according to the head of the Georgian International Oil Corporation, up to half of all transit fees received by

Georgia could go to finance security for the pipeline, including compensation to Turkey for military training, electronic surveillance systems, and arms and ammunition to help Tbilisi maintain pipeline security.

While the pipeline is being built for the export of natural gas, communities along the route do not have a gas supply. There is no contractual commitment from the companies on securing the possibility of a gas supply to those communities. There are particularly high concerns regarding health and safety issues (e.g. crime, prostitution, AIDS and other communicable diseases, potential conflicts, security, etc.) arising within the local communities as a result of expatriations from workforces in construction camps.

### **Transparency and access to information**

The companies and the governments are trying to prevent meaningful public participation in the project. For example, Production Sharing Agreements, basic documents according to which the companies get the right to the oil resources, are not publicly available, despite the fact that they were ratified by Azerbaijanian Parliament.

It should not be surprising that the project sponsors are keeping confidential key documents such as the macro-level impact studies which address comparative pipeline costs, issues of redistribution of oil revenues, cumulative environmental, social and economic project impacts and the economic and political assessment of regional alternatives.

### **Democracy and Human Rights**

The 1,730 km oil pipeline poses a major security risk, with international implications. The vulnerability of the region regarding the existing and potential conflicts between countries, as well as within the countries, due to ethnic and religion clashes, is one of the most acute issues. British Petroleum has said that "the pipelines will of course benefit from the military presence." The human rights implications of such militarisation has yet to be assessed, however, as have the implications for exacerbating the conflict in the region, such as the Armenia and Azerbaijan conflict over Nagorno-Karabakh. Further, it is of grave concern that the Turkish section of the route passes through Kurdish areas where the creation of a "militarised corridor" along the pipeline route could destabilise the three-year cease fire which recently brought an end to a 15-year armed conflict between the Kurdistan Workers' Party (PKK) and the Turkish security forces.

### **Environmental Issues**

The project sponsor has tried to represent environmental impacts of BTC that technically apply only to construction and maintenance of pipelines. However, the BTC pipeline is part of wider offshore oil and gas field development in the region, and associated upstream and downstream terminals. But the company is presenting only national EIAs country by country, to reduce concerns regarding the overall cumulative environmental impacts of enhanced oil drilling on Caspian's Fragile environment, the negative influence on the fragile biodiversity of South Caucasus, not to mention the enormous potential of greenhouse gas emission and its impact on Climate Change.

The AGT pipelines crosses six main water-crosses and several groundwater basins, as well as several environmentally sensitive areas, natural protected areas of various categories, including the State Gobustani Reserve in Azerbaijan, Ksia Tabaskuri managed reserve and multiple support zone of Borjomi-Karagauli National Park, that treated to Borjomi Mineral Water reserves.

NGOs Demands regarding IFC involvement in the Project We urge the IFC and other International Financial Institutions which have been approached with regard to supporting the project to make any project approval conditional on:

- Immediate disclosure of crucial agreements and documents for the project for independent review:
- Host Country Agreements, Production Sharing Agreements (PSAs) and Transit Sharing Agreements (TSAs)
- Macro-Level Assessments including:
- Environmental and Social Impact Assessment (ESIA), Regional Overview, including an assessment of geopolitical issues
- Macro-Economic Assessment
- Effective and independent oversight of the Azeri Oil Fund including:
- Independent oversight over the Azeri Oil Fund should be exerted, including civil society representatives on the oversight committees;
- Transparency in the auditing of the Oil Fund. At a minimum, quarterly reports on the income and expenditure of the Oil Fund should be made public; Projects funded through the Fund are demonstrably geared to relieving poverty and improving social, environmental and public health conditions.
- Independent verification that the contracts for the project were not obtained corruptly and publication of the investigation's findings;
- Mandatory implementation of social programmes and actions to give local communities access to energy resources;
- Thorough and independent assessment of security issues affecting the BTC pipeline system and the impacts that a strong military presence along the pipeline corridor might have on existing conflicts and tensions in the region;
- The establishment of an International Advisory Group on ESIA, that would include NGOs;

Involvement of the Dutch Commission for Environmental Impact Assessment in the independent review of the ESIA's for both pipelines;

- Full application of the UN ECE Convention on Environmental Impact Assessment in a Transboundary Context;
- Full Compliance with the World Bank's Safeguard policies, in particular OD 4.20 (Indigenous Peoples) and OP 4.12 and BP 4.12 (Involuntary Resettlement); and
- Full assessment of the long-term climate impacts of the project and its related oil and gas development programmes in the region.

Finally, we would urge the IFC and other IFIs to screen the proposed BTC pipeline and its associated oil and gas infrastructure projects for its social and development impact. We believe that the use of "free public money" cannot be justifiable unless the project is able to clearly demonstrate positive local and regional development impacts associated with the project over the next 30 years - which is the planned lifetime of the pipeline, according to oil companies.