

Second¹ International Fact-Finding Mission to Baku-Tbilisi-Ceyhan Pipeline Georgia Section

Initial Summary Report 4 June 2003

Bank Information Center
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PLATFORM

From May 12 through 16, an international Fact Finding Mission (FFM) comprised of representatives from the six international NGOs listed above visited Georgia to assess the planning and implementation of the proposed Baku-Tbilisi-Ceyhan (BTC) oil pipeline. The FFM traveled along the pipeline route meeting with landowners, community members and local government.² In Georgia, the group also met in Tbilisi with the Georgian environment minister, the president and vice president of the Georgia Glass and Mineral Water Company, whose water sources are potentially impacted by the pipeline, and with nongovernmental organizations. The group also met with local government officials, NGOs in Borjomi and spoke to BTC Co. subcontractors in the field.

This report provides a brief overview of the findings. A full report will be issued in the near future with findings and recommendations for BP, the lead operator of the consortium, and for the public and private financial institutions being approached to finance the project. These public institutions include the World Bank, the European Bank for Reconstruction and Development (EBRD), and export credit agencies from several countries. This preliminary findings report for Georgia (a parallel report for Azerbaijan is prepared) serves as an initial report for the financial institutions that are being asked imminently to finance the pipeline.

Environment

In Georgia, the most controversial issue is the pipeline's route through the Borjomi region in western Georgia. This route is controversial for environmental, social, and economic reasons.

- **The pipeline's routing appears to violate Georgian environmental law.** The pipeline passes through the buffer zone of the Borjomi-Kharagauli National Park

¹ The report "International Fact Finding Mission Preliminary Report, Azerbaijan, Georgia, Turkey Pipelines project -Georgia Section", September 2002 can be found at www.baku.org.uk.

² In addition to meetings in Tbilisi and Borjomi, the mission spoke with people in Jandari, Nazarlo, Kesalo, Gardabani, Sakire, Dgvari, Akhaltsikhe, Vale, and Tsikhidjvari.

and through the park's managed reserve. According to Georgian environmental laws, industrial activities are not allowed in managed reserves and buffer zones.

- **The pipeline could pollute local water supplies.** The pipeline would cross the Borjomula River. Any pollution or spill from the pipeline would pollute the Borjomula, which in turn would flow to the town of Borjomi and pollute drinking water sources and shallow mineral water springs.
- **The pipeline threatens the ecology of the Borjomi park system.** Though the pipeline does not cross the park proper, its route does cross the managed reserve and the buffer zone. According to Georgian scientists and ecological organizations such as WWF, the area crossed by the pipeline is of high conservation value, and is likely to be part of the migration routes for large mammals.
- **Outstanding environmental concerns with Baku-Supsa may resurface with BTC.** Georgian scientists told the FFM of numerous outstanding concerns with the construction of the Baku-Supsa pipeline, including river crossings that were done improperly and flawed erosion control measures.
- **BP/BTC Co. may be out of compliance with the ESIA conditions.** Under the December 1, 2002 approval of the ESIA for the pipeline, BTC Co. is to meet a number of conditions including performing a series of additional studies and elaborating additional plans. According to the Georgian environment minister, who met with the FFM, the consortium has failed to submit several required studies and is in violation of the conditions. The consortium has submitted some documentation in English though they are required to release them in the Georgian language. BTC Co. is obliged to conduct additional studies of alternative routes through the Borjomi zone and submit these at least six weeks before construction begins in that section. Several people from the village of Tsikhidjvari in this zone told the FFM that excavators had recently passed through the village in the direction of the proposed route. Construction of pipe yards and worker camps reportedly began in the Tsalka region prior to BTC Co. fulfilling requirements to elaborate an additional "minor re-route" and special prevention and mitigations plans. The Ministry of Environment sends weekly reminders to BTC Co. of their overdue obligations, but hasn't received a response.
- **Geohazard and landslide risks are inadequately addressed.** The ESIA conditions also mandate additional studies of geohazards, in particular the threat of landslides in five named sections. The environment minister faulted the ESIA's treatment of the risk of landslides. These additional studies are still incomplete. The topology of the land crossed by the pipeline also poses significant problems for heavy erosion, which have not been adequately assessed as part of the landslide issue. While the Georgian president recently established a commission to look at the landslide issue, this is legally separate from BTC.

Corruption

- **Criminal elements are extorting money from landowners.** During the mission, the FFM was told of many instances of extortion surrounding the land compensation process. Local government officials, NGOs, and community representatives all stated that “mafia types” are demanding 10-20% of the compensation paid to people whose lands are impacted by the pipeline. Efforts by BTC Co. and officials to mitigate this problem, such as encouraging people to establish bank accounts and positioning police officials, have been only minimally effective. As the names of the individuals receiving compensation are supposed to be confidential, people questioned how it became possible that criminal groups obtained full and detailed lists of landowners/users being compensated. It is also widely stated that the problem is more widespread but that many people are too afraid to come forward.

Land Compensation

- **Landowners will lose access to land permanently.** Landowners were told at the beginning of the land compensation process that the companies would be leasing their land and that they would receive compensation for the production that they are losing while the pipeline is being constructed. However, the Georgian International Oil Company (GIOC) since insisted that the companies purchase the land from landowners, rather than lease, because it wants to guarantee access to the land.

BP/BTC Co. continues to express a desire to return the land back to the owners after the construction period ends, estimated at about three years. Many people expressed shock that the contracts did not state this understanding and, as a result, are refusing to sell their land. There is no legal basis for returning the land so there is, understandably, considerable fear that GIOC will keep control over the land and not turn it back over to the original landowners, or that BTC Co will sell the land to a foreign company.

- **Compensation of village land is unsettled and prompting clashes.** The process of compensating villages for community-owned, primarily pasture, lands is largely unsettled and prompting some clashes. It is undecided whether compensation will go to the local government administration or if community based organizations (CBOs) will be established to administer the funds. There is concern that the regional government administration will insist on a cut of the compensation if the local government receives the funds. There have also been protests in some villages about how the funds would be spent. In Vale for example, some villagers want the money divided up among all the residents, while the local government wants to invest the funds in services and infrastructure. Women in the village reportedly organized a strike over this issue.

- **Contracts not released in advance.** While there were a series of meetings with villages to explain the land compensation process, the FFM did not meet any landowner who received the contract ahead of time.

Development Impacts

- **The pipeline's route through Borjomi could destroy vital sectors of the Georgian economy.** There is deep concern with the pipeline's route through the Borjomi region and possible devastating impacts for the mineral water industry in the region. There is little dispute that the mineral water industry is economically vital to Georgia. For example, mineral water comprises 10% of Georgia's exports. The Georgia Glass and Mineral Water Company (GGMWC) is the main bottler of Borjomi mineral water. There are also smaller companies that bottle the Borjomi brand of water, and a company that supplies to these small bottlers. GGMWC provides directly and indirectly about 2,000 jobs, it is the dominant source of the regional budget, and the company's tax payments are at least as significant as the transfer fees that will accrue to the government from BTC. Furthermore, the company is experiencing significant growth, 30% in the past year and projected 40% this year.
- **The pipeline also threatens the future of the tourism industry.** The town and region of Borjomi are renowned as a spa and resort area in the Caucasus, and tourism is seen as a high potential area for growth and investment in Georgia generally, and Borjomi particularly. WWF manages the park, supported by donors such as the German development agency, with a view to promoting sustainable development in the region. Any leak from the pipeline would destroy Borjomi's image of pristine beauty and sabotage ongoing development efforts.
- **Parties consulted by the FFM that have a connection to the mineral water and tourism industries stressed the strong preference of a pipeline route that avoids the Borjomi region.** Already competitors in the mineral water market have reportedly fed press stories predicting the demise of the Borjomi brand, and the company confirmed that one possible investor, the French company Danone, pulled out because of concerns over the pipeline. Several potential investors in the tourism industry reportedly have also backed out of plans to invest in Borjomi. *Reputational risk exists for the mineral water and tourism industries regardless of whatever safety measures BTC Co adopts.*
- **Decline of the mineral water industry would have deep economic and social fallout for local residents.** Workers at the GGMWC bottling factories stressed the lack of alternative employment in the region, and stated that a collapse of the Borjomi brand would mean unemployment, and would force them to move out of the region, presumably to Tbilisi or to Russia in search of jobs.

- **Local people disappointed in poor job creation of BTC.** Though BTC Co talks about the need to manage expectations, there are already complaints about a lack of jobs associated with pipeline construction. Villagers and mayors complained that most workers are coming from outside the village, and that the companies are ignoring qualified people in the villages.
- **CIP seen as inadequate and flawed.** The Community Investment Program (CIP) allocates funds to communities in the pipeline corridor. There are two separately managed programs, one for eastern and another for western Georgia. In eastern Georgia, several mayors told the FFM their villages would get receive USD 20,000. Most village representatives called this a pittance, and not even enough money to fund one item on their long list of needs. This same amount was mentioned for three different cities even though one village had twice the number of residents as another. Another mayor complained that his village is subjected to the traffic and dust of the heavy construction trucks, yet it gets the same compensation as a village that does not suffer through those impacts. The village mayor also complained that children have been unable to play outside as they have done because of the traffic dangers. This village has organized two road blockades in recent weeks to protest these negative impacts.
- **Indirect employment and small business opportunities not emerging.** BTC Co. says that the construction will facilitate indirect employment opportunities. However, in talking to managers at the pump station construction sites, it is clear that the company is mainly using outside caterers and is importing food from abroad. No village mayors spoke about new business activity being opened up to the village.

Public Participation

- **Key stakeholders were inadequately informed of the pipeline's development.** While the companies have held public consultations on the project throughout Georgia, there has been inadequate consultation with key stakeholders. For example, BP informed the Georgia Glass and Mineral Water Company in late spring 2002 letter that a final route had been chosen for the pipeline and that it would pass through the Borjomi region where the company has its water sources. Similarly informed was WWF Georgia, which runs sustainable development projects in the Borjomi Park. Both stakeholders told the FFM that they previously were aware that four routes had been under consideration, but were completely uninformed of the particulars of the route or that a final decision was to be made without any public input. Given the risks to the Borjomi region and the potential economic, social and environmental impacts, the FFM finds this a glaring shortcoming. The companies still have failed to make public the background studies that led to the final determination of the route.

- **Key village is missing in Resettlement Action Plan.** The village of Dgvari is not mentioned in the Resettlement Action Plan (RAP), and villagers said the companies did not visit them until early 2003. This is one of the landslide areas requiring further study for the environmental conditions. This lack of consultation is particularly problematic given the chronic landslides this village faces. The village has long suffered from severe landslides. Many homes are uninhabitable because of inches-wide gashes in their foundations; other people are living in homes that are shifting. The pipeline would cross the mountain range above this village. Since the early 1990s, the villagers have called on the Georgian government to resettle the village. They now feel a particular urgency, perceiving that the pipeline will make the landslides worse, a concern shared by Georgian geologists.
- **Local authorities have not been approached to coordinate construction activities.** Mission representatives heard a number of concerns that due to construction, local communities may temporarily lose access to fields and pastures since local roads will be closed. In Jandari, the mayor complained that the construction contractors never bothered to contact local authorities to discuss traffic safety issues or dust mitigation measures even though the company's heavy trucks use the road passing through the village. In Akhaltsikhe, town authorities have no information on when construction will begin, leading to rumors regarding investment in the region, which in turn has increased the price of some goods and services.