

Case 3**British petroleum and the BTC pipeline: Turkish delight or Russian roulette?**

This case analyses BP's social responsibility initiatives in the context of one of the largest construction projects in recent history, the Baku-Tbilisi-Ceyhan pipeline. It exposes the ethical problems and dilemmas faced by a large Western multinational operating in a host country environment characterized by corruption, poor governance, and potential human rights abuses. It allows us to examine the ethical basis of claims for corporate responsibility and highlights questions regarding the boundaries of responsibility for corporations.

It is not often that a large industrial project features centre stage in a blockbuster movie. But this was exactly what happened to the Baku-Tbilisi-Ceyhan (BTC) pipeline project when the 1999 instalment of James Bond, *The World Is Not Enough*, with Pierce Brosnan and Sophie Marceau, was plotted around a terrorist coup on the massive oil pipeline project in the Caucasus that has strategic importance to the West (and therefore, of course, to the British secret service MI6!).

On its completion in 2006, the €2.61bn BTC pipeline, linking the world's third largest oil reserves in the Caspian Sea near Baku in Azerbaijan to the Turkish port of Ceyhan on the Mediterranean coast, was considered the world's largest private construction project, designed to transport 1m barrels a day over a distance of some 1,100 miles. The strategic importance of the project lies in reducing Western dependency on Middle Eastern oil, while at the same time providing safe access to energy through NATO member Turkey and NATO candidate Georgia, while avoiding exposure to the political instability of post-Soviet Russia. Ultimately, the pipeline is designed also to provide access to oil reserves in Kazakhstan and other central Asian countries.

The BTC project is privately operated by a consortium of 11 large oil MNCs from countries including the US, Japan, France, Norway, and Italy, with British Petroleum (BP) as the leading partner, owning 30.1%. BP is a major player in the Azeri oil fields and sees this area as one of its major strategic business units. The project is also a crucial source of revenue—estimates talk of \$150bn over the next 20 years—for the Azerbaijan, Georgian, and Turkish governments through whose territories the pipeline runs. Given the expected economic knock-on effects, the project was dubbed the 'silk road of the 21st century' by the Turkish government.

Pipeline problems

It is perhaps no surprise that a project of such magnitude has raised all sorts of concerns on the part of campaigners and civil society groups. First, such a project has significant environmental impacts through the disruption caused during the building phase. There were concerns about the coating of the pipeline and the risks of leakages, in particular in Georgia, where oil spills might significantly impact the country's strategic water resources in the Bojorni National Park. Concerns were also raised over the fact that the pipeline runs through earthquake zones, with campaigners claiming that this would make leakages nearly inevitable. Secondly, throughout the project, campaigners have highlighted the prospect of up to 30,000 civilians along the pipeline being (at least temporarily) relocated. Furthermore, the high ranking in the Transparency International Corruption Perception



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Index (for details, see Chapter 11) of Azerbaijan (ranked 158 in 2008) or Turkey (58 in 2008) gave little hope for a spread of the wealth in a way that would benefit a largely poor rural population. Finally, on the political level, with civil unrest and wars in the region—the pipeline passes within only a few miles of the war-torn area of Nagorno-Karabakh—the project had always been accompanied by considerable fears of terrorist attacks.

BP's introduces its CSR programme

Whilst it clearly has its detractors, BP was considered at the time of the pipeline's construction to be one of the leading companies in embracing sustainability and corporate social responsibility (CSR), certainly in comparison to its oil industry rivals. It had been one of the more prominent corporations involved in initiatives around renewable energy, climate change, human rights, and corruption prevention, among others. In line with these policies, but also in response to the expectation of the investors in the project (such as the European Bank for Reconstruction and Development), BP set up a Regional Sustainability Development Program (RSDP) from the early stages of the project in order to proactively address critical social, ethical, and environmental issues.

The RSDP consists of three parts. The first is an Environmental Investment Program aimed at dealing with ecological issues. The second is a Community Investment Program (CIP), which with a budget of about \$20m, mostly addressed social issues during the construction phase. And the third is the more long-term Regional Development Initiative (RDI), which has a similar budget of about \$25m, and is designed to accompany the project over a ten-year life span after its opening. Interestingly, only two other companies out of the 11 running the project joined BP in these efforts.

The CIP has been set up in such a way that the delivery of the project is carried out in partnership with NGOs and other organizations, such as universities and private consulting firms in the respective countries. In Azerbaijan and Georgia, this included only international groups, such as the International Rescue Committee (IRC), Save the Children, and Care International, while in Turkey, the CIP was mainly implemented with local Turkish organizations. BP also set up a group of local co-ordinators in the towns and villages affected by the pipeline, and in consultation with local community representatives, implemented a whole range of projects. Most of these focused on improvement of the local infrastructure in building and repairing roads, schools, utilities, and even graveyards, while other projects aimed at local economic development, focusing on agriculture and skill development. In Turkey, for instance, the programme resulted in the first commercial strawberry farm for export. In an attempt to secure transparency and accountability, BP also set up a monitoring and complaints procedure, run by the American billionaire George Soros' Open Society Institution, in co-operation with more than 30 local NGOs.

While many of these projects and initiatives led to fairly immediate impacts, the CIP was also hampered by a number of issues. Collaboration between all these different actors proved difficult, with many local actors competing against each other and communication with local, often illiterate, landowners on the issue of compensation proved difficult. In relying on local actors in the delivery of the CIP, BP was also exposed to an environment threatened by corruption, which in turn led to complaints from locals, in particular in Azerbaijan and Georgia. In Turkey, where the national oil company ran the scheme, miscommunication between the contractors and the local authorities led to complaints about

the approach from the donors in implementing the projects. In many communities, the efforts were also hampered by local political divisions and in one case, even a blood feud between the dominant families.

For campaigners such as Friends of the Earth, Amnesty International, and Bankwatch, the BTC project is to some extent evidence that much of BP's talk about CSR and sustainability is little more than 'greenwash'. They, for instance, blamed the company for signing a Host Country Agreement (HGA) with Turkey which 'blatantly disregards the European Convention on Human Rights', as Professor Sheldon Leader, the legal advisor to Amnesty International, put it. They also criticized the company for the alleged torture of human rights activists and critics of the BTC project by local police in Turkey. They also reported cases where landowners had been apparently threatened into accepting inappropriately low compensation settlements.

Many of the issues were made public in the 2006 documentary film *Zdroj (Source)* by Czech filmmakers Martin Mareček and Martin Skalský. The film documents not only the devastating social and environmental consequences of Caspian oil production (where BP is a major player), but also serious human rights abuses through the BTC project. The film features a great number of local residents who claim never to have been compensated for their land, let alone to have been asked for permission to use their property. It also alleges corruption among the Azerbaijan governing elite, which in turn impedes a broader spread of the wealth generated by the oil, and suppresses opposition by civil society groups.

Operations commence, yet ethical challenges persist

Despite these problems, the pipeline went into operation in 2006 and BP has been in charge of running the Azeri and Georgian parts of the pipeline, while the Turkish section is run by the state oil company Botas. However, the external Caspian Development Advisory Panel (CDAP), appointed in 2003 by then CEO of BP, Lord Browne to ensure that BP lived up to its aspirations for the BTC project, warned in its March 2007 report that BP needed to recognize that it faced ongoing challenges in the operations phase. These included such diverse challenges as government and state oil company misuse of revenues accruing directly and indirectly from the pipeline, growing community resentment of a pipeline that passes underfoot, but provides no discernible local benefits, and alleged human rights abuses by the state security organizations charged with pipeline security.

The CDAP recommended a number of specific actions, including:

- Continuing the RDI.
- A centralized coordinating structure for the RDI, which is now organized as a set of different country-based initiatives, and the adoption of sustainable development as a cross-cutting theme for the RDI as a whole (access to energy, enterprise development, and effective governance).
- Appointment by BTC of independent ombudsmen in Azerbaijan and Georgia to hear complaints from individuals who believe their human rights have been abused by state security personnel protecting the pipeline, and engagement of the Turkish authorities to encourage the creation of a comparable institutional vehicle in Turkey.

- The appointment of an independent external body to conduct periodic reviews of BP's performance on the ground in the Caspian region.

BP's response to these recommendations was largely positive, and the company subsequently committed \$41m to the RDI for the three years 2006–8 and gained an additional \$70m from other sources. BP itself committed an additional \$7m for regional projects, and maintained networks of Community Liaison Officers in Azerbaijan and Georgia to engage in capacity-building with local organizations, and to provide direct communications between BTC and the communities through which the pipeline passes.

Efforts to integrate the RDI in all three countries were mostly hampered by the governments of the three countries who preferred to not give up control of these issues to a third party on a transnational level. Despite this, BP engaged in a number of agricultural projects in Turkey, even though they were not running this part of the pipeline. However, with the 2007 resignation of Lord Browne, a noted supporter of CSR and sustainability, doubts were raised about the ongoing momentum behind BP's social initiatives in support of the BTC pipeline. Indeed, since this time, prominent NGOs such as The Corner House in the UK have continued to highlight a number of human rights and environmental concerns during the operation phase of the BTC project.

Beyond these problems in enacting its social responsibility initiatives, ongoing political tensions in the region have also continued to bedevil the BTC project. In August 2008, the pipeline again made headlines when an explosion, allegedly set up by the Kurdistan Workers Party (PKK), ruptured the pipeline, leading to a six-day fire and the spillage of 12,000 barrels of oil. While the route of the pipeline makes a considerable detour around the Kurdish territory, the risk of sabotage through the PKK remains. And then, only two days after this fire, the pipeline again drew attention when Russian planes dropped bombs dangerously close to its route in the South Ossetia conflict between Russia and Georgia. It appeared that despite the efforts of BP to address the social, ethical, and environmental issues around the pipeline, it would continue to be a project as much suited to James Bond as to a CSR manager.

Questions

- 1 What are the main ethical issues and dilemmas BP faces in this case?
- 2 How would you evaluate BP's approach to the social, environmental, and economic impacts of the project for local communities? Assess the approach from the perspective of utilitarianism and deontology (ethics of duties) first. Will the assessment differ from a rights- and justice-based perspective?
- 3 This case raises questions about the scope of responsibility for a Western MNC operating in environments with corruption and poor governance. What is your opinion on how far a company such as BP should go in this case? Can they really be made responsible for the actions of local officials and governments? Try to base your answer on arguments derived from one or more ethical theories.
- 4 What is the appropriate way for BP to respond to its ongoing criticism? Base your answer on the contemporary ethical theories, in particular virtue ethics, discourse ethics, and postmodern ethics.

Sources

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Notes

- 1 See <http://www.iccr.org>.
- 2 See <http://www.business-humanrights.org>.
- 3 Data from the Human Development Report (HDR) (2007), United Nations Development Program, 27 November, p. 25.
- 4 In some ways, then, postmodern approaches to ethics resonate quite substantially with some Asian ethical frameworks, particularly those such as Buddhism or Taoism. Rather than the monotheistic 'book religions', which in different degrees have entire dogmas of right and wrong built around them, these Eastern philosophies seek to go beyond rationality and instead emphasize qualities such as compassion or spontaneity.