

BP RESPONSE TO THE

TANGGUH INDEPENDENT ADVISORY PANEL

FOURTH REPORT
ON
TANGGUH LNG PROJECT

MARCH 2006

BP Response to TIAP report 2005

We thank the Tangguh Independent Advisory Panel for its fourth report on the Tangguh Project now under construction in Bintuni Bay, Papua, Indonesia. This report is based on a visit to Indonesia in November 2005.

We appreciate the independent counsel which TIAP provides to BP on the socio-economic and environmental impact of the project and we have acted to implement many of its recommendations in the past few years.

In an appendix to this response, we set out the key recommendations from TIAP's last report which we pledged to fulfil in 2005 and the action that has been taken to implement them.

This response covers the additional actions we propose to take, starting in 2006, in the light of TIAP's fourth report and our own ongoing assessment.

Tangguh is a challenging project situated in a complex social and environmental setting. Nonetheless, our aspiration is to make it a source of benefits for all involved – both in terms of the financial and operational benefits generated for the Government of Indonesia, BP and the Tangguh co-venturers¹, customers and shareholders; and in terms of economic, social and environmental benefits generated for the communities of Bintuni Bay, Papua and Indonesia.

We are therefore pleased that the panel acknowledges the positive impact already being made by the work of BP and its co-venturers in the project, as well as the broad support it enjoys in Papua and Indonesia generally.

“Now that the project has been sanctioned by BP and construction has begun, leaders throughout Bintuni Bay, Papua and Jakarta have begun to see its enormous significance to the region and to Indonesia generally. There remain uncertainties, some unrealistic expectations and tensions among some of the people most directly affected, but the Panel can see increasing consensus, particularly among local stakeholders, that Tangguh will benefit the communities of Bintuni Bay and Papua generally.”²

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. The Tangguh co-venturers are: China National Offshore Oil Corporation; Mitsubishi Corporation-INPEX Corporation; Nippon Oil Corporation and Japan National Oil Corporation; Kanematsu Gas; and LNG Japan Corporation.

² Tangguh Independent Advisory Panel; “Fourth Report on Tangguh LNG Project”, February 2006, page 3

This response provides context by outlining the progress made at Tangguh during 2005, including in areas highlighted by TIAP, before addressing the panel's recommendations one-by-one.

Tangguh project progress

2005 was an important year for Tangguh. The project was sanctioned and construction activities began. As of 31 December 2005, the project was over 23% complete, meeting planned cost and schedule. At the construction site for the LNG facilities, work continued on site clearance and terracing with a focus on the gas production facilities shore base, dock and jetty. The number of vessels in the bay increased as offshore work on the jetty began. Additionally, in preparation for the pipeline and platform installation programs, a number of large vessels have been conducting sea-bed analysis and pipeline route checks and seismic data were processed.

Fabrication of the two offshore production platforms continued to progress at the Guna Nusa fabrication yard near Jakarta and the pipeline sections from the Japanese manufacturers are being delivered to Batam for coating.

All engineering and procurement activities continued on schedule. Safety remains of paramount importance. In 2005 the project achieved over 7.5 million man hours without a lost time injury.

In terms of social impact, in 2005, we defined an 'Integrated Social Program' which includes detailed component programs designed to benefit the communities in which we operate. This is an action plan through which we will implement our 'Integrated Social Strategy' (ISS).

The eight focus areas of the ISS, as defined in the 2002 social and environmental impact assessment, the AMDAL,³ have been developed into 15 programs for implementation in the ISP. For each of these programs, a five-year plan has been created, based on a set of principles that include empowerment, capacity building and partnerships.

³ The AMDAL is the Tangguh environmental and social impact assessment approved by Government of Indonesia in October 2002

Programs redefined

Integrated Social Strategy	ISP – Integrated Social Program
Diversified growth strategy	Governance and civil society strengthening
	Birds Head business empowerment
	Mitigation of in-migration and induced impacts
Fiscal impact	Revenue management
Training and Workforce Management	Workforce and industrial affairs
	Vocational training
Integrated community based security	Integrated community based security
Community Driven development	Community Action Plans/Community Development (DAVs)
	Health
	Education (Basic education, scholarships)
	Governance (kabupaten, district, village)
	Women’s empowerment
Community based enterprise	Microfinance and micro-enterprise
Tanah Merah resettlement	Land acquisition and resettlement action plan
Forum and Foundation	Forum and Foundation

The nature of the progress from ISS to ISP largely results from the Tanguh team’s own early experiences in the directly affected villages (DAVs) and includes a renewed focus on several areas where TIAP noted the need for further effort. In particular, the ISP program reflects what has been learned about the importance of capacity-building as the essential element in the area’s development. Currently, local government institutions are limited in what they can deliver and education and health services are poor. The World Bank’s recent public expenditure assessment report on Papua reinforced the challenge of building governmental capacity, particularly in budgeting and fiscal controls, and the importance of good governance.

The ISP reflects the recognition that the pace of development must align with the capacity of the communities, our partners, and the local government to manage the resulting benefits.

Hence there are elements of capacity-building embedded in all of the ISP programs. This is a long term effort as capacity building only yields results over a number of years. Capacity-building will need to follow a multi-sectoral, multi-layered approach that maintains a clear long-term vision while allowing different methods and approaches to be tested in the short-term.

The ISP also incorporates the insights of experts in the community development field, and aligns with the standards of the Asia Development Bank.⁴ (The full ISP plan is available on the ADB website.⁵) The ISP is evolving from an initial focus on the DAVs to have a wider focus on Bintuni Bay.

Taking into account TIAP's recommendations to BP last year, we developed six key focus areas for the ISP for 2005:

- Increasing focus on the north shore villages
- Communications in Bintuni Bay with government and communities
- In-migration mitigation
- Understanding revenue issues
- Integrated Community Based Security program
- Workforce management

In 2005, Tangguh continued to make tangible progress in many aspects of its work, as the Panel has acknowledged. It has been a busy year for the project in the DAVs, with the building of schools, health clinics, and clean water infrastructure. At the same time, we have been working with NGOs and local government to enhance corresponding services in the areas of basic education and community health.

As TIAP has acknowledged, uncertainties and challenges remain, notably in continuing feelings of unfair treatment among some north shore villages. While recognizing that a degree of dissatisfaction is inevitable, we had agreed with TIAP last year to accelerate our short term initiatives, and as such many programs are now underway in the north shore villages. Several new steps are planned as discussed later in this response.

We also recognize the need to continue to focus on communicating information about Tangguh across the Bintuni Bay region and to intensify efforts to communicate and collaborate with the new local government.

⁴ The Asia Development Bank will be providing finance for the Tangguh project during 2006.

⁵ www.adb.org

We discussed the effects of in-migration with communities, using a video on the potential negative impacts of large scale in-migration. We focused particularly on the resettled village of Tanah Merah.

In last year's report, TIAP noted the confusion and uncertainty around government policy with respect to the revenues and funds flowing from the central government to the province and local governments, including how such policy would apply to prospective Tangguh revenues. While the project is still some years from production, during 2005 we undertook to improve our own understanding of the existing laws and mechanisms governing revenue flows to Papua. We also learned more about current local government practices for managing public expenditure and the relationship of Tangguh revenues to other sources. We continue to examine the fiscal implications of the division of Papua and the implementation of the Special Autonomy Law.

Under the ICBS programme, to provide a means of identifying and resolving issues as they arise, twenty-four village forums have been formed in the south and north shore areas of Bintuni Bay. Their purpose is to act as working groups that identify village issues and find means to resolve them. They are represented by community leaders chosen by the communities themselves (including tribal, clan and adat leaders), with involvement of local government and local police. The forums are independent of BP.

In addition, human rights training has been conducted for our local security guards. We agreed with TIAP to develop a more robust procedure to respond to an incident that may involve a human rights violation. A new security procedure, available on the BP website, has been socialized with Indonesian governmental authorities and defines the process for responding to allegations or incidents that may have potential for a violation of human rights. We acknowledge the need to continue to make progress in 2006 in the Integrated Community Based Security programme.

As construction activities have intensified, so has local recruitment of Papuans for jobs and we are pleased that we are making progress in meeting the overall workforce targets set in our AMDAL. We recognize the need to build Papuans' skills so that they are able to progress as workers in the project or elsewhere. Steps have been taken to provide vocational training, which will continue to expand.

In 2006 and beyond, we aim to leverage our resources with those of other organizations and development agencies to support local governments and promote sustainable development in the region.

We now turn to address the specific recommendations of the Panel.

Construction and employment

TIAP Recommendation: *BP, working with its EPC contractors, should establish procedures that seek to identify capable Papuan workers for training and advancement to higher skill level jobs with longer term prospects. In addition, greater efforts should be made by BP and its contractors to increase purchases of local goods and services.*

BP response: We share TIAP's view that the project should do what it can to provide jobs and skills training for local people. The construction phase will provide the greatest opportunity for jobs, recognizing that these are temporary and short term. During Tangguh's operational phase, jobs will be substantially fewer in number and will require higher skills. Thus, we must differentiate between training and developing people for the longer-term BP operation as opposed to training and developing people in the construction phase.

The long term operation of the plant requires people with both technical and non- technical skills. The technical area training programme is focused on future LNG operators. It is a formal multi-year program that includes on-the-job training at operating LNG plants in Indonesia. The project also recognizes that there will be some opportunities for jobs that require non-technical skills over the life of plant operations, such as in administration, planning, community relations and internal and external communications. Currently there are more than 70 staff in such positions, of whom the majority are Papuan. During 2005 we offered formal training sessions that included English language, supervisory skills, gender awareness, corporate responsibility, human rights induction as well as on the job training. In 2006 we will continue to identify successors for key roles, actively seeking to develop Papuan staff, for example by offering mentors and training.

During the construction phase, we base our work on a Tangguh workforce management program that aims to ensure local participation in the workforce as stipulated in the AMDAL, as well as increasing skill levels. Training during the construction phase provides the opportunity for local workers to develop greater practical skills that should better enable them to continue in paid

employment with other companies in the bay once the construction period is finished at Tangguh.

In 2005, the Tangguh construction workforce management program has focused on three areas:

(1) setting up a process for recruiting DAV (Directly Affected Village) workers - this is the responsibility of the BP project team;

(2) helping contractors in setting up the non-DAV recruitment process - this is the responsibility of the contractor; and

(3) improving the skills of the local workforce

(1) Recruiting DAV workers After some initial difficulties, the recruitment process for the DAVs now works relatively smoothly. As of December 2005, there were 2700 employees at the site; of whom approximately 52% were Papuan, with 25% coming from the DAVs, in line with the project's AMDAL commitment to provide one job per household in these villages. The contractors give advance notice of labour requirements to project liaison staff to ensure that workers of all skill levels in DAVs are aware of the opportunities.

(2) Recruiting non-DAV workers Four recruitment centres have been established beyond the DAVs. These are at Manokwari, Sorong, FakFak and Bintuni. Here, responsibility for recruitment rests with the contractors, coordinating with local labour offices. The project is working with local government, contractors and sub contractors and the communities to ensure that the process for screening of job applicants is clear and fairly applied and to strengthen government capacity.

(3) Improving skills of local workforce As well as our commitment to provide one job per household, we seek to build the skills of local employees and advance them on merit. The AMDAL mandates the project to train at least 10 people in each of the nine DAVs during the construction stage. In 2005, 75 people from the DAVs have been trained in various vocational skills in the Jayapura and Malang training centers. More would have passed through the training had it not been for a delay in providing a building for a dedicated centre. The recruitment process and choice of skills were facilitated by the training center and the Bintuni Manpower Office. In the next such program, the plan is to train local people as heavy equipment operators, helping them reach the standards required to gain permit licenses. On-the-job training is

being arranged in the catering contractor company to allow local women and men to develop skills in catering and camp maintenance.

We also share TIAP's view that we should provide opportunities for Papuan business in the project's purchases of goods and services. We are working in partnership with the International Finance Corporation (the private sector arm of the World Bank) and the UN Development Program on a Papuan business empowerment program. The goal is to increase local procurement focused on the small-medium enterprises in the local area and the Bird Heads region. It aims to increase capacity of Papuan businesses and to improve linkages between Papuan businesses and the project. It also aims to allow them to better compete for opportunities that arise from economic development of the Birds Head region.

TIAP Recommendation: *BP and its contractors should continue to have the LNG site function to the greatest extent possible as a "cashless" economy. It should continue to pay wages of local employees at their villages and the wages of other employees in offsite accounts.*

BP response: We agree with TIAP's recommendation and we have an electronic card system in place for purchase of snacks and personal items, in which the cost of the card is debited from the employee's salary. We believe this achieves the social objective of avoiding large injections of cash into the area directly surrounding the LNG site. We are working to ensure that employees from local villages are paid at their village. In parallel, although the community bank once considered was not granted a license to operate, a locally-based church-operated savings scheme has started, allowing people to save money.

TIAP Recommendation: *BP should strongly encourage its EPC contractor to explain all rules and requirements to all new employees, including an explanation of penalties that could be imposed for violation of these rules. BP should also ensure that all elements of the Code of Conduct for workers required by the AMDAL are implemented by its EPC contractor; and that this Code include a mechanism that allows complaints by employees alleging serious transgressions of workplace conditions or treatment to be reviewed by an independent, qualified individual with access to Tangguh management.*

BP response: All employees, BP and contractors, receive an induction session on the camp rules, and are made aware of penalties for violation of these rules. At Tangguh we seek to do business with suppliers who comply

with legal requirements and act in a manner consistent with BP's commitment to compliance and ethics - as now required by our group's code of conduct⁶. Employees are to report any breaches or inconsistent behavior by these third parties. Means are provided for employees and contractors to report breaches of BP policy confidentially using our program called OpenTalk which enables employees and contractors to raise confidentially any concerns about compliance, ethics and the requirements of the BP Code of Conduct. Toll-free telephone numbers, fax numbers, postal and email addresses are provided for reporting unacceptable behaviors. Any reports made in this way are referred to regional ombudspersons independent of BP Indonesia or Tangguh management. BP's Group Ethics & Compliance function oversees the integrity of this program to ensure reported concerns are handled fairly.

At Tangguh, we take our commitments under the AMDAL seriously, which includes a workforce code of conduct and provisions for grievance mechanisms. The contracts with the EPC contractor set out requirements on workforce management. We monitor workforce management and during 2006 we intend to carry out an audit to satisfy ourselves that appropriate grievance mechanisms are not only available among contractors, but properly documented as stipulated in the AMDAL. We also intend to examine our procedures to ensure that independent review is provided for in the case of a BP employee being involved in an allegation.

TIAP Recommendation: *BP should adopt its grievance mechanism for members of the community, publicize and explain it broadly, and ensure villages, including employees from the DAVs, that the filing of a complaint will have no adverse consequences and will, if needed, be subjected to an independent review.*

We are currently consulting local people on the Tangguh grievance procedure which allows for the formal filing of grievances with the project by people from local communities. This includes reporting of any concern over human rights. The communities are being made aware of the process for filing grievances with the project and the response process, as well as the provisions being taken by the project to respect and promote human rights. As part of the grievance procedure, there are several means for a grievant to consult with bodies external to the project. The community member filing the grievance can consult with the village forums – as described earlier - to assess the merits of his or her case and the merits of the project's formal response and actions. If the village forum rejects the project's response, the matter may be

⁶ BP's Code of Conduct sets the group standards for business conduct and applies to all BP employees around the world. See www.bp.com.

referred to a meeting of community, adat, religious, government or other stakeholder representatives and Tangguh representatives. If final agreement cannot be reached, the grievant is made aware of further routes through which a grievance can be pursued. We aim to make the procedure available on BP's web site.

TIAP Recommendation: *BP should continue to explain the critical safety reasons for the marine exclusion zone to local fishermen and officials, and should at the same time improve the equipment available to these fishermen to offset the disruption caused by construction and the exclusion zone.*

BP response: We agree with the Panel. The safety exclusion zone has been, and will continue to be, extensively communicated in the form of posters, comic books and radio broadcasts. The number of incursions into the safety exclusion zone has declined from levels observed immediately after it was established in 2005. In order to help fishermen travel further afield, the project is also finalizing plans to provide an outboard motor to each family registered in the 2002 census. Before receiving the motor, each family must demonstrate that it has a boat suitable for using the motor. Most fishermen do not currently own a suitable boat, so the project will facilitate construction of new boats by loaning tools. The ISP program also includes training classes on outboard motor maintenance and boat building to support local sustainable fishing activity.

We also recognize that many local people find it difficult to picture the full scale of Tangguh's marine operation as it will exist when the plant is operational, including the size of the LNG carrying vessels and the support operations that will be required to pilot and berth them. As such, communication and discussion of these aspects of the project will continue into the early stages of commercial LNG production to reinforce the need to maintain a safety exclusion zone around the marine operation to ensure the safety of the villagers and operations staff.

Security and human rights

TIAP Recommendation: *The training course in human rights should be required of all BP and contractor personnel involved in any aspect of security. This course should also be offered to all police personnel stationed at Bintuni, Babo or in the vicinity of Tangguh. BP should ensure that any entity involved in the training is respected and capable.*

BP response: We agree that all Tangguh project security personnel should be trained in human rights. Eight classes were held in 2005, which involved the leading Papuan-based non-governmental organizations (NGOs) which specialize in human rights issues. Among the Papuan NGOs that have been engaged in the training are Elsham Papua, LBH Jayapura, LP3BH Manokwari, Kontras Papua, Komnas HAM Papua, UNCEN (Human Rights Center), ALDP and LP3A Papua. Elsham is the coordinator of the program, which is supported by the Tangguh project. Another three sessions are planned for 2006 to cover the personnel who were not able to engage in the 2005 program. Plans are also in place to engage in joint training with the police. Human rights training will be offered by the project. Discussions are underway with an Indonesian human rights organization to facilitate this training.

TIAP Recommendation: *BP should continue to emphasize the importance of the Security Field Guidelines to the new Papua Chief of Police and to any new police personnel deployed to the Bintuni Bay area. It should make clear the limitations on any material or financial support imposed by these Guidelines.*

BP response: We agree. We will continue to emphasize the importance of the security field guidelines to the new Papua Chief of Police and to police and military personnel in the Bintuni Bay area. We are working with BP Migas, Indonesia's upstream oil and gas governmental regulatory body on a socialization program for the police to re-inforce further the security field guidelines.⁷

TIAP Recommendations: *The Tangguh Project Security Procedure should be improved and expanded. It should not be limited to complaints against project security personnel; it should be publicized and explained to employees and the community; the process for considering complaints should include a review by an individual independent from BP; and it should make clear that penalties will be imposed against any person found to have committed human rights violations.*

BP response: We agree that processes need to be available to all staff and local communities for the reporting and handling of concerns relating to respect of human rights and we have three procedures to address this issue. As well as the security procedure, there are procedures in place for use by

⁷ The security field guidelines are available on BP's website, www.bp.com/tangguh.

employees and communities. These three key mechanisms for reporting assertions of human rights violations complement each other, and all three aim to build on respecting and promoting human rights.

First, the Tangguh security procedure, "Managing Allegations of Abuse or Related Incidents in the Provision of Security"⁸ set outs the process by which the project will respond to allegations or incidents involving human rights violations specifically as they pertain to the provision of security in Tangguh's area of operations. The security procedure specifically builds on the security field guidelines established with the police. It defines the process BP will follow for reporting incidents to the Indonesian government authorities and undertaking investigative follow-up. It also puts into practice the provisions of the Voluntary Principles on Security and Human Rights developed and followed by a number of governments, NGOs and extractive industry companies. The procedure was developed following consultations with international and Papua-based human rights organizations and other stakeholders. We continue to work with the police and other Indonesian government authorities to ensure that all parties understand and observe the procedure. The procedure has also been shared with the project's major contractors, including Tangguh's contracted security guard provider, as part of a roll-out process conducted in September and October 2005. All reports will be recorded on the Tangguh grievance log, to allow Tangguh management to track and review the nature of any allegations or incidents and evaluate security effectiveness.

In terms of independent review, as part of the security procedure, BP has identified Komnas HAM, the Indonesia Human Rights Commission, as one of the bodies to which it would report if the incident in question concerns public security forces. Komnas HAM is the government-chartered independent entity that has investigative authority over human rights allegations concerning the police or military. For allegations concerning Tangguh's private security provider, BP would conduct an internal investigation which would be conducted independently of Tangguh's line management.

In terms of **employees**, we support the principle that workers should be able to register grievances confidentially. Security-related incidents are covered by the OpenTalk system referred to above, whereby BP employees and contractors can report breaches of BP policy on a confidential basis. In order to prevent incidents, the project has also acted to raise awareness of the project's policy covering the responsibilities of employees to respect human

⁸ The procedure is available at www.bp.com/tangguh

rights. Brochures have been provided to BP employees and contractors setting out 'do's and don'ts' of acceptable and unacceptable behaviors, consistent with BP's Code of Conduct. Employees are expected to report any suspected human rights violation that may involve any employee or third party, either directly to their line managers or using BP's OpenTalk line, as described earlier in this response.

In term of communities, grievances from local people on security and human rights issues or incidents can be raised using the Tanggung grievance procedure, discussed earlier, which allows for the formal filing of grievances with the project by people from local communities. This also includes scope for grievances to be raised with the newly formed village-level community forums.

Delivery of near-term benefits

TIAP Recommendation: *The feeling of unfair treatment of north shore villages has not yet been successfully addressed. As a priority, BP should work with the Bupati in Bintuni to establish a program in which BP can play a role in support of north shore housing, electrification or other infrastructure improvements, which should help to rectify perceived unfairness.*

BP response: We recognize the need to address the perception of unfairness among some of the stakeholders on the north shore. We understand the potential of this perception to affect relations with the Project.

It is important for the project to recognize the feelings of dissatisfaction among North shore villagers and attempt to address these in an appropriate fashion.

We recognize that some of the perception of unfairness stems from the housing programs implemented in the south shore villages of Tanah Merah, Saengga and Onar as part of the compensation which was agreed as part of the Tanah Merah relocation and resettlement program⁹.

In responding to a previous recommendation and visit, we agreed with TIAP that in 2005 the Tangguh project should accelerate its programs in order to deliver more immediate benefits for the people living in the north shore DAVs. Accordingly we focused on clean water, community health and basic

⁹ The Land Acquisition and Resettlement Action Plan – available at www.adb.org

education programs as well as small-scale community action programs of training and infrastructure provision.

We are pleased that the panel has acknowledged the progress made and recognized the challenges that have to be overcome in order to deliver on these programs. These challenges included the capacity of our implementing partners and local government, as well as lack of a functioning governmental apparatus, which was due to the administrative hurdles in setting up the new *kabupaten* (regency) of Teluk Bintuni and the long campaigning season associated with the first direct elections of a *Bupati* (head of regency).

TIAP has also recommended that the project consider support for a special program or fund that would include housing. The project acknowledges this recommendation and is considering a response which will be sustainable in the longer-term.

In framing such a response, it is important to be clear that the situation of the North shore villagers differs from that of the resettled villagers on the South shore. In the latter case we were handling a relocation - based on mutual consent, consultation and agreement - to allow the project to utilize the most favorable LNG site in the Bay area¹⁰. On the north shore we are seeking to promote development as part of our Integrated Social Program. Any work therefore needs to be undertaken in the context of development.

We believe that our role in promoting development on the north shore should be to act as a partner with local government, rather than supplanting its responsibilities and mandate of government.

This accords with the expressed intentions of the new *Bupati* who has expressed the notion of a *kabupaten* 'master plan' that is government-owned and driven. He has requested the project to consider ways that the ISP can complement and be supportive of this plan. We are considering this request and will be engaging in further discussions with the *Bupati*. In particular, during 2006, the project plans to work towards:

- Furthering the notion of a government-owned pilot health and housing initiative that could incorporate provisions for clean water and sanitation;

¹⁰ The Land Acquisition and Resettlement Action Plan – available at www.adb.org

- Discussions with operators of other programs, such as donors and development agencies, as well as with local government and BP Migas on how best to mitigate North shore issues;
- Work toward achieving a better understanding of the reasons for the development of resettlement-affected villages.
- Better communication of the ISP where there are significant number of programs that address *kabupaten* level concerns and importantly move beyond the DAV focus that the project has maintained to date.

In terms of housing specifically, we have gained valuable experience with regard to the potential for appropriate housing projects through our work with Saengga and Onar Lama villages, associated with the project's resettlement activities. In particular, the Onar Lama housing renovation project has been carried out as a community initiative in which villagers provide their own labour and the project provides materials and technical expertise. We hope that this self-help model will gain momentum and can see that it may have the potential for a government-sponsored program in other villages that could pilot similar types of approaches.

We have learned from these experiences and believe that these lessons would be useful to the new *Bupati*. We are looking forward to contributing our knowledge and support in assisting the new government. Should the *Bupati* take on such a consideration, we believe that small scale projects will offer the benefit of trying different approaches within the constraints of available capacity while at the same time delivering results on a shorter timescale.

TIAP Recommendation: *Annual CAPs should continue beyond the construction phase to provide funding for specific projects selected by the representatives of each DAV.*

BP response: We already plan to continue Tangguh's Community Assistance Program (CAP). It relies on a community-based participatory planning process to determine community priorities. The project's commitment is to provide Rp300 million (approximately USD \$30,000) per year for 10 years to each of the DAVs.

The aim of the program is to improve livelihoods of individuals, households and communities by strengthening their capacity to plan and manage their own development. The program aims to enhance the community's ability to prioritize and in so doing to recognize and accommodate the multiple needs of different community members, and their ability to plan and implement

community projects serving the common good. Further information is available in the AMDAL and in the ISP document available on the ADB website, as well as on BP's web site, www.bp.com/tangguh.

TIAP Recommendation: *BP should continue the work of the Tangguh Community Health Unit, particularly with regard to its efforts to control or eliminate malaria and outbreaks of diarrhea in the villages; and also in addressing the problem of child malnutrition. BP also should increase its HIV/AIDS educational outreach to encompass all new workers at the LNG site and Babo base camp.*

BP response: The Community Health Unit is already working to a five year plan which began in 2003. Priorities include maternal and child health, malaria control, HIV/AIDS prevention, water and sanitation, and institutional capacity building for health services. Since the inception of these programs four years ago, the death rate from acute diarrhea cases in Teluk Bintuni has fallen and malaria cases have declined sharply. However we recognize that trends require long term monitoring and continued vigilance is needed. As more people move to the area, health will continue to remain a priority.

New activities are planned, including expanding successful programs, working on health policy with the government and establishing an independent health-provider NGO that would be able to attract funding from other sources and expand its work.

We plan to increase HIV/AIDS educational outreach to encompass all new workers at the LNG site and Babo base camp, a move which is being co-ordinated with the construction contractors.

A more detailed description of the health program is available on BP's web site, www.bp.com/tangguh and described in the document *BP Tangguh Integrated Social Program* which is available on the website of Asia Development Bank, www.adb.org.

Coordination and support for local government

TIAP Recommendations: *Now that a Bupati has been elected in Bintuni, the Panel reiterates its previous recommendation that BP intensify its coordination with the new kabupaten. BP should establish well structured working relationships with the Bupati and key officials in the areas of health, education and housing. It should establish similar lines of contact with officials in Manokwari/Jayapura.*

BP should work with the Bintuni Bupati to ensure that the educational support provided for the DAVs by the three religious foundations is properly supported and is integrated into the local government programs for education. It should also consider establishing Tangguh scholarships at Papuan universities.

At the local level, BP should increase its consultation with the local district governments. In particular, regular meetings should be held with district officials in Babo and Aranday, providing those leaders with information about the project and the opportunity to express their views to Tangguh management.

BP response: The new *Bupati* for the district of Teluk Bintuni was inaugurated in late November 2005. We share TIAP's view on the importance of developing a constructive relationship with the head of the new local government. In our initial discussions with the *Bupati*, he has requested the project's thoughts on ways to co-operate with him and his team on his plans for future development programs. The *Bupati* and the project team will aim to agree a Memorandum of Understanding which will set out a process for co-operation that could include co-operation with local government departments in relation to health, education, and governance and capacity building.

We also aim to conduct monthly meetings with district officials in Aranday and Babo. In addition, the project will engage with officials in Jayapura and Manokwari.

TIAP Recommendation: *BP should support USAID and other donor agencies in their programs to strengthen institutional capacity among local governments and civil society in the Birdshhead region, focusing on the development of strategic planning, financial management and budgeting capabilities.*

BP response: We agree with TIAP on this issue, and the ISP includes activities to strengthen institutional capacity among local governments and civil society. New governance-related initiatives are planned to start in 2006 at the Bird's Head – in association with USAID; at the *Kabupaten* Level - in association with the NGO CLGI/YIPD; and at the village level in *Kabupaten* Teluk Bintuni. We are also looking at the potential for further partnerships with other agencies such as USAID and AusAID, for example in health and education. All of these contribute to institutional strengthening, capacity building and delivery of better services to local communities. They also cover issues of organisation, planning, budgeting and financial management.

Revenue flow to the region

TIAP Recommendations: *BP should encourage and support a follow up to the recent assessment by the World Bank that specifically addresses finance and service delivery in the Bird'shead region.*

Working with the World Bank, BP should carefully monitor current and projected revenues flowing to Papua and Bintuni. It should encourage the Government of Indonesia ("GOI") to transparently publish non-commercially sensitive projections, receipts and disbursements regarding Tangguh revenues, and should consult with the provincial and local governments to provide officials with a better understanding of the likely timing and magnitude of revenues resulting from Tangguh. It should keep under review the need to ensure that adequate benefits to the local population are delivered in the early years of the project.

BP response: In October 2005, the World Bank published a report, *Papua Public Expenditure Analysis: Regional Financial and Service Delivery in Indonesia's Most Remote Region* that has focused attention on the issue of revenue management.¹¹ The report was commissioned by the Government of Papua Province, with the participation of Papuan universities and local governments. It is a welcome contribution that should inform Papua communities about ways to improve public financial management and government service delivery.

Two specific findings are of direct interest for Tangguh:

First, the bank's report indicates that the Tangguh project will not create an overwhelming windfall for Papua compared to what it is already receiving.

¹¹ www.worldbank.org/indonesia

This is because Papua is already receiving funds from the central government as part of Indonesia's general allocation grants to provinces and local governments, and to the Special Autonomy Fund that was established under the Special Autonomy Law for Papua.

Second, the bank's report states that the *kabupaten* (local government) is likely to receive a direct revenue benefit from Tangguh. Under current Indonesian regional autonomy laws, gas-producing *kabupatens* across Indonesia are to receive 12% of the revenues going to the central government after-tax from gas production activities. Assuming that this split continues as part of the revenue allocation formulae under the Special Autonomy Law for Papua – which is to be decided by a Special Autonomy regulation - the potential for *kabupaten* Teluk Bintuni to benefit from Tangguh will be significant.

Furthermore, the World Bank report also highlighted the need for greater attention to be given to the quality and efficiency of public expenditure management at the provincial and local government levels. For example, the Special Autonomy Fund is to be used for health, education and infrastructure, yet the public expenditure assessment indicated inconsistency in how funds were directed and used in these areas¹². As the bank points out, local capacity building and good governance is essential to reduce poverty and boost development in Papua. We agree with TIAP on the need to develop capacity in fiscal management and effective oversight controls in the newly created *Kabupaten* Teluk Bintuni, so that revenues, (including any from Tangguh) are allocated and managed in an effective manner that will benefit the people of Bintuni Bay and the Birds Head region.

The World Bank is currently developing its plans to increase awareness of the report's findings, and to pursue further assessments at the local government level that would be combined with further technical and possibly financial assistance. It is also considering programs that might increase the capability of Papuan universities and other organizations to help local government representatives develop public expenditure management skills.

BP supports these efforts and following the publication of their report, we began preliminary talks with the bank on ways in which it can work with local governments in the region with possible support from BP. As mentioned

¹² The Special Autonomy Fund for Papua was introduced with Law 21/2001, the Special Autonomy Law for Papua, and first distributed in 2002. It provides funds in addition to the natural resource revenue shares that were also introduced into the law. According to the World Bank report, it amounted to 1.8 trillion Indonesia rupiah (USD \$180 million) in 2005, accounting for 60% of provincial revenues and between 7-23% of local government revenues.

previously, BP is also supporting the US Agency for International Development (USAID) and the non-governmental organization CLGI/YIPD in local government capacity building in the Birds Head region and Bintuni Bay area.

We believe that transparency over revenues is a mechanism that can increase good governance and effective revenue management. In 2005, BP initiated dialogue with the Ministry of Finance, Ministry of Home Affairs and the National Development Planning Agency (Bappenas) to discuss with them about the nature of Tangguh revenue flows. We will continue to discuss with them ways in which they can help improve awareness of these flows at the provincial and local government level. Transparency will also assist the government's efforts in developing the Diversified Growth Strategy (DGS) for the Birds Head region. The DGS efforts are facilitated by the United Nations Development Program (UNDP), working with provincial and central governmental authorities. It has been supported by Tangguh under a cost-sharing agreement with UNDP. As BP is part of the Extractive Industries Transparency Initiative (EITI)¹³, BP can also explore possibilities for furthering government-to-government discussion to promote the transparency agenda.

Environment

TIAP Recommendation: *BP should make public the results of each AMDAL compliance audit conducted by the Ministry of the Environment and any other environmental reviews pursuant to any GOI or local government programs. It also should make public any actions taken to correct deficiencies.*

BP is committed to the principles of transparency and will exercise it wherever we are able to do so.. However publication of documents is frequently also subject to the approval of other parties. We do not have control over the AMDAL compliance audits as they are produced by the Ministry of the Environment, as the recommendation notes. The annual meeting which is held with NGOs in various places can also be seen as a mechanism to publish information on our environmental and social performance.

TIAP Recommendation: *BP should encourage visits to the LNG site by regional or local environmental authorities and respond if any*

¹³ The EITI was launched by Tony Blair at the World Summit on Sustainable Development in September 2002. The initiative seeks to increase the transparency of payments from oil, gas and mining companies to governments, as well as the transparency of revenues received by governments. See www.eitransparency.org.

assertions in the future are made that all environmental requirements are not being met.

BP response: We welcome visits to the LNG site by regional and local environmental authorities and we make every effort to coordinate these with relevant Tangguh team representatives. We will continue to encourage these visits in 2006. The Ministry of Environment visited the site in November 2005 to audit project compliance to the approved AMDAL, and was accompanied by two representatives from the Bintuni Environmental Authority. This visit was facilitated by the Tangguh team. These visits take place each year and will continue into 2006 and beyond. Our field environmental officer visits Bintuni Environmental Authority to provide updates on the Tangguh Environmental Program every two to three months.

TIAP Recommendation: *BP should continue its support for the activities of environmental NGOs to preserve the ecosystem of Bintuni Bay and strengthen the environmental capacity of civil institutions in Papua.*

BP response: We acknowledge the importance of the contribution made by independent and capable environmental NGOs to the preservation of Bintuni Bay. It is well known to conservationists that Bintuni Bay contains a valuable mangrove ecosystem. However, scientific knowledge of the area is very poor compared to other areas in Papua. Conservation International's Irian Jaya biodiversity priority setting workshop identified Bintuni Bay as an area about which little is known in terms of biodiversity.

In response, in 2003, we contributed scientific data as well as financial support to the Proyek Pesisir-led Bintuni Bay Resource Atlas. We also supported efforts to understand the health of fisheries in Bintuni Bay through our collaboration with University of Papua and supported the Nature Conservancy in its efforts to develop a management plan for Bintuni bay Nature Reserve. Those activities have resulted in greater public knowledge of the area. The management plan has now been adopted by the Government of Indonesia as official. We have also conducted a terrestrial flora and fauna Survey in 2003 and a marine mammal and reptile survey in 2005. In 2007, another flora and fauna survey will be conducted. We believe that these surveys will contribute to strengthening the capacity of conservation organizations working in Papua, particularly in Bintuni Bay area.

As well as efforts to fill the knowledge gap by developing the capacity of local civil society organizations, we always include local partners such as NGOs and university staff in activities such as these. In the future, environmental

related activities will continue to involve local environmental NGOs and support from national and international experts.

Public information

TIAP Recommendations: *Despite several innovations, improved communication within the Bintuni Bay area of the Project's activities must remain a priority. It is critical that the people most affected by the Project understand its commitments and its progress toward meeting them. BP should expand its use of radio and simple brochures and try new mechanisms to improve local understanding.*

Recognizing that public information in Bintuni Bay is, in part, a technical challenge, BP should expand use of its new and innovative methods of communication, particularly the radio; and experiment with additional methods, such as community forums or entertaining videos on key issues.

BP response: We recognize that communications within the Bintuni Bay area are critical and should remain a priority in 2006. In 2005 we took on board TIAP's recommendations and decided to establish a new unit to improve communications, with a specific focus on the DAVs and the wider Bird's Head area. The unit comprises three Papuan staff, two of whom are based in the field working among our community development and community relations staff. The overall objective of the unit is to explain the project's activities, policies and commitments, and to raise awareness of its benefits to the population. We have made good progress in 2005 and produced a diverse set of new products. These include comic style books on workforce regulations and the marine exclusion zone, and handbooks for use by the field staff which explain the role of the ISP and the objectives of the programs. We have also continued to support the ISP program managers with road shows on topics such as in-migration and health. These have all been very well received in the communities

In August 2005 the first radio stations were launched in Bintuni Bay, one on the north shore and one on the south shore, supported by BP and organized by a local NGO. Community Broadcasting Councils whose members are nominated from the villages are responsible for owning, running and managing the stations. There is still much work to do among the radio managers and councils to ensure that they have the capacity to run and maintain the stations. For this reason we are extending further support to the organizing NGO.

The 2006 strategy focuses on improving the products we already have as well as developing more innovative approaches to communication.

TIAP Recommendation: *BP should continue to seek publication in regional and national media of articles relating to project milestones or community development accomplishments.*

BP response: We recognize that it is important to engage with regional and national media and raise issues relating to project milestones or community development accomplishments. A media strategy has been developed to increase the frequency of media briefings and take a more proactive approach to gaining coverage in local and national press. Feedback from a media briefing held in December at national level was very positive and the next briefing is due to be held during early 2006 in Papua. These briefings will involve not only national but also Papua-based journalists and will involve representation from the integrated social programs team.

TIAP Recommendation: *Given the highly innovative way the company has worked to ensure that the Project has met all applicable standards, BP should consider commissioning a book on the history of the Project that could be released about the time that gas production begins.*

BP response: As explained elsewhere, we acknowledge the need to explain the project's purpose, activities and benefits as clearly and comprehensively as possible. Publication of a book is an innovative idea which we will consider along with other means of achieving this goal.

APPENDIX

Review of TIAP recommendations for 2005 and BP progress

Highlights of progress made in meeting our commitments to TIAP over the last year are noted in this table, followed by a brief description of our actions.

Commitment	Comment
Open a temporary vocational training centre in Bintuni.	Problems in land availability from local government.
↳ Temporary centre will commence training people in skills such as carpentry, masonry and engine maintenance	Vocational training carried out in Jayapura – 75 villagers. Program to be co-ordinated with contractors in 2006. Agreed to move towards permanent centre in Aranday during 2006.
Install clean water and sanitation systems in all North Shore DAVs.	Weriager-Mogotira –completed. Tomu-Ekam – due Mar 06 Taroy – due June 06 Delayed due to technical and practical difficulties.
Propose programme for housing renovation - involving co-operation between North Shore communities, independent agency and local government	Local government elections consumed most of year. Discussions with <i>Bupati</i> started.
CAP roll-over feature - make certain it is reiterated to village stakeholders	Accounting complete. Clarifications made to villagers.
Implement a crisis communications process and ensure clear guidelines on incident reporting	Exercise took place end November
Clear and specific procedures in event of an allegation of a violation of BP policies, including suspected abuse of human rights	Human Rights procedure developed and implemented Workforce recruitment procedures developed and implemented Community Grievance in rollout phase
Disclose all payments made under the contract (Security Field Guidelines)	Collected data. Preparing for disclosure.
Start distributing monthly bulletin, in Bahasa Indonesia, to stakeholders across Papua to provide details of development and project related activities	Started in July 2005
Liaise with the USAID-funded Coastal Resources Management Partnership about making more copies of the environmental atlas	Action completed
Make fisheries report available to Indonesian authorities - national and local	Action completed

Vocational training: in 2005, 75 DAV people have been trained on various vocational skills in the Jayapura and Malang training centers. The recruitment process and skills determination were facilitated by both the training center and Bintuni Manpower Office. The next vocational training program is planned to train local heavy equipment operators to the standards required to gain permit licenses. No progress was made on a temporary vocational training centre in Bintuni due to lack of land availability. However, discussions with government led to agreement to move toward a permanent training centre in Aranday to be opened by the end of 2006.

North shore DAV water & sanitation: Projects have been undertaken to provide clean water in Taroy, Tomu and Ekam. Significant time was spent in socialization with the communities which was not planned into the original timeline. Nonetheless, three wells have been drilled in Taroy, nine in Ekam, and three in Tomu, Projects are due to finish in mid- 2006. The issue of low community capacity to keep the projects running remains.

North shore housing: This has been affected by the absence of local government. Since 2004, provincial and regency government positions have been held by caretakers as elections were planned. This has hampered the project's efforts to engage government. Discussions are underway with the new Bupati and we are planning to make proposals as detailed in the section of the response on 'Delivery of near-term benefits'.

CAP roll-over feature: Clarification was provided to the community relations team and then to the villagers so that a roll-over of CAP funds from one year to the following year can be allowed.

Incident reporting, procedure on human rights: The project has developed its procedure (described in the Security and human rights section of this response) for handling allegations or incidents that may involve a human rights violation in the provision of project security. The procedure complements the project's crisis management preparedness plans and defines the process to comply with the Voluntary Principles on Security and Human Rights. A project crisis exercise was conducted in November 2005.

Payments under security field guidelines: Data was collected for years 2003 through mid-2005. A report has been drafted, and will be made available on the BP website in March 2006.

Papua bulletin: In July 2005, the first edition of the new monthly bulletin "Kabar dari Teluk" – meaning 'News from the Bay' - was published. The publication is distributed within the communities and throughout the four regional cities in Bintuni, Fak Fak, Sorong and Manokwari.

Environmental documents: The fisheries report was made available to national and local authorities and discussed at a seminar in 2005 addressing Bintuni Bay fishery issues. Copies of the environmental atlas were made available to governmental planning authorities in Papua.