

The Lord Browne of Madingley

Group Chief Executive

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Senator George J Mitchell
Chairman
Tanggung Independent Advisory Panel

11 January 2005

Dear Senator Mitchell,

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Thank you for your letter of 3 January and for setting out your preliminary conclusions at this important stage of the project. I was delighted to hear that you had a comprehensive programme and encouraged that you note progress on the ground, including tangible benefits to the local communities, support for security and the Tanah Merah village move.

I agree that there is still progress required in a number of areas, specifically in minimizing North/South Shore tensions, in communications and in the Diversified Growth Strategy to support development in the broader Bintuni Bay. Revenue smoothing and sustaining the local fisheries are beyond the scope of BP to assure, but we are prepared to play a constructive role in both. In addition we will continue to focus on security and human rights.

I visited the site myself in November 2004 and can assure you that the social and environmental issues are a very high priority for BP.

I look forward to receiving your report and confirm that we will send you a detailed response.

Yours sincerely
The Lord Browne of Madingley

c.c. Lord David Hannay
Ambassador Sabam P Siagian
Reverend Herman Saud



BP response to the TIAP report of February 2005

Overview

BP thanks the Tangguh Independent Advisory Panel for their third annual report based on their December 2004 visit to Indonesia. TIAP provides independent counsel to BP on the socio-economic and environmental impact of the Tangguh Project, located in Bintuni Bay, Papua, Indonesia.

BP is pleased that the Panel has acknowledged the benefits occurring to the region already. We welcome the Panel's recognition that BP and the Tangguh co-venturers¹ strive and has thus far succeeded in meeting the highest of global standards for projects in developing countries:

"BP has committed to abide by these standards, and the Panel concludes that, thus far, it has met this commitment²."

Tangguh is a challenging project in a complex social and environmental setting. BP's aspiration remains to develop a world class project contributing to the sustainable development in Bintuni Bay. The Tangguh Project will be an economic actor in the Bay for decades to come, and are at the early stage of a long journey together with the local population. We recognise that much capacity is needed and will take time to build, and we believe that the Tangguh Project can play a facilitative role in this.

The key Project challenges encompass security, perception of unfairness among stakeholders, in-migration, societal transition, revenue management and environmental impact from increased overall activity in the Bay. BP has put in place an ISP (Integrated Social Programme) for the Project to mitigate these risks. The ISP contains eight chapters addressing these challenges respectively (for more information see www.bp.com):

- Integrated Community Based Security (ICBS)
- Diversified Growth Strategy (DGS)
- Training and Workforce Management
- Community Development
- Micro-enterprise
- Fiscal Impact
- Resettlement
- Forum and Foundation

BP has already begun implementation of the ISP, with activities ranging from community development in the Directly Affected Villages (DAVs) to capacity building across the Bay. Results are already visible throughout the villages, as recognized in the TIAP report:

"Some benefits from BP's program are already evident at each of the DAVs and at Babo. Projects at DAVs include health clinics, clean water filtration facilities, church and mosque improvements and a new jetty; at Babo, the new airstrip and pier have lead to increasing commercial activity; and, at Tanah Merah as well as in Onar and Saengga, there has been the construction of new homes and facilities³."

¹ BP Berau Ltd. acts as operator of the Tangguh Project on behalf of itself and the other Tangguh co-venturers. The Tangguh co-venturers are contractors of the Government of Indonesia pursuant to three Production Sharing Contracts.

² Tangguh independent advisory panel; "Third Report, on Tangguh LNG Project", February 2005, page 3

³ Tangguh independent advisory panel; "Third Report on Tangguh LNG Project", February 2005, page 2

In 2004 the village of Tanah Merah was successfully relocated and considerable overall progress was made towards implementing Integrated Community Based Security, including the signing of field guidelines between the Papuan Police and BP, incorporating the Voluntary Principles.

Notwithstanding a successful 2004, considerable challenges remain. In the matter of delivering tangible benefits to the North Shore BP acknowledges that we should review our approach and seek to intensify progress. Similarly, we will develop and implement a plan to improve communication with people in the Bintuni Bay area.

BP RESPONSES TO INDIVIDUAL TIAP RECOMMENDATIONS⁴

Social Issues

North Shore

- *The feeling of unfair treatment of north shore villages must be addressed even more forcefully than before. Increased tangible benefits must be provided to north shore communities in order to rectify perceived imbalances and injustice.*
- *In coordination with the Bintuni Regency, BP should establish a fund or program to support development in north shore communities, including the possibility for a long-term program for housing renovation and construction in each of the DAVs.*

BP recognizes that there is a perception of unfairness among some of the stakeholders on the North Shore of Bintuni Bay and its potential to affect relations with the Project. The North Shore has always been an integral part of Tangguh's Integrated Social Programme (ISP) for the region, but we agree that there is a need to increase the pace of programme delivery.

In the short term, we will prioritize water supply, education, health programs, and sanitation. During 2005 BP will install clean water and sanitation systems in all North Shore DAVs as part of the Project's community development programme. In addition, BP together with the Bintuni Regency will contribute to North Shore Primary Schooling in the form of infrastructure improvements and a day-boarding (half-dormitory) programme for the schools in the North Shore DAVs as another element of the community development programme.

In the medium term we will open a temporary vocational training centre in Bintuni, and will help the local government establish a permanent centre in Aranday (North Shore) that they target for 2006. This year, the temporary centre will commence training people in skills such as carpentry, masonry and engine maintenance.

Specifically regarding housing, BP will propose a programme for housing renovation which would involve co-operation between the North Shore communities, an independent agency and the local government.

Community development & Micro-enterprise

- *All commitments to Tanah Merah villagers should be implemented in full, including programs for agricultural development, facilitating access to nearby fishing grounds, boat building, training for post-harvest processing of marine produce, implementing a small business development program and establishing a village management cooperative. However, BP should not delay the scheduled phase out of fuel provisions and food baskets to avoid dependency.*
- *Community development assistance funds for each of the DAVs should be continued through the construction phase of the Project.*
- *With regard to administration of the DAV community development funds, BP should make clear that village leaders must agree on appropriate projects to be funded; that all funds will remain available to the villages if not spent in the current year; and that a full accounting of all funds disbursed will be available to every village resident.*
- *Every effort must be made to procure goods and services locally whenever possible.*

⁴ Tangguh independent advisory panel; "Third Report on Tangguh LNG Project", February 2005, page 2

- *In addition to its health programs in the DAVs and its malaria control activities, it is essential that BP work with local health authorities on HIV prevention throughout the Bird's Head Region.*

Tanggung will fulfil its commitments to the Tanah Merah villagers. The Project's Land Acquisition Resettlement Action Plan [LARAP] defines this obligation, and specifies the overall initiatives for the communities affected by resettlement. We are aware of the risks to create dependency as a consequence of the resettlement project, as indeed throughout the Bay. It is our goal to develop village-level capacity for self management, while simultaneously reducing Project support such as the fuel provisions and food baskets.

The Tangguh co-venturers are committed to a recognitions and development programme for each DAV for 10 years. The contributions facilitate a local planning process where the community is empowered to identify its development priorities. Examples to date include building of walkways, construction of jetties, clean water and sanitation.

Wherever feasible, the Project is committed to the procurement of goods and services from Papuan based contractors. This has already generated significant financial benefits to local companies. Examples of such procurement have included the purchase of general services for Tangguh operations, village construction and associated materials, security fencing, and boat rentals.

The community projects are agreed with the villagers and the annual contribution can be rolled over from year-to-year. The roll-over feature has been communicated in the past, and we will make certain that it is reiterated to village stakeholders.

BP recognizes that the scope to participate in procurement is also dependent upon capacity to compete within Project guidelines. In response to this, we have assisted Papuan companies in the development of safety and industrial standards. The Project has invested significantly in Quality Assurance (QA) / Quality Control (QC), Health, Safety and Environmental (HSE) coaching, construction management and oversight to improve our contractor's standards and performance. These efforts have already translated into significant improvements providing our contractors with the ability to meet BP's stringent global HSE requirements, and will continue.

Under the DGS there is an empowerment of Papuan business component which aims to increase local business' capacity and ability to work with the Project and its contractors. To this end, BP has engaged the Papua branch of the Indonesian Chamber of Commerce (KADIN). We will continue to work on local sourcing and agree that this is important for local business development.

We are pleased with the Panel's recognition of success of the health initiatives established by the Project. These initiatives include malaria control, maternal and child health care, tuberculosis control and water and sanitation programs. We are actively implementing a number of specific health infrastructure and capacity-building interventions as part of the Project's community health program, which are based on district-level health needs assessments completed in 2003.

We agree with the panel that HIV prevention work is critical. HIV currently exists within the Bintuni area. The community health program does provide support for programs that increase community awareness of this issue, decrease stigmatization and engage the region's stakeholders in developing preventative planning.

The Tangguh Community Health Unit meets regularly with health care organisations and NGOs regarding HIV prevention activities in the Bird's Head region. Jointly with these groups, BP is planning to support HIV prevention in Bintuni, Manokwari and Fak-Fak, and has requested that Perkumpulan terbatas Peduli Sehat (PtPS), a Manokwari based healthcare NGO, submits a proposal on how to most efficiently structure such support. BP will involve officials from South Sorong in the HIV/AIDS prevention programmes.

However, it needs to be emphasized that HIV is a global challenge that must be simultaneously addressed on a macro level engaging local, national and international organisations.

Education and training

- *BP should explore with the Bintuni Regency the possibility of scholarships for students from the DAVs and other villages in the Regency to attend the new secondary school at Tanah Merah.*

- *Separate from its annual community development grant to each DAV, BP should work with the Bintuni Regency to support improvements at the primary schools in each of the DAVs and affected towns in the region.*
- *BP's program to train Papuans for operations and management positions at Tangguh should be continued and expanded.*

BP is currently training 28 Papuans at the Bontang facility in Kalimantan, Indonesia. The group is receiving the technical preparation that will allow its members to become Field Operators at the Tangguh LNG plant. BP maintains an active recruitment programme for Papuans and, where possible, seeks to increase this number. We will continue to pursue this scheme as it supports the Project's local business objectives as well as the goal of developing future business and operations leaders from the Papuan community. Papuans are also receiving professional training in other areas. At present, over 100 Papuans have been trained to join the Project's Integrated Community Based Security (ICBS) force. Training and active recruitment efforts are ongoing, and we expect that these will in the near future contribute to doubling the number of Papuan security personnel.

As part of the Project's community development programme, BP is committed to education which includes supporting the operation of the primary school in Onar Baru and the secondary school in Tanah Merah (attendance of students and teachers). BP is working with local government and education foundations to improve quality and provide support to the education in the Bintuni Bay, with a particular focus on schools in the DAVs.

Security and Human Rights

- *The Letter of Joint Decree between BP and the Regional Police of Papua concerning Guidelines for the Implementation of Joint Security Measures should be made available to the public and, pursuant to those Guidelines, BP should commit publicly to disclose all payments or provision of materials or services made thereunder.*
- *BP should ensure that the Field Guidelines for Security Measures between BP and the Regional Police of Papua are applied by any new Police command formed in the Province of West Irian Jaya.*
- *If and when a new subcommand is established by the TNI in the District of Bintuni, BP should establish good relations with the subcommander and take steps to ensure that he is committed to the Field Guidelines for Security and the principles of community based security.*
- *A mechanism should be established for the monitoring and reporting of violations of BP policies by any employee of BP or its contractors regarding human rights, labor, environment or community relations.*

BP supports the release of the Letter of Joint Decree between the company and Regional Police of Papua. However, BP cannot undertake this as a unilateral action, and release must be agreed upon by the Regional Police. BP is in discussion with the Police on this matter, and they are reviewing the document for any particular provisions that may be security-sensitive or confidential. We anticipate a decision by the Police in the near term. In addition, BP commits to disclosing all payments made as part of this agreement. Discussion of a new police command in the proposed West Irian Jaya is speculative until internal political decisions are made about a new province. We have been told by the police that the agreement is binding on the new command. Similarly, discussion of a new KODAM is premature at this point. BP maintains positive relations with stakeholders throughout the region, and will address the issue if and when a new subcommand is established.

Specific mechanisms directed toward the management of onsite industrial relations and grievance procedures, along with monitoring systems, are being developed. There will be clear and specific procedures to follow in the event of an allegation of a violation of BP and Project policies, including any suspected abuse of human rights. BP takes the issue of human rights and our obligations under the Voluntary Principles most seriously, including the provisions around monitoring and reporting. We are learning from other projects, and have consulted a number of experts in the field. An internal procedure is currently being developed which will define our process for handling human rights abuse allegations within our area of operations. Local NGOs are being consulted and we will also seek the views of the KOMNASHAM, Indonesia's human rights commission, the Police and BPMIGAS.

The Tangguh Project's contractors are obliged to comply with all BP policies and procedures as a matter of our contractual arrangements. Contracts include provisions for compliance with the Voluntary Principles on Security and Human Rights.

BP has also been working on the Tangguh community-based security programme, with the aim to have security forums on the North and South shores of the Bay established. We are working with the Papuan Police, local leaders and communities on this matter. These forums will comprise members of the communities, Adat and religious leaders, representatives of the Police, military and local government for purposes of discussing security issues, which will include any issues related to protection of human rights. BP is also working with UNIPA (State University of Papua) to survey the opinions of the villagers and the Police, and to help in the design and implementation of the programme.

In-migration

- *The Panel reaffirms its support for BP's plans for contractors to hire and pay non-resident workers at remote locations, to limit off-site activities of these workers and, to the extent possible, to minimize use of cash at or around the Project worksite.*
- *The contractual obligations for employment and training that must be implemented by BP's contractors and subcontractors must be carefully monitored and strictly enforced.*

BP acknowledges that recruitment of Papuans and preventing un-controlled in-migration are challenges. Tangguh workforce recruitment and management strategies have been specifically designed to respond to concerns regarding the recruitment of Papuans, mitigation of in-migration, and minimization of workforce impact in communities around the project site.

Specifically we will continue to monitor in-migration at the site and in the villages in the South shore. Although minor, we have seen evidence of some in-migration already. BP cannot directly control this; the primary responsibility lies with the village heads and the villagers themselves. As part of the DGS, BP will be implementing an education and awareness campaign with the villages and local government officials this year to help raise awareness on the potential impacts of in-migration. We are also in discussions with local NGOs about ways they can assist local governments and communities as the Project proceeds into workforce recruitment.

BP is in the process of establishing Project liaison offices in Manokwari, Sorong, Bintuni and Fak Fak. Currently we have offices open and manned in Manokwari, Sorong, and Bintuni. Plans are underway for an office in Fak Fak.

The Project has committed to at least one job per household in each of the DAVs during the construction phase. In January 2005, BP started an intensive communication programme for recruitment across the Bay. BP has mechanisms in place for contractor oversight pertaining to workforce management, including a mechanism for reporting on progress. We have a Project workforce management coordinator working very closely with the contractors.

Environmental issues

- *Working with the Bintuni Regency and the Ministry of Fisheries, BP should support development of a fisheries management plan for Bintuni Bay as well as specific tangible benefits for local fisherman in the form of more advanced fishing boats and equipment.*
- *In addition to its commitments set forth in the AMDAL, BP should consult with local, provincial and national environmental authorities to safeguard the ecosystem of Bintuni Bay and the areas proximate to the Project site.*
- *BP should monitor all effluents and other discharges, both onshore and offshore, during construction and share the results with all relevant authorities.*
- *BP should reaffirm and continue its commitment to support the preservation of critical mangrove forests including the establishment of the Cagar Alam Nature Reserve in Bintuni Bay.*

BP acknowledges the Panel's concern about the fisheries of the Bintuni Bay. As part of the Project's DGS and biodiversity programme, we are working alongside the Papua government in partnership with a number of local and international environmental NGOs to address this issue. Accordingly, BP has commissioned UNIPA, with technical support from the World Wildlife Fund for Nature, Papua Fisheries Department, and local governments, to conduct a Fisheries Health Assessment Survey [FHAS] of the Bintuni Bay. The recently completed report, provides valuable information for the development of the Bintuni Bay Management Plan, which is being led by USAID and its implementing NGO and government partners. BP will, together with UNIPA, make the fisheries report available to relevant Indonesian authorities at national and local level. We aim to support a seminar organised by The Nature Conservancy on sustainable development in Bintuni Bay.

Recognizing the primary role of the local and provincial governments in protecting and managing the Bay's resources, BP is taking active measures to safeguard the ecosystem of the Bay, and areas near to the Project site. Since 2002 BP has implemented Tangguh's biodiversity action plan which involves a conservation programme for the area. The programme is divided into eight modules, of which six have already been completed. Each programme is undertaken in partnership with a responsible conservation organisation, a university and a government agency. In addition, the Project's community development programmes include programmes for local fishermen, which are described more fully in the Project LARAP, which will be published on the BP web in April.

With regards to monitoring the Project's effluents and discharges, we are already doing so with the treated sewage at the camps, which is

currently the only Project effluent. The Project monitors the sewage quality to ensure it meets the required standards. Offshore monitoring will be done during the main construction stage. AMDAL compliance reports are submitted every six months to the Ministry of Environment and other Indonesia authorities.

BP reaffirms its commitment to the Cagar Alam Teluk Bintuni (Bintuni Bay Nature Reserve). Mangrove reserve management is a key element of the Tangguh Biodiversity Action Plan (BAP). The goal of the Bintuni Mangrove Reserve Management Plan is to develop this globally significant area while incorporating community needs. The aim is to obtain community engagement ensuring a plan that is locally owned and valued. In addition, this process is being integrated into a broader bay wide strategy managed by a trained multi-sector working group with donor support.

Our strategic partners for the project include CRMP (Coastal Resource Management Partnership), UNIPA, The Nature Conservancy, Bogor Agricultural University, local offices of the Ministry of Forestry, local, provincial and national government bodies, various conservation organisations and civil society groups. The project is set for completion in September 2005.

Lastly, BP will liaise with the USAID-funded Coastal Resources Management Partnership about making more copies of the environmental atlas available to local planning government bodies. The atlas was developed with significant Papuan input from communities, universities and government.

Revenue management

- *As a result of the proposed establishment of the province of West Irian Jaya, the delay in receipt of revenue from Special Autonomy and the sudden increase in revenue in the future risks creating serious imbalances and impeding economic development. It is essential that BP work with the national and provincial governments, as well as multinational lenders, to devise a mechanism to bring forward and smooth out a flow of revenue.*
- *It is essential that BP play a catalytic role with key government ministries, the provincial government and multinational lenders to encourage the development of a financing mechanism that brings forward and smoothes out the flow of governmental revenues from Tangguh to West Irian Jaya.*

BP recognizes the issues raised by TIAP about the patterns of governmental funds flow to the province. While Project start up is planned for end 2008, significant funds do not flow to Papua for several years, at a time where capacity building is still ongoing. We acknowledge that the needs of Papua are great and that the expectations of the people themselves are high. We also agree that there is merit behind the notion of a mechanism that can bring forth early development funds, be it through a financing mechanism or other

means. Such early assistance could help the province meet the benefits envisioned by Special Autonomy, as well as help build local government capacity in the management of revenues.

The primary responsibility for the development and ownership of any early financing mechanism lies with the provincial and national Governments. BP is a contractor of the Government of Indonesia and cannot act in a governmental capacity. We see our primary role as one of raising awareness about the nature of the funds flow from Tangguh, and being supportive by sharing information and providing assistance when the governments request it.

The challenge of revenue smoothing is one dimension of the fiscal impact issue. BP has already have been in discussion with national and provincial government officials, and with multi-lateral donor agencies to help raise awareness of these issues. As part of the Project's DGS and community development programmes, BP is supporting and will continue to support local government capacity building in the matters of budget and revenue management, local development planning, and good governance. We supported the Center for Local Government Innovation (CLGI/YIPD) in its efforts to build capacity for local governments in Bintuni and Manokwari. We are also supporting the Indonesia Institute for Government Sciences (IIP) to offer capacity building programmes in Bintuni.

Stakeholder Engagement

New Regency

- *Consultation and coordination with local government officials, particularly the new Regency in Bintuni, must be intensified. BP should consult with the new Regency regarding economic development, education, health, fishing and infrastructure and, to the extent feasible, coordinate with the new Regency.*

As the regional authorities become more established, BP aims to increasingly engage with local government as a partner.

While we recognize the importance of engagement on a broad range of issues, BP must remain conscious that our role is one of a commercial partner subject to the Production Sharing Contracts and laws of Indonesia.

Transparency

- *Working with national, provincial and local authorities, BP should encourage clear publication of all receipts and disbursements regarding Tangguh revenues. Immediately, BP should encourage BPMigas to release the terms of the production sharing agreement and the non-commercial elements of the plan of development; publish the Field Guidelines for Security with the Regional Police and disclose any payments made thus far pursuant to that agreement; and publish for each DAV a full accounting of its community development fund expenditures.*

BP is committed to the principles of transparency, as we believe it reflects responsible business. With respect to the Project, we will exercise transparency wherever we are able to do so, as a contractor to the Government of Indonesia that must abide by the country's Oil and Gas law and data confidentiality requirements.

On the publication of all receipts and disbursements of Tangguh revenues, such publication would need the approval of the Government. To date, an early estimate of revenues has been provided in the Tangguh AMDAL (Environmental and Social Impact

Assessment) that was approved by the Government in October 2002. Last July, we supported the Indonesia oil and gas regulatory body, BPMIGAS, in its socialization efforts with the Papua governments on the Tangguh Plan of Development (POD), which included BPMIGAS-provided information on revenue flows and Project contributions.

As there are business confidential provisions in the Production Sharing Contracts and the Plan of Development, BP would need to explore with the Government what can be published. We are already in discussion with the Police on the security guidelines, as discussed in the section on Security and Human Rights in this response.

Communication in Bintuni Bay

- *Communications with affected stakeholders must be improved, particularly in the Bintuni Bay area.*
- *It is essential to use new and innovative methods to communicate understandable and specific information regarding Project activities and commitments to the people of Bintuni Bay.*
- *BP should seek greater publication in external media of articles relating to existing and impending projects in the areas of health, education and economic development in the Bintuni Bay area.*
- *Working with the Bintuni Regency, BP should establish the Bintuni Bay Forum as a mechanism for publicizing activities and issues related to Tangguh and increasing communications among the communities throughout the Bintuni Bay area.*
- *BP should establish procedures for media and communications relating to any accident or adverse incident related to the Project.*

BP acknowledges that good communication is critical to the Project's success, and we agree that there is room for improvement in this area. The efforts we initiated in 2004 will continue, and we are taking active steps to increase the pace of building a strong and meaningful dialogue between Tangguh and its stakeholders. While we are aware of challenges in this area, we have developed a Tangguh communications plan in an effort to expand information access and engage stakeholders in the Bintuni Bay. It is essential that all constituencies in the Bintuni Bay have access to accurate and timely Project information. To facilitate this we have begun onsite initiatives including radio programming, which started in January and recently featured representatives of the local manpower office. The programme focused on hiring and applications procedures and has been matched with posters and other visual tools being publicly placed. Future programming is planned and will include reiteration of workforce information as well as discussion of other project initiatives such as health and education programmes. It will also serve as a forum in which our audience can provide feedback.

As regards printed media, Project staff has contacted various media organisations in January. In Manokwari, meetings were conducted with Media Papua Daily, Cahaya Papua Daily, and RRI radio. In Jayapura, the Project met with the senior editors of the Cenderawasih Pos. Follow-up is planned for March, and will include contact with other media organisations including Nueva Daily and Henggi Pos in Fak-Fak and Radar Sorong and Fajar Papua in Sorong. Together these news organisations provide coverage to most of the residents of Bintuni Bay.

We will start distributing a Project monthly bulletin, in Bahasa Indonesia, to stakeholders across Papua which will provide details of development and project related activities.

We agree that we need to consider innovative approaches to communicating with our stakeholders. However, we remain convinced that face-to-face exchanges are one of the most effective modes of ensuring that villagers have access to project information and are empowered by an ongoing dialogue with Tangguh. To achieve this, we will be conducting information sessions (road shows) at the village level. We will explore facilitating a forum by which communities can find out more about Tangguh initiatives. This could be in the form of a radio service.

Finally, the Project is aware that a robust system of communications processes and procedures to address all emergencies is essential. We are identifying systems through which the lines of contact between operational and communications leaders are institutionalized. We will also implement a crisis communications programme and ensure that clear guidelines exist on incident reporting.