

Memorandum

To: Jean Aden, Ph.D.
Director, Office of Accountability

From: Elizabeth L. Littlefield
President & CEO

Date: November 15 2010

Subject: Office of Accountability Report on the Monitoring of OPIC's Response to the Office of Accountability Compliance Review dated January 2007 Regarding the Baku-Tbilisi-Ceyhan Oil Pipeline Project.

This memorandum sets forth further action by OPIC Management with regard to specific recommendations made by the Office of Accountability (OA) in its monitoring of OPIC's response to the original OA recommendations regarding the Baku-Tbilisi-Ceyhan (BTC Co.) Pipeline, dated January 2007. The OA monitoring report was issued for OPIC management comment in October 2010.

The following are OPIC Management's responses to the findings contained in the October 2010 OA monitoring report;

I. Compliance Review Recommendation 1: *"Where project construction commences during the due diligence process, OPIC should make a regular practice of requesting and reviewing all available construction monitoring data, not only data labeled "environmental"."*

Monitoring Conclusion on Recommendation 1: OA finds that OPIC has initiated actions that should lead to satisfactory implementation of this recommendation. OA will follow progress in this area in future monitoring.

Additional OPIC Action:

Based on the findings in the OA monitoring report, no additional actions are required and OPIC Management considers this issue closed.

II. Compliance Review Recommendation 2: *"OPIC should renew its focus on environmental monitoring of the Project in the medium to long term."*

Monitoring Conclusion on Recommendation 2: OA finds that OPIC has implemented this recommendation: However OA observes that the contracts of the Independent Environmental Consultant and the Independent Engineer are such that neither of these third parties, that act on the lenders' behalf, is reviewing water quality data collected in the region of Georgia that is of most concern to the Government, the Requestors, and the preparers of the Environmental and Social Impact Assessment for the pipeline. OA recommends that OPIC ask the lenders to send a new set of unambiguous instructions to the IEC and Independent Engineer.

Additional OPIC Action:

Based on the findings in the OA monitoring report, no additional actions are required regarding OPIC's environmental monitoring of the Project. However, OPIC acknowledges that neither the lenders' Independent Environmental Consultant's (IEC) contract nor the lenders' Independent Engineer's (IE) contract, include within the scope of work a requirement to review and evaluate water quality baseline and annual monitoring data from additional monitoring points as requested by Georgia Ministry of Environment subsequent to the execution of the IE and IEC contracts. Nonetheless, OPIC again will request that the lenders' IEC and IE review these new data and OPIC will also review the data for the purposes of confirming the adequacy of the baseline and ongoing monitoring. Following that OPIC review, OPIC Management would consider this issue closed.

III. Compliance Review Recommendation 3: *"OPIC should give specific attention to implementation of the additional monitoring for field joint coating cracks or leakage, as recommended by Independent Engineer and required by the Operations Environmental and Social Action Plan."*

Monitoring Conclusion on Recommendation 3: OA has confirmed that integrity monitoring is being conducted in accordance with BTC Company's plan and, with the exception of annual acoustical pigging in selected areas, fully implements OPIC's 2007 request to BTC Company. In fact the frequency of intelligent pigging exceeds the minimum recommended by the Independent Engineer and requested by OPIC. OA recommends that OPIC (a) review the forthcoming close-out report on acoustical pigging and (b) request the Independent Engineer to review and comment on it as well, prior to responding to BTC Company's decision to exclude this technique from its Operational Inspection and Integrity Plan.

Additional OPIC Action:

OPIC Management concurs that the pipeline integrity monitoring is being conducted in accordance with the OPIC's 2007 request to the BTC Company. OPIC commits to reviewing the forth-coming close-out report and will consult with the lenders' IE regarding the findings. Following that review and consultation, OPIC Management would consider this issue closed.

IV. Compliance Review Recommendation 4: *"OPIC should give particular attention to ensuring that the required summaries of environmental monitoring data are included in monitoring reports and that the self-monitoring methodology is validated."*

Monitoring Conclusion on Recommendation 4: OA finds that OPIC's requirement for inclusion of monitoring data in BTC Company's annual reports is now being met, and that part of the recommended action has therefore been completed satisfactorily. On the question of validation, OA recognizes that OPIC has made a substantial effort to have it implemented, but there is as yet no independent audit of the project that includes a proper validation of the self-monitoring methodology. OA will follow progress in this area in future monitoring.

Additional OPIC Action:

OPIC Management concurs that BTC Company's annual reports now include summaries of environmental monitoring data. OPIC management is also pleased that OA acknowledges the efforts that OPIC has made to obtain validation of the monitoring methodology employed in the BTC project. OPIC is committed to a review of the monitoring methodology as recommended by OA and will

undertake this review independently of the lenders' IEC. Following completion of that review, OPIC Management would consider this issue closed.

V. Compliance Review Recommendation 5: *"OPIC needs to clarify when the three year independent third-party audit period commences."*

Monitoring Conclusion on Recommendation 5: OA concludes that OPIC has fully implemented this recommendation.

Additional OPIC Action:

Based on the findings in the OA monitoring report, no additional actions are required and OPIC Management considers this issue closed.