Pipe dreams: BTC pipeline

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WHAT WE SAID THEN: "In addition to breaking into a virgin market, the financing was closed successfully in less than three months in what could only be described as a turbulent political climate".

New routes to transport oil and gas from the Caspian Sea have been sought since the fall of the Soviet Union, but long seemed a pipe dream (pun intended).

Financing of the 1,780km Baku-Tbilisi-Ceyhan (BTC) pipeline in 2004 finally made those dreams a reality. Not only has the deal had an outsized impact on global energy markets, but it was devilishly difficult to put together.

If the project were not politically sensitive enough, it had to absorb the twin shocks in 2013 of the Rose Revolution in Georgia, a key transit country, and the death of President Heydar Aliyev of Azerbaijan.

BTC also came under a tremendous amount of scrutiny by NGOs, governments and environmental groups. It became the first major project to be developed following the adoption of the Equator Principles, though critics argued its very existence undermined those principals.

The $3.6 billion project entailed the construction of the pipeline; the Sangachal terminal in Baku (which has two storage tanks); the Ceyhan export terminal in Turkey (which has seven crude oil storage tanks and a jetty with the capacity to load two tankers simultaneously); and eight pumping stations (two in Azerbaijan, two in Georgia and four in Turkey).

A group of 11 international oil companies, led by BP and Azerbaijani stated-owned SOCAR, are sponsors for the project. The financing was led by the IFC and EBRD, while seven export credit agencies also participated, as did a club of 15 commercial banks.

Some 17,000 signatures were needed at the signing ceremony in Baku, testament to sheer number of parties involved in the deal.

The financing featured four multilateral-backed loans: Two 12-year, $125 million A loans from the IFC and EBRD and two 10-year, $125 million B loans. OPIC also put up $100 million in political risk insurance for a commercial bank tranche.

Total syndicated debt was $1.6 billion with a 12-year tenor. Of the remaining funds, $923 million came from loans from consortium members BP, Statoil, Total and ConocoPhillips.

Pricing on the ECA loans was dependent on cover: US Ex-Im and ECGD provided 100% cover; Nexi 97.5% political and 95% commercial; Sace the same cover at 95% and 90%, respectively; Hermes and Coface 95% commercial and political.

Average pricing across the loans was 225bp pre-completion and 270bp post-completion. The project was backed by pre-completion guarantees from the sponsors and a debt service undertaking after the pipeline opened.

Legal challenges facing the sponsors included:

- signing an international treaty to supersede domestic laws of each of the three host countries
- agreeing to all disputes being submitted to private arbitration under UK law
- separate agreements with each government individually, and another one between the group of companies and all three different governments collectively
- exemptions for contractors and subcontractors building and operating the pipeline from domestic taxes, thereby dramatically lowering costs for the consortium
- each country having to commit its security forces to ensuring the project’s safety while the consortium was exempt from any legal responsibility for the actions of those security forces
- multiple land rights issues

Oil first reached Ceyhan in Turkey in May 2006, and the sponsors closed on a five-year, $1.63 billion additional facility for the pipeline in 2015 with an eight-bank club. By that time, it had already carried 2.28 billion barrels of crude oil to Europe.

Baku-Tbilisi-Ceyhan Pipeline

Financial close: 28 June 2013

Size: $3.6 billion

Debt: $2.6 billion

Sponsors: BP Global (30.1%); SOCAR (25%); Chevron (8.9%); Statoil (8.71%); TPAO (6.53%); Eni SpA (5%); Total (5%); Itochu Corp (3.4%); Inpex (2.5%) ConocoPhillips (2.5%); Hess Corporation (2.36%)

DFI lenders: IFC; EBRD

ECAs: JBIC; NEXI; US Ex-Im; ECGD; COFACE; Euler Hermes; SACE

Commercial banks: ABN AMRO; Citibank; Mizuho; SG; Banca Intesa; BNP Paribas; Crédit Agricole Indosuez; Dexia; HypoVereinsBank; ING; KBC; Natixis; Sanpaolo IMI; WestLB; Royal Bank of Scotland

Political risk cover: OPIC

Financial adviser to the consortium: Lazard

Legal advisers: Allen & Overy; Baker Botts; Ashurst; Sullivan & Cromwell; Maples & Calder; Freshfields

Financial advisers to the ECAs: Taylor De Jongh (most ECAs); PwC (Hermes)

Technical advisers to the lenders: Worley Parsons; Paragon; Netherland, Sewell and Assocs; Mott MacDonald

EPC contractors: Spiecapag; CCIC; Botas