BTC: Pipeline politics

01/03/2004

Against a background of deep seated anger from environmental pressure groups, the $2.6 billion (Eu2 billion) debt package for the Baku-Tbilisi-Ceyhan (BTC) oil pipeline closed on February 3.

The BP-led BTC project is a dedicated crude oil pipeline system 1,760km in length, with a capacity of 1 million barrels per day (although initially capacity will be kept to half that amount). The pipeline will extend from the Azeri-Chirag-Deepwater Gunashli (ACG) Phase 1 oil field field through Azerbaijan and Georgia to a terminal at Ceyhan on the Mediterranean coast of Turkey.

The BTC consortium comprises BP (30.1%), Azeri state oil company SOCAR (25%), Unocal (8.9%), Statoil (8.71%), Turkish Petroleum (TPAO) (6.53%), ENI (5%), Itochu (3.4%), ConocoPhillips (2.5%), Inpex (2.5%), TotalFinaElf (5%), and Amerada Hess (2.36%).

While the environmental lobby has been highly vocal, if not united, in its criticism of the deal, the real issue with BTC is political - not least the US's policy towards Iran.

But even more significantly, Moscow has long viewed BTC as an attempt to bypass Russian pipelines. BTC's capacity of 1 million bpd (50 million tonnes a year) was designed largely on the premise that Kazakh oil would be part of the flow stream. And only last month Russia's special Caspian envoy, deputy foreign minister Viktor Kalyuzhny, claimed that the BTC would be in a difficult position without Kazakh crude.

Kazakhstan is a mid-sized independent oil producer and wants multiple pipelines: it plans to more than triple output to about 3 million bpd by 2015. However, if Russia lowers its transit charges for Kazakh oil, BTC may face problems.

Total BTC project cost is $3.6 billion, which funds both upstream expansion of the ACG field and the pipeline. Construction costs are expected to come in at $2.95 billion.

The deal is financed on a 70/30 debt to equity split. A total of 15 banks have taken mandated lead arranger status: ABN Amro, Citigroup, Mizuho, SG, Banca Intesa, BNP Paribas, Crédit Agricole Indosuez, Dexia, HVB, ING, KBC, Natexis Banques Populaires, Royal Bank of Scotland, Sanpaolo IMI and WestLB.

The initial underwriting phase was launched on 25 September 2003 to 20 banks with ABN Amro, Citigroup, SG and Mizuho mandated as joint bookrunners. Tickets were $120 million for mandated lead arranger status and a 25bp underwriting fee, and $75 million for lead arrangers with a 15bp underwriting fee. The phase closed on 30 October with 11 additional banks coming in as mandated lead arrangers at final takes of $100 million. Financial close was scheduled for January 16 but was held up by pressure from the environmental lobby and the necessity for those multilaterals and ECAs (export credit agencies) involved to further outline their reasons for supporting the project with some heavy public relations.

The deal features four multilateral-backed loans: Two 12-year $125 million A loans from IFC and EBRD and two 10-year $125 million B loans. Opic has also put up $100 million in political risk insurance.

Total syndicated debt is $1.6 billion with a 12-year tenor. Of the remaining funds, $923 million is coming from loans from consortium members BP, Statoil, Total and ConocoPhillips. The sponsors have already put up around $1 billion in equity.

The $1.6 billion of debt is heavily ECA backed with US Ex-Im putting up $150 million, Nexi $120 million, the ECGD $106 million, Coface and Hermes contributing $90 million, and Sace $30 million. JBIC has posted a $300 million overseas investment facility, $180 million of which will cover ECA debt.

Pricing on the ECA loans is dependent on cover: US Ex-Im and and ECGD are providing 100% cover; Nexi is providing 97.5% political and 95% commercial; Sace the same cover at 95% and 90% respectively; Hermes and Coface 95% commercial and political. However, pricing across the loans is 225bp pre-completion and 270bp post-completion. The project is backed by pre-completion guarantees from the sponsors and a debt service undertaking when the pipeline opens.

While BTC is well structured and heavily guaranteed - it is also highly political and subject to the risks inherent in the oil market. It may yet be the deal that comes back and bites its participants on the balance sheet, despite its current popularity.

BTC Oil Pipeline

Status: closed 3 February 2004

Description: $2.6 billion debt financing for oil pipeline

Total project cost: $3.6 billion

Sponsors: BP (30.1%); SOCAR (25%); Unocal (8.9%), Statoil (8.71%); TPAO (6.53%); ENI (5%); Itochu (3.4%); ConocoPhillips (2.5%); Inpex (2.5%); TotalFinaElf (5%); Amerada Hess (2.36%)

Financial adviser to the consortium: Lazards

Mandated lead arrangers: ABN Amro; Citigroup; Mizuho; SG; Banca Intesa; BNP Paribas; Crédit Agricole Indosuez; Dexia; HVB; ING; KBC; Natexis Banques Populaires; Royal Bank of Scotland; Sanpaolo IMI; WestLB

Multilateral lenders: EBRD; IFC; Opic

ECA backing: US Ex-Im; Nexi; ECGD; Coface; Hermes; Sace; JBIC

Legal counsel to IFC and EBRD:

Allen & Overy

Legal counsel to sponsors:

Sullivan & Cromwell; Baker Botts

Legal counsel to ECAs: Freshfields

Legal counsel to commercial lenders: Allen & Overy

Technical advisers to the consortium: Pace Consultants; IBRD; Taylor De Jongh

EPC contractors: Spie Capag; CCIC; Botas