

Box Bob (Mr RW) EWT

36

From: Harvey David (Mr D)
Sent: 14 November 2003 10:52
To: Lawson Duncan (Mr DR)
Subject: FW: BAKU-TBILISI-CEYHAN (BTC) PIPELINE PROJECT

Duncan,

Any interest in these tellywags, in terms of a read across to the NCP Baku pipeline complaint?

Dave

-----Original Message-----

From: s=TGM-DEPARTMENT-FOR-INTERNATIONAL-DEVELOP;ou1=telegrams;ou2=athos2;o=hmg department of trade and industry;p=hmg dti;a=gold 400;c=gb;
Sent: 14 November 2003 08:46
To: s=archive;ou1=telegrams;ou2=athos2;o=hmg department of trade and industry;p=hmg dti;a=gold 400;c=gb;;
s=MONETARY;ou1=telegrams;ou2=athos2;o=hmg department of trade and industry;p=hmg dti;a=gold 400;c=gb;
Subject: BAKU-TBILISI-CEYHAN (BTC) PIPELINE PROJECT

UNCLASSIFIED
FM DEPARTMENT FOR INTERNATIONAL DEVELOPMENT
TO ROUTINE FCO
TELNO 26

OF 131457Z NOVEMBER 03
AND TO ROUTINE ALMATY, ASHGABAT, BAKU, BANK OF ENGLAND, BELGRADE
AND TO ROUTINE BERLIN, CENTRAL EUROPEAN POSTS, CHISINAU
AND TO ROUTINE DUSHANBE, KIEV, MINSK, MOSCOW, OTTAWA, PARIS
AND TO ROUTINE ROME, SARAJEVO, SKOPJE, TASHKENT, TBILISI, TIRANA
AND TO ROUTINE TOKYO, TREASURY, UKDEL WASHINGTON, UKREP BRUSSELS
AND TO ROUTINE ULAAN BAATAR, WASHINGTON, YEREVAN, ZAGREB

Treasury for Ockenden (GPI)

SUBJECT: BAKU-TBILISI-CEYHAN (BTC) PIPELINE PROJECT

UBJECT: EBRD BOARD 11 NOVEMBER 2003: BAKU-TBILISI-CEYHAN (BTC) PIPELINE PROJECT

SUMMARY

Board approve financing for BTC pipeline and associated development of Azeri, Chirag, deep-water Gunashli (ACG) offshore field.

DETAIL

1. Directors approved a USD 250 million loan to the Baku-Tbilisi-Ceyhan (BTC) Corporation - split into equal A and B loan segments - to part finance the construction of the portion of the BTC pipeline that runs through Georgia and Azerbaijan. They approved a further USD 61 million in loans to four corporations (Amerada Hess (ACG) Ltd, Amoco Caspian Sea Petroleum Ltd, Statoil Apsheiron a.s. and Unocal Khazar) - again split into equal A and B loan segments - to part finance the development of the Phase 1 Azeri, Chirag, deep-water Gunashli offshore field. The total cost of BTC pipeline construction will be USD 3.6bn, while the ACG development will cost a further USD 3.2bn. IFC, ECAs and the oil companies would provide additional finance.

2. Lemierre (President) opened the discussion. BTC and ACG

were important projects. They could bring benefits to the region. But there were also risks. EBRD was involved to help ensure the benefits were realised in an efficient way. Lemierre noted the current political uncertainties in the Caucasus, but argued they should not delay the project: the political decisions relating to the BTC pipeline had been made; and throughout the recent Azeri and Georgian elections there had been broad support for BTC. He confirmed EBRD's confidence in the ACG investment despite the ongoing ownership dispute between Turkmenistan and Azerbaijan: legal advice was that financing would not prejudice the outcome of the dispute. Furthermore were the dispute to be settled in favour of Turkmenistan, EBRD did not expect a significant deterioration of the project's credit rating.

3. Lemierre emphasised EBRD's crucial role after approval:
(i) monitoring and maintaining a strong policy dialogue on transparency - particularly of revenue use; (ii) developing a Regional Development Initiative (co-funded with BP/BTC) to fund development activities post-construction; and (iii) monitoring project implementation - in close coordination with IFC and with strong NGO involvement.

4. As the first Director to speak I set out the UK position. I expressed support for the two investments, noting that as a large complex project, BTC presented risks as well as benefits and that EBRD's continued efforts to manage the risks and maximise developmental benefits would be crucial. The BTC and ACG projects had the potential to bring benefits to Azerbaijan and Georgia, through revenues, strengthened cooperation, better links to global markets, increased transparency of business activities and the application of the highest international standards. There were also significant risks, including the weak governance environment, and potential social and environmental impacts. Used well oil revenues could contribute to poverty reduction, but the governments of the region needed to work to ensure responsible and transparent revenue management - with support and oversight from civil society, the private sector and the international community. Progress with implementing EITI in Georgia and Azerbaijan would contribute to this.

5. I emphasised that EBRD's engagement in BTC was important in view of its role in managing project risks, a sentiment echoed by many Directors. I noted that the UK was satisfied the project Environmental Assessment was compliant with safeguards policies and procedures. I welcomed Lemierre statement that EBRD would remain engaged with implementation to ensure commitments were delivered, and called for action by the Bank on three fronts:

6. First, a clear mechanism for regular independent consultations, bringing together IFI staff, the Sponsors, Governments from the region, civil society (local and international) and representatives from the IFI Executive Boards, to resolve any issues arising during project implementation. Attention to ongoing monitoring received support from many Directors including Biery (US), Kerres (Germany), Quattrocioche (Italy), Rautala (Finland), Syryjczyk (Poland) and Fujimoto (Japan). Clarke (Head EBRD Environment Department) stated that the Bank was committed to continue monitoring, including strong dialogue with stakeholders.

7. Second, work by EBRD to support the World Bank and IMF in their efforts to promote the transparency of revenues in Azerbaijan and Georgia and to encourage revenue use in support of PRS objectives. Biery, Kerres, Lelakis (European Commission), Jullien (France), Hegelund (Sweden), Rautala, and Fujimoto reiterated the importance of continued emphasis on revenue management. Clark (Canada) made this point strongly, expressing concern about recent elections in Azerbaijan and Georgia and regret that it was not possible to covenant revenue use. Doyle (Vice President) confirmed the Bank would monitor transparency and engage in a clear dialogue with the authorities on revenues.

8. Third, an exercise, reporting back to the Board, to ensure that lessons from BTC are learnt and inform future policy development. One lesson we would identify was the importance of Strategic Environmental Assessment (SEA). We would strongly support its use in future large-scale infrastructure projects. Biery (US) agreed lesson learning was important. Clarke noted that the Environment Policy included a reference to SEA and that EBRD was considering its better application in future projects.

9. Kerres, Fujimoto and Poluneev (Ukraine) stressed the importance of work to strengthen backward linkages to local businesses and the need to develop non-oil sectors of the Georgian and Azeri economies.

10. Poluneev (Ukraine) supported the projects on behalf of his Georgian authorities, noting their appreciation of EBRD's role on sensitive social and environmental issues. Guye (Switzerland) speaking on behalf of his Azeri authorities welcomed the projects. He noted that oil revenues represented an important opportunity for Azerbaijan, but that short-term investments in poverty reduction and longer-term macro-economic stability had to be balanced. He pointed to the Azeri's rigorous dialogue with the IFIs and the establishment of the transparent Azeri oil fund. Azerbaijan had reaffirmed its determination to reach an agreement on Caspian delineation. Guye then spoke for the Azeri authorities, opposing the ACG project in view of the ongoing dispute with Azerbaijan over Caspian delineation. Kovtun (Russia) abstained on BTC, citing his authorities concerns about potential negative environmental impacts.

11. Lemierre summed up. Bank staff had demonstrated that even in such complex projects they could add value, but the Board needed to remain engaged. He proposed an information session for Directors in mid 2004. EBRD did need to take lessons from the process, not just about the environment but also about relationships with national authorities, the private sector and civil society. This would help ensure that future projects achieved even greater impact.

COMMENT

No surprises thanks to careful preparation in advance, following IFC discussion. These major projects provide platform for future EBRD engagement in Georgia and Azerbaijan. Significant opportunity for UK to lead in using EITI in promoting transparency and broader reform. As set out in Foreign Secretary's letter to Hilary Benn, of 29 October, key role for posts in follow-up.

RAY

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PROTOCOL D//PALACE		0
ADDITIONAL	0	
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ECGD		0
FSA		0