



## **CAO ASSESSMENT REPORT**

**Complaint Regarding the Bankers Petroleum Project (IFC Project #27306)**

**Patos, Albania**

*August 13, 2013*

*Office of the Compliance Advisor Ombudsman  
International Finance Corporation/  
Multilateral Investment Guarantee Agency*

**[www.cao-ombudsman.org](http://www.cao-ombudsman.org)**

## **About the Compliance Advisor Ombudsman**

The Office of the Compliance Advisor Ombudsman (CAO) is the independent accountability mechanism for the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA), the private sector arms of the World Bank Group. CAO reports directly to the President of the World Bank Group, and its mandate is to assist in addressing complaints from people affected by IFC/MIGA supported projects in a manner that is fair, objective and constructive and to enhance the social and environmental outcomes of those projects.

For more information, see [www.cao-ombudsman.org](http://www.cao-ombudsman.org).

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## List of Acronyms

CAD	Canadian Dollar
CAO	Compliance Advisor Ombudsman
IFC	International Finance Corporation
MIGA	Multilateral Investment Guarantee Agency
AKBN	Albania's National Agency of Natural Resources
PIDs	Project Information Documents
EBRD	European Bank for Reconstruction and Development

## 1. Overview

A complaint was filed to CAO in March 2013 by an Albanian environmentalist (“Complainant”) on behalf of residents of Zharrëz, a community adjacent to the Patos-Marinëz oilfield. The complainant raises concerns about the extraction techniques of Bankers Petroleum Albania Ltd., and alleges several incidents and accidents may potentially be associated with those techniques.

CAO determined the complaint met its three eligibility criteria, and undertook an assessment of the issues and stakeholders. This report provides an overview of the project, the complaint, the methodology, outcomes of the assessment, and next steps.

## 2. Background

### 2.1 The Project<sup>1</sup>

According to IFC documentation, Bankers Petroleum operates and has full rights to re-develop the Patos-Marinëz heavy oilfield, its primary asset, by gradually taking over the wells from Albpetrol, the Albanian national oil company. In 2008, Bankers created a strategic plan for Patos-Marinëz development, aiming to increase oil recovery rates and production through application of primary and enhanced oil recovery methods. In addition to Patos-Marinëz, Bankers has the rights to re-develop another nearby heavy oil field, Kuçova, and holds an exploration license for “Block F”, contiguous to Patos-Marinëz. The company’s strategy is to remain focused on exploration and production activities in Albania.



Source: <http://www.bankerspetroleum.com>

In 2009, IFC and European Bank for Reconstruction and Development (EBRD) each provided a financing package, inclusive of a US\$50 million reserve-based loan to help finance the Patos-Marinëz development plan, and a US\$5 million environmental term loan, and committed to make an equity investment of up to \$12 million CAD to help finance the development of the company’s Albanian assets. In 2013, IFC and EBRD have committed to increasing the reserve-based loan by US\$50 million each.

### 2.2 The Complaint

In March 2013, CAO received a complaint from a Tirana-based Albanian environmentalist and university lecturer on behalf of residents of Zharrëz commune, a municipality in the vicinity of the Patos-Marinëz oilfield in southwest Albania. The complaint was supported by a Zharrëz-based engineer who serves as a local representative of the residents. The complainant alleges that the extraction techniques being used by Bankers Petroleum involve “induced” earthquakes and

<sup>1</sup>IFC Project Data Sheet (PDS) Early Review

massive earth movements of hundreds of acres that cause cracks to residents' homes and threaten entire neighborhoods and villages. The complaint also includes allegations regarding a drowning incident involving a 60-year-old Marinëz resident, oil residue contamination of irrigation networks, and abortions in Zharrëz.

The complaint questions the applicability of IFC's Environmental, Health and Safety guidelines in general, and its Onshore Oil and Gas Development Standards in particular. It requests that CAO conduct an independent assessment, provide mediation services, and conduct a compliance audit.

### **3. Assessment**

#### **3.1 Methodology**

The purpose of a CAO assessment is to clarify issues and concerns raised by complainants, to understand how other stakeholders see the situation, and to help complainants and companies determine the best alternatives for resolving the complaint via one of CAO's two functions: a cooperative / mediated solution, or a compliance investigation of the IFC's due diligence on the project. During the assessment, CAO does not gather information to make a judgment on the merits of the complaint. (See Annex A for a complete description of the CAO complaint handling process.)

Assessment of the complaint regarding Bankers Petroleum consisted of:

1. A review of all relevant project documents;
2. Meetings with the IFC project team;
3. Confidential bilateral meetings with the complainant and company representative; and
4. A visit to the project site from May 18 - 23, 2013.

During the site visit, interviews with community members and public sector stakeholders were organized and attended by the Tirana-based individual who filed the complaint. The CAO team met independently with Bankers Petroleum.

See Annex B for a list of all other stakeholders interviewed during the site visit to Albania.

#### **3.2 Summary of the Assessment Interviews**

##### **3.2.1 Zharrëz Residents' Perspective**

The Zharrëz residents who were asked by the Tirana-based complainant and the Zharrëz-based representative to meet with the CAO assessment team believe the extraction techniques of Bankers Petroleum are responsible for earthquakes felt throughout their village. They believe these earthquakes have resulted in structural damage to their homes and to a perpetual sense of fear and anxiety. These residents included four homeowners whose homes CAO visited, where significant cracking and structural damage was apparent, and about 15 other residents who attended a community meeting convened by the complainants and raised the same concerns.

The residents who spoke with CAO say they do not trust Bankers Petroleum assurances that earthquakes are a natural phenomenon, rather than company caused, because the pattern and behavior of the tremors is unlike 'typical' seismic activity. That is, villagers believe that during these earthquakes, the ground moves "up and down" rather than "side to side," and that loud and unnatural explosions seem to precede the earthquakes.

These Zharrëz residents said they have raised their concerns with local and regional government as well, but government has failed to provide an adequate judgment or solution.

### 3.2.2 Company Perspective

Bankers Petroleum staff who met with CAO described a series of company-initiated steps undertaken since mid-2009 to better understand, document, and communicate seismic activity at the project site. These include hiring a full-time geophysicist and conducting in-depth analyses of their activities, engaging with the National Seismological Institute and the National Institute of Geosciences, and producing various data analyses reports. Based on these and other efforts, and on their interpretation of the scientific information, they believe the area's earthquakes are naturally occurring, and not caused by the company's extraction methods.

The company says it has made multiple efforts to engage the residents of Zharrëz in dialogue and information sharing about the science and causality of the tremors, but has been frustrated by ongoing mistrust and residents' lack of willingness to engage constructively or to accept technical findings.

The company recently undertook a "Seismograph Installation Project" aimed at supporting national and regional seismic monitoring networks. It says it will use the data from these seismographs to better understand and communicate information on earthquakes in its operating area. The company also will be purchasing state-of-the-art analysis software and donating it to the government's seismic institute to better enable analysis and reporting on seismic events throughout the country.

### 3.2.3 Public Sector Perspective

Local and national government stakeholders have varying perspectives on the cause of the earthquakes.

- A local government representative, who spoke to the CAO team on condition of anonymity, said he has studied and worked closely on issues associated with the earthquakes and questions the company's compliance with state extraction regulations. He supports claims that Bankers is responsible for tremors in the project area, but also said he believes more definitive science could answer the question conclusively.
- The Mayor of Zharrëz said his administration has not taken an official position on the cause of the earthquakes. In his view, more information is needed to determine whether they are naturally occurring, or induced or exacerbated by Bankers' drilling methods, or both. He expressed frustration that the issue has gone unresolved for so long; that it continues to divide citizens, spark protests, and engender mistrust among residents; and that despite the plethora of studies and information about the earthquakes, his administration has been unable to help residents and the company reach consensus or resolve the situation.

- A representative of the national-level Natural Resources Agency (AKBN) said there is a lack of understanding in Zharrëz and other communities about Albania's high seismic activity, and that people often fail to check an area's seismic conditions before they build. He believes there is widespread non-compliance with building codes and inadequate planning and zoning around development projects. In his view, pilot projects should be conducted in Zharrëz to demonstrate appropriate building and zoning standards, and seismographs should be installed at the project site to determine whether the depth of oil wells is a contributing factor to the tremors.
- An emeritus professor, who previously served as Deputy Minister of Energy, and as Director General of the oil sector in Albania, said he believes the intensive extraction method utilized by Bankers is a likely cause of earthquakes around Zharrëz, as there is evidence from other sites that using similar methods can lead to earthquakes. Still, he said a thorough evaluation involving appropriate experts should be undertaken in which the well designs, extraction techniques, and risks are carefully examined. Knowing the biography of each well, he said, will help determine whether Bankers should be using more environmentally sound methods.
- Representatives of Albania's National Seismological Institute said they have conducted monitoring and geological surveys to better understand the impacts of Bankers' drilling activities, and are well familiar with Zharrëz commune's claims that the company is to blame for the tremors. They say seismic activity is common in Albania, with regular tremors of low magnitude throughout the country, and periods of increased seismic activity, such as in 2009 and 2012. In their view, the concerns of the community should be taken seriously, and simultaneously efforts should be made to improve scientific cooperation in order to verify what is happening geologically. They also say more should be done to communicate and educate about building codes and seismic activity generally, and that stakeholders should agree on terms for a scientific review of existing data that result in a conclusion.
- Engineers from the National Institute of Geosciences, Energy, Water and Environment, who undertook field visits to the project site in 2009, said they conducted a thorough review the villagers' concerns and the existing geologic data in an effort to reach a reliable conclusion. From their perspective, the community's claims are not supported by scientific evidence, as 2009 saw an increase in seismic activity across Albania and cracking to homes was likely along fault lines due to this additional (and higher magnitude) geologic activity. The engineers described several steps they believe would help resolve the issue, including an impartial team of experts to complete detailed, site-based monitoring and evaluation.

#### 3.2.4 Context / Additional Information

During the assessment trip to Albania, CAO learned that the Tirana-based complainant was unaware of several allegations listed in the written complaint: the issue linking the company's operations to abortions in Zharrëz and to the drowning incident in Marinëz. The reason for this, according to the complainant, was that the full text of the complaint was written by a colleague – a US-based Albanian national – who forwarded it to the Tirana-based environmentalist requesting him to forward it to CAO. The Tirana-based complainant said he had not read the entire complaint before forwarding it to CAO.

Upon receiving that complaint, on March 13, 2013, CAO requested verification from the Tirana-based complainant that he represents residents of Zharrëz. On March 19, he forwarded to CAO



a letter written by the Zharrëz-based engineer, signed by 18 residents of Zharrëz, requesting the complainant's assistance in understanding and explaining the phenomenon of frequent earthquakes in Zharrëz. According to the letter, these residents sought the complainant's assistance because of his expertise as both a geologist and environmentalist.

The complainant said he was unaware at the time that the initial correspondence he forwarded to CAO constituted a formal complaint. From his perspective, the letter signed by Zharrëz residents represents the key issue for all involved stakeholders; that is, the causes and impacts of earthquakes near the project site.

According to company and government documentation, community concern about earthquake activity near the Patos-Marinëz oilfield has been on-going since at least mid-2009, when residents began raising concerns about a connection between Bankers' extraction activities, earthquakes, and damage to homes. In response to repeated complaints and protests, the head of AKBN committed to a scientific inquiry to understand and resolve uncertainty over the cause of the tremors.

A number of stakeholders who spoke with CAO said the AKBN then convened an expert panel to investigate the issue, which for various reasons was later disbanded. The Tirana-based complainant was among the panelists. According to the company, Bankers was excluded from participation on the panel, although it did provide data for the participating panelists to review.

To date, efforts such as the expert panel and other analyses that have been undertaken by different parties – including the complainant, the company, and the state – have not resulted in a broadly accepted conclusion about the cause of the earthquakes.

## **4. Summary and Next Steps**

### **4.1 Summary of the Assessment**

Based on the assessment interviews and on the clarification from the Tirana-based complainant, the key issue to be addressed via a CAO process is the cause of earthquakes on and adjacent to the Patos-Marinza oilfield.

The complainant, along with many residents of Zharrëz, and some public-sector stakeholders, believe the company's extraction techniques are to blame for the earthquakes and for widespread cracking to homes and buildings in the area. The company and some other public sector representatives believe the company's techniques are not responsible for the earthquakes, that scientific evidence indicates the earthquakes are naturally occurring, and that two periods of protest by Zharrëz residents and others coincided with periods of heightened seismic activity throughout Albania. Still other public sector stakeholders believe there is not enough information or evidence to determine the true cause of the earthquakes that occur near the Patos-Marinza site.

### **4.2 Common Interests**

In the interviews, meetings, and conversations with each of the key stakeholders, the CAO team heard the following common interests and perspectives:

- Differences of opinion over the cause of earthquakes in and around Zharrëz have led to divisive and unproductive relationships between citizens, representatives, and public-sector leaders. Reaching consensus on this issue is a priority for all stakeholder groups.
- While there is much scientific data and popular press on the causes of the earthquakes, more detailed, site-specific monitoring at the Patos-Marinza site will result in more credible and trusted information. This could be accomplished in part by installing seismic monitoring equipment in the Patos-Marinza area.
- A comprehensive review of existing scientific information, along with collection of any necessary additional information by a trusted technical working group or team of experts may be a reasonable next step toward resolving the issue.
- The composition of any potential working group should be decided collaboratively by the company, appropriate public sector representatives, and the complainants. Zharrëz residents, who have generally felt marginalized and unrepresented in conversations about the causes and impacts of the earthquakes, should discuss and agree on appropriate representation regarding selection of and participation in any potential collaborative working group.

In addition to these common interests, it is important to note that the company has a project financed and in place to install seismometers in two locations in the field area – a step that the complainants and other stakeholders have been recommending for some time. The company says the equipment is ordered and is currently being manufactured. The seismometers are scheduled to be installed by the National Seismic Institute in September 2013. According to the company, the Seismic Institute will be responsible for monitoring the data coming from the seismometers and integrating it into the country’s seismic monitoring program.

### **4.3 Next Steps**

Given the strong common interests and broad agreement among stakeholders that a solution is possible through better, more trusted scientific inquiry, the parties recognize that it may be worthwhile to attempt resolution of the issues through a collaborative process.

One approach discussed with each of the key stakeholders was that of a collaborative working group around the science and technical issues, which is often referred to as “joint fact-finding.” Joint fact-finding is a strategy that enables technical experts, decision makers and other stakeholders from opposing sides of an issue to work together to address factual disputes.

In the case of the earthquakes near the Patos-Marinza oil field, a joint fact-finding or other collaborative process could help improve the way scientific information is being gathered and presented, open lines of communication among stakeholders, and – based on the outcomes – help each stakeholder group determine appropriate next steps and longer-term responses.

Based on the parties’ perspectives on the potential outcomes of a collaborative process, and considering their common points of interest, CAO will proceed to establish a trusted facilitation team to begin working with the parties in designing a process focused on resolution of the cause of earthquakes in the Zharrëz/Patos-Marinza area.

Among the critical issues to address in initial design of the process will be: (1) composition of the collaborative working group, (2) community representation and information dissemination and exchange between residents and the collaborative working group and (3) clear identification of the issues to be investigated and discussed by participants in the process.

The CAO will ensure the facilitation team adheres to professional principles guiding joint fact-finding processes. That includes ensuring parties work together to agree on the issues that require technical analysis, who should serve as technical experts, and how to move forward after receiving the technical analysis.

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## Annex A: CAO Complaint Handling Process

The Office of the Compliance Advisor Ombudsman (CAO) is the independent recourse mechanism for the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) of the World Bank Group. CAO reports directly to the President of the World Bank Group, and its mandate is to assist in addressing complaints from people affected by IFC/MIGA supported projects in a manner that is fair, objective, and constructive and to enhance the social and environmental outcomes of those projects.

The initial assessment is conducted by CAO's Dispute Resolution function. The purpose of CAO's assessment is to: (1) clarify the issues and concerns raised by the complainant(s); (2) gather information on how other stakeholders see the situation; and (3) help stakeholders understand the recourse options available to them and determine whether they would like to pursue a collaborative solution through CAO's Dispute Resolution function, or whether the case should be reviewed by CAO's Compliance function.

This document is a preliminary record of the views heard by the CAO team, and explanations of next steps depending on whether the parties choose to pursue a Dispute Resolution process or prefer a CAO Compliance process. *This report does not make any judgment on the merits of the complaint.*

As per CAO's Operational Guidelines,<sup>2</sup> the following steps are typically followed in response to a complaint that is received:

Step 1: **Acknowledgement** of receipt of the complaint

Step 2: **Eligibility:** Determination of the complaint's eligibility for assessment under the mandate of the CAO (no more than 15 working days)

Step 3: **CAO assessment:** CAO conducts an assessment of the issues and provides support to stakeholders in understanding and determining whether they would like to pursue a consensual solution through a collaborative process convened by CAO's Dispute Resolution function, or whether the case should be handled by CAO's Compliance function to review IFC's/MIGA's environmental and social due diligence. The assessment time can take up to a maximum of 120 working days.

Step 4: **Facilitating settlement:** If the parties choose to pursue a collaborative process, CAO's dispute resolution function is initiated. The dispute resolution process is typically based or initiated by a Memorandum of Understanding and/or a mutually agreed upon ground rules between the parties. It may involve facilitation/mediation, joint fact-finding, or other agreed resolution approaches leading to a settlement agreement or other mutually agreed and appropriate goal. The major objective of these types of problem-solving approaches will be to address the issues raised in the complaint, and any other significant issues relevant to the complaint that were identified during the assessment or the dispute resolution process, in a way that is acceptable to the parties affected<sup>3</sup>.

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<sup>2</sup> For more details on the role and work of CAO, please refer to the full Operational Guidelines: [http://www.cao-ombudsman.org/documents/CAOOperationalGuidelines\\_2013.pdf](http://www.cao-ombudsman.org/documents/CAOOperationalGuidelines_2013.pdf)

<sup>3</sup> Where stakeholders are unable to resolve the issues through a collaborative process within an agreed time frame, CAO Dispute Resolution will first seek to assist the stakeholders in breaking through impasse(s). If this is not possible, the Dispute Resolution team will inform the stakeholders, including IFC/MIGA staff, the President and Board

OR

**Compliance Appraisal/Investigation:** If the parties opt for a Compliance process, CAO's Compliance function will initiate an appraisal of IFC's/MIGA's environmental and social due diligence of the project in question to determine whether a compliance investigation of IFC's/MIGA's performance related to the project is merited. The appraisal time can take up to a maximum of 45 working days. If an investigation is found to be merited, CAO Compliance will conduct an in-depth investigation into IFC's/MIGA's performance. An investigation report with any identified non-compliances will be made public, along with IFC's/MIGA's response.

Step 5: **Monitoring** and follow-up

Step 6: **Conclusion**/Case closure

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of the World Bank Group, and the public, that CAO Dispute Resolution has closed the complaint and transferred it to CAO Compliance for appraisal.

## **Annex B: CAO Assessment Interviews**

The site visit to Albania consisted of interviews and meetings with the Tirana-based environmentalist who filed the complaint, a local representative of the residents of Zharrëz, and Bankers Petroleum staff who focus on health, safety, social issues and the environment. The assessment team also met with a range of other stakeholders who have an interest in the issues, including:

- Albanian Minister of Economy, Trade and Energy;
- Mayor of Zharrëz;
- Head of the Fier region Prefecture;
- Secretary General of the Fier Prefecture;
- Four individual families/home owners in Zharrëz, who are concerned that cracks and damage to their homes may be a result of Bankers Petroleum's extraction techniques;
- Other Zharrëz residents with similar concerns, who were invited to attend a community meeting where the CAO team was introduced;
- Director of the Albanian Natural Resources Agency (AKBN);
- Head of Energy Efficiency for AKBN, who formerly conducted seismic investigations for AKBN;
- A professor emeritus, author, and former General Director of the Oil Sector in Albania, who also served previously as Deputy Minister of Energy;
- Representatives of the Albania Institute of Geosciences; and
- Representatives of the Seismic Institute of Albania.