

## British Petroleum and Corporate Social Responsibility Case Study: British Petroleum in Georgia

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### Abstract

The rising importance of Corporate Social Responsibility (CSR) means that corporations must consider stakeholder interests as well as the social, political, and environmental impacts of their actions. However the pursuit of profit by multinational corporations has led to a series of questionable CSR activities and the effect of such practices are particularly evident in developing countries. Multinational corporations often articulate their devotion to CSR principles, but the gap between rhetoric and reality, especially in some parts of the world reveals that many corporations have not fully integrated CSR into their business models. Using BP's activities in Georgia as an example, this article examines whether the multinational company meets its CSR requirements and detail how in 2004 BP bullied the Georgian Government into violating its own laws, potentially endangering the local environment and compromising the vital relationship between BP and Georgia.

**Keywords:** BP, corporate social responsibility, CSR, Georgia, multinational corporations, oil industry

### Introduction

British Petroleum (BP) is one of the largest multinational corporations in the world and among the global leaders in the oil and gas realm. The company's annual profit in the first quarter of 2015 reached \$2.6 billion (British Petroleum, 2015) which when analyzed at an annual rate, could easily match that of some small nations.

The nature of the oil industry demands companies to be proactive and socially responsible in addition to operating in an ethical and environmentally friendly manner. "Going green" is a recent trend that oil and gas companies have embraced; "Even in the absence of empirical data, we can see the depth and breadth of the green business trend when we look at the current list of companies from nearly every sector in economy that are exhibiting some green behavior" (Carlson, 2009, p. 107) Business practices may appear to be environmentally friendly but in fact it could be pure "greenwash". BP has climbed on this bandwagon and has publically declared its determination to wholly re-adjust its business so it meets Corporate Social Responsibility(CSR) principles and the needs of a more sustainable society. In 2000 the multinational oil giant BP rebranded and since then claims that it now went "beyond petroleum". The rebranding was part of an effort to portray BP as a green company wholeheartedly devoted to environmental issues, CSR principles and sustainable development

of the communities it operated in. The BP of today appears to meet these demands and is trying to engage in ethical business practices and be sensitive to environmental hazards, but this was not always the case.

### Case Study: BP in Georgia

The BP Baku-Tbilisi-Ceyhan pipeline offers a good example of BP's questionable CSR practices. BP is the lead shareholder in the 1,700km oil pipeline, which runs from Baku, Azerbaijan, through Georgia to the Turkish seaport of Ceyhan. The route opened up an alternative supply of oil and gas to the US, who for a long time has been in search of a substitute source that did not pass through Iran or Russia. "Designed to be the main export pipeline for the Caspian basin oil, the project for Baku-Tbilisi-Ceyhan main export pipeline has gained strong support of the US." (Strategic Information and Regulations, 2003, p. 239) This BTC pipeline also lessened the world's dependence on oil from the politically unstable Middle East region.

President George W. Bush saw the BTC pipeline as a critical piece of America's energy policy for the future; therefore the country was heavily invested in the project's success. In a statement read by Secretary of

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Energy Spencer Abraham at the pipeline's construction launch ceremony in Baku, Azerbaijan, on September 18, 2003, President Bush said the BTC pipeline would offer: "Greater energy security through a more diverse supply of oil for global energy markets; these are the engines of global growth, and with this pipeline those engines can now run at high speed." (IIP Digital United States of America Embassy, 2005).

Construction of the BTC pipeline began in May 2003 and officially opened on July 12, 2006, "it is 1,774 km long and runs from Sangachal Baku in the Caspian Sea to Ceyhan on the Southern Mediterranean coast of Turkey" (Guney, 2007, p. 142) With capacity to deliver an estimated one million barrels of oil per day, predominantly to Western markets it "will supply approximately 1 percent of global demand." (Guney, 2007, p. 142) The project was run by an Inter-Governmental Agreement among the governments of Georgia, Azerbaijan, and Turkey. Official pipeline agreements also granted BP direct major authority over a piece of land about 2,800km long, which the company will control for the next years.

BP plays a vital role in the political and economic stability of Azerbaijan, Georgia and Turkey. The company pays a hefty fee to operate the pipeline on each country's territory, offering the three countries additional financial support.

Georgia's important geopolitical location helped ensure it was part of the \$3 billion BTC (International Finance Corporation, 2006) project – the biggest pipeline in the world, with 248km of pipeline passing through Georgian territory. For the small post-Soviet country, the BTC pipeline offered great rewards but also great risk. The pipeline runs the length of a major fault line and presents a permanent risk of serious spills due to earthquakes. The pipeline also crosses the Borjomi region of Georgia – a blossoming tourist destination famous for its spectacular nature and restorative hot springs. Specifically, the pipeline crosses the heart of the region and through the 195,000-acre Borjomi/Kharagauli National Park, which is home to 1,600 plant species and a handful of rare Caucasian leopards (Caucasus Nature Fund). At the time the plan to build the pipeline through the environmentally sensitive area was not supported, for several reasons. Firstly, locals feared the BTC pipeline would damage the environment and secondly there was concern the Borjomi region was inappropriate for the route as the Kodiana Mountains, the area near the proposed pipeline route, made the area extremely vulnerable to landslides and earthquakes. Additionally, Borjomi was also the place where Borjomi mineral water was produced and some feared the BTC pipeline would disrupt production of the water, which constituted about 10 percent of the country's exports. "The main water reserves are distributed in picturesque, ecologically unspoiled valleys. (Tvalchrelidze & Morizot, 2001, p. 49)" For Georgia, putting an oil pipeline through this national park could be equivalent to the British putting a pipeline through London's Hyde Park.

The then Environment Minister of Georgia Nino Chkhobadze was reported in November 2002 as saying

she was categorically against the route through Borjomi (selected by BP earlier the same month) because of the risk of catastrophic environmental damage in the event of pipeline rupture. Below is an extract from Chkhobadze's official letter to BP president John Brown, dated November 26, 2002. (Unep/Grid - Arendal, Central & Eastern Europe, Caucasus, and Central Asia, 2002).

"BP representatives are requesting the Georgian Government to violate our own environmental legislation."

"Unfortunately, BP, particularly in this region, carefully assessed not all risks during the Environmental and Social Impact Assessment process, putting the Ministry of Environment before the fait accompli, while all experts have shown it is hazardous to construct the pipeline in the Borjomi Valley. Several issues have been brought to BP's attention. The risk of landslides was among these issues. It poses a significant threat both to the operation of the pipeline and to the unique eco-system."

"It is more difficult for the people of Georgia to understand why a 20km segment of the route should challenge the sincerity of British Petroleum's worldwide commitment to environmental safety and respect of the values and norms of a host country."

Meanwhile Zaal Lomtadze, Georgia's Deputy Environment Minister at the time when the BTC project started, told environmental agency World Wildlife Fund (WWF) that his Ministry had sent BP a formal reminder on July 12, 2003 that the company must apply for construction permits for the Borjomi region. (Kochladze & Gujabidze, 2005). BP failed to make the application. Photographs taken by local WWF staff revealed BP illegally went ahead with construction for more than a week without permits until the government intervened on July 22, 2003 and stopped work in Borjomi. "BP has been caught red handed," said James Leaton, senior policy advisor of WWF. "They have made all kinds of promises about how the BTC project would boost Georgian sovereignty, yet as soon as Georgian law no longer fits their schedule, they violate it without hesitation." (Friends of the Earth, 2004).

The Georgian group Green Alternative compiled a 220-page dossier alleging the project breached World Bank guidelines on 173 counts, including failure to consider the danger of earthquakes (Kochladze, Gujabidze, & Akhobadze, 2004). Despite massive protests, the pipeline route was not changed. (Civil Georgia, 2004).

In 2004 the Georgian Government suspended work on the BTC pipeline after BP decided to begin building the pipeline in the Borjomi region. This was despite the company's repeated failures to obtain the necessary environmental certification to proceed.

According to the UK-based newspaper *The Independent*, the resumption of construction two weeks later came as a direct result of political pressure from the Bush administration. Washington had much to lose if the BTC pipeline project failed and it would use its political power to keep the project moving. In fact, a decision to resume the project was announced immediately after an unscheduled meeting between then Georgian President Mikheil Saakashvili and US Secretary of Defense

Donald Rumsfeld. (The Independent, 2004). An article at the time by the newspaper stated that after the two officials met, the Georgian president said BP had "taken the first steps to satisfy the demands of the Georgian side", such as building the pipeline deeper and adding additional measures above ground, "with more security facilities and extra environmental safety technologies". On January 15, 2004 a piece by Green Alternative revealed towards the end of 2003 the "International Finance Corporation (IFC) and the European Bank for Reconstruction and Development (EBRD) separately agreed to finance the BTC pipeline, moves which have both provided USD \$500 million of the USD \$3.6 billion total and, more significantly, a priceless seal of western approval for the project" (Kochladze&Kvinikadze, 2004).

## Conclusion

In conclusion, striking a balance that suits the needs of a business (BP), the countries involved (Azerbaijan, Georgia and Turkey) and project benefactors (the US), is often hard to achieve. Was it ethical for BP to use its reputation and international market dominance to challenge Georgia's laws to suit its own needs? Was it moral for the US to use its political influence to sway the opinion of those in Georgia, who were clearly against the building of the BTC pipeline through a region when the outcome strongly benefited the US? In the words of Noreena Hertz, the author of the best-selling book *Silent Takeover*, she says: "National governments appear increasingly impotent in the face of the giant corporations."

"Corporations or nations? The answer today must be corporations, although nations consistently support them in fostering their interests overseas. Multinationals, many now as large as national states, have a larger stake in the new world order than do many individual governments. And where the interests of corporations and states comes into conflict, it is increasingly the corporate agenda that prevails" (Hertz, 2001).

In the BP-Georgia example, no more than a week was needed for the oil giant to neutralize attempts by the Georgian Government to preserve the unique ecology of Borjomi valley and get the go-ahead for construction of the BTC.

BP works hard to ensure the company's basic CSR principles are widely propagated around the world by the company's media team, who state: "At the core of BP is an unshakable commitment to human progress... We believe the freedom is inseparable from the responsibility to produce and consume our products in ways that respect both human rights and natural environments". (BP Global). Yet these principles do not align with BP's activities around the globe, at least in developing countries like Georgia. From this, one can conclude that the whole PR campaign of BP around the BTC pipeline was a mere window-dressing that leaves ground for skepticism regarding the company's motives."The problem is that companies frequently use such initiatives to defend

operations or ways of working which come in for public criticism." (Moloney, 2006, p. 107) BP's profits come with enormous environmental damages, and the BTC pipeline has done little to solidify BP's perceived image as a clean, green, environmentally-friendly company. BP tries hard to present itself as a socially responsible company but despite launching various social and ecological initiatives, which are the core issues of a company's responsible activity, its efforts are below par. Unfortunately it seemed BP now invested more in its image than the environment. Ultimately, despite BP's rhetoric about social responsibility, profit seem to count the most.

Finally, although no disaster has yet occurred around the BTC pipeline in Georgia, the mere existence of this pipeline in the heart of the national park puts the unique nature of the region under constant threat.

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