

## Internal US agency watchdog faults BP on BTC pipeline

February 12, 2007

Today the Office of Accountability (OA), an internal compliance watchdog of the US Overseas Private Investment Corporation (OPIC), is expected to release a report confirming that BP failed to provide the government agency with critical information about the widespread cracking of anti-corrosion coating on the Baku-Tbilisi-Ceyhan (BTC) pipeline.[1]

The report, completed in January [2], will only worsen BP's global reputation after its well-publicised leaking pipelines in Alaska, a refinery explosion in Texas that left 15 dead in 2005, and internal leadership turmoil leading to the early ousting of the company's chief executive Lord Browne.

The OPIC OA report responds to a March 1, 2006 complaint by Manana Kochladze, an award-winning environmental activist in Tbilisi, Georgia and Caucasus coordinator for CEE Bankwatch Network [3], which asserted that the BP-led BTC Co failed to disclose material information it held about the widespread cracking of pipeline anti-corrosion coating until after the US government agency provided USD 141 million in Political Risk Insurance. The complaint also charges OPIC with failed due diligence and monitoring.

“The Office of Accountability report proves that BP and OPIC were grossly negligent in their responsibility to protect the environment of local communities from flawed anti-corrosion coating and future oil leaks,” said Manana Kochladze. “BP and OPIC must now both be held to account.”

The report states that the OA's authority extends only over OPIC compliance with its own policies, and not other parties (such as BTC Co.), yet the report is rich with information critical of BTC Co. and confirms the company failed to disclose crucial information in a timely manner.

“The report avoids the question of whether BTC Co. breached its contract with OPIC, yet it confirms the underlying fact that the company failed to disclose information to the US government about the cracking of the anti-corrosion coating until after its contract for Political Risk Insurance was signed.” said Doug Norlen, Policy Director, Pacific Environment.[4]

The report chronologically documents BP's failure to disclose this critical information until after signing its Political Risk Insurance contract with OPIC:

“OPIC executed the Contract of Insurance on February 3, 2004 ...” (pg. 5)

“An article in The Sunday Times of London dated February 15, 2004 reported the discovery of the field joint coating cracks in November 2003 and the fact that concerns about the cracks had failed to surface during the British government's assessment of the Project in December 2003. (pg. 10)

BTC Co. forwarded the article to OPIC and other LG members on February 15, 2004. OA's interviews with OPIC and LG members' staff indicate that this was the first OPIC and the LG had heard of the cracking problem from BTC Co.” (pg. 10)

The report reveals previously undisclosed questions and concerns about the integrity of the anti-corrosion coating that were generated earlier in the due diligence process by OPIC's and other lenders' Independent Engineer and export credit agency attorneys.[5] Despite these warnings, the report finds that OPIC apparently did not ensure that recommended measures for monitoring of pipeline coating integrity were subsequently carried out:

“the Independent Engineer's Design Appraisal noted concerns about the compatibility of the selected FJC [field joint coating] material and the line pipe coating [and questioned BTC Co whether] it could be difficult to maintain pipeline coating integrity for the design life of the project and that repair would likely be required and extra monitoring would be appropriate in sensitive areas. The Independent Engineer recommended that coating conditions in high-groundwater right-of-way areas be monitored and inspected at more frequent intervals, and that budgets be developed to reflect the need to repair or replace the pipeline coating in later years as indicated by the monitoring and inspection program.” (pgs. 8-9)

“The Export Credit Agencies' Legal Counsel, Freshfields Deringer Bruckhaus included the question of the difficulty of maintaining coating integrity for the design life of the Project in an environmental issues matrix for consideration by BTC Co., the IEC and the LG. Concerns about field joint and line pipe coatings again appeared in the Independent Engineer's final report. A Leakage Prevention and Oil Spill Mitigation Report (May 2003) provided recommendations for the additional monitoring, using acoustic pigs (monthly pig runs are “envisioned”) and quarterly monitoring of springs and groundwater wells. The Operations ESAP...noted that studies will be conducted after linefill. However, OA has not observed any documents in OPIC's files that would provide information on whether the networks have been designed, the groundwater monitoring has begun or the acoustic pigging has been carried out.” (pg. 9)

The OA findings and recommendations concerning OPIC's flawed due diligence and monitoring include (inter alia ):

“Although pipeline construction commenced during due diligence, OPIC did not access all construction monitoring data that could be material to due diligence.” (pg. 1)

“[T]he Independent Environmental Consultant's reports to date have not included a section on validation of [BTC Co.'s] self-monitoring methodology.” (pg. 2)

OPIC should “give specific attention to implementation of the additional monitoring for field joint coating cracks or leakage, as recommended by Independent Engineer and required by the Operations ESAP [Environmental & Social Action Plan]” (pg. 17)

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Notes for editors:

[1] The BTC pipeline extends 1,760 kilometres from the Caspian Sea port of Baku , across Azerbaijan , Georgia and Turkey , to the Mediterranean Sea port of Ceyhan . BTC is built and operated by BTC Co., led by BP.

[2] Office of Accountability Compliance Review of OPIC's Environmental Due Dilligence and Monitoring of the Baku-T'blisi-Ceyhan Oil Pipeline Project, Final Report, January 2007.

[3] Ms. Kochladze's complaint represents the Georgian-based group, Green Alternative.

[4] Pacific Environment assisted in the development of the BTC complaint and is listed the US representative of the complainant. The UK-based NGO, The Corner House, also assisted in the complaint.

[5] Export credit agencies of the US , UK , Germany , France & Japan , the International Finance Corporation, European Bank for Reconstruction and Development and commercial banks are providing US\$ 2.4 billion for the BTC pipeline.