

CASPIAN DEVELOPMENT ADVISORY PANEL

BP Response to the Letter from the Panel to the Lord Browne of Madingley,

March 2007

BP welcomes the Letter of January 2007 from the Caspian Development Advisory Panel (“the Panel”) to its Chief Executive Officer, the Lord Browne of Madingley, and the insights, observations and recommendations it contains. The support and advice that BP has received from the Panel over the past four years have proven invaluable in helping us to operate our assets responsibly and contribute to sustainable development in the Region. As the panel notes, a willingness for this level of transparency is extremely rare among the extractive industries.

The company’s management is especially pleased that the Panel accepted its request to remain in place for a further year, following an initially agreed intention that it would conclude its work with its 2005 report. As our activities in the Region continued to progress from the developmental to the operational phase during the course of 2006, this continued support and observation by the Panel has been of particular importance.

The Panel’s letter is structured in four parts: an overview of BTC Co’s achievements to date and challenges ahead; the completion of the construction phase; the transition into operations; and BP and the BTC’s longer term presence in the Region. We have structured our response in the same way.

I. Overview: BTC’s Achievements to Date and the Challenge Ahead

BP and BTC Co. saw a number of key business achievements in the Region during 2006. These included BTC linefill in late May, the first tanker lifting from Ceyhan in June, the start-up of the West Azeri and East Azeri fields, the completion and commissioning of the South Caucasus Pipeline (SCP) and its connection with the BOTAŞ gas network in Turkey. In February 2007 the 100th cargo was lifted from the Ceyhan Terminal in Turkey.

Throughout the construction phase and as we have moved to the operational phase, we have striven to uphold our aim to make BTC and its associated projects a new model for large scale extractive-industry investments by major multi-national enterprises in developing and transition countries. In striving for this, we have consistently aimed for high standards in managing our - and our contractors’ - impact on society, the environment, the countries’ cultural heritage and human rights. We will continue to do so.

In an era of growing concern for the security of energy supplies, the strategic importance of the projects cannot be overemphasised. The Panel notes the significance of the BTC, and of other major energy projects in the Region, to the economies of Azerbaijan, Georgia and Turkey, and the opportunities for development in these countries that have been created by the multi-billion dollar investments made by the foreign companies. BP and its co-venturers concur with the Panel's view that the realisation of this level of investment is a number of years away, and recognise entirely that a long term sustainable commitment to the development of Azerbaijan, Georgia and Turkey is necessary.

As the Panel notes, the large-scale construction activity that has taken place over the past four years, as the BTC has been built, is a tiny fraction in comparison with the 40-year operational life of BTC and its associated projects. With this operational period only just begun, BP recognises, and will continue to address, the need to apply sustained senior management attention and take all the necessary steps to ensure that due care is taken with regard to human rights and social impacts. BP has well-established teams, whose role is to continue to maintain this due care and attention, in Azerbaijan and the two transit countries.

The Panel stresses the need for the commitment by BP and its co-venturers to long-term development in the Caspian to be sustained over the entire operations phase, 'if it is to have a meaningful and lasting impact'. In addressing this point, with which BP is entirely in agreement, we would like to reiterate our approach to the similar recommendation made by the Panel in its letter of 2005, which was to establish the Regional Development Initiative (RDI). This initiative offers scaled-up support to sustainable development throughout the Region, through its Enterprise Development, Energy and Effective Governance themes.

Targeted at the local level, our Community Investment Programme (CIP) remains committed to supporting the communities neighbouring our operations and activities in the region. By partnering directly with these communities, the CIP continues to build capacity, support agricultural and micro-enterprises, and address locally-prioritised development challenges.

It is our intention to continue and, in some cases, enhance, these programmes throughout the operational phase.

II. Completion of the Construction Phase

A. Reinstatement and Restoration of the ROW

The Panel's view that much of the work done on the reinstatement along the pipeline's route is 'world class' confirms the success of our efforts to meet the highest standards possible in this regard. As the Panel members have found on their visits along the route, it is very encouraging to see hearty vegetation re-establishment, even in the relatively short time since reinstatement.

BP agrees with the Panel's belief that a construction project of the magnitude of BTC sets an example for future large construction projects in the three countries, and is heartened by the Panel's view that; 'the care and attention with which BP and its co-venturers have designed, laid and reinstated BTC and SCP serve as a powerful statement that economic progress need not be reduced by the high costs of environmental degradation.'

With this overall picture in mind, BP acknowledges the Panel's comments about shortcomings in reinstatement standards on certain ancillary pipelines in Turkey. As the Panel acknowledges, these pipelines fall outside the scope of the lump sum turnkey contract (LSTK) awarded to our contractor BOTAŞ Project Directorate and its subcontractors, and we therefore have no direct control over reinstatement activities. However, BP and BTC Co. will continue in our endeavours to encourage BOTAŞ to carry out reinstatement of these pipeline segments as closely as is practicable to the standards employed by the BTC project.

At the same time, BTC Co. will continue to work closely with BOTAŞ International Ltd (BIL) to ensure BP's and its co-venturers' interests, and those of communities living along the pipeline route, are managed in accordance with standards set forth in the Project Agreements. In this regard, BTC Co. and BIL are working closely together to ensure that ISO management systems are introduced and certified. The first of any such certificates will be ISO 14,001, and this will be achieved in 2008. We will continue to work with project-affected communities, using those management practices successfully applied during the construction phase of the project.

In addition, BP notes the Panel's recommendation that it closely supervise BOTAŞ Corporation's work on the reinstatement of the East Anatolia Natural Gas Pipeline (NGP). As the Panel notes, this was built prior to the BTC but parallels the ROW along a portion in eastern Turkey. Cementing its offer to pay BOTAŞ to rectify deficient reinstatement of this section and in accordance with a third amendment made to the LSTK in mid-2006, BTC Co. has taken firm steps towards resolving this issue. The agreement secures the completion of further work (as described in the Turkey ESIA) with respect to remedial actions along the BTC route, to address areas affected during the construction of the NGP in parallel sections. A detailed survey was completed in 2006 to define the scope of work, and the contracting and procurement process is continuing through the 2006/2007 winter season with a view to commencing the work in 2007.

B. Reinstatement of Access Roads and Construction Camps

The Panel's recommendation 'that BP should adopt a three part test when confronted by requests to leave in place the improvements made to access roads or camps during the construction process' is well founded. Currently there are a number of temporary sites that are still to be handed back to the landowners. For those sites, we will endeavour to develop a process that embodies the principles described above. However, we know that this issue will not be straightforward to resolve in countries where the planning and zoning process is not yet fully institutionalised. For those sites already signed off by the land owner (agreement between landowner and construction contractor) the possibility of implementing recommendation 'iii' (that the authority or

owner has agreed to assume long term responsibility for maintenance) may be limited, but will be considered.

C. Waste Management

With reference to the Panel's first recommendation for an 'after action review' for waste management based on BTC's experience, we can confirm that we have held a number of sessions examining lessons learnt on the BTC project and these have been shared with others in BP and within the co-venturing companies. In particular, in November 2006, BP published its mandatory Environmental Requirements for New Projects (ERNP), which cover the entire BP Group. The requirements cover both the impact management process and environmental performance requirements, one of which covers waste management.

Lessons learned from the BTC project have been incorporated into these mandatory requirements. Examples include the requirement for waste management provision to be made in all contracts and agreements (production sharing, host government, and inter-governmental agreements), and a stipulation that waste shall only be accumulated or temporarily stored for a maximum of one year (where legally compliant facilities for reusing, recovering or disposing of the wastes are unavailable, and provided associated risk assessments have been completed). All of these requirements were written into the ERNP as a direct result of our experiences on the BTC project, to ensure that these issues were addressed proactively and at the very outset of project developments. We have provided the Panel with a copy of the ERNP, in order that it can see for itself the extent to which we have tried to close some of the gaps in environmental management, identified through the lessons learned from BTC.

With regard to the Panel's recommendation that BP 'should review the resources it devotes to waste management issues on a group-wide basis and consider the scope for consolidating policy responsibility for them to a greater extent at the executive level', BP is in the process of reviewing what technical skills and capability are needed to support the implementation of the environmental requirements and, in particular, the area of waste management. Technical guidance is also under development to support the effective management of waste along more consistent company-wide lines.

In making particular mention of waste storage conditions in Georgia, the Panel recommends that BP continue to develop, with the Georgian authorities, a sustainable solution that will contribute to the country's modernisation in this area. BP is continuing to promote options for the creation of a permanent, EU standard municipal landfill facility in Georgia and BTC/SCP have allocated up to \$5m for this purpose. In addition to providing a major infrastructure benefit for the Tbilisi area, the new site could serve our own, relatively minimal needs during operations and enable us to discontinue use of non-EU landfill facilities at Iagluja, where we have already spent more than \$1m upgrading facilities. However implementation of the new site has moved very slowly. BP and its co-venturers continue to work with the Prime Minister's Office, Ministry of Environment and Tbilisi municipal leadership to determine a suitable site location and implementation plan. We are also cooperating with EBRD to leverage our funding and management resources and to develop a

sustainable and material solution that meets our needs and serves the wider needs of Georgia.

In addition, the Panel asks whether BP might consider a trans-border initiative covering waste management. The three country teams are fully aware of the efforts in regard to waste management through regular dialogue between the teams. Whilst recognising that the RDI might be a useful vehicle to explore future options with regard to waste management, we are unlikely, at this time, to consider a trans-border initiative, due to the difficulties associated with permitting and the requirements under the Basel Convention. The existing AzSPU Waste Management strategy considers potential opportunities to take some hazardous waste items (e.g. pigging wax, used oil, oily rags) to the best eventual facility available either in Azerbaijan or Georgia through export-import initiatives. However, such potential initiatives would also need to be supported by the governments concerned, offer economic benefits and to be sustainable. We therefore intend to continue to focus our attention on individual country needs.

D. Land Issues

As the Panel acknowledges, BTC Co. has gone to great effort to ensure that the land acquisition process has been as smooth, efficient and transparent as possible, and BP is also pleased to note the Panel's observation that the process has been carried out with the sensitivity towards the individual and communal landowners concerned.

With regard to the process of handing back land now that the construction phase is over, we note the concerns of an NGO in Georgia suggesting that no information on restrictions on new buildings within the 500 m safety zone, associated primarily with the SCP gas pipeline, has been conveyed to local landowners.

BP and BTC Co. would like to emphasise that the BTC and SCP pipelines have been designed to take account of all existing centres of population along the pipeline corridor. Restrictions are being secured to prevent the construction of dwellings in the immediate vicinity of the pipelines (referred to as Zones 1 and 2, generally a 58 m wide corridor) and compensation will be provided to all affected landowners under a special agreement. The acquisition of these additional rights is being conducted in parallel to the ongoing land-use hand back process. Our own ROW patrol teams will oversee compliance with the terms of these agreements. Restrictions in the 500 m Zone 3 are minimal and relate only to the construction of new substantial centres of population that have not been accounted for in the original pipeline design. Consistent with practice in other countries, we will rely on the normal planning procedures in place at local government level. These will ensure that anyone contemplating construction of a major population centre would be obliged to consult with the pipeline operator before committing to a new project. This enables us to ensure that all operations safety criteria are met. We have already produced materials explaining the different zones and remain ready to consult with any potentially affected party.

In response to the recommendation to develop a protocol to deal with land violations, we agree that it is important to avoid inconsistent and potentially counterproductive enforcement of land use restrictions by the various bodies that have a presence on the

ROW. To date, we have effectively coordinated our activities with those of local security forces in responding to potential risks to the safety and security of the pipelines.

For example, those people most likely to detect land use issues on the ground — the horse patrollers, technicians and local security organisations - are able to quickly call on the support of Community Liaison Officers (CLOs) in cases of need. To this end, procedures are in place in Azerbaijan and Georgia to contact BP CLOs if any issues arise that require interaction with villages, and to contact BP land officers if any issues arise regarding damage to land parcels. CLOs, in turn, ensure all such events are recorded via our grievance process mechanism for timely, considerate and fair review and response. During 2007, we will continue to work to strengthen awareness and understanding among the respective teams regarding lines of communication and response that is appropriate to the issue at hand.

In Azerbaijan, we have taken steps to support co-operation between CLOs and local security forces, and ensure greater awareness of each other's roles. During 2006, BP convened a series of 'Pipeline Security Working Groups' in communities along the ROW. These aim to facilitate direct dialogue between local community members, government security providers, and BP's CLOs and technical teams, regarding ROW land use, security and integrity issues. Over 90 forums were held during 2006 and we will sustain the initiative during 2007. Furthermore, during the first quarter of 2007, our combined team of CLOs and Security Advisers in Azerbaijan launched a training initiative on land use and restriction for SSPS officers. These sessions are designed to help SSPS guards understand landowners' and land users' rights in relation to the land usage.

In Georgia BTC Co. and SCP Co. are continuing to support training assistance for the Georgia SPPD. One of the components of this capacity building work is a focus on the development of effective communication and conflict resolution skills, and skills in assessing risk and responding appropriately and lawfully.

A consistent and harmonised response to potential risks to integrity, safety and security by our own resources and those of the host government is of ongoing importance. We will continue to focus on communicating on our standards and goals with the public security forces providing pipeline security in the three host countries, to seek ways to foster effective cooperation and, above all, respect for the human rights of those affected by our activities. We will also give due consideration to how a formally agreed protocol, as the Panel suggests, might assist in serving this objective.

E. Construction-Related Grievances

As the Panel has observed, certain construction activities resulted in a number of claims for additional compensation from local landowners and residents, as might well be expected with any project of this scale. As the Panel notes, most of the claims relating to community irrigation channels have been resolved. Pursuant to the Panel's recommendation, BTC Co. is seeking to ensure a swift resolution of any residual claims that still exist from the construction period, including those relating to claims

related to road use. Consideration will be given to the use of arbitrators in difficult cases.

The Panel recommends that BP and BTC Co. should ‘assess frankly the lessons to be learned’ from the challenges faced in managing construction phase grievances, particularly in Georgia. We acknowledge that, although the grievance mechanisms used in Azerbaijan, Georgia and Turkey were essentially identical, the sheer volume of grievances logged in Georgia posed some unique challenges.

The final Georgia project grievance log held a total of 3,461 grievances, covering both construction and land-related issues. Only 26 remained unresolved on completion of construction and these were transferred to the Operations team for resolution. Approximately 60% of all grievances were resolved in favour of the complainants.

Throughout construction, the BP/BTC team worked closely with external entities such as the Social and Resettlement Action Plan (SRAP) Panel and the Association for the protection of Landowner Rights — an independent Georgian NGO — to review performance in grievance handling. This resulted in a number of improvements to the process, including the appointment of additional CLOs to ensure greater contractor monitoring and quicker resolution of grievances.

In answer to the Panel’s recommendation, we will continue to review the effectiveness and transparency of the grievance process during pipeline operations and make further changes are required and will indeed assess the lessons we have learned from the grievance mechanisms in Georgia in particular.

III. Transition into Operations

A. Safety Issues

The BTC pipeline has been fully tested and commissioned and has around nine months of safe operations. The South Caucasus Pipeline has also been fully tested and commissioned and we are confident of its similar safe operation. Both pipelines have been built to the highest international standards and will be maintained to those standards throughout their lifetimes. As the Panel notes, our attention to high safety standards extends, as it does across the BP Group, to personal safety culture awareness.

With regard to the Panel’s recommendation that BTC Co. commit to a rigorous application of industry best practice with respect to pigging of the pipeline, we are pleased to confirm that a comprehensive baseline inspection will be performed during the first half of 2007 along the entire length of the BTC pipeline. The baseline inspection will be performed by our contractor Rosen Europe B.V., acknowledged to be a world leader in this technology. The survey comprises:

- Detailed cleaning and gauging

- Multi-channel calliper inspection – to check for dents, ripples, pipe ovality, wall thickness changes or other diameter reductions.
- Metal loss surveys performed with a Magnetic Flux Leakage (MFL) pig. This is to check for external and internal corrosion, illegal hot taps, and any other damage.
- A positional survey to confirm geographical position of the pipeline in the ground. This is to confirm that there has been no major movement of the line.

Future inspections are dependant upon the results of this 2007 baseline survey and assessment of current risks to the pipeline. Future surveys will be carried out at least once every five years.

Pursuant to the Panel’s recommendation concerning the reporting of leaks and spills, BP is pleased to inform the Panel that the procedure for external reporting of material releases is being updated and will include clear guidelines on how and when external stakeholders should be notified of incidents, specifically those relating to material releases such as oil spills.

In response to the concerns about alleged deficiencies in field joint coatings, BP would once again reiterate, as noted by the Panel, that any technical problems we encountered were identified early and effective solutions implemented during the construction process. This includes the application and performance of the field joint coating. We are confident that our extensive ongoing monitoring and assurance program for BTC addresses the recommendations in this area.

As detailed in our response above, the pipelines are being subjected to rigorous inspection and maintenance programmes: they are protected from corrosion and are being regularly inspected internally and externally.

B. Security Arrangements and the Protection of Human Rights

We are pleased the Panel recognises the integral role CLOs play in liaising with local community members. It remains our intent, at this stage, to retain experienced CLOs during the operations phase in all three countries, as per the Panel’s recommendation. Our deployment of CLOs will be reviewed periodically to determine whether we have the appropriate number of liaison officers in place.

The Panel stresses the need ‘to ensure that clear procedures are in place in each of the pipeline countries, addressing how the various groups will respond to the different categories of threat’. We strongly agree with the Panel’s view that ‘the objective should be a hierarchy of responses designed to reserve the threat, or use, of force as a last resort.’ Such a hierarchy can be accomplished not just by suitable division of responsibilities among various teams, but through promoting the integration of human rights principles into the provision of security by public security officials.

The Panel also notes what it considers to be an apparent eagerness of state security agencies ‘to affirm the primacy of their remit for security along the ROW’. The Panel illustrates this point by indicating that ‘BTC Co. has apparently yielded to pressure

from the SSPS not to reinstate installations that facilitate patrolling of the ROW by car' in Azerbaijan. We would like to assure the Panel that our discussions with the SSPS on how to support effective patrolling of the ROW are continuing. These include consideration of expanding government horse patrols in environmentally sensitive areas. As we have found in all our interactions with the SSPS, the organisation is taking a very co-operative approach to developing solutions to enhance ROW security while ensuring respect for the rights of people living and working close to the pipelines.

We are pleased that the Panel acknowledges the human rights training BTC Co. and SCP Co. have supported for the state pipeline protection departments in Azerbaijan and Georgia. One of the key aims of the training provided by Equity International, the training contractor, was to equip trainees with an understanding of a wide range of options, allowing for a differentiated approach in the use of force. This included a range of non-violent means and, where these do not suffice, a range of self-defensive and controlling techniques and tactics that are strictly proportionate to the threat.

The Panel expresses disappointment at learning 'that the Azeri government has decided to forego... human rights training that Equity International had offered to provide in 2007', and recommends that BP and BTC Co. continue to work with the Azeri forces to support compliance with the standards conveyed in training to date, and also express to the government their willingness to help fund further training.

We are proud of the successes achieved through the training programme since the project began in April 2004. BP, its co-venturers and the Government of Azerbaijan have made a significant investment in supporting theoretical and practical instruction, focusing on policing skills and necessity, proportionality and legality in the use of force. In total, over 600 officers have attended the Equity International training courses. With a focus on 'training the trainers' to embed a sustainable human rights educational capacity with the Pipeline Protection Department (PPD), many more officers will benefit from such training in the long term. The Equity International project has been the most extensive public security training initiative that BP has supported to date. The main credit for this should go to the PPD leadership who enabled it to happen.

We respect the PPD's own judgment that it has received sufficient training from Equity International. We are very pleased to learn that the organisation has revised its training curriculum to incorporate many of the international standards taught by Equity International. The PPD has kindly provided an overview of its new training curriculum to BP, and we are impressed by the incorporation of expanded training on human rights as a basis for law enforcement strategies and tactics. The PPD are to be congratulated for this development.

As the Panel is aware, we consult and engage with the PPD on a continual basis. Through this process we continue to convey our standards, including those set out in the Voluntary Principles on Security and Human Rights. We are well placed to support the PPD in identifying their training needs, and when assistance is requested of us to support human rights-based training in the future, we will readily consider it.

Turning to Turkey, the Panel recommends that BP and BTC Co. ‘take early and energetic steps to engage the Gendarmerie, the Ministry of Interior to which it reports, and the inter-agency Supreme Security Committee, with the objective of putting themselves in a position to exert more direct influence over decisions affecting security arrangements for BTC in Turkey’. In its concerns about the security arrangements along the ROW in Turkey, and specifically the role of the Gendarmerie, the Panel notes that during its own visit, the Turkish authorities affirmatively resisted participating in the types of pipeline security and human rights training programmes that have been organised in the other transit countries.

It must be acknowledged however, that while the Gendarmerie has not participated in human rights training supported by BTC Co, it has embarked on an extensive EU-supported programme, aimed at enhancing the accountability, efficiency and effectiveness of the organisation in accordance with EU policing standards, procedures and best practices. Furthermore, the Gendarmerie is expected to embark upon an additional two-year training initiative, again supported by the EU, that aims to increase the knowledge and skills in European human rights and ethical standards among Turkish Gendarmerie through training and other capacity-building activities, and to facilitate effective implementation of these standards at a national level. As a participant in the Voluntary Principles on Security and Human Rights, we agree with the Panel’s recommendation to remain engaged with the Gendarmerie on decisions affecting security arrangements for BTC in Turkey. To support this goal in the long term, we have recently appointed a dedicated security manager for BP Turkey, one of whose principal tasks is to further our relationship with Turkey’s law enforcement and security organisations.

We continue to emphasise the need for a multi-faceted approach to security. We will also seek to explore opportunities with BIL and the Gendarmerie to make use of additional resources — such as effective use of CLOs — to help ensure our objective of community-friendly policing.

C. Security-Related Grievances

The Panel justly observes that, with a pipeline of this length, BTC Co. can and should expect to periodically receive complaints, from individuals and communities along the ROW, that their human rights have been infringed during the construction process and now during the pipeline’s operation, ‘no matter how well-crafted the security arrangements turn out to be’. We are committed to doing all that we can to ensure the human rights of those living closest to our operations are respected, and we acknowledge that there is also a need to try and resolve such complaints in a fair and transparent manner.

The Panel notes that BTC Co. has put in place procedures for the reporting of potential complaints to the respective authorities in Azerbaijan and Georgia. Consistent with its recommendation from its December 2005 report, the Panel reiterates its view regarding the need for BTC Co. to ‘appoint separate ombudsmen for Azerbaijan and Georgia to whom aggrieved individuals can turn for assistance in seeking relief under national law,’ and, through BIL, a comparable system in Turkey.

BP has reviewed during 2006 the need for separate ombudsmen in Azerbaijan and Georgia, but remains of the belief that our process for hearing and handling grievances is effective. We will continue to investigate all grievances raised by local people from any source. We have established and rolled out a human rights response process that we would follow in the event that an allegation is brought to our attention.

Through the Bilateral Security Protocol agreed with Georgia, we and the host government have committed to consult on any human rights issues arising from the provision of government security. The Protocol furthermore commits both parties to initiating an independent investigation in accordance with the Security and Human Rights Principles and national legislation in the event of any credible allegation of human rights or ethical abuse by personnel of the State Security Agencies or by the Operator. A similar protocol is under discussion in Azerbaijan.

The Security and Human Rights Principles include guidelines set out in the Voluntary Principles on Security and Human Rights, the United Nations Code of Conduct for Law Enforcement Officials, the United Nations Basic Principles on the Use of Force and Firearms by Law Enforcement Officials, the Universal Declaration of Human Rights, and the European Convention on Human Rights.

As noted in section II (D) it is worth reiterating that our CLOs continue to play a key role in helping people to raise and resolve grievances.

In 2005 and 2006, we undertook annual assessments by an independent auditor of our compliance with the Voluntary Principles on Security and Human Rights. The Azerbaijan report for 2005 was made publicly available on the BP Azerbaijan website, and the 2006 assessments for Azerbaijan and Georgia will be published shortly. The audits look at, among other issues, the deployment and conduct of the public pipeline security organisations.

In Turkey, BP believes that the measures in place to provide communities with an independent, local point of contact to elevate concerns are effective and appropriate. BIL is employing seven 'public and community liaison experts' during the operations phase, whose role is to maintain relationships with communities close to the pipeline and facilities, and manage mechanisms through which any complaint or grievance, including human rights issues, may be raised. This resource has been augmented by BTC Co's own resources.

In addition, BTC Co continues to engage a third party (the BNB Statistics, Economy, Informatics, Education and Trade Co.) to provide independent verification that construction impacts and land acquisition grievances are being closed out, and that ongoing land acquisition activities are complying with Resettlement Action Plan requirements. We also have similar arrangements in place in Georgia and Azerbaijan. In Azerbaijan, the Center for Legal and Economic Education (CLEE) provides free legal assistance to any land owner/user not satisfied with the result of the grievance response. Additionally, CLEE, on a monthly basis, selects ten closed complaints at random and contacts the complainants directly to verify that claims have been resolved.

D. BTC and Trans-Caspian Oil

The Panel comments on the June 2006 Inter-Governmental Agreement (IGA) executed by Azerbaijan and Kazakhstan, relating to trans-shipping of Kazakh crude oil across the Caspian for subsequent injection into the BTC pipeline post 2009, and expresses its hope for the application of EU standards. The Panel recognises that neither it nor BTC Co./BP have seen the fully ratified agreement to determine whether the governments will require the application of EU standards to trans-Caspian shipments of Kazakh oil, due to its confidentiality.

The Panel recommends that; “BP and BTC use their influence the fullest extent possible, to ensure that such shipments are in fact subject to the same EU standards accepted by BTC”. We fully agree that standards associated with the shipping, as well as other environmental, health and safety matters, contained in the IGA and the (yet to be negotiated) Host Government Agreements (HGAs) should be consistent with those generally applied within the member states of the EU. While no longer involved with the IGA and expected HGA negotiations, even as a consultant to the Azerbaijan government, BTC Co. and BP will continue to encourage retention of standards consistent with international petroleum industry best practice and their implementation with respect to the construction, operation and maintenance of the Kazakhstan Caspian Transportation System, including shipping.

E. Iskenderun Bay

The Panel expresses concern about the future development of the Iskenderun Bay area around the Ceyhan terminal. We would like to point out that the ESIA and Resettlement Action Plan (RAP) for Turkey recognise the cumulative development effects in the Gulf of Iskenderun on relations with local residents and potential impacts to the environment. BTC Co. has developed an integrated strategy to ensure holistic management of economic, social and environmental issues that are brought about by BTC Co.’s activities in the region. As an integral part of this strategy, BTC Co. continues to work actively with BIL, and its co-venturers with the aim to mitigate the risks related to our long-term presence in the Gulf of Iskenderun. To these ends, BTC Co. is working with BIL in developing a strong and effective community relations organisation based in Ceyhan; we have restructured our investment activities in the Mediterranean region to allow more focus on community investment — a project office has been established in Ceyhan from which activities will be managed. we will also introduce new RDI initiatives to be applied in and around the Gulf of Iskenderun. The latter involves the development of project concepts including coastal zone sustainability, waste management and skill development initiatives.

IV. BP and BTC Co.’s Longer Term Presence in the Region

A. Regional Sustainable Development

BP thanks the Panel for its recognition of the efforts it has made towards influencing positive long-term development in the region including, as the Panel notes, the success of attracting valuable contributions to the region from other donors.

BP has already committed to fund the RDI for the full term of the PSAs and, the Panel notes, plans to spend, with its co-venturers, some \$41m under the auspices of the RDI during 2006-2008. In response to the Panel's recommendation that BTC Co. commit to fund the RDI for the entire 40-year operational life of the pipeline, we would like to remind the Panel that it is not possible to make such long term commitment on behalf of other co-venturers in BTC Co.

The Panel requests BTC Co. to increase the level of funding for RDI. RDI has just started implementing projects and aims to deliver quality programmes whilst maximising our impact through matching and leveraging funds from international financial institutions such as the International Finance Corporation and the EBRD, and from donors operating in the region. We believe our greatest contribution is to invest wisely and link our social investment programmes to our core skills as an energy company. We believe the current level of funding is appropriate, but will continue to assess the appropriate level of funding for our social investment projects as our business evolves, and the three countries continue to develop economically.

Since the Panel visited the region, we are pleased to confirm that we have agreed a number of new RDI and Community Investment Projects (CIPs) that will continue to contribute to the development of the countries impacted by our operations. For example, in 4Q 2006, we signed Phase II of the Supplier Financing Facility with the IFC, initiating a facility to support local companies investing in the oil and gas sector in Azerbaijan, and to which RDI will contribute up to \$6m. In November 2006, we signed a \$5.25m contract under the Micro and Small Lending Programme with the EBRD, under an arrangement to provide transparent on-lending and technical cooperation funds. We have extended, until mid-2007, our Small and Medium Enterprises (SME) Business Development Services project with the Azerbaijan Bank Training Centre. This project, to which RDI contributes \$0.3m of the total \$0.6m cost, has now trained more than 1040 people since 2004. Jointly with our Enterprise Centre in Baku, we have also initiated the Enterprise Training and Development Programme to help develop local capability of SMEs to meet local content targets of oil and gas co-venturers for BP's existing projects in Azerbaijan. We anticipate awarding a contract to implement this project later this year.

In Georgia, we have completed the initial set-up of the ProCredit Bank Expansion project with the EBRD, and have also made considerable progress towards the expected implementation of the Private Sector Business Development in the Great Borjomi Region initiative, in collaboration with the German Technical Co-operation (GTZ). Final project documentation for this was reviewed in 4Q 2006, and the first two intervention areas under the arrangement are in the beekeeping and milk Processing sectors.

In Turkey, we have signed the Tumari Honey Project with the IFC. This covers the development of the agriculture sector around the northeast section of the BTC pipeline. The aim is to assist with the development of a sustainable commercially viable pilot project to solve the main problems faced by the agricultural sector in

under-developed areas of Turkey: lack of access to markets, and lack of technology and knowledge on the production side. The total project cost is \$0.8m, of which RDI contributes \$0.2m. In addition, RDI expects to contribute \$0.2m to a training programme for municipal landfill personnel, for which project development and contracting will take place in 1H 2007. We are also currently examining a project to establish a Local Initiatives Support Centre to assist civil and private organisations in North East Anatolia.

We have completed the implementation of the construction phase of our community investment programme and have fully embarked on its Operations phase (CIP II). Country programmes have been aligned in terms of goals and strategies while still allowing for enough flexibility to accommodate and address country-specific capacity, needs and context. BP, on behalf of its co-venturers, signed a number of grant agreements under CIP in the 2H 2006. In Azerbaijan, these include the Community Development (Consolidated Phase) venture with Save the Children to help develop communities along the eastern half of the pipeline; the Rural Inclusive Education Project with the International Medical Corps NGO to encourage inclusive education for children with developmental disabilities; the School Connectivity and Global Citizenship project with Madad, a national NGO, to help provide schools with computer and Internet access; and, with national NGO Junior Achievement Azerbaijan, the Community Economics Education project to deliver business education and technical assistance. With another national NGO, UMID, we have agreed a new Sustainable Potable Water (SPW) programme. This builds on the previous SPW programme, which provided potable water to six communities. The continued programme will install water purification facilities for a further five, and will also provide training for the community members managing the projects.

In Georgia, CIP projects include the Community Development and Civil Society Strengthening project with Care International, to aid infrastructure rehabilitation in 77 communities along the BTC/SCP route, and a \$300,000 schools investment project in the Supsa terminal area. Our partners in Turkey, including local NGOs, professional consultancies and a university, are implementing a number of CIP projects, including Sustainable Rural Development initiatives in the Ardahan, Kars, Kayseri, Sivas, Erzincan, Gumushane and Erzurum areas, and the Mediterranean Community Action project to encourage and contribute to sustainable and economic development.

The Panel reiterates its concerns that RDI would benefit from greater coherence, and recommends that BP and BTC Co. ‘consider establishing sustainable development as a cross-cutting theme, to be taken into account in the selection and design of projects under the three existing themes: access to energy, enterprise development and effective governance’. We agree. BP has sought challenge, advice and guidance from the International Institute of Environment and Development (IIED) in this regard and hopes to incorporate, more fully and explicitly, sustainable development considerations in our social investment projects and programmes.

The Panel believes that the RDI leadership team in Baku has scope ‘to exercise a greater degree of central direction, especially in the areas of priority setting, allocating funding, and the identification of cross-regional project’.

The RDI team in Baku already sets priorities in terms of themes, with each country team identifying its own priorities and projects within each of the themes. The Baku team also collates all narrative and financial reporting from the three countries and hosts quarterly RDI operations meetings.

The Baku team sets the overall budget and the funding targets, and acts as the focal point for our co-venturers. It also reviews and endorses every project proposal identified for funding in Georgia and Turkey. Furthermore, the RDI team in Baku — together with the country teams — actively seeks out possible cross-country programmes.

In 2006 we reinvigorated the Regional Sustainable Development Forum, which brings together all three country teams and other specialists to discuss areas of common concern, share best practice and agree future plans. The two last such forums were facilitated to great effect by IIED.

We believe that this balance of central direction and local ownership is key to the successful design and development of our social investment programmes.

B. Support for Civil Society

BP thanks the Panel for its recognition of the efforts made by the BTC Co to contribute to the development of civil society in the three countries which, the Panel says, have been ‘a highly successful exercise overall’. We have found the two monitoring programmes by OSI in Azerbaijan and Eurasia in Georgia, as well as the subsequent meetings with them, very useful in helping us to identify areas for development and improvement. We fully endorse the Panel’s view that efforts in this area need to be made over the long term. In Azerbaijan, the first meeting of the Azerbaijan Social Review Commission (ASRC) will be held in April. This is a fully independent body (although funded by BP) and comprises local NGO representatives as well as representatives from international organisations which have, in the past, monitored our activities in the country. We are particularly pleased that a member of the CDAP secretariat is to join the ASRC.

We will continue our work with local NGOs. Much of this work will involve their implementation of our CIPs. For example, in Azerbaijan we are closely working with UMID, the national NGO that works as a primary implementing partner for our CIPs, and mentioned above. Over a period of years we have helped UMID build capacity as a leading organisation providing community development assistance. Our association with UMID began under the original CIP Construction phase, in which UMID was partnered with Save the Children. After two years of learning by experience, UMID has demonstrated strong performance in delivery of programmes, as well as a marked improvement in their organisational capacity and management systems. The two potable water programmes, mentioned above in Section IV A. on Regional Sustainable Development, are testament to the progress that UMID has made.

In addition, BP and its co-venturers continue to engage with civil society in Azerbaijan over the subject of revenue management. We have established effective working relations with the NGO Coalition taking part in the Extractive Industries

Transparency Initiative (EITI). In autumn 2006, the Coalition members were also invited to discuss our 2005 Azerbaijan Sustainability Report, in which we published our disaggregated EITI Data, and which also discloses other financial, environmental and social data.

Our 2005 Sustainability Report (SR) was shared with representatives of government, foreign oil companies and diplomatic missions. Feedback sessions on the SR were also held with media representatives and students. Our 2006 SR will be published in June 2007, and we plan to continue using it as a wider engagement tool.

Another important development during the past year was the launch of our Azerbaijani-language external website in March 2006. This offers all interested stakeholders access to information about the long-term operations phase of the Azeri-Chirag-Gunashli, Shah Deniz, BTC and SCP projects, and extensive documentation on the projects' construction phase. The website is fully navigable in Azerbaijani and English and is, we believe, the largest Azerbaijani-language website currently available (www.bp.com/caspian).

The Panel recommends 'that an independent external body continue to conduct a periodic review of BP's performance on the ground in the Caspian region'. BP and BTC Co. are pleased to inform the Panel that, in Azerbaijan, the ASRC (described above) will indeed review and help us to improve our understanding of the social impacts of our operations. The commission's remit will also cover cultural, social, environmental, economic and human rights issues.

In addition, BP is funding a programme, managed by the British Council and implemented by the Thomson Foundation, to train and enhance the skills of Azerbaijani business journalists to increase their knowledge and understanding of the workings of financial and economic affairs. The project is aimed at helping the national broadcast, print and online media strengthen their professional competencies and skills through a specifically designed comprehensive training programme which will enhance the English language and journalistic skills of participants.

In Georgia, BP is committed to ongoing and meaningful engagement with civil society. In addition to the Project Monitoring & Dialogue Initiative (PMDI - an NGO monitoring project implemented with Eurasia Foundation), which significantly contributed to building the capacity and professionalism of national NGOs in Georgia, we carried out and will continue to implement a number of initiatives such as our environmental investment programme and the BP Biodiversity Competition, to continue providing resources and expertise to help NGOs to develop their capacity. During operations our strategy will be to continue working with the national NGOs through these different initiatives. These involve technical skills development, capacity building through the NGOs involvement in the CIP; a continuation of consultations with the PMDI NGOs within the areas of their expertise, and also the establishment of a process to enable a 'close out' review of actions agreed during the second cycle of monitoring in PMDI. In addition to these initiatives and based on consultations with different stakeholders, BP Georgia is planning, in co-operation with other donor organisations, to establish a programme of capacity building for a wider circle of NGOs including regional organisations. BP Georgia also contributes to the development of Georgia's civil society through active participation in the UN

Global Compact Georgia network, which facilitates knowledge sharing and the implementation of joint activities in support of the country's development needs. In addition, BP in Georgia is funding, now for the fourth year, a capacity building programme for national media representatives, designed to help them to improve their professional reporting and language skills.

Our Georgia Sustainability Report also represents an excellent tool for the constructive and meaningful dialogue with the Georgian civil society representatives. The third such report is due to be published in 2007.

In Turkey, BTC Co continue to engage Civil Society on many levels. Notable achievements in 2006 included the successful management of a local NGO Capacity Building Programme (Turkey) which is financed by IFC, managed by BTC Co and implemented by one of our CIP implementing partners, SURKAL. The overall aim is to set up a training center to enhance the institutional capacity of community based organizations (CBO) and local NGOs along the pipeline route. BTC Co. continued to fund and manage our Environmental and Community Investment Programmes throughout 2006. The projects incorporate capacity-building, technology transfer, measurable impacts, sustainability, and linkages with similar programmes. Experienced Turkish organisations have been selected to manage the activities and include non-profit making NGOs, academic institutions and consultancies. In choosing the Partners the intention has been to help local organisations grow in experience and expertise and enable them to take a greater role in planning and executing projects in the future.

C. Azerbaijan's Economic Development

The Panel recommends that BP maintain and enhance the support it is already providing to the government of Azerbaijan in the area of macroeconomic management. BP appreciates the importance of supporting the host governments in building their capabilities to appropriately manage oil revenues, particularly in Azerbaijan for the reasons stated by the Panel. As part of its efforts, as the Panel states, in August 2006 BP signed a Memorandum of Understanding with the Azerbaijan State Oil Fund (SOFAZ) to support a project undertaken by Oxford Economic Forecasting to develop a long-term model of the Azerbaijani economy. We are pleased to report that the macroeconomic model has now been successfully developed and transferred to the full ownership of SOFAZ.

We would also like to advise the Panel members that, since their visit, we have extended our agreement with SOFAZ to provide support to build capacity within SOFAZ and other government agencies. This capacity building will focus on policy analysis and provide training to maintain and update the model as the economy further develops. The programme for 2007 will focus on specific policy challenges relevant to Azerbaijan's economic development. The objective is that, at the end of the project, SOFAZ and representatives from other agencies would own and have capacity to independently manage the model.

BP would like to reiterate that it continues to be one of the leading supporters of the EITI worldwide. In Azerbaijan, BP has taken a lead in supporting the EITI (see

above). As part of this commitment we have now published our individual EITI-reported data in our Sustainability Reports for the years 2004 and 2005, and plan to continue doing so in future years. In September 2006, BP also initiated and coordinated the meeting of EITI co-venturers to discuss its current status and outstanding issues. In addition, we have described above, in Section IV B., our efforts to sustain good working relations with the NGO Coalition taking part in the EITI.

With regard to the Panel's view that 'an entrenched culture of corruption imposes a huge burden on society and the economy in Azerbaijan,' BP recognises the Panel's concerns about the impact of corruption on the country. We believe the best way BP can have an impact on improving this environment is by rigidly enforcing our own high standards and by promoting transparency and good corporate governance in the local private sector. BP is pleased to inform the Panel that RDI will in 2007 be implementing an Enterprise Development Training Programme also dealing with issues of corporate governance at the local enterprise level.

D. Regional Energy Issues

BP agrees wholeheartedly with the Panel's view that energy cooperation between the various countries of the Region and, in this context, the three pipeline countries in particular, is of key importance to wider regional energy security. With regard to the Panel's recommendation 'that BP and BTC Co. continue to encourage the government of Azerbaijan to make the full development of the ACG and Shah Deniz fields a priority', we would reiterate our continued commitment to helping Azerbaijan maximise the benefits of its natural hydrocarbon resources.

Conclusion

BP is grateful indeed for the support, insight and frankness offered by the CDAP over the four years of its existence. BP and BTC senior management are fully committed to continued and sustained attention to the matters that have been raised by the Panel in all its reports, and to upholding the company's aim to carry out its activities in the Caspian Region in a safe, efficient, fair and transparent manner, with constant consideration made to the areas of social, cultural and environmental protection, human rights and health and safety. We would also like to acknowledge the support of our co-venturers in helping to work towards these aims, and we look forward to this support continuing.

BP remains of the view that having an external body in place to monitor and review its activities and procedures in the Region has been of huge benefit to BP, its co-venturers in BTC Co. and to the host countries. With the establishment of the independent body as described above in the section IV B. on Civil Society, we look forward to a continuation of this external support.

The management of BP and BTC Co. would like to sincerely thank the members of the Panel for their diligence and commitment, to wish them well in their future

endeavours – and to hope they will continue to follow, support and promote the future successful development of Azerbaijan, Georgia and Turkey.