

BAKU-TBILISI-CEYHAN ROUNDTABLE EVENT SUMMARY

On March 4, 2003, the Brookings Institution hosted a roundtable discussion on the Baku-Tbilisi-Ceyhan (BTC) pipeline project in order to facilitate a substantive, serious and constructive dialogue about the practical implications of the BTC pipeline in the Caucasus. The event brought together BP executives and consultants, as well as managers of the Baku-Tbilisi-Ceyhan Company; delegations from the embassies of Azerbaijan, Georgia and Turkey; U.S. government officials from several departments and agencies; representatives from NGOs that are concerned about the impact of the project on the Caspian and Caucasus region; prospective investors; and regional analysts.

During the first half of the event, the discussion revolved around an overview of the project, its genesis and history of development, and its current status:

Pipeline overview

After opening remarks, the BP contingent began its presentation with statistics and details about the BTC project. As the largest stakeholder in the Baku-Tbilisi-Ceyhan Company, which was formed to oversee the pipeline design and implementation, BP has spearheaded the BTC pipeline effort in collaboration with the State Oil Company of Azerbaijan (SOCAR), Unocal, Statoil, TPAO, Agip, TotalFinaElf, Itochu, Inpex, ConocoPhillips and Delta Hess. Once completed in 2004, the BTC pipeline will deliver oil from the Azeri-Chirag-Gunashli (ACG) oil field off the Caspian coast of Baku to the Mediterranean port of Ceyhan, transversing 1,760 km through Azerbaijan, Georgia, and Turkey. By delivering oil directly to the Mediterranean, the pipeline bypasses the Black Sea and avoids the narrow Bosphorus Strait, already congested with tanker traffic. The total estimated cost of the BTC pipeline is \$3 billion, which is just a fraction of a larger \$12 billion upstream project that includes the development of the Shah Deniz gas fields and the South Caucasus (Baku-Tbilisi-Ezerum) gas pipeline. As the upstream project progresses and the Caspian fields are developed, the Baku-Tbilisi-Ceyhan Company hopes to reach a peak volume of one million barrels of oil per day transported through the BTC pipeline by 2008-2009.

Impact on the region

BP representatives immediately honed in on perhaps the most pressing questions surrounding the BTC pipeline project: will it indeed bring tangible benefits to the Caucasus region and what will the impact be on local communities along the pipeline route? The BP contingent outlined how, in Azerbaijan, the BTC project and increased oil revenues will be used to replace aged infrastructure with modern, safer technology. A portion of revenues will also be placed in a fund for the modernization of the country. The Baku-Tbilisi-Ceyhan Company is working to purchase a 44 meter strip of land from land owners in all three countries to construct the pipeline and, through a separate fund, to compensate the actual land users. BP executives assured the roundtable participants that there will be little physical evidence of the pipeline, as most of it will be buried underground. Once the construction of the BTC and Shah Deniz pipelines is complete, ninety-five percent of land owners will be able to use their land again.

Representatives from the Baku-Tbilisi-Ceyhan Company pointed out that there have been technical challenges and engineering difficulties in implementing the project. They noted that their first priority in choosing the course of the pipeline was to avoid risk, which necessarily included avoiding regions prone to conflict. Other key factors were questions of terrain and environment, taking into

account the constraints imposed by BP's own operating procedures and by the project lenders. For example, BP engineers pointed out that it is extremely difficult to reinstate terrain on ridges where much of the ridge needs to be cut off to lay the pipeline, however the World Bank as a financial partner in the project insists on full reinstatement. These constraints – combined with a regional risk assessment – led BP to the controversial decision to lay pipe through portions of Georgia's environmentally sensitive Borjomi region. This option was also preferred by the Georgian government for reasons of national security. In its route plans, the Baku-Tbilisi-Ceyhan Company has managed to avoid the Borjomi National Park and the nature reserve, but some protected areas will still have to be crossed. BTC engineers will use modified pipe with three layers of coating to reduce corrosion and a thicker wall to increase strength. The pipe will be buried with a fiber optic sensor to detect interference up to five miles away. A special tape that triggers an alarm if broken will be laid around the pipeline. The Baku-Tbilisi-Ceyhan Company has also arranged for daily patrols and the installation of instructional signs along the pipeline route. In addition to leak and tampering detection systems, groundwater will be monitored constantly for any signs of change.

In the course of conducting archaeological surveys prior to construction of the pipeline, workers unearthed Bronze Age burial grounds and other artifacts in Georgia that were previously unknown. As representatives indicated, the Baku-Tbilisi-Ceyhan Company has been willing to move around key archaeological sites and to stop construction to facilitate excavation.

BP officials pointed out that once the construction phase is completed the pipeline would have little long-term effect on employment for local residents. Pipelines are a cost-effective way to transport oil because they require so few people to manage and maintain them. There are short-term opportunities for locals to assist during the construction phases. Over the long-term, however, the Baku-Tbilisi-Ceyhan Company is expected to contribute to these communities more directly through sustainable development projects.

Genesis of the BTC pipeline

Speakers who were active in the conception of the BTC pipeline offered their viewpoints on the project. The original pipeline proposal hinged on the ability of the project to satisfy two key sectors—private and public. Economic viability of the project was a prerequisite, as the private sector would need to be willing to make the necessary investments in this expensive undertaking. From the public angle, the challenge of creating enduring political and economic institutions to pursue independence would also have to be addressed to assist the Caucasus countries involved in the project with their transition to viable societies. These speakers explained that energy is an important component in this process – the countries involved are both producers and consumers of energy – and the region's long-term political and economic survival depends on access to energy. Analysts forecast that Caspian oil will be the largest source of non-OPEC production growth in the next decade. The pipeline was initially conceived as an opportunity to provide diversity of energy supply and to prevent any one country in the Caspian Sea region from controlling both energy markets and the economies of the other countries. Concern about increasing tanker traffic through the Bosphorus was another element of this project. Another goal was to develop the energy market in these countries in an environmentally sound way and to help to establish business practices according to Western standards

The BTC project was formally endorsed by three states – Azerbaijan, Georgia, and Turkey – and supported by their populations. The Ankara Declaration of November 1998 was a key step in expediting negotiations, but settling on the necessary intergovernmental agreement (IGA) and host government agreement (HGA) was difficult. Over 4,500 pages of documentation were involved. In November 1999, at the OSCE summit in Istanbul, all the necessary documents were signed.

In the second half of the event, representatives from a variety of international and local NGOs took the floor to focus on specific concerns regarding the BTC project. Representatives of regional governments also shared official views of the pipeline:

Oil revenues and economic reforms

In the course of the roundtable, two persistent questions involved how the pipeline will affect local communities, and how resources from Caspian energy development will really be used. As one NGO representative argued, huge volumes of oil revenues will place considerable pressure on Azerbaijan's development, in particular. This is usually referred to as the "resource curse" or the "paradox of plenty." Statistics show that there is stronger GDP growth in non-resource rich countries, and the Human Development Index (HDI), as calculated by the United Nations, is also systematically lower in countries that depend on natural resource industries to fuel their economies. This is because poor governance and corruption often go hand-in-hand in countries that are dependent on natural resources. This NGO representative pointed out that there is also the possibility that such an economy could develop "Dutch disease," a condition in which upward pressure on the exchange rate ends up hurting domestic production. In such a scenario, the oil sector of Azerbaijan would develop at the expense of the rest of the country's industries, and petroleum would become the major shaping factor of the government that emerges. The combination of an inexperienced government and rapid petroleum development could result in a concentration of power in the hands of the executive, excessive government spending, and inflation. At the same time, this combination tends to discourage democratization and tolerance of open society, and instead promotes development of the state's capacity to extract resources from society and regulate commercial activity.

The NGO representative also questioned whether the government of Azerbaijan would have any incentive to push through economic reforms, resist spending pressures from well-connected groups, and open up the political process once the BTC project was in operation and oil revenues began to flow to the state in substantial amounts. The representative pointed out that Azerbaijan currently has a conspicuous lack of political opposition, leaving the business sector vulnerable to capture by political elites. Several action items were recommended:

- more government transparency and layers of oversight to reduce the chances of overspending on poorly conceived projects
- improved government planning capabilities to allow for multi-year budgeting, revenue forecasts and reconciliation, a medium-term expenditure framework, and clear guidelines to implement the state's policy on poverty reduction
- strengthened budgetary controls, including increased parliamentary oversight
- improved tax collection
- additional stimulus to the manufacturing sector

Fiscal Transparency

NGO representatives also encouraged maximum transparency in operations by the companies involved in the BTC project and advocated a “publish-what-you-pay” campaign. They commended BP for publishing its revenues and noted that this should raise the bar for regional governments to increase transparency. Many attendees were concerned that budget watchdog groups should be able to have substantial policy debates with politicians on issues related to the use of energy revenues. With data on actual revenues and spending in hand, citizens are better equipped to demand accountability from their leaders. Some attendees also brought up the issue that wealth generated from manufacturing or services differs from wealth from natural resources. Creating constituencies for accountability is much more difficult in a situation where national wealth is mainly derived from natural resources. In addition, there is the challenge of establishing a level playing field between the government, the private sector, and civil society. Institutional weakness remains a serious issue in the Caucasus region, as there is no independent judiciary to hold individuals and corporations accountable for any action they commit, and multilateral institutions involved in the project should insist on improved governance at the national and local government level along the BTC pipeline route.

Human rights

Another NGO representative focused on the link between economic control and political accountability in energy development in the region. Based on international experience in countries that have undergone rapid energy development, human rights organizations have raised concerns that an already undemocratic government that is not held accountable to its population will only be strengthened if it also dominates the country’s economic activity. Consolidation of economic control is a serious impediment to democratization and can create governmental hostility toward transparency and accountability. In this situation, energy wealth does not lead to better standards of living, increased popular participation in government, or improved human rights. Instead these conditions frequently stagnate or worsen. Already in the Caucasus, there have been some reports of government harassment of individuals and groups who have criticized the BTC project.

Impact on the environment

Organizations active in the region also raised a number of concerns regarding the BTC pipeline’s potential impact on the environment. One NGO speaker suggested that, from a legal standpoint, the host government agreement (HGA) for the pipeline, to which Azerbaijan, Georgia and Turkey are signatories, rules out a host government’s ability to seek punitive liability compensation for any environmental damages resulting from the pipeline. The speaker noted that, in addition, the HGA mandates a 60 year grace period to introduce new environmental and public health laws that may limit residents’ ability to curtail undesired effects from the pipeline’s construction and operation through legal channels.

The speaker applauded BP’s efforts to highlight environmental issues in its Environmental and Social Impact Assessments (ESIA), but insisted that more attention must be paid to the ecological impact of the pipeline. The ESIA’s outline how the BTC pipeline will traverse desert areas, rivers that serve as drinking water sources, regions with globally threatened species, fault lines and

seismically active areas, and marshlands. In both Georgia and Turkey, the pipeline will cross environmentally protected areas. As an example of the potential impact of the pipeline construction and operation, the NGO speaker noted that thirty percent of Turkey's globally threatened vertebrates can be found within 250 meters of proposed pipeline working corridor. The speaker expressed concern that economic pressures might encourage the Turkish government to cut corners, which could lead to environmentally sub-par construction practices along its section of the pipeline.

NGO representatives encouraged an open debate on these and other related issues, including the Borjomi region of Georgia. They noted that, in general, environmental monitoring programs need to be made public before pipelines begin construction.

Local views of the project

A representative of an Azerbaijani coalition of NGOs took the floor to counter an often inaccurate impression that the Azerbaijani public and local NGOs in general opposed the BTC pipeline. The representative asserted that the majority of local NGOs support the construction of the pipeline in the view that it will help to solve many of the economic problems Azerbaijan faces. The Azeri representative stressed that local NGOs have demonstrated their support and also mobilized the local NGO community to address concerns. An NGO coalition planned to hold conferences in the capital cities of all three BTC countries to discuss monitoring in five particular areas: environmental impact, social impact, guaranteeing land owners' rights, protection of historical monuments, and use of local services and goods.

A Georgian NGO representative registered similar concerns that international NGOs, purportedly speaking on behalf of Georgian groups, had denounced the pipeline construction. Like the Azeri NGO representative, this representative expressed general support for BTC. The representative pointed out that Georgia has an unattractive investment climate, and there are not many current opportunities to overcome these difficulties beyond the BTC and South Caucasus pipelines. The representative exhorted NGOs to concentrate their efforts on extra monitoring, ensuring social investments, the implementation of the proposed social and environmental programs, and encouraging measures by the Baku-Tbilisi-Ceyhan Company to provide enhanced safety.

A representative of the Turkish government stressed the importance of the BTC project to mitigate the strain on Turkey's Bosphorus Strait. The representative pointed out that the United Nations had designated Istanbul a "world heritage site," but an average of 15 tankers – each carrying up to 60,000 tons of oil – pass through the straits everyday. Emphasizing the danger of this situation, the speaker underscored the fact that the Turkish government strongly supports transportation options for Caspian oil that will reduce tanker traffic in the Bosphorus.

A representative from the government of Azerbaijan stated that there were still a number of groups internationally and in the region that oppose the pipeline and admitted that the project raised some difficult environmental challenges. However, the Azeri representative emphasized that the technical experience that Azerbaijan will gain from the BTC project and the corresponding exposure to high international construction and management standards will be extremely beneficial for the country. The representative maintained that Azerbaijan is making steady progress in the realm of democracy building in spite of the difficulties of building democracy in such a poor country and noted that the

BTC pipeline is important to Azerbaijan precisely because it can bring in new revenues. The government of Azerbaijan believes the experience of working with BP and other international investors and governments will help to strengthen the country.

Additional concerns raised

One unresolved issue for many of the event attendees was how to ensure citizen involvement and feedback in the BTC decision-making process. A broad array of local NGOs have struggled to be heard as the project has progressed, and some have faced pressure from their governments at the local and national level because of their willingness to express their concerns. For its part, BP has consistently attempted to take into account the range of voices through local communities – where mechanisms for registering grievances are in place – and through the creation of the independent external Caspian Development Advisory Panel. The U.S. government has also tried to serve as a broker for dialogue between the host governments, investors, and others – including NGOs and environmental groups. International financial institutions have also pressed BP on considering and accounting for the plurality of concerns about BTC. NGO representatives still believed that more could and should be done to address this issue.

Another concern raised at the roundtable was that of the sovereignty and independence of the states in the Caucasus and broader Caspian region. As one attendee pointed out, a country cannot be sovereign and independent if it lacks a real, diversified economy and is permanently dependent on the largesse of outside powers. In the Caucasus, the main source of economic development will come from Caspian energy revenues. But these resources must be developed for the general good of the populations of these countries. Underdeveloped infrastructure is a major problem in the region. Many areas along the pipeline corridor lack electricity, telephone lines and other basic amenities. The Borjomi region of Georgia, as just one example, could be considered an ecological disgrace, already spoiled by rusty Soviet-era construction projects compounded by a decade of Georgian neglect. NGO representatives and other attendees concluded that it will be important to develop regional and local sub-economies sensibly, establishing institutions to mitigate further devastation. Roundtable participants underscored the risks to depending on natural resource revenues for development – suggesting that the Caucasus countries like Azerbaijan could end up, in a best case scenario, like Norway, or like Nigeria in the worst. Participants noted that proper and effective implementation of the social development programs designed by the Baku-Tbilisi-Ceyhan Company and by major international donors, as well as by national governments, will become issues of major importance in looking ahead.

A follow-up session was held at Brookings on March 6, 2003 to address some of the points raised at the March 4 roundtable in more detail. The issues discussed there have been incorporated into this event summary where appropriate.

Websites references for additional information*

THE BAKU-TBILISI-CEYHAN COMPANY PROJECT WEBSITE:

www.caspiandevlopmentandexport.com.

- Information on the framework and planned implementation of the BTC pipeline, as well as the Azeri-Chirag-Gunashli (ACG) oil development project, the Shah Deniz gas development project, and the South Caucasus (SCP) gas pipeline project. Site includes production sharing agreements (PSAs); host government agreements (HGAs) and the inter-governmental agreement (IGA) for the BTC project; environmental and social impact assessments (ESIAs) for all four projects; public consultation and disclosure plans for all four projects; and information on community and environmental investment programs.

CASPIAN DEVELOPMENT ADVISORY PANEL:

www.caspsea.com

- The panel focuses on the social, environmental and economic impact of the BTC pipeline project, as well as BP's related activities in Azerbaijan, Georgia and Turkey. Site contains CDAP reports and information about panel members.

OPEN SOCIETY INSTITUTE'S CASPIAN REVENUE WATCH:

www.osi-az.org/crw.shtml

- CRW aims to generate and publicize research, information, and advocacy on how revenues are being invested in the region. Site contains articles, conference transcripts and full text of *Caspian Oil Windfalls: Who Will Benefit*.

BAKU-CEYHAN CAMPAIGN:

www.bakuceyhan.org.uk

- UK-based campaign to raise public awareness about the BTC project. Site contains links to the book *Some Common Concerns: Imagining BP's Azerbaijan-Georgia-Turkey Pipelines System*, a timeline of the project, correspondence, and various reports on the region and the BTC project.

BANK INFORMATION CENTER'S EUROPE AND CENTRAL ASIA PROGRAM:

www.bicusa.org/eca.htm

- Site contains correspondence, documents related to the project and links to other related sites.

BANKWATCH ON BAKU-TBILISI-CEYHAN PIPELINE PROJECT:

www.bankwatch.org/issues/oilclima/mainbaku.html

- Site contains information about NGO demands on IFIs considering funding the BTC pipeline, published materials on the BTC project, correspondence, press releases, and links to official and NGO websites.

FRIENDS OF THE EARTH ON BAKU-CEYHAN:

www.foe.org/camps/intl/institutions/bakuceyhan.html

- Background on the BTC project, the regional environment, impact of the pipeline, international political influences, financing and sponsors. Site includes links to fact sheets and policy briefs.

* The Brookings Institution is an independent research organization and does not endorse the opinions or conclusions of any of the websites listed above.