

TANGGUH INDEPENDENT ADVISORY PANEL
BP RESPONSE TO THE FIRST REPORT
ON THE
TANGGUH LNG PROJECT

Overview of BP Response

BP expresses its thanks and appreciation to the members of the Tangguh Independent Advisory Panel (TIAP) for their comprehensive Report, and the many recommendations contained therein. Together with the Panel's broader observations and comments, these constitute an important milestone on the path to achieving our objective that Tangguh "achieve its potential as a world-class model for development".

Furthermore, the Report provides guidance on the need for robust boundaries of BP's responsibilities between those areas that the company can reasonably and beneficially be expected to have direct involvement, and those more properly the preserve of others, and where BP's role is more supportive or facilitating. In this respect, the Panel's counsel:

"...BP must take care not to assume the roles of local government, or to be perceived as such..." [Page 19]

is fundamental to sustainability, the creation of a flourishing civil society, and empowered communities ultimately taking charge of their own development.

The Report highlights the many challenges – cultural, political, economic, security, human rights, and environmental – which Tangguh faces, and their current manifestation through poor health, inadequate education provision, and weak institutional capacity at all levels. While we take comfort from the Panel's assessment that:

"...BP has laid the groundwork for policies that respect the interests of, and provide tangible benefits to all parties in interest, including the Indonesian Government, the Papua Government, the several regencies of the Bird's Head Region, and the villages of Bintuni Bay..." [Page 14]

we readily acknowledge the need to transform 'groundwork' into enduring substance in the months and years ahead, particularly during the period of construction when pressures on the communities' social and cultural structures will be at their most intense.

In practice, we believe that tangible benefits for project-area communities require the rigorous application of the Project's core values: Consultation, Empowerment, Partnership, Participation and Sustainability, buttressed by respect for human rights and transparency. **It is paramount to avoid paternalist/dependency between company and its stakeholders, be they local communities, NGOs or official institutions.** This involves: continuous consultation to ensure that communities' own priorities drive programming; community participation in all phases of programming, to foster empowerment, sustainability and replicability; and partnerships that bring specialist expertise to the process. Matching the "*momentum of expectations*" identified by the Panel [page 11] will require a "*momentum of participation*".

These values guide the Community Action Programmes (CAPs) in the Project’s 7 Directly Affected Villages. We believe the CAPs will bring about the substantive near-term benefits and learning experiences that the Panel rightly views as being fundamental for maintaining local project support.

We share the Panel’s conviction that robust training programmes should take place in preparation for the LNG plant construction, and this is a high priority for the Project. However, great care must be taken to ensure that the local economy, and traditional livelihoods are also fostered (particularly post construction) through the encouragement of community-based enterprise.

Effective, well-resourced, technically proficient, ethical and accountable local government institutions at village, district, and provincial levels are an indispensable precondition for the well-managed delivery of essential public services, such as health, education, and sanitation. In the interests of sustainability, legitimacy and good governance, BP’s own role in the provision of such services must be secondary, and supportive. As the Panel cautions:

“To the extent possible, BP’s support for education, health care, and job training should be coordinated with, and administered by, local officials...”
[Page 19]

This is an important ‘boundary’ for the company. We cannot be seen as the sole provider of either first or last resort, and must resist the inevitable (and understandable) pressures to assume this responsibility, even at the cost of short-term criticism.

The ability of official agencies to discharge their proper functions is seriously handicapped by chronic lack of capacity. Civil society is similarly fragile. But in seeking to help address these weaknesses, a private company must act with caution lest it be perceived to be undermining the independence and integrity of the very institutions it wishes to see strengthened. This is where partnerships with international specialized donor agencies can potentially achieve far-reaching improvements in governance, not least in the management of the substantial revenues that will flow to Papua from Tangguh. We accept the Panel’s recommendation that BP should:

“...work closely with and support the efforts of the US Agency for International Development, the UK Department for International Development, and the United Nations Development Programme to set up programmes for governmental capacity-building in Papua, so that revenues are usefully spent.”
[Page 17]

Indeed, we have now developed a cooperative agreement with USAID under the Global Development Alliance programme sponsored by the US Government which itself will provide an additional \$US 3.5 million investment (plus human resources and valuable experience) to support a wide range of capacity building initiatives.

At the Provincial level, we see considerable merit in the Panel’s recommendation that discussions take place between Pertamina/BP, the Indonesian Government, Papua Province and the multilateral lending institutions about the feasibility

“...regarding the viability of an externally financed line of credit to bring forward, and smooth out the flow of revenues to Papua from the Project’.

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The Panel devotes much attention to the security regime for the Project in the context of the armed forces and the violation of human rights in Papua. We appreciate its strong endorsement of a community-based security approach as most suited to Tangguh, and are committed to pursuing this concept in our discussions with the police and armed forces. We believe that community partnership provides the best guarantor of project security. Our goal is security based on the broadest consent of our many stakeholders, recognizing constitutional obligations with the universal desire among the communities in Bintuni Bay, and Papua as a whole, for respect for human rights and dignity. In this context, we shall treat with the utmost seriousness, the specific recommendations by the Panel on the company’s own relations with the Indonesian security forces, the more so as BP is a signatory of the Voluntary Principles on Security, which are included in their entirety in the Project’s AMDAL.

We share the Panel’s analysis of how to minimize the impact of the plant construction.

The tradition in Indonesia has been for major oil and gas projects to act as a focus for regional development. This approach has proven difficult to manage with the result that there has been uncontrolled inward migration, displacement of local economic activities, and environmental degradation. The sustainability of the resulting secondary development is compromised due to its dependence on the continuity of the original energy development. Over the longer term, the decline in oil and gas reserves will leave the secondary development without an economic base.

The Diversified Growth Strategy adopted by Pertamina-BP serves as a new model for the development of major energy projects. Rather than acting as a physical center for gas dependent development, the DGS focuses on Tangguh as a catalyst for the diversification and expansion of the regional economy through wise investment of the revenues from the export sales of the LNG.

Although the Panel did not make specific recommendations on the need to prevent large-scale in-migration to Bintuni Bay, the Report itself expressed strong support for this approach. We are convinced that ensuring balanced development focused on Regional Growth Centres, and the policy-framework to implement it, will be critical if Tangguh is too avoid adverse environmental, social, economic, and cultural consequences of a mass influx of peoples to an area, which cannot support such an eventuality.

We expect the Tangguh AMDAL to be approved in October and are committed to full adherence to all its provisions, and a broader protection of the unique biodiversity in the Bintuni Bay area.

Regular and credible communication with the Project’s local, Papuan, Indonesian and international stakeholders is fundamental, not only in disseminating information about our operations (and on occasions to share some of the dilemmas confronting us throughout the life of the Project), but also in receiving feedback and constructive challenge. Our experience so far has already shown that such dialogues with stakeholders have resulted in improved performance.

The process of communicating the Panel's report and BP's response will commence with selective briefings of key audiences in Indonesia, London and the US in November leading up to publication of both the report and the response. An NGO workshop will also be organised fulfilling the commitment to organize a follow up event one year on to the one held in the spring of 2002.

BP RESPONSES TO INDIVIDUAL TIAP RECOMMENDATIONS

1. Overview

- **Continue and intensify the dialogue BP has begun with the central government, regional government leaders in Papua, NGOs and religious leaders.**

We agree, and regard this as a continuous process, which will intensify as the project progresses. As an indication of the extent of our current dialogue, the following events happened during 2002:

- attendance as observers at a traditional consultation of the Simuri tribe (*Musyawarah Adat Simuri*);
- contribution to a local NGO meeting in Manokwari;
- convening of a workshop in Jayapura to formalize the Diversified Growth Strategy;
- meetings with the Environmental Impact Control Agency (Bapedal) regarding refinements to the Environmental Impact Assessment (Amdal);
- several meetings with the head of Babo district;
- statements made to international journalists in response to the tragic Tembagapura shooting;
- email delivery of a four-page Tangguh Project Update to a distribution list of approximately 50 interested project stakeholders (principally; international NGOs and SRIs)
- a series of meetings with government transport officials regarding logistical issues;
- preparations for a media coaching workshop for BP and BPMigas spokespeople;
- preparations for a seminar on Community-Based Security.
- Other activities not directly related to the Integrated Social Strategy, such as gas marketing, facilities engineering design, etc.

This is typical of the activities that take place during most months. The project is also committed to carrying out at least two major stakeholder workshops or conferences each year.

- **Make sure that any commitments made by the company make a clear distinction between matters under consideration and actual decisions, and that all specific promised benefits are set out in writing.**

We regard this as important and will apply with rigor. Mutually agreed documentation is an integral component of the Participatory Planning process for the CAPs. Similarly, two landmark agreements forged this year in the resettlement program were encapsulated in detailed 'Memorandums of Understanding' signed by the communities, the project and the local government. The project also endeavors to culminate major agreements with traditional *adat* ceremonies whenever possible, to reinforce mutual commitments.

2. Substantial and Tangible Benefits in the Near Term

- **Provide early, tangible and visible support to the Bird's Head region and the province in education, health care, capacity building and job training. This early support from BP will**

help to diminish any opposition to the project resulting from any delay of revenues under Special Autonomy.

Our near term focus on education and job training is in Bintuni Bay. We plan:

- A basic **education support programme** to improve outcomes in primary / secondary schools in Bintuni Bay.
- **Job training** – we pace this with construction and project activity. For example, we have provided job training (carpentry skills, catering etc) for the residents of Tanah Merah and Saengga in the run-up to construction activity for the resettlement of Tanah Merah. Similarly, we plan job training for Directly Affected Villagers (DAVs) prior to, and during the LNG plant construction period to upgrade the skills of DAVs. We currently do not plan any significant direct contribution to job training for peoples outside Bintuni Bay.

In the Bird’s Head region (Manokwari, Sorong and Fak Fak), we are providing capacity building to local contractors so that they can bid for work during the construction project. Examples include; BP procurement rules and health and safety requirements. This is a key element in support of developing growth centers in Manokwari, Sorong and Fak Fak to mitigate in-migration to the plant site.

- **Work closely with and support efforts of the U.S. Agency for International Development (“USAID”), the U.K. Department for International Development (“DFID”) and the United Nations Development Programme (“UNDP”) to set up programs for governmental capacity building in Papua, so that revenues are usefully spent.**

Pertamina-BP has developed a cooperative agreement with USAID under the Global Development Alliance program sponsored by the US Government. This brings an additional investment of \$US 3.5 million from the US government, as well as human resources and valuable experience to complement Pertamina-BP’s investment in enhancing human resources and institutional capacities in Papua.

Specific programs that will be developed with support from USAID include:

- a) ***Building Local Governance Capacity*** by helping to build local government capacity, with a focus on building strength in the core processes of planning, financial management, and service delivery management.
- b) ***Supporting Civil Society*** by strengthening existing and fostering the development of new civil society organizations that will provide effective advocates for progressive development, monitor local government operations, work with *adat* communities, be partners with local government in providing services, and promote the preservation of the unique biodiversity through the development of improved sustainable environmental practices. Similar activities would also be carried out with local parliaments and political parties.

c) ***Protecting the Environment*** Support will be provided to increase the technical capacity and organizational systems to address environmental issues, particularly illegal logging and the impacts of large-scale resource exploitation activities.

d) ***Support Agricultural Development and Regional Economic Opportunities*** by assisting rural communities in the Bird's Head region to improve their livelihoods and incomes in forestry, agro forestry, agriculture, and fishing in manners that protect the environment and watersheds.

e) ***Supporting Action on HIV/AIDS and Health Care*** Strategies to deal effectively with a potential AIDS crisis in Papua are being developed and implemented by USAID. BP will take the lead on issues related to community health systems; USAID will take the lead on HIV/AIDS. It is expected that BP and USAID will collaborate closely to enable BP to take advantage of USAID's expertise, tools, and programs to cope with HIV/AIDS.

DFID will also form part of the Global development Alliance and their principal role will be to promote sustainable forestry and to develop programs to address rural poverty.

- **Enter into discussions with the government of Indonesia and the authorities in Papua regarding the viability of an externally financed line of credit to bring forward and smooth out the flow of revenues to Papua from the project.**

We have entered into discussions with the government of Indonesia, authorities in Papua and donor agencies on the forecast revenue flows from the Tangguh project showing the delay in these flows. BP agrees that an externally financed line of credit to Papua would bring many benefits. However, this is a decision between Papua and the Government of Indonesia.

3. Community Development

- **Provide direct support for improved educational facilities and teaching in the Bird's Head region and for technical training and higher education programs in Manokwari and Jayapura.**

Our first and near term focus for educational support is in Bintuni Bay. We will consider direct support to technical training and higher education programs in Manokwari and Jayapura in the future, recognizing that Tangguh is a 30 year project. Nevertheless, we plan to award a small number of scholarships from next year that will be open to all Papuans.

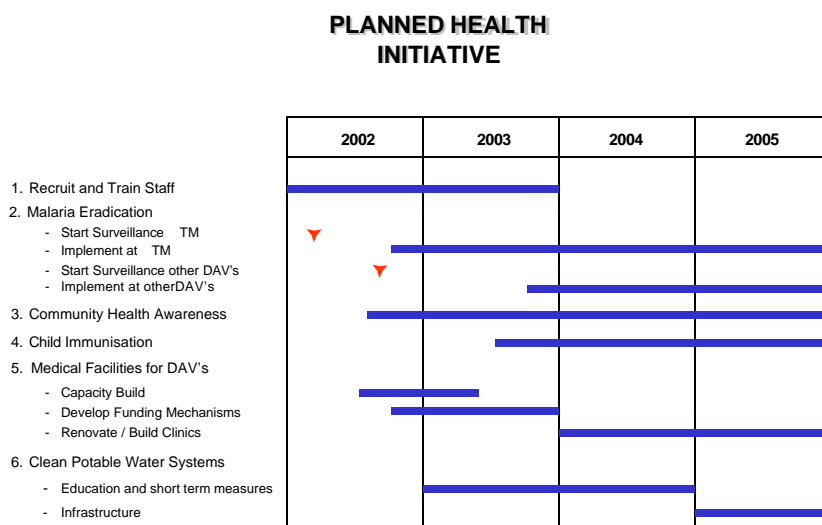
For Bintuni Bay basic education, we are consulting widely to identify simple and measurable objectives to improve basic education and then plan to invite a number of religious educational foundations to make proposals on meeting these objectives. We plan to award a grant to the foundation that has the best proposal for carrying out their proposed programme.

- **Provide direct support for increased health care in the Bintuni Bay region, including malaria control in the Directly Affected Villages and towns and funding for medical supplies,**

facilities and personnel, particularly during the construction phase of the project.

- **Because of its critical importance to health and development, provide improved drinking water infrastructure where needed in the Directly Affected Villages and towns.**

We see community health development as critically important. We have used medical consultants to carry out a baseline health survey, and used further consultants and our own staff to develop a pragmatic and workable health development plan. The areas highlighted are in the plan. The sequential nature of tackling the problems is critically important.



4. Security

- **Pursue the concept for community based security flexibly, recognizing the need to reconcile this approach with the TNI's obligation to protect vital national assets.**
- **Engage in high level consultations with senior political, military and police officials about the implementation of this concept, and aim, if possible, to establish a sound basis for cooperation with senior political and military officials before a final decision is made by BP to go forward with the Project.**

BP concurs with both these recommendations, and will pursue them. The Government of Indonesia and its instruments, including the National Police and the Armed Forces, have sovereign authority over the territory of the nation. That includes Papua. The presence of the Police (which under the new Special Autonomy Law have a much closer relationship with Papuan Province) is essential for the protection and security of all who live and work in the Bintuni Bay area, provided it is well

trained and disciplined. The Tangguh Project is working actively to promote high quality technical training, respect for human rights, and police professionalism, and is researching the best way to assist in that process.

The current military presence in the Bay is at a low level. We are now engaged in discussions with the senior Government and military officials to clarify what the future nature and extent of that presence will be. Community based security recognizes the role of all elements of society, from the local communities to the Armed Forces in maintaining security for the project. We are striving to forge a broad consensus among our stakeholders in Papua and Indonesia – many of whom do have sharply converging opinions – about the overall security regime for Tangguh. This will be neither easy nor straightforward, but the prize of establishing a new standard in Indonesia is there to be seized.

The Tangguh Project efforts in securing and safeguarding the Project are greatly facilitated by the National Resiliency Institute (LEMHANNAS), which has enthusiastically embraced the community based security paradigm and is assisting in both refining the concept and building support within the Government for implementing it. LEMHANNAS' position as the highest education and training institute in the Indonesian Government (its governor reports directly to the President) gives LEMHANNAS a unique ability to promote and advance that goal.

- **Support programs that provide training to the military and police, such as that run by the International Committee of the Red Cross.**

Several countries and the ICRC have training programs with the Indonesian National Police, including a full spectrum of programs to increase professionalism, technical abilities, and modern non-lethal police methods. We are actively exploring ways to support and assist these programs, especially as they affect the police capabilities in the Bintuni Bay area, and the supporting Birds Head Regional Growth Centers. Any assistance or training activities will remain non-lethal and reinforce the Government's programs to combat inefficiency, indiscipline and misbehavior of the security services. BP has signed and adheres to the Voluntary Principles in all its dealings with the government, police and military.

- **Resist demands by TNI or the police for direct funding.**

We agree.

5. Training and Employment of Papuans

- **Continue to train local villagers in useful trade skills, such as carpentry.**

We have trained 60 from TM in craft skills, 24 in carpentry. We have employed the carpenters to build their own houses, and will aim to similarly employ the mechanics, plumbers and electricians. We plan to do the same with Saengga

- **Implement a job recruitment and training program for Papuans in the region to help actualize the promise of a job for every family in the Directly Affected Villages.**

Our potential Engineering Procurement and Construction (EPC) contractors have experience of this, and we have had constructive discussions with them about setting up a suitable training establishment during the early stages of mobilization.

- **Support the modernization of the local fishing fleet by providing assistance for better boats and other equipment.**

As part of our commitment to re-establish and indeed enhance income from fisheries we commissioned a consultant report, and key recommendations covered modernisation. Our Resettlement Team is working on the implementation of such measures.

6. Relationships with Pertamina and New Implementing Body (“Balak”)

- **Strengthen and expand relationships with senior officials at Pertamina in order to provide stability to this evolving relationship.**

Pertamina are no longer our regulatory agency. However we continue to work with senior officials at Pertamina in this period of transition.

- **Monitor closely and develop relationships with the officials of the new regulatory agency that will oversee Tangguh activities after November, 2003.**

BPMIGAS have been our regulatory agency from 16 July 2002. Since then we have established extensive relationships and now work very closely with BPMIGAS.

7. Mitigation of Construction Impacts

- **Pursue strictly its programs to limit construction worker off-duty activities in and around the Bintuni Bay area.**
- **Engage closely with its contractors to emphasize the importance of this policy and ensure that the contractors strictly adhere to the company's Code of Conduct.**

These are clear requirements of the EPC contractors as outlined in the Invitation to Bid. In evaluating the 3 bids we are putting high importance on these issues.

- **Provide educational programs for all affected villages and towns to inform the villagers of the dangers of disease, alcohol and drug use.**

We will ensure that this is a clear part of the responsibilities of the Community Health Manager

Diversified Growth Strategy

Although the Panel did not make specific recommendations on the need to prevent large-scale immigration to Bintuni Bay, the Report itself expressed strong support for this approach. We are convinced that ensuring balanced development focused on Regional Growth Centres, and the policy-framework to implement it, will be critical if Tangguh is too avoid the potentially adverse environmental, social, economic, and cultural consequences of a mass influx of peoples to an area, which cannot support such an outcome.

In planning for the Tangguh Project, we have taken great care to respect the wishes of local people and avoid adverse social, economic and environmental impacts. The approach responds to a specific request from the local people at the plant site to assist them in resisting social and economic marginalisation. It also protects the limited capacity of the land to support continuing production of fisheries, forestry and agricultural products, essential to their livelihood. To achieve this, a very different strategy has been developed than has been used for energy developments in the past in Indonesia. Instead of using the LNG processing facility as a focus for the development of secondary industry, such as a fertilizer plant or petrochemical plant, development is being encouraged in existing urban centers well away from the Tangguh site. This innovative approach to the management of development change we have called the Diversified Growth Strategy (DGS).

The DGS gives emphasis to maximizing the positive impact of the revenues that will be earned through the sale of the LNG rather than the short-term employment during the construction phase. This approach treats the Tangguh initiative as a “catalyst” for long-term diversification and expansion of the regional economy through encouraging growth in other industry sectors where sustainable employment opportunities are greater. It is a Strategy made possible by the devolution of power and financial resources to the Province of Papua and its Districts through the passage of the 1999 Decentralisation Laws and the Special Autonomy Law of 2001. These fundamental changes in the way Indonesia is governed mean that for the first time revenue rather than infrastructure can be the engine of regional growth.

Specific measures that are integrated into the DGS include:

- Working with government to enhance human resources and institutional capacity to achieve effective fiscal and spatial planning to assist in the achievement of its broader regional development agenda.
- Community based development for villages directly affected by the LNG development;
- The Invitation To Bid for the main LNG EPC Contractors incorporates measures to reduce immigration and optimize the active participation of Papuan enterprises in the supply of materials, goods and services.

8. Environment

- **Safeguard biodiversity in the region and support the flagship biodiversity action program at Cagar Alam.**

The Biodiversity Action Plan outlines support for a targeted program of eight complementary parts as listed below, the first three of which form a BP Biodiversity Flagship Program:

- Conservation and Training Resource Center
- Protected area management plan for the Cagar Alam -
- Regional land-use atlas
- Papuan ecology book
- Papuan Conservation Fund
- Case study for the Energy and Biodiversity Initiative; and a
- BP staff conservation awareness and volunteer program.

A major component of the BP Flagship Program is the plan to establish a Conservation Training and Resource Centre (CTRC), founded by a unique BP-catalyzed partnership involving international NGO's, government and Papuan universities. The CTRC would provide a conduit for developing practical applied conservation capacity through state-of-the-art methods in engaging environmental officials, legislative committees, NGO's, civil society and academia.

The CTRC's initial focus would be on improving land and water use management practices in the watersheds that feed into the Bay in order to safeguard the quantity and quality of freshwater that is essential to the continuing health and productivity of the globally significant mangrove ecosystem. The plan's process encourages Indonesian mentorship for developing a locally owned conservation management plan.

- **Support measures to ensure proper environmental management of the facilities and protect Bintuni Bay from any degradation of water quality or other impacts that could affect the marine environment and the livelihoods of the local population.**
- **Implement all requirements of the AMDAL fully and in the appropriate timeframe.**

Great care is being taken in the planning of the Tangguh project to protect the ecosystems, habitats and species that contribute to the biological diversity of the Bird's Head region and to the economic and social welfare of local communities. The AMDAL sets out a world-class environmental management program that will be implemented through legally binding environmental monitoring requirements throughout the life of the project. True to the spirit of Environmental and Social Impact Assessment, the development of the AMDAL has helped to improve the design of the LNG facilities to reduce the risk of any degradation of the marine, terrestrial or atmospheric components of the regional environment. The monitoring systems are capable of detecting any unforeseen environmental change in a timely fashion that allows corrective environmental management action to be taken to ensure avoidance of any significant negative, long lasting impact.

To ensure compliance with the extensive number of commitments made in the AMDAL documents, across a wide range of disciplines, a comprehensive electronic data base is being established to track and report on all commitment statements, while still allowing for continuous improvement. Transparent and open reporting, in different media formats to meet the needs of various stakeholders, will be undertaken with respect to AMDAL compliance.

- **Commit to removal of all BP facilities and equipment on decommissioning and to the mitigation of any damage to land utilized.**

Initial plans for commissioning the LNG plant have been structured with input and guidance from many stakeholders. It is BP's intention to continue to work with these same stakeholders to ensure that a sound decommissioning and closure plan is developed throughout the life of the Tangguh project.

The conceptual plan, as outlined in the AMDAL, adheres to internationally accepted protocols for LNG closure and incorporates concepts from related national and international and Indonesian regulations including the United Kingdom Petroleum Act of 1998; and both the Berlin and World Bank Guidelines.

The Tangguh project conceptual closure plan aims to ensure

- Protection of human health and safety;
- Elimination or significant reduction in environmental impact caused by gas extraction and processing activities;
- Sustainable economic development in the region; and
- Avoidance of social conflict.

9. Public Information

- **Produce and disseminate materials about the Project and BP's programs to provide accurate and current information and to avoid misconceptions and untruths.**

The Tangguh Project intends to set high standards for socially and environmentally responsible resource development, and external communications is a vital component of this effort.

Our critical focus for communications is with project-area communities. We believe that clarity with communities is a necessary pre-condition for clarity with other project stakeholders. For this reason we have substantially enhanced our Community Affairs Field Team (Caft) over the past year. The team is almost entirely composed of Papuans, including its managers, and a sizeable portion are from bay-area communities. This team therefore possesses local knowledge, and regular visits and stays with communities provide channels for two-way communication.

Supporting the Caft team will be a Jakarta-based Tangguh Communications Unit, consisting of three experienced staff with internal communications, external communications and communications management.

Background project information is made available to the public via Tangguh's Location Report on bp.com (http://www.bp.com/location_rep/indonesia/index.asp). We also produce a 16-page illustrated newsletter, Tabura, which provides project updates as well as input from guest writers. In addition, we produce periodic letters emailed to an expanding list of approximately 50 NGO,

donor and government representatives. When an event occurs that could attract international stakeholder concern, we promptly send explanations before potentially less accurate information reaches them via other sources.