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PLATFORM (UK)

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Messrs. Muttitt and Hlobil:

*Claros Consulting Financial Analysis of Baku- Tbilisi-Ceyhan pipeline*

Thank you for your recent letter addressed to Messrs. Woicke and Cho regarding the financial aspects of the proposed Baku-Tbilisi-Ceyhan (BTC) pipeline project dated May 19, 2003. We appreciate your interest in the project and would like to take this opportunity to clarify several points that you have raised in your letter.

First, in reference to your question with respect to IFC's role in this project we believe IFC's potential participation would have significant developmental impacts. Indeed, we would not participate in any project if our due diligence did not convince us of development impacts through catalyzing long term investments for sustainable and commercially viable projects. As acknowledged by CEE Bankwatch and other NGOs, IFC's environmental and social safeguard policies and guidelines are a model to which other institutions should aspire. Indeed, a number of NGOs, including CEE Bankwatch, routinely urge IFC to do what it can to convince other institutions to adopt our safeguard policies and guidelines. The reason we are considering participating in the BTC project is that we believe it does provide a unique opportunity for the countries to realize significant benefits, and our participation would bring with it significant additional environmental and social safeguards, transparency (not least through coordination with the World Bank and IMF for the effective and prudent management of Azerbaijan's Oil Fund and public disclosure of key project documents including Intergovernmental Agreement, Host Government Agreements and Production Sharing Agreement, of which you have also benefited, recommendation of preparation of the Regional Review, etc).

Second, we refer to your question on IFC's role with respect to risks of increased taxation or regulation. We believe, and track record shows, that countries, which can reduce volatility in their investment climate and legal/regulatory regime, will attract substantial long-term investments and economic activity, which benefits their development. By contrast countries with volatile and unpredictable economic, legal and regulatory regimes succeed in neither domestic nor international investments and continue to suffer economically and therefore from a development perspective. The Host Government Agreements with respect to the BTC project are embedded in

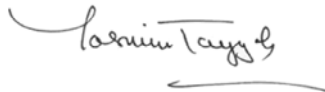
the laws of the countries concerned and have been reviewed and passed by their parliaments. While our due diligence continues, our preliminary observation is that specific arrangements for projects of this nature are needed in order to provide a reasonable framework for their implementation, where none existed before.

Third, your letter makes comments with respect to the economic viability of the project. This is an argument that we have found difficult to understand, as it would be very odd for commercial lenders or the private sponsors to have any interest in investing large sums in a project with low returns and high risk. As you know, dedicated pipelines require investments by their sponsors (in this case oil companies, many of whom are also developers of the ACG fields). The pipeline sponsors require a reasonable return on their investment and transit countries require a reasonable transit fee. We carry out our own lending due diligence based on proprietary commercial information (supplied by sponsors under confidentiality agreements), as well as publicly available information. As our public documents indicate, we are considering financing the BTC pipeline based on the ACG reserves alone. Our due diligence includes consideration of project costs as well, and again, as indicated before, we would not finance the project if our final due diligence indicates that the project was not commercially viable.

Finally, you refer to the benefits to Georgia. Georgia benefits from the project not only in financial terms but also the project's fit with the country's strategic goal to be part of the East-West energy corridor. It is important to note that the BTC project has enabled the development of the Shah Deniz gas field and the associated South Caucasus Pipeline that will supply gas to Georgia. This will help alleviate critical energy supply deficits and substantially reduce deforestation in the country. The BTC project would also include substantial investments in community and social programs. As disclosed in the Regional Review, it is also important to note that Georgia earns the highest BTC tariff on a per kilometer basis compared to the other two countries. The peak BTC transit revenue of \$50 – 60 million per year represents about 10% of the current annual government revenue, which is quite significant.

We take serious note of concerns raised in the Claros analysis, and IFC, as a potential lender, continues to do its own thorough due diligence in order to determine that the project also meets our standards in every respect. We look forward to your continued interest and engagement in this project.

Sincerely,



Yasmin Tayyab  
Civil Society Coordinator

cc: Mr. Peter Woicke, Executive Vice President, International Finance Corporation  
Mr. Hyun-Chan Cho, Investment Officer, International Finance Corporation