

World Bank Pipeline in Georgia and Azerbaijan Illustrates Problems with Extractive Industries

(May 27, 2002)

The Baku-Supsa pipeline was the first fast-track component of the "contract of the century," involving partial development of the Chirag oil field and related facilities in the Caspian Sea. The export of oil from Sangachal is routed via the Northern Route Export Pipeline to Novorosiysk and the Western Route Export Pipeline to a new storage terminal at Supsa on the Black Sea. The project cost USD 1,98 billion total, including USD 400 million financing from the EBRD and IFC. The project was designed as a model intended to prove the drilling potential of the politically unstable region, providing long-term financing that had "not previously been made available to the region," and serving to both mitigate the risks associated with private sector investments as well as create a precedent for the possible future involvement of IFIs in Caspian Sea Oil reserves development.

The Early Oil project involves the production of 100 000 to 150 000 barrels of oil per day; in January 2002 it reached 127 000 barrels per day. The Northern route for early oil was opened in November 1997 to move Azerbaijani crude oil to the Black Sea port of Novorosiysk. In April 1999, the Western route to the Georgian port of Supsa was completed.

British Petroleum and IFIs claim that the project was implemented using Best Available Technologies (BAT), according to the strictest environmental and social standards. The project was expected "to start an oil boom whose tax revenues will increase the national [Azerbaijan] budget by 40% over the next 11 years, and the related pipeline development should also help Georgia attract more foreign investment than it has received since independence in 1991." [\[1\]](#) However, the reality is completely opposite.

David Woodward, president of the Azerbaijan International Operating Company, said the country has gained over USD 1,3 billion from the venture led by Britain's BP, including a bonus payment of USD 360 million, USD 246 million from oil sales, USD 200 million from local contracting, and USD 108 million in salaries. [\[2\]](#) However, Azerbaijan President Aliiev objected to this, raising the issue of the wage gap between foreign workers and domestic workers.

The Azerbaijani government budget greatly depends on oil revenues for financial stability. On average, it makes up about 50% of income in the budget. Increasing oil extraction since 1998 has facilitated the predominance of the oil sector and the decline of the manufacturing industry. The sharp increase in oil prices in 1999 had a favourable effect on Azerbaijan's oil revenues, with the share of petroleum products in total exports composing 86,8% in 2000 (average oil price USD 27,2 per barrel), increasing to 90,3% in 2001 (average oil price USD 24,7 per barrel). [\[3\]](#) While the government estimates that the economy grew about 11 percent in 2000, a UNDP report clearly states that the lives of 60% of Azeris have not improved.

The drastic increase of foreign direct investment (FDI) to about USD 250 million in 1997-1998 in Georgia has been directly connected with the Baku-Supsa pipeline. However, from 1994- 2000 the cumulative net FDI reached only USD 700 million.

Environmental concerns:

There are still many environmental concerns that have been raised by NGOs from the beginning of the project. The following requirements are still not in force:

- re-injection of drilling waste into the sub-sea formation;
- use of non-synthetic drilling muds during all project stages;
- need to upgrade and re-direct proposed land-based pipeline routes;
- and assessment of cumulative greenhouse gases emissions.

Since 1997, when Chirag Platform-1 began to operate, it has generated wastewater that is discharged into the Sea. While the AIOC/EIA states that the problem of wastewater treatment will be investigated and that "water will be discharged 50 meters below the Caspian mean level to prevent damage to the productive biological zone," right now all cuttings, wastewater, and synthetic drilling solutions are being discharged directly into the Sea. All this is having a direct negative impact on the population of sturgeon and salmon, and causing the deaths of a great number of seals.

The WREP pipeline passes through five conservation areas, as well as near areas designated as protected areas. It crosses more than 27 watersheds, creating the possibility of leakage or rupture near a watercourse or other sensitive area. Regarding the new Supsa Terminal, located near Kolkhety wetland, which is protected under the auspices of the Ramsar convention, a Baseline Environmental Study stressed that the "Kolkhety reserve is situated in one of the most sensitive areas adjacent to Paliastomi Lake, and the Supsa terminal may have a potential impact on unique wetlands communities and Kolkhety Forests. Therefore, it is strongly recommended to enlarge the territory of the reserve."

One accident already occurred on the Northern route pipeline in 1997, when 1 000 tonnes of oil were accidentally discharged from a corrosion hole. Due to several so-called technical accidents like the uncovering of the pipeline, land slope oil transportation through the Northern Route as well as the Western Route Pipeline was stopped for a number of days in 1998-1999.

More recently, about two tonnes of oil spilled over an area of up to 1 000 square kilometers in western Georgia on May 5, 2002. According to reports, the pipeline was damaged by oil poachers. Transportation was stopped for two days.

The WREP and NREP both terminate at the Black Sea. The Black Sea is a large, enclosed body of water with a high concentration of hydrogen sulphite below 200 meters. At one time, it was one of the world's most productive seas, hosting sturgeon, maasbanker, bonito, turbot and trout. Today it is recognised as one of the most polluted Seas, with the number of species decreased significantly. [\[4\]](#)

Transparency issues:

The large number of overlooked issues in the Azeri project prompted several NGOs from the Caucasus, Eastern Europe, and other countries to write a joint letter of concern to the IFC/EBRD in July, 1998. The NGOs' concerns echoed and reinforced concerns about the Azeri Early Oil Project held by many professionals inside and outside of these agencies.

A particular point of concurrence was the basic lack of transparency in the decision-making process over environmental standards, such as the fact that the EIA was a shell document representing the findings of other studies that theretofore had not been made available to citizens or to the public finance institutions backing the project. There was also agreement that critical environmental decisions over issues such as the discharge of production waste and oil spill response plans were being decided through an opaque process over which the banks and citizens had no oversight.

The disclosure of relevant information included in Annex 1 of EIAs and monitoring studies has been conditioned by the Banks. However, experiences regarding implementation of this has been quite negative, especially regarding documents that were prepared after loan disbursement, such as environmental monitoring reports and oil spill response plans. In Georgia, where there is a more developed civil society, NGOs forced BP's local office to share its oil spill response plans for the country. However, in Azerbaijan, where an oil spill could result in an ecological tragedy in the Caspian Sea, the AIOC is keeping a tight lid on its plans. The lack of transparency and public participation in these high-risk oil projects could lead to environmental problems that increase financial and political risks, including precisely the kinds of risks that publicly owned institutions like the IFC are supposed to ensure against. What is more, till now the environmental monitoring annual report has not been made available to the public.