

July 28, 2004

Dr. Peter Watson  
President  
U.S. Overseas Private Investment Corporation  
1100 New York Avenue, NW  
Washington DC 20527

Re: **Compliance Failures on the Baku-Tbilisi-Ceyhan Oil Pipeline**

Dear President Watson,

Thank you again for OPIC's ongoing progress in discussions with civil society concerning the development of your agency's Accountability Mechanism and Transparency Initiative. In keeping with the constructive dialogue that has flourished during your tenure and that encourages civil society to raise project-specific concerns with you when necessary, we write today concerning compliance failures on the Baku-Tbilisi-Ceyhan oil pipeline.

During a March 3, 2004 meeting with labor and environmental organizations, we inquired whether you and the Office of Investment Affairs staff were cognizant of the February 15, 2004 article in Britain's *Sunday Times* alleging that the British Petroleum (BP)-led consortium for the Baku-Tbilisi-Ceyhan oil pipeline (BTC Co.) had failed to disclose material facts relating to pipeline safety to lenders and guarantors, including the Overseas Private Investment Corporation (OPIC).

The *Sunday Times* article, attached for your convenience, brought to light a November 2002 report written by BP consultant Derek Mortimere, which warned BTC Co. was "completely out on a limb" over its choice of joint coating for the Azeri and Georgian sectors of the pipeline. Mr. Mortimere maintained that the joint coating material used on the pipeline was likely to result in widespread oil leakage, "astronomical" repair costs and "open-ended" legal liabilities.

As you will recall, OPIC staff was not fully apprised of the allegations during the March 3 meeting. However, staff indicated that they are coordinating with other lenders to monitor the project. Soon thereafter, Doug Norlen of Pacific Environment submitted a Freedom of Information Act (FOIA) request to OPIC to obtain a copy of what are known as the "Parsons reports" – reviews of technical specifications of the project that are jointly commissioned with lenders and that also serve as a principle part of their ongoing project monitoring..

OPIC's response to the FOIA request stated that the agency was not in possession of the Parsons reports. This raises questions about how OPIC is coordinating its due diligence with the other lenders, and about the extent of OPIC's own monitoring of project impacts and compliance.

In contrast, the U.K. Parliament's "Trade and Industry Committee" is conducting a full inquiry into whether the Export Credit Guarantee Department conducted adequate due diligence before approving financing for the BTC project. In addition, officials at the Export-Import Bank (Ex-Im) have stated that an independent consultant would review the issues raised in the February 2004 *Sunday Times* article.

Today we regret to forward you another lead story published in Britain's *Independent* newspaper on June 26. The story details additional whistleblower allegations of egregious project failures and negligence in the construction of the Turkish portion of the pipeline. These allegations reportedly come from former senior workers on the project that provided statements on the condition of anonymity (attached). For example, one expert with over 25 years in the field stated:

*"...I don't have much hope for the future integrity or proper maintenance and operation of a pipeline of this kind and size and importance being primarily sponsored by one of the largest petroleum companies in the world. It is quite obvious that they are not in control of the Turkish section of the pipeline."*

Another expert with over 20 years of pipeline construction experience stated:

*"This project is "unique"...It's a complete mess-up: All documentation and reasonable interpretation thereof – from specifications to contract documentation to procurement – everything is being done badly. No-one wants this on their cv. It's an embarrassment..."*

Charges by these industry experts include:

- BP's lack of control over the Turkish contractor, BOTAS;
- Engineering failures, including widespread welding and other structural problems;
- Health and safety failures, including the use of carcinogenic compounds without proper protection;
- Disregard of risks including potential earthquake damage;
- Persecution of personnel, including the badgering and firing of qualified staff who voiced concerns;
- Nepotism and the hiring of unqualified personnel to replace fired personnel;
- Ramped lack of concern over quality control;
- Damage to local settlements and businesses, including the cutting off of water supplies, spreading of trench waste over farm land, and the failure to pay local businesses for services;

OPIC has provided \$100 million in political risk insurance for commercial bank loans being made to BTC Co. In so doing, OPIC is responsible for conducting monitoring activities to ensure that the project is in compliance with its environmental policies and contract provisions. According to OPIC policy, failure to comply may constitute a default that, if incurable, can result in the cancellation of insurance provided by the agency. Therefore, we respectfully request a response to the following:

- Given the severity of the charges raised by Derek Mortimere and other industry experts who worked on the project, can you detail what specific kinds of compliance monitoring OPIC is undertaking to investigate these claims?
- Do the compliance failures highlighted by the industry experts present a curable or incurable default?
- If the compliance failures raised by the industry experts prove incurable, will OPIC terminate its insurance contract with its client, as provided for in its environmental policy?

Thank you and we look forward to your response.

Sincerely,

Colleen Freeman  
Friends of the Earth

Doug Norlen  
Pacific Environment

Aaron Goldzimer  
Environmental Defense

Cc: Senate Foreign Relations Committee  
House International Relations Committee  
OPIC Board of Directors

Attachments