

PETROLEUM IN GEORGIA 2004

1. A PIPELINE OF TROUBLE IN GEORGIA

An oil corridor through the Caucasus set to open next year, angers villagers and environmentalists. The 130 dirt-farming families in this Caucasus village barely manage to scrape a living from the stony pastures they collectively own. And so when a big oil company wanted to lay a pipeline through this hard patch of earth, it was, as one local leader put it, like "a bolt of good luck from heaven".

But what looked like a boon is now clouded in discord. Some residents are threatening to halt the project's advance by sitting in front of the bulldozers when construction teams begin work in Khaishi in May. "We'll put our babies down in their cradles, if necessary, and we'll stay there as long as it takes to make BP listen to us," says Natia Gulidani, reflecting the view of dozens of her neighbors.

About two-thirds of Khaishi's families claim they were cheated out of their share of about \$ 330,000 - a fortune here - when their former village headman and his relatives allegedly absconded with the money BP and its partners paid to use the community's lands.

Now wending its way through local courts, the Khaishi case is but one of a host of woes besetting the strategically crucial Western-financed Baku-Tbilisi-Ceyhan (BTC) pipeline - the only significant economic development project in impoverished Georgia in a decade. The BTC project, which will cost nearly \$ 3 billion and snake 1,000 miles through Azerbaijan, Georgia, and Turkey, is slated to begin pumping crude from newly opened Caspian oilfields to world markets in April 2005. The US has strongly backed the project as part of its effort to diversify petroleum sources away from the Persian Gulf. Russia, on the other hand, sees BTC as a direct threat to its own existing pipeline network, which currently carries most of the Caspian oil to export markets.

Experts blame Georgian crime, corruption, and inept government oversight for the escalating social tensions over the unequal division of BP's generous land compensation payments. "Our society is poor and traditional, and was completely unprepared for this," says Manana Kochladze, regional coordinator for Bankwatch, a Western-funded nongovernmental organization that studies the environmental and social impact of the pipeline. "Now, suddenly, a big multinational company comes in, handing out jobs and big sums of money to a few people, and all kinds of new problems seem to grow out of thin air."

Villagers are not the only ones upset. Local environmentalists say they are outraged by the decision to run the pipeline through the Borjomi gorge, an alpine resort and the source of Georgia's most famous brand of mineral water.

The pipeline company, a consortium headed by BP, denies responsibility for troubles cited by critics. BP spokeswoman Rusudan Medsmariashvili says the company scrupulously follows Georgian law, and lets the courts decide who is entitled to cash compensation payments. In the case of Khaishi, she says, local authorities and courts identified the owners of the land the pipeline was to cross, and BP paid those people.

"[The company] relies entirely on the state authorities for the veracity and timely provision of such information," she says. But the newly elected village headman in Khaishi, Guladi Umpriani, says it's not that simple. Georgia's post-Soviet laws on land ownership are imprecise, proper inventories nonexistent, and local courts are corrupt, he says. News that BP wanted these lands for the pipeline hit the destitute community like "a bolt of good luck from heaven," Mr. Umpriani says. "We trusted our (former) headman to draw up the necessary documents, and he promised to get the best price and distribute it equally to the whole village," he says. "Without our knowledge, he registered his own friends and relatives as the owners, and they got everything. The situation in this village is now very tense, and could turn violent at any moment."

Mr. Umpriani says villagers don't actually blame BP for what happened, but are angry that the company never sent anyone to talk to them, to look into their problems, or to help them in their struggle for justice. Experts say that former President Eduard Shevardnadze is partly to blame for fostering unrealistic expectations about the benefits BTC would bring to Georgia's population of 4.5 million, more than half living on less than \$ 30 per month. "The government told people the pipeline would create 60,000 jobs, and make everybody rich," says Georgia's environment minister, Nino Chkhobadze.

BP says that only about 2,000 jobs will be created for Georgians during peak construction; afterward, only 100 permanent jobs will remain. The BTC pipeline will also generate about \$ 50 million in transit fees annually, or 7 percent of bankrupt Georgia's current GDP, during its projected 40-year life span. But critics point out that Georgia will be responsible for the security costs of its 154-mile portion of the pipeline, which could eat up to half of those revenues.

Ms. Medsmariashvili says BP has launched a \$ 5 million Community Investment Program to improve local infrastructure and stimulate economic development along the route in Georgia. It will fund 53 local projects such as providing clean drinking water, repairing roads, fixing schools, and installing new irrigation systems.

Last November's "rose revolution," in which Mr. Shevardnadze was overthrown in street demonstrations led by US-educated reformer, now President-elect Mikhail

Saakashvili, may have roiled the waters by inspiring some Georgians with real or perceived grievances to get aggressive with BP, experts say.

"In the past month there have been dozens of protests by villagers over compensation payments and other complaints against BP," says Ms. Kochladze. "The company's own Georgian construction workers have been striking repeatedly over wages and overtime issues. This may have been stimulated to some extent by the political example set last November. "BP says it is paying workers between \$ 200 and \$ 550 per month – far above the average wage.

Another problem raising hackles here is BP's decision to run the pipeline through the pristine Borjomi mountain gorge, an area known for landslide hazards, where an oil spill could undermine tourism and destroy the reputation of Borjomi mineral water - Georgia's answer to France's Perrier water, and the country's third-largest export.

"At the very least this pipeline will ruin the visual landscape, which can't be good for our hopes to bring tourists back here," says Natia Muladze at the Borjomi State Nature Reserve, home to several unique bird and plant species.

According to BP's Ms. Medsmariashvili, the company decided not to use what critics describe as a more direct and environmentally safer route through Georgia's southern Akhalkalaki region "based on the insistence of the Georgian government which was concerned with the security issues associated with the presence of a Russian military base in the district."

The main employer in Akhalkalaki region is the Russian base, one of two remaining in Georgia after the USSR's collapse. Both the US and the new Georgian government of President-elect Saakashvili have urged Russia to withdraw its troops, but the issue remains a serious bone of contention between Moscow and Tbilisi.

The Minister of Environment of Georgia is the only government department that has yet to sign off on the pipeline. Ms. Chkhobadze says she wants BP to reexamine the Borjomi route; the company says the question is closed.

Most Georgians appear to support the pipeline as necessary for the country's economic development and hopes to integrate with the West. But critics say more public debate about the social and environmental issues is needed.

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