

Baku-Tbilisi-Ceyhan Oil Pipeline

Human Rights, Social and Environmental Impacts

Georgia Section

**Final Report of Fact Finding Mission
16-18 September 2005**

Centre for Civic Initiatives
Committee for the Protection of Oil Workers Rights
CEE Bankwatch Network
Green Alternative
Kurdish Human Rights Project
PLATFORM
Urgewald

**BAKU-TBILISI-CEYHAN OIL PIPELINE:
HUMAN RIGHTS, SOCIAL AND
ENVIRONMENTAL IMPACTS**

GEORGIA SECTION

**FINAL REPORT OF FOURTH FACT FINDING
MISSION**

**TETRITSKARO, BORJOMI AND AKHALTSIKHE
REGIONS**

16-18 SEPTEMBER 2005



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1 Summary

- 1.1 This report constitutes the findings of an international Fact-Finding Mission (FFM) that travelled to Georgia from September 16-18 2005 to investigate the impacts of the Baku-Tbilisi-Ceyhan (BTC) oil pipeline project. The FFM, consisting of representatives of the Centre for Civic Initiatives (Azerbaijan), CEE Bankwatch Network, Committee for the Protection of Oil Workers' Rights (Azerbaijan), Green Alternative (Georgia), Kurdish Human Rights Project (UK), PLATFORM (UK) and Urgewald (Germany) conducted interviews in towns and villages in several regions of Georgia.
- 1.2 This is the fourth FFM to visit Georgia. It returned to several villages visited during earlier FFMs to examine developments and progress on problems encountered previously. Field visits were undertaken in the Tetrtskaro, Borjomi and Akhaltsikhe Districts.
- 1.3 Previous FFMs have already documented a range of concerns raised by affected peoples, experts, pipeline workers, NGOs and the project's own monitoring reports over the planning, land acquisition and construction of the BTC pipeline. These concerns relate to expropriation of land, failure to implement acceptable environmental standards, lack of consultation, uncompensated ancillary damage, unacceptable use of untested materials during construction and labour violations. They reveal a pattern of failure that reflect systemic problems in the planning and implementation of the project. The Mission's remit was to investigate further these concerns and gather the statements of affected peoples. These are a summary of the Mission's findings:
- 1.4 The problems identified by last year's FFM in the Borjomi and Akhaltsikhe regions have still not been addressed or resolved.
- 1.5 BTC Co/BP officials were quoted as threatening and blackmailing villagers to dissuade them from demonstrating.
- 1.6 Numerous failures appeared in the land compensation process, including during classification, registration, land inventory, pipeline rerouting and widening of the corridor.

- 1.7 Dissatisfaction existed on how Community Investment Program monies were being spent.
- 1.8 Promises to employ local people had not materialised.
- 1.9 Commitments under the Environmental and Social Impact Assessment undertakings continue not to be enforced.
- 1.10 All villages complained that damage caused during construction was neither compensated for nor repaired. This has led to severe income and property losses.
- 1.11 Damage to important heritage sites was not dealt with and continues.
- 1.12 Communities received inadequate information on risks during construction.
- 1.13 BTC Co and IFC-CAO grievance mechanisms have not provided adequate means to seek redress. This is compounded by BTC Co intransigence and CAO lack of powers.
- 1.14 BTC Co, their subcontractors and the Georgian government repeatedly attempted to avoid responsibility by referring complainants to one another.
- 1.15 Technical problems persist, especially failures during hydrotesting.
- 1.16 Villagers along the pipeline as well as civil servants responsible for construction works were unclear on land use restrictions after the construction works finished.

2 Background to Project

- 2.1 The BTC pipeline was scheduled to be officially launched and fully operational by last 2005, but delays have postponed this to spring or summer 2006.¹ The pipeline, which is buried along its entire route, save surface facilities, will transfer one million barrels of crude oil a day (or 50 million tonnes per annum) from Sangachal on the Caspian Sea coast, via Azerbaijan, Georgia and Turkey, to the Mediterranean. All the oil transported will be exported to Western markets, despite major energy shortages for poorer people in the transit countries. The route chosen is more expensive and longer than most other possible options for Caspian oil exports, and like the project itself, is generally acknowledged to have been driven by political considerations, notably the desire by the USA and Europe to secure an additional non-Arab and non-OPEC source of oil.
- 2.2 The pipeline has been constructed by BTC Co., a consortium including BP, SOCAR, Unocal, Statoil, Turkish Petroleum, ENI, TotalFinaElf, Itochu, Inpex, ConocoPhillips and Delta Hess. Seventy per cent of the projects costs were raised through debt financing. In November 2003, funding was approved by the International Financial Corporation (IFC) of the World Bank Group and the European Bank for Reconstruction and Development (EBRD). Export credit and insurance guarantees were approved by national export-credit agencies of the UK, USA, Germany, Japan, Italy and France. Private investment came from 15 banks including ABN Amro, the Royal Bank of Scotland, Mizuho, Societe Generale, WestLB, HVB and Citigroup.
- 2.3 The construction and financing of the pipeline has provoked major concerns regarding its social, environmental and human rights impact from a range of NGOs including Amnesty International and the World Wildlife Fund.
- 2.4 In particular, the anti-corrosion coating used by BTC in Azerbaijan and Georgia has caused significant concerns and led to a Select Committee inquiry in the UK. BP suppressed critical internal reports regarding the pipeline coating SPC 2888, ultimately firing and attacking the reputation of their author,

consultant Derek Mortimore. The coating, intended to seal the pipeline's joints against leakage, had not been previously used on a plastic-coated pipeline, and BP did not follow the application guidelines specified by its manufacturer.ⁱⁱ Mortimore's concerns were validated in November 2003, when cracks were found in the coating of sections of pipe yet to be laid. At least 26% of welds in Georgia were classified as affected by an internal BP survey, at a point where 15,000 joints had already been buried in Azerbaijan and Georgia. BP repaired the coating on joints not yet buried, but left those buried in place. Although BTC claimed that the problems had been resolved, UPI reported continued cracking in September 2005.ⁱⁱⁱ

- 2.5 The Georgian section of the BTC pipeline was officially inaugurated on 12 October 2005. Yet this does not mark an end to problems for villagers affected by the project. A parallel natural gas pipeline – the South Caucasus Pipeline (SCP) – is also being constructed by BTC Co, and allegations have already emerged over inadequate compensation and abuses in the land expropriation procedures. Many of the problems and failures resulting from BTC construction itself remain unresolved. Furthermore, the oil will flow through BTC for a minimum period of forty years. During this time the pipeline will continue to impact the lives of those living above and around it. At a meeting in Georgia on 14-15 September 2005, international and regional NGOs committed to continuing monitoring until the problems identified have been resolved and redressed.



3 The Fact Finding Mission and its Remit

- 3.1 The Fact Finding Mission (FFM) consisted, in alphabetical order, of representatives of Centre for Civic Initiatives (Azerbaijan), The Committee for the Protection of Oil Industry Workers' Rights (Azerbaijan), the Kurdish Human Rights Project (UK), PLATFORM (UK) and Urgewald (Germany). Ms Kety Gujaraidze of Green Alternative and CEE Bankwatch Network guided the Mission and Mr Vano Menteshashvili acted as interpreter. Green Alternative is based in Georgia and has followed all developments concerning the BTC pipeline since the planning stages. They are in permanent contact with affected people on the ground. The Mission was the fourth undertaken in Georgia by international non-governmental organisations since 2002.
- 3.2 The FFM returned to several villages visited by previous missions to examine developments and progress on problems encountered earlier. Field visits were undertaken to Sagrasheni and Tetrtskaro in Tetrtskaro District, Tsemi and Dgvvari in Borjomi and Atskuri and Tkemlana in Akhaltsikhe. The BTC pipeline affects all six villages; some are in the immediate vicinity of the pipeline while others have been affected through traffic or water pollution. Interviews in each village were conducted with as many affected villagers as possible.
- 3.3 The interview process was qualitative, beginning with open-ended questions about people's experiences of the project, the compensation process and the community investment programme. They were thus able to raise concerns and express opinions and feelings without being influenced by the questions asked. The FFM followed this 'open' session with specific questions about compensation and court proceedings. Two members of the FFM took notes during meetings. These were typed, printed and checked during the Mission itself. The consolidated minutes were an accurate and full record of what was said.

4 Mission Findings

4.1 The Mission's findings are as follows:

A. ONGOING FAILURE TO ADDRESS PROBLEMS

4.2 The 2004 FFM reported a number of serious allegations relating to expropriation of land, failure to implement acceptable environmental standards, lack of consultation, uncompensated ancillary damage, unacceptable use of untested materials during construction and labour violations. Yet every village visited cited last year's problems as either ongoing or deteriorating. None had received any meaningful response to the concerns they had raised with officials, whether through honest dialogue or attempts to improve practice on the ground.

4.3 Ongoing problems included widespread disputes over land compensation, evasion of responsibility by BTC Co and subcontractors, pipeline safety, destruction of heritage sites, ancillary damage, intimidation by BP employees, systemic failures to enforce the Transport Management Plan and lack of local employment.

4.4 Despite assurances to the contrary, BTC Co has failed to ensure that construction and operation of the pipeline is implemented according to the commitments made within the Environmental and Social Action Plan. Human rights abuses, environmental risks and compensation failures have repeatedly only been highlighted through the efforts of independent NGOs and local community groups.

4.5 The Mission recommends that:

- **The outstanding issues described in this and previous FFM reports^{iv} be addressed immediately.**
- **The lenders conduct an independent assessment of the extent to which BTC grievance mechanisms have failed to respond to or redress documented failings.**
- **The external lenders conduct a wide-ranging review into how seven levels of monitoring failed to provide sufficient oversight to issues raised in previous FFM reports.**

B. LAND COMPENSATION

- 4.6 According to the Georgian Association for Protection of Landowners Rights (APLR), compensation remains disputed for 30% of land parcels used for pipeline construction, despite the IFC Safeguard Policy on involuntary resettlement stating that affected villagers should be “compensated for their losses at full replacement cost prior to the actual move”^v, i.e. that the compensation process must be resolved and completed prior to construction. Ongoing disputes were largely due to failures in classification, registration, land inventory, pipeline rerouting and corridor widening.
- 4.7 Twenty-six families resident in Atskuri village claimed to have been inadequately compensated, for various reasons. Spie-Petrofac, a contractor for BTC Co, altered the pipeline route during the construction process. Yet compensation was awarded according to the original inventory: landowners originally designated as affected received compensation, while those actually affected did not. Where the landowner affected was the same both as planned and in actuality, compensation was not reassessed to represent different damage caused. This was confirmed by the Georgian Association for Protection of Landowners Rights (APLR).
- 4.8 Also in Atskuri, the pipeline corridor was widened from 44m to 60-70m in a number of places, as measured by the FFM. No additional compensation was received.
- 4.9 Atskuri villagers claimed that the photographer with the BTC Co/APLR land inventory team had purposefully taken photographs that did not show all the trees that would be destroyed by construction.
- 4.10 There was much confusion over compensation for lost income from community pastures. Villagers were unclear over whether the compensation they had received covered one year or three, or whether it was for use of land or hay production.
- 4.11 When Natela Khugashvili complained to BTC Co that her daughter’s land had been misclassified during the inventory process, she was told to bring further documents to prove that

her daughter took an income from the land. Yet the local register office told her that it was not possible to write out such documents; she was suspicious that BTC Co were demanding papers that did not exist. This was a result of her previous experiences shared with other villagers of being referred back and forth between BTC Co, subcontractors and various Georgian government offices.

- 4.12 A number of villagers from Tkemlana complained to the Mission that they had been inadequately compensated. Valia Endaladze had only received partial compensation for her land; she had been awarded 550 Lari (\$250) per 100m² for 2700m², although her actual land lost was 3450m². Furthermore, her compensation for lost crops had been calculated on the basis of wheat, as this had been growing during the inventory. However, like all families in the village, Mrs Endaladze rotates her crops between wheat and potatoes, the latter being significantly more valuable.
- 4.13 In Tetrtskaro, the construction corridor has blocked access to village agricultural land. Landowners were compensated last year and an access road was built. However, tractors are forbidden from using this road during construction. The construction corridor has remained out of bounds for a second year due to the construction of the parallel South Caucasus Pipeline (SCP). Yet attempts to apply for this year's compensation for lack of access have been denied. Local residents such as Georgi Gabunia are concerned that the original road will not be reinstated and that they will never be allowed to cross with agricultural machinery, significantly reducing their ability to work their land.
- 4.14 The Mission encountered widespread concern over land reinstatement. Although villagers knew that the 44m corridor would revert to their ownership and use post-construction, they had not been informed as to future restrictions. Tkemlana village has problems with landslides and the villagers had set aside a nearby area of land to move to if houses collapsed. The pipeline cut through this area and it was now unclear whether they would still be allowed to build on it.

In a letter to Green Alternative dated 13 October 2005, BP stated that there is a matrix of conditions of use for land within a 500m corridor of the pipeline. BP claims to have widely distributed a guide with detailed information on what was permitted on or near the pipeline route. Yet despite requests to BP/BTC Co, neither any of the affected villagers nor Green Alternative have received a copy of this guide. The complete absence of information on apparently major restrictions on a large section of land is alarming; beyond the 58m corridor, the project Environmental and Social Action Plan mentions only “pipeline protection zones” which are “required to meet safety and pipeline protection standards consistent with international design codes and engineering best practice” – with no reference to actual width.^{vi}

4.15 The Mission recommends that:

- **BTC Co. implements its commitment to address grievances within a reasonable timeframe, and puts an end to the apparent tendency of avoiding its responsibility as project operator.**
- **The Georgian government create a body of independent assessors to examine the quality of reinstatement of land.**
- **The Georgian government create an official grievance mechanism accessible to those villagers who feel they have not been adequately compensated.**
- **BTC Co clarifies and publicises the restrictions they are setting on land in the corridor, and those proposed for land adjacent. These should be reviewed by independent external experts and publicly debated.**



C. ENFORCEMENT OF TRANSPORT MANAGEMENT PLAN

- 4.16 The FFM heard that complaints of routine violations of the Transport Management Plan, part of the Environmental and Social General Commitments, had not been addressed by BTC despite complaints.
- 4.17 Project documents specify that contractor traffic between Tbilisi and Tetritskaro should take the Marneuli route. However, FFM members witnessed heavy construction trucks passing through Sagrasheni. Villagers described how many vehicles pass between their homes every day, shaking the buildings, kicking up thick dust and causing cracks in walls and floors.

Residents including Amiran Midelshvili and Rusudan Tskrialadze claimed that complaints to BTC about the traffic violations were met with denial and intransigence. A BP employee, Anna Petrashvili, visited them on several occasions, telling them to document the license plates of passing trucks. Yet even when these were sent to BTC Co, the same trucks continued to pass through Sagrasheni.

- 4.18 The same problem occurred in Atskuri village in the Akhaltsikhe region. According to the villagers, trucks were to take the Sakuneti road. Yet heavy trucks passed through Atskuri village every day. Villagers complained to BTC Co that this was damaging homes and ancient monuments. BTC Co did not reply, until villagers began to block traffic on the road where the trucks were not supposed to be passing.

Then BTC Co denied that their trucks had been using the Atskuri road. Even when residents collected truck licence plates and passed these to BTC Co, the same vehicles continued to pass. BTC Co did eventually put up a sign reading “Lorries forbidden”, but this has led to no reduction in the regular truck traffic – indicating that the problem lies not with a few errant drivers, but a decision on an institutional level.

4.19 The Mission recommends that:

- The implementation and enforcement of the Transport Management Plan be reviewed at an institutional level, to ensure that problems are not repeated during SCP construction.
- Villagers are adequately compensated for damage caused through heavy truck movement.
- Villagers are compensated for heavy traffic movement through their villages.
- Roads damaged through heavy truck movement are reinstated.



D. DAMAGE & REPAIRS

- 4.20 The impacts of construction have been considerable. All six villages visited reported ancillary damage that remains to be compensated for or repaired. According to BTC Co's commitments, where damage took place there would either be full reinstatement or cash compensation at full replacement cost.^{vii}
- 4.21 The sole water source for Tsemi in the Borjomi District has been polluted since May 2004, bringing the village's tourist industry to an abrupt end. The pipeline passes through the catchment area for the Tskhratskaro springs; leaving tap water

muddy brown.

With the clear mountain water gone, Tsemi's tourist industry – its primary source of income, amounting to more than \$150,000 – has disappeared. Tsemi is a summer resort, with guests coming from May until September. Since Tsemi's water was polluted, no tourists stayed during the 2004 and 2005 seasons. Each of the 140 households used to take in between one and four tourist families. Four large sanatoria also hosted visitors, each employing around 20 people. At a minimum, each home has lost its basic summer income of 1500-2000 Lari (\$700-\$950); families relied on this summer bonus to support them for the rest of the year.

BTC have repeatedly promised to deal with this problem. In October 2004 repairs led to a temporary improvement, yet the water quickly returned to its contaminated state. During the summer, BTC provide a water delivery every second day. However, this barely suffices as drinking water for the villagers themselves, let alone tourists, cooking or washing.

- 4.22 Also in Borjomi District, villagers have reported that landslides in Dgvvari have increased significantly since construction began. Several homes have collapsed and most others received structural damage rendering them dangerous for habitation. While Tsemi have been demanding compensation for their losses, Dgvvari villagers are asking to be resettled to a safer area within the Borjomi District. Although BP has at times offered compensation, these offers have been retracted, leaving villagers in a precarious position.
- 4.23 Three villages cited damage to homes from heavy construction traffic on nearby roads. In Sagrasheni seven homes on the main road had all suffered substantial cracks to their walls, ceilings and floors as well as damage to wiring. Amiran Midelshvili amongst others showed the Fact Finding Mission structural damage that had noticeable widened in the last year. These appeared to be a result of heavy vibrations.

Similar concerns were raised in Atskuri and Tkemlana. In Atskuri villagers claimed that 20 homes have been seriously

damaged by truck traffic, and one rendered uninhabitable. Although BTC employees had visited affected homes and documented damage, no compensation had been received for structural damage.

- 4.24 The same villages also had problems with heavy layers of dust resulting from the traffic. This particularly led to problems with bees and agriculture, and to health problems for villagers selling vegetables along the roadside in Sagrasheni. Villagers complained that BTC Co's response of sprinkling water on the road every few days was insufficient.
- 4.25 Homeowners in Tetrtskaro complained that blastings conducted by Geotech, a contractor for BTC Co, adjacent to the town caused severe structural damage to over twenty homes. The Mission witnessed split ceilings, leaning walls, cracked roofs and broken windows. Geotech refused compensation, but offered \$4000 to the town as a goodwill gesture; at \$200 per house, the villagers considered this offer derisory. The IFC's Compliance Advisory Ombudsman advised that Geotech conduct a full assessment of the damages and offer compensation accordingly. Geotech has refused, and the CAO has no coercive powers. BTC Co has not reacted to Geotech's conduct.
- 4.26 Residents in several villages complained of damage to their roads, claiming that the heavy lorries left the roads in a very bad state. Villagers from Tkemlana claimed that the traffic on the limestone road leading to their village had made the road muddy and difficult for village cars to travel on. When BTC Co finally "cleaned" the road, they apparently washed away the limestone, thus spoiling it.

4.27 The Mission recommends that

- **BTC Co adheres to its commitments under the Environmental and Social Action Plan and immediately compensates affected villagers for ancillary damage caused and income lost as a result. According to the ESAP Commitments, construction contractors are committed to covering "any accidental damage that occurs". Yet BTC Co are "ultimately responsible for fair and full payments for**

damages”^{viii}; given the extensive delays in addressing grievances, BTC Co must take ownership of the process.

- **The Lenders demand that where causation is difficult to prove (landslides caused by pipeline construction, or cracks in buildings by truck vibrations), the onus be placed on BTC Co to prove that the construction process was not responsible.**

E .GRIEVANCE MECHANISMS & AVOIDING RESPONSIBILITY

4.28 BTC Co and IFC-CAO grievance mechanisms have failed to provide adequate means of seeking redress. When the villages of Tsemi, Dgvari and Tetrtskaro presented BTC Co and its subcontractors with demands for reasonable compensation, the companies responded with intransigence, evasion of responsibility and legal pedantry. Five of the villages reported that their applications to the IFC-CAO (Compliance Advisory Ombudsman of the International Finance Corporation) had achieved little more, as its recommendations were late, weak and non-binding.

4.29 The villagers of Sagrašeni have made several complaints to BTC Co and the local contractor SPJV regarding damage to homes as a result of vibrations from heavy traffic. They received no response to their letters until a complaint was made to the CAO. Finally BTC Co and SPJV replied accepting that the construction trucks were using the incorrect route. Yet despite the consistency of the problem, the companies blamed their individual drivers. As described in paragraph 4.19, passing license plate numbers of trucks to BTC Co led to no improvement. The Mission witnessed regular construction traffic passing through during its visit.

When villagers demanded compensation for the structural damage, SPJV argued the cracks were a result of time and general degradation. SPJV manipulated a 'vibration test' by driving an empty construction truck past the homes and

claiming that the measured vibrations were not strong enough to destroy a house. Yet vehicles passing through Sagrasheni are mostly heavily loaded. The villagers complained to the CAO about SPJV's manipulation of the 'test'. Although the CAO recommended that another – independent - vibration test be conducted, this has not yet happened.

- 4.30 As described above in paragraph 4.25, Geotech refused to pay compensation for home damage caused in Tetrtskaro. Despite a May 2004 CAO recommendation that those affected be compensated fairly, Geotech responded that as CAO recommendations are non-binding, they will only pay after a court judgement. The FFM considered this example to highlight a structural weakness of the CAO grievance mechanism.
- 4.31 The 96 families of Dgvari village in Borjomi are asking to be resettled, as their homes collapse due to landslides. The residents argue that the landslides have increased significantly since construction began, yet BP claims this is coincidental. Despite refusing compensation, BP did offer a community fund of \$1 million as “goodwill gesture” towards resettlement in a letter via the IFC. The head of the District Legal Service advised the villagers that BP would only release the funds when they could provide documents of home procurement, to prove intention to relocate. In July 2005, the villagers received 798,000 Lari (\$350,000) from the Georgian government, which they put down as deposits on homes to gain documents of home procurement.

Yet in a letter dated 28 August 2005 signed by Wref Diggings, BP has now retracted its offer of \$1 million, claiming that the villagers have already been compensated. The 800,000 Lari received so far are insufficient for resettlement, only covering the deposits.

BP has continued to send contradictory statements. On September 7th, Georgi Gvaladze, BTC Co/BP's Assistant to External Affairs Manager, told residents of Dgvari that “we will pay for resettlement, but only if there is a clear plan signed by the [Georgian] Prime Minister”. The office of the Georgian Prime Minister has denied responsibility for this. Furthermore,

Gvaladze added that this would only be the case “if you don’t disturb work on the gas pipeline. Wait a few months and we’ll sort it all out.”

- 4.32 Three complaints were made to the CAO regarding risks of contamination of Tsemi's water supply, *prior* to pollution. Finally the CAO sent an engineer who found that BTC Co “did not use all efforts to study water sources when prepared ESIA” and recommended additional assessments of water sources by BTC.

Despite this, Tsemi's water source was polluted and their tourist industry brought to an abrupt end. BTC Co denied responsibility. Villagers are now pursuing two new complaints to the CAO, one demanding repairs and the other compensation for lost income.

The villagers complained to the Mission that BTC Co employees made regularly promises of improvements. Either these would not materialise, or they would only be short-term improvements. Furthermore, villagers found it difficult to maintain relationships with the BTC Co employees, as they would frequently refuse to give their names, and liaison officers are regularly rotated.

- 4.33 As described in paragraph 4.18, Atskuri residents reported that BTC CO did not respond to their complaints about traffic until they began blocking the road in 2003. A similar pattern continued into 2005; if villagers desired a response from BTC Co, they had no option but to block traffic.

The consistency and regularity with which drivers ignored the instructions indicates that the problem lies with a systemic evasion of responsibility by various BTC Co departments and contractors.

Despite the CAO finding that the construction traffic should stop passing through Atskuri village, adhere to BTC Co's own Traffic Management Plan and damages caused by vibrations should be paid, nothing had changed.

- 4.34 Galine Labadze of Atskuri complained to the Mission about the behaviour of Leri Djodjua, a local BTC Co representative.

Although Mr Djodjua had previously assured Mr Labadze that his trees would not be cut down without compensation, when they were, he responded “I’m not responsible.”

4.35 Natela Khugashvili also of Atskuri wrote to the local contractor, Spie-Petrofac, to complain that they had used more of her land for construction than had been compensated for. Spie-Petrofac responded, admitting that the land was being used, but claiming that BTC Co was responsible for compensation claims, contrary to RAP Commitment R23.^{ix} Letters to BTC Co had gone unanswered.

4.36 The Mission recommends that:

- **The villagers of Sagrasheni, Tetrtskaro, Tsemi, Dgvari and Atskuri are adequately compensated not only for the damage, but stress caused and time spent being passed around between BTC Co, construction contractors, financial institutions and the Georgian government.**
- **Lenders undertake a review as to how BTC Co has so consistently attempted to evade responsibility for failures or damages.**
- **BTC Co implements its commitments to deal with projected affected peoples’ grievances fairly and adequately, through its own grievance mechanisms^x and informal community focused grievance procedures^{xi}.**
- **The IFC recognise that despite the CAO’s dual role as ombudsmen, its ability to ensure compliance is ultimately restricted by its lack of coercive powers.**

F. HERITAGE SITES

- 4.37 Important heritage sites continue to be damaged despite repeated complaints by villagers. BTC Co and the Ministry of Culture have yet to take appropriate action.
- 4.38 The heavy construction trucks passing through Atskuri village have caused significant damage to an ancient hilltop fortress and a 9th century Orthodox monastery. The traffic is causing sections of the Atskuri castle – built in the first century as a bulwark against invasions from the south– to collapse onto the road and houses below. The trucks drive within metres and over parts of the ‘Monastery of the Mother of God’. While already significantly collapsed, the beauty of this spiritual monument is still clearly evident, with frescoes, stone carvings and masonry still apparent.
- 4.39 Apart from their historical importance, these two monuments are particularly important to the identity of the local community, forming a central part of their history. The monastery is clearly still used for worship, with a small chapel filled with icons and lit candles being visited by several village girls during the FFM’s visit.
- 4.40 Villagers complained that appeals to the Ministry of Culture had yielded no results. They were concerned that the Ministry of Culture were influenced by BTC sponsorship and joint projects.
- 4.41 The Mission recommends that:**
- **The cause of damages be stopped immediately; BTC Co ensure no construction vehicles pass through Atskuri village.**
 - **The heritage sites are restored in a safe and appropriate manner, utilising both experts and local labour.**
 - **Lenders investigate to what extent the irregularities in traffic routing in Atskuri are an ongoing breakdown of company discipline or a tactical decision to minimise costs.**

G. INTIMIDATION

- 4.42 BTC Co-BP employees have apparently responded to talk of demonstrations with threats of physical violence and claims that this will damage villagers' chances of compensation. The fear of violent repercussions and loss of compensation reportedly intimidated a number of villagers into not demonstrating for their rights with the law, instead waiting for an offer from BP.
- 4.43 Temur and Beso Gogoladze, both of Dgvari village, described a meeting in early September in Tbilisi where Georgi Gvaladze (BTC Co/BP's Assistant to External Affairs Manager) told them, "Go ahead and demonstrate, it won't cause us any problems. We will call the local police and they will batter you." They also claimed that during a phone call on September 10th, Rusudan Medzmariashvili (BTC Public Relations Officer in Tbilisi) said, "If you protest, you won't get a single Lari!" They were later told that if protests were delayed until after completion of SCP construction work, they would receive improved compensation.
- 4.44 The threats of physical violence were plausible, given that a woman had been seriously beaten and hospitalised by police after being called by BTC security to deal with a protest in Tkemlana. As it turned out, police did intervene in Dgvari protests in late September 2005, within weeks of the FFM's visit. In at least one instance several people were injured and a woman was hospitalised with concussion.
- 4.45 The Mission recommends that:**
- **BTC Co/BP run an immediate inquiry as to the allegations that intimidation was used by employees to deter project-affected peoples from lawfully demanding their rights. BTC Co/BP must release those found to have made such threats from employment immediately.**
 - **Lenders intervene in disputes where BTC Co has threatened physical violence by the police. In such circumstances the Ombudsmen approach is no longer adequate, as the impact of intimidation will continue to**

- **affect villagers' demands.**
- **Lenders undertake an independent assessment of the allegations and examine to what extent this reflects wider behaviour within BTC Co/BP Georgia.**

H. GROWING PUBLIC ANGER

- 4.46 Regular demonstrations and protests have carried on in 2005 as in 2004. The Mission received the distinct impression that villagers felt a need to show their anger and frustration at the implementation of the BTC construction process, and a lack of alternative fora to express themselves. Five of the six villages visited described various situations in which they resisted BTC Co by disrupting construction work, perceiving this as the only means of making their complaints heard and receiving a response.
- 4.47 Village protests in Tkemlana had successfully blocked roads three or four times. Local residents described to the FFM how on one occasion a woman was heavily beaten and hospitalised after BP security called police to intervene.
- 4.48 The residents of Tetrtskaro demonstrated in the construction corridor to demand repairs to their cracked homes and access to their land on 19 January 2005. Police dispersed the villagers forcefully, shouting at them to use “civilised tools”. The villagers explained that it was their impression that the opposite side was not using civilised tools. One woman in particular told the FFM that “We’ve been trying so hard to get compensation, writing letters and applying to everybody. Maybe that’s why the terrorists do these things – maybe they need something, but are not being listened to. Why do people become terrorists? Because they’re frustrated. Those people like BP have money and power, but they won’t listen.”
- 4.49 The demonstrations in Dgvari began in 2002, when the villagers realised that their omission from the ESIA would bring further problems. Attempts to disrupt construction of BTC had ended with its burial, but Dgvari residents told the FFM that they were

planning future protests to coincide with work on the SCP gas pipeline. Several demonstrations did take place in late September 2005 in the weeks immediately after the FFM's visit. On 27 September 2005 a woman was hospitalised with heavy concussion and nervous shock.

- 4.50 Tsemi villagers described a number of protests, where they blocked the access roads to construction sites in an attempt to raise attention to their problems of water pollution. At least 25 residents of Tsemi would set off in a bus in the very early morning, to block the road with people and cars by 4am.
- 4.51 The Atskuri villagers had frequently blocked traffic passing through their village in attempts to remind BTC Co that this was not the designated route. Villagers explained that BTC Co had not responded to any of their letters, only replying once protests began in 2003. On one particular occasion in spring 2005 an enormous truck passed through Atskuri, bringing down electricity lines and causing blowouts in a number of homes. No apology was forthcoming until the villagers blocked the road four days later – after which BTC repaired the damage. The villagers were planning to block the village road two days after the FFM's visit on 18 September 2005.

4.52 The Mission recommends that:

- **The various sources of frustration are addressed adequately by BTC Co.**
- **The lenders press BTC Co to show how they addressed the various complaints being brought forward.**

I. INFORMATION ON RISKS & CONSULTATION

- 4.53 Despite a commitment by BTC Co to consultation, residents in five of the six communities visited complained spontaneously that they were not adequately informed of risks and consequences of pipeline construction. In Tkemlana villagers made the same point when asked.
- 4.54 The inhabitants of Tetrtskaro were not warned that BTC Co's subcontractor Geotech would be using explosives to blast rock within 100-200m of their homes in December 2003 and again January 2004. Villagers described their shock and fear as their homes began to shake and the walls cracked. With many ethnic Armenians in Tetrtskaro, the devastating 1988 earthquake that killed 30,000 is a recent memory. The unexpected detonations caused severe damages in at least twenty homes in the town that could easily have been reduced if villagers had been informed, so that they could open doors and windows.
- 4.55 The residents of SAGRASHENI knew of BTC construction only from watching television. Located 15 km from the corridor, they were not expecting their lives would be affected.
- 4.56 Similar to SAGRASHENI, TSEMI villagers were not consulted as they were classified as non-affected, being located more than 2km corridor from the pipeline. They suspected negative outcomes, making an early complaint to the IFC's CAO regarding BTC Co's failure to assess local water resources, ultimately proven right when their tap water turned brown.
- 4.57 Despite DGVARI village lying within one kilometre of the pipeline corridor, BTC Co's consultation forgot to include them as an affected community. Residents complained to the FFM that even when villagers themselves had attended broader consultation sessions in Borjomi Town and raised concerns, the village had not received any attention.
- 4.58 BTC Co clearly failed in its stated goal to "keep affected people and communities fully informed about the project, the process that will be followed to acquire and compensate for land and

their related rights and avenues for redress”^{xii}

4.59 The Mission recommends that

- **The lenders assess the particular failures in consultation and the underlying structural problems to draw lessons and improve consultation requirements for future projects.**
- **BTC Co implement its ESAP commitment to “maintain constructive relationships” with communities, “maintain awareness of safety issues among communities along the pipeline route” and “monitor community attitudes to the pipeline”.^{xiii}**



J. EMPLOYMENT

- 4.60 The lack of job creation through BTC construction was raised as a concern in all villages visited. The Mission received the impression that the intense promotion of the project and its “predicted developmental effects” had exacerbated community expectations, which have not been met. This had contributed to the anger and disillusion regarding BTC in affected communities.
- 4.61 In Sagrasheni, villagers claimed that only 3-4 villagers had been employed during construction. After six months working for a cement company, all of them were let go again. From their region there had been 500 job applications for work with BTC; only ten received work.
- 4.62 Nobody from Tsemi was employed when the FFM visited. One person from Dgvvari had accepted work, but he was apparently likely to leave shortly voluntarily due to the conditions and pay. Two men were employed from the 600 households in Atskuri village, one to sweep dust off the road, the other to control traffic crossing a train track.
- 4.63 The community investment programs, while foreseen to provide jobs locally, were described as having failed in this aim.

4.64 The Mission recommends that

- **The commitments made in BTC’s Employment and Training Management Plan be implemented.^{xiv}**
- **Local communities are given a greater say in ongoing and future community investment programs**
- **Lenders calculate the actual contribution of BTC to sustainable economic growth in Georgia in order to assess the potential role pipeline construction can play in an economy.**

K. PIPELINE SAFETY

- 4.65 Pipeline concerns remain widespread, with residents of various villages fearing that technical problems with the pipeline could threaten their lives and livelihoods. The FFM received the distinct impression that a lack of information and explanation from BTC had contributed to a state of confusion and fear.
- 4.66 The pipeline had been uncovered near Tetrtskaro for several months during the summer of 2005 and villagers had been forbidden from approaching the construction corridor. The villagers believed that cracks in the coating led to further pressure tests and welding before recovering.
- 4.67 Residents of Dgvari claimed that during hydrotesting on 7 September 2005 in the Kodiana section they saw a rupture take place and a hole blown in the ground. A Dgvari villager is currently applying for compensation for the death of his cow from falling into this hole.

Yet upon enquiries about the outcomes of this specific hydrotesting, the Ministry of Environment told Green Alternative Georgia that BeicipFranlab, the Italian-French advisory company conducting the technical monitoring as part of a World Bank capacity building project, had reported all hydrotests as successful, specifically stated that testing near Dgvari had been positive.

4.68 The Mission recommends that:

- **Reports on ongoing monitoring of pipeline safety are made public and residents are warned about possible safety threats.**
- **A log of all pipeline safety tests be maintained by BTC Co and made readily available to Georgian Ministry of Environment officials.**
- **BeicipFranlab's reports to the Georgian Ministry of Environment be investigated. If there is evidence that a rupture went unreported, appropriate action should be taken by the funders, including taking Beicipfranlab's past record into account when awarding future contracts.**

5 Conclusion and Recommendations

- 5.1 This report is not a comprehensive account of failures and problems arising through the construction and early operation of the BTC pipeline in Georgia. The Fact Finding Mission did not seek out those with critical rather than positive attitudes towards BTC and made itself available to all who wished to speak to it.
- 5.2 The BTC pipeline has been praised by BTC Co and the international financial institutions involved as a model of high standards, responsible corporate behaviour and the positive influence of IFI participation in projects. Yet despite this, the Fact Finding Mission heard compelling evidence that the project has led to widespread damage to homes, an undermining of local industries, severe reductions in income, failures to provide adequate compensation for land or crops – highly disruptive impacts in an already financially precarious region.
- 5.3 The FFMs’ specific findings highlight systemic failures at every point in the construction process: Consultation, compensation, employment, damage repair, community investment and grievance mechanisms. There is little evidence to indicate a significant improvement during the operational phase.
- 5.4 Moreover, failings brought to the attention of BTC Co have not been solved and the FFM is concerned that the consortium has adopted a strategy of burying the problems along with the pipes.
- 5.5 The failure to remedy the well-documented failures highlighted in the previous FFM report is not limited to the project operators themselves. The IFC, EBRD, national export credit agencies and international private banks guaranteed that standards would be enforced through Lenders’ various oversight mechanisms. A monitoring plan detailed more than seven different layers of scrutiny. Yet the problems described in this report indicate that the IFIs’ complaint mechanisms have been ineffective, permitting BTC Co and its subcontractors to avoid responsibility. The IFIs argued that their participation in a project would improve practice, but they have yet to deliver on promises to ensure adequate and fair compensation, pipeline safety and environmental standards.

- 5.6 As the IFIs and BTC Co have shown themselves unwilling to adequately address their failures, the FFM urges ministries and parliamentarians to investigate. They must ensure that:

REDRESSING FAILURES OF CONSTRUCTION PHASE

- 5.6.1 Villagers are adequately compensated for damages incurred due to construction of BTC.
- 5.6.2 Repairs are made where possible.
- 5.6.3 Villagers are adequately compensated for loss of income due to construction work.
- 5.6.4 Promises for community investment that reflects the priorities of affected villagers are honoured.
- 5.6.5 Land disputes are resolved equitably.
- 5.6.6 Safety issues of the pipeline are investigated independently.

SOUTH CAUCASUS PIPELINE

- 5.6.7 Villagers are adequately compensated for the continued loss of access to their land.

OPERATIONAL PHASE

- 5.6.8 Any further loss of income due to pipeline construction or operation is compensated for as soon as possible.
- 5.6.9 Safety and environmental standards are improved to minimise future pollution and disruption.
- 5.6.10 An ongoing community investment programme is implemented according to the needs and requests of the villagers affected with the correct level of expertise amongst staff.
- 5.6.11 BTC Co's grievance mechanisms are revised to give complainants a fair hearing

FUTURE PROJECTS

- 5.6.12 Consortium members and supporting IFIs are held to account for failing adequately to address problems previously reported to them.
- 5.6.13 The experiences of the BTC project should be used to draw lessons as to necessary minimum standards for consultation.
- 5.6.14 Compensation is implemented as a means of providing alternative and sustainable sources of income, not ‘buying off’ those affected.
- 5.6.15 Breaches to existing guidelines (World Bank, OECD, EC) are made public together with the actions taken, and justification provided where the breach is not considered sufficient to constitute a voiding of loan agreements.
- 5.6.16 The general and local economic impacts of the pipeline be monitored and documented.



6 Appendix

Findings of 2004 FFM in Borjomi and Tetrtskaro areas^{xv}

- 6.1.1 There appeared to be minimal positive development impacts of the project.
- 6.1.2 Pipeline construction had damaged road infrastructure, caused damage to houses and resulted in loss of incomes in a number of areas.
- 6.1.3 Concerns on pipeline safety in the Borjomi region
- 6.1.4 Concern regarding pipeline welding and coating throughout Georgia
- 6.1.5 Local impacts such as employment, land compensation and community investment programmes were subject to much dispute and concern
- 6.1.6 BTC grievance mechanism appeared ineffective and lacks credibility
- 6.1.7 CAO recommendations regarding both specific cases and systemic failures were not implemented by BTC Co.

7 Footnotes

ⁱ Watkins, E., “BP exec clarifies BTC line start: early '06”, *Oil and Gas Journal*, 26 October 2005. The article quotes a BP official as saying the first oil would flow from the pipeline’s Ceyhan terminal in January 2006. David Woodward, President of BP Azerbaijan, had previously been quoted as saying the target to launch full operations by the end of this year was “challenging” because of extensive testing and commissioning in the Turkish section of the pipeline.

ⁱⁱ Jim Banach “Surface Matters” in *World pipelines*, August 2005

ⁱⁱⁱ *Cracks revealed in BTC oil pipeline*, UPI, 21 September 2005, <http://www.wpherald.com/storyview.php?StoryID=20050921-041047-5793r>

^{iv} For a full account of previous findings, see *FoE Ewni et al., Azerbaijan, Georgia, Turkey Pipeline Project – Georgian Section, October 2004*

^v IFC Safeguard Policy on Involuntary Resettlement, OD 4.30 3.(b)

^{vi} Environmental and Social General Commitment Register, BTC Co (Georgia); Commitment ID: R19

^{vii} “Property Damage and Land Acquisition Issues – Infrastructure: Houses and other Buildings, Fencing, Irrigation Channels, etc. – Where damage cannot be avoided cash compensation based on full replacement cost (as required by the World Bank), or replacement structures/facilities will be provided. The full reinstatement option will involve direct replacement of the structure with no cash transaction taking place. In addition the construction contractor will assess and document the likely impact on buildings at particular risk and considered sensitive close to project traffic routes. This documentation will be agreed with the house owners/occupants and a copy provided to them” – *Environmental and Social General Commitment Register, BTC Co (Georgia); Commitment ID: N3*

^{viii} *Environmental and Social General Commitment Register, BTC Co (Georgia); Commitment ID: R95*

^{ix} “BTC will not buy land required for temporary construction work and work areas for temporary access roads. The identification of temporary land for these activities is the responsibility of the construction contractor who will acquire rights to temporary land. BTC will assist and audit compliance with the RAP.” *Environmental and Social General Commitment Register, BTC Co (Georgia); Commitment ID: R23*

^x “BTC will establish grievance avenues readily accessible to local people. In the event of any unforeseen damage to adjacent buildings or structures, a complaint can be lodged with the project and appropriate corrective action will be taken. All complaints will be responded to in writing within 15 days of receipt of complaint. In the event of damage to structures

and buildings occurring, that can be proven to be caused by the BTC project, BTC will either make good the damage, or provide compensation.”

Environmental and Social General Commitment Register, BTC Co (Georgia); Commitment ID: R130

^{xi} “The project will try to resolve any grievances related to the project prior to entering the formal judicial system. An informal grievance procedure will be developed and offered for use, with grievances and disputes being eligible for consideration by a non-judicial group which will include representatives of local government, the project team, community based organisations and NGOs.” *Environmental and Social General Commitment Register, BTC Co (Georgia); Commitment ID: R128*

^{xii} *Environmental and Social General Commitment Register, BTC Co (Georgia); Commitment ID: R14*

^{xiii} *Environmental and Social General Commitment Register, BTC Co (Georgia); Commitment ID: R133*

^{xiv} Particularly *Environmental and Social General Commitment Register, BTC Co (Georgia); Commitment ID: M3*: “BTC will ensure that there is a “preferential” approach to recruitment. Priority will be given to workers from pipeline affected communities, ie those within 2km, either side of the proposed route, or near temporary or permanent project facilities.[...] The contractor will be required to set ou the rationale for any employment of third country nationals.”

^{xv} For a full account of previous findings, see *FoE Ewni et al., Azerbaijan, Georgia, Turkey Pipeline Project – Georgian Section, October 2004*