



## **CAO OMBUDSMAN ASSESSMENT REPORT**

**Complaint regarding the  
Baku-Tbilisi-Ceyhan (BTC) Pipeline Project  
Vale, Georgia**

**[Georgia / BTC Pipeline-32/Vale]**

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Office of the Compliance Advisor/Ombudsman  
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## 1. Introduction

The Compliance Advisor Ombudsman (CAO) is the independent recourse mechanism for the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA). The CAO reports directly to the President of the World Bank Group. Its mandate is to address in a fair, objective, and constructive manner complaints brought by communities or individuals affected by IFC or MIGA projects, and to enhance the social and environmental outcomes of these projects.

Upon determining that a complaint meets the specified criteria for a CAO intervention, the CAO Ombudsman conducts an assessment of the situation to clarify the issues, facilitate communication between the parties about their perspectives and interests, and assist them in identifying opportunities for resolution. The assessment does not gather information to determine fault or make judgments on the merits of a complaint.

To be eligible for CAO assessment, complaints must demonstrate that:

- The complaint pertains to a project that IFC/MIGA is participating in, or is actively considering.
- The issues raised in the complaint pertain to the CAO's mandate to address environmental and social impacts of IFC/MIGA investments.
- The complainant may be affected if the social and/or environmental impacts raised in the complaint occurred.

## 2. Summary and Purpose of the Assessment

This assessment is in response to a complaint filed with CAO in August 2008 by the NGO *Georgian Young Lawyers Association* (GYLA) on behalf of residents of the village of Vale, Georgia. The complaint claims that BTC Co. did not fulfill the terms of its "Guide to Land Acquisition and Compensation," and questions BTC's compensation calculations for reinstatement of land purchased by the company during pipeline construction.

The Baku-Tbilisi-Ceyhan (BTC) Main Export Pipeline project involves development, financing, construction, and operation of a dedicated crude oil pipeline system to transport oil from the existing Sangachal oil terminal near Baku, Azerbaijan, through Georgia to an export terminal at Ceyhan, Turkey, on the Mediterranean Sea. The 1,760-kilometer pipeline is buried throughout its length as it passes through Azerbaijan (442 kilometers), Georgia (248 kilometers), and Turkey (1,070 kilometers). The pipeline transports up to one million barrels of crude oil per day from a cluster of discoveries in the Caspian Sea known collectively as the Azeri, Chirag, deepwater Gunashli (ACG) field.

The project is operated by BTC Co., which comprises a consortium of 11 partners. At the filing of this complaint, the CAO had received a total of 33 complaints in relation to the BTC project, ranging from individuals to communities to local organizations.

The purpose of this assessment is to describe facts and information gathered during the assessment, and to report outcomes of the assessment and next steps taken by the parties to resolve the issues.

### **3. The Project**

The Baku-Tbilisi-Ceyhan (BTC) oil and gas pipeline is a 1,768 km long crude oil pipeline stretching from the Caspian Sea to the Mediterranean Sea. It is the second longest oil pipeline in the world and passes through Azerbaijan, Georgia and Turkey. The project involves a consortium of 11 partners established in August 2002. British Petroleum (BP), the largest shareholder in the project (30.1%), serves as managing operator of the pipeline. Other partners (in descending order) are SOCAR [State Oil Company of Azerbaijan] (25%), Unocal (8.9%), Statoil (8.7%), TPAO [Turkish Petroleum Corporation] (6.5%), Eni (5%), TotalFinaElf (5%), ITOCHU (3.4%), INPEX (2.5%), ConocoPhillips (2.5%), and Amerada Hess (2.3%).

In its capacity as pipeline operator, BP leads the project design and construction phases. The total project cost is approximately US\$3.6 billion.

The International Finance Corporation's (IFC's) gross investment in the project is US\$250 million, \$125 million of which is for IFC's own account (referred to as an A loan), with an additional \$125 million in syndicated loans, (or so-called B Loan program).

The Georgia section of the pipeline starts in Gardabani at the Azerbaijani-Georgian border and passes through seven regions of the country, including the southern region of Samtskhe-Javakheti, where the town of Vale is located.

To date, CAO has received 33 complaints about the BTC project, ranging from individuals to communities to local organizations. Most of the complaints come from Georgia, and this is the fifth complaint from the Vale area regarding the social and environmental impacts of the project.

### **4. The Complaint**

In August 2008, CAO received a complaint signed by a representative of the Georgian Young Lawyers Association (GYLA) and by 31 residents of the village of Vale, Georgia, regarding reinstatement of their land following completion of pipeline construction. The complaint claims that BTC Co. did not fulfill the terms of its "Guide to Land Acquisition and Compensation," which commits to undertaking a final inspection – together with the primary owners/users of the land – of the whole pipeline territory to ensure its proper reinstatement and suitability for agricultural activity. The complainants also question why BTC's compensation calculations for certain plots were based on 2002 market prices, and not commensurate with 2007-08 prices.

#### **4.1 Additional Issues Raised During the Assessment**

Following initial phone calls and email exchanges with the GYLA representative, CAO learned that the majority of the 31 local signatories living in Vale were unaware GYLA had filed the complaint to the CAO, and did not know the CAO or its mandate. The complainants' understanding was that GYLA was working directly with BTC to resolve the issues.

GYLA acknowledged that not all of the complainants were aware of CAO or its mandate, but said that company had been unresponsive to GYLA and that the two sides were deadlocked. In an effort to break the impasse GYLA filed a complaint to CAO.

Each of the 31 Vale complaints relate to fulfillment of servitude agreements between BTC Co. and the landowners during construction of the pipeline. The 2004 servitude agreements

transferred ownership of portions of land along the pipeline right-of-way to BTC Co. until pipeline construction was complete. At that time, according to the agreement, the impacted land would be reinstated for agricultural or other appropriate use, and unrestricted usage rights – along with compensation for any crop loss – would be returned to the owner. Some signatories to the complaint claimed they had not yet received official documentation transferring use rights back to the original owner; others claimed their land had not be rehabilitated properly; and still others claimed that compensation payments were not sufficient.

#### **4.2 Perspective of the Company**

BTC Co. confirmed to CAO that it had received several complaints (some from individuals and some via GYLA) the previous year regarding settlement of servitude agreements and reinstatement of land in Vale and elsewhere. However, the company was unaware of the filing of the current case to CAO, and said they did not know who the specific signatories were or the land parcels in question. BTC Co. also reported that in the months since the company had last spoken with GYLA, it had negotiated and reached numerous agreements with land users in Vale, and a number of agreements were pending or still to be negotiated.

Following initial discussions by phone with CAO, BTC Co. asked CAO to provide a copy of the GYLA complaint so it could review the individual claims against its own case documentation. The company committed to working with the parties and with CAO on any unresolved cases. CAO then asked GYLA to obtain the signatories' permission to release their names to BTC Co. Several months later, GYLA confirmed that CAO could share the name of each signatory and full complaint with the company.

After reviewing the names of the complaint signatories, BTC Co. produced a spreadsheet indicating the status of each individual's case regarding the servitude agreement (including land parcel number, purchased area, payment for land, hand-back status, servitude area, servitude compensation, and crop status). Of the 31 signatories to the complaint, BTC reported that seven had not settled the land hand-back process with BTC. BTC Co. provided CAO and GYLA with a description of those unsettled cases, and the reason the cases had not been settled.

#### **5. Ombudsman Complaint-Handling Process and Closure**

CAO contacted the seven individuals whose cases BTC said were unresolved to confirm the information provided by the company. CAO also contacted several signatories whose cases BTC reported as resolved, along with the spokesperson for the signatories.

For the next several months, CAO worked with BTC Co. and the seven remaining complainants to facilitate resolution of the cases. Some of the cases had deadlocked due to confusion over actual ownership of the land. Others involved disputes about crop compensation, and in one case, BTC had been unable to locate the registered landowner.

Ultimately, agreements were reached between all seven of the signatories and BTC Co. CAO facilitated and monitored final agreements with several of them, and others were resolved directly between the company and the individual complainant. BTC Co., and/or the signatories provided CAO with the individual, signed agreements indicating resolution of the cases.

In October 2009 the last of the 31 signatories to reach agreement with the company confirmed that a final settlement had been reached, and CAO closed the complaint.