

**BP RESPONSE TO THE**

**TANGGUH INDEPENDENT ADVISORY PANEL'S**

**FIFTH REPORT**

**ON THE**

**TANGGUH LNG PROJECT**

**MARCH 2007**

## **ACRONYMS AND INDONESIAN TERMS**

<i>adat</i>	Local and traditional customs, laws and dispute resolution systems used in many parts of Indonesia
ADB	Asian Development Bank
AMDAL	<i>Analisis Mengenai Dampak Lingkungan</i> – Integrated Environmental and Social Impact Assessment.
BAP	Biodiversity Action Plan
BHBEP	Bird’s Head Business Empowerment Program
BHI	Bird’s Head Business Initiative
BPMIGAS	<i>Badan Pelaksana Kegiatan Usaha Hulu Minyak dan Gas</i> – the National Upstream Oil and Gas Implementing Agency, the Government of Indonesia partner in the Tangguh Project
<i>Bupati</i>	The head of a <i>kabupaten</i> , or Regency
CAP	Community Action Plan – the support program approach to facilitating community-driven development projects in Directly Affected Villages
CDM	Clean Development Mechanism
CLGI/YIPD	Center for Local Government Innovation
CTRC	Papuan Conservation Training and Resource Center
DAK	Specific grant under regional autonomy for education, health, water and road infrastructure, fisheries, agriculture, local government infrastructure and the environment
DAU	General purpose grant from the Government of Indonesia to the provinces under regional autonomy
DAV	Village originally identified as directly affected by the Tangguh Project
DCRI	Drill Cuttings Re-Injection
DPRD	<i>Dewan Perwakilan Rakyat Daerah</i> , local parliamentary body
EITI	Extractive Industries Transparency Initiative
ELSHAM	Institute for Human Rights Study and Advocacy

EPC	Engineering, Procurement and Construction contractor
GOI	Government of Indonesia
HIV	Human Immunodeficiency Virus
HSE	Health, Safety and Environment Committee
ICBS	Integrated Community Based Security Program
IFC	International Finance Corporation
IJB	Province of Irian Jaya Barat or West Irian Jaya
IMF	International Monetary Fund
IMO	International Maritime Organization
IPB	Bogor Institute of Agriculture
ISP	Integrated Social Program – an implementation unit within the Tangguh Project and the social-economic development programs being managed by the unit.
IUCN	World Conservation Union
JBIC	Japanese Bank for International Cooperation
JUKLAP	Field Guidelines for Security
<i>kabupaten</i>	District, or Regency
KJP	Contractor to whom the bid for construction of the Tangguh LNG plant was awarded
Kostrad	Indonesian military Strategic Reserve Command
<i>kota</i>	City
LARAP	Land Acquisition and Resettlement Action Plan – the Tangguh Project Resettlement Action Plan describing the involuntary resettlement impacts of the Project.
LGSP	Local Governance Support Program
LNG	Liquified Natural Gas
MOE	Ministry of the Environment
MOF	Ministry of Finance

MOU	Memorandum of Understanding
MRP	Papuan People's Council, a representative body composed of religious, <i>adat</i> and women's leaders created by the Special Autonomy law
NGO	Non-governmental organization
OECD	Organisation for Economic Co-operation and Development
RAV	Resettlement Affected Village
RPJM	The provincial government's medium term development plan
SBY	Indonesian President Susilo Bambang Yudhoyono
SME	Small and Medium Enterprise
TB	Tuberculosis
TCHU	Tangguh Community Health Unit
TIAP	Tangguh Independent Advisory Panel
TNI	<i>Tentara Nasional Indonesia</i> , Indonesian armed forces
<i>ulayat</i>	Traditional local community rights to natural resources
UNDP	United Nations Development Programme
UNIPA	The University of Papua
USAID	United States Agency for International Development
VPSHR	Voluntary Principles on Security and Human Rights
WB	World Bank
YPK	A Christian education foundation
YPPK	An educational NGO affiliated with the Catholic Church

## **Introduction**

We thank the Tangguh Independent Advisory Panel for its fifth report on the Tangguh Project now under construction in Bintuni Bay, Irian Jaya Barat, Papua, Indonesia.

As the Tangguh Project nears its operational phase and activity intensifies, we regard it as particularly important to have the benefit of the independent scrutiny and challenge which the Panel provides.

In this response, we provide an overall summary of progress at Tangguh over the last year as well as general progress in relation to the environmental and social issues covered by the Panel, before addressing the Panel's recommendations one-by-one.

In the past few years we have acted to implement many of the Panel's recommendations and believe the Project and the local community have both benefited as a result.

As in our last response a year ago, we are providing an appendix to this report in which we record the action taken over the last year to implement recommendations from the Panel's last report in early 2006.

We welcome and agree with the Panel's judgement this year that: "Although real challenges still exist, Tangguh has the potential to become a recognized world-class model for energy development, having a positive effect on both indigenous communities and the broader environment."

Our aspiration is to make the Project 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-venturers<sup>1</sup>, customers and shareholders; and in terms of economic, social and environmental benefits generated for the communities of Bintuni Bay, Irian Jaya Barat, Papua and in Indonesia more widely. We acknowledge the Panel's urging that we must continue our efforts.

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<sup>1</sup> 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.

## **Tanggung Project Progress**

2006 was a year of progress at Tangguh LNG (liquefied natural gas), both in terms of the physical construction of the facilities and the development of the associated social and environmental programmes. Prior to 2005, our experiences in seeking to support development taught us that the underlying need across the region was to build capacity - in administration, enterprise, education, health or environmental management. Accordingly in 2005, the Project planned a series of programmes to build capacity in these and other areas and during 2006 these have been developed through recruitment and through establishing agreements with local authorities and other agencies and NGOs. Many activities, particularly in health and education have already delivered significant benefits and we are now at a point where we have created the structures which we believe are capable of delivering sustainable programmes as we move towards the operational phase of the Project. Some will have outcomes that can be measured in the short term, while others are longer term endeavours.

Our aspiration for the region in which we are working is that the contribution Tangguh makes will be a catalyst for sustainable development, providing the basis for the communities of Bintuni Bay to grow economically, enjoy rising living standards and become self-sufficient in continuing to progress for decades to come.

We therefore particularly welcome the fact that the Panel commends BP and its integrated social programme team for their "efforts to help the people of Bintuni Bay most affected by the Project determine for themselves how to improve their lives."

A key principle of our approach has been to work in consultation with the communities to identify initiatives that will contribute to sustainable development. We appreciate that the Panel understands and supports the strategic direction of our work, and agree with most of the Panel's recommendations.

One of the on-going issues for the Project has been the dissatisfaction expressed by villagers on the North Shore, and the identification of ways in which this can be ameliorated. We believe that we have directly addressed the issues relating to the North Shore which have been raised by the Panel over the past two years, and there is no doubt that the Project's relationship with the North Shore villages has improved. Our experience to date indicates that it is absolutely essential to move at a pace accepted by the villagers and local government to ensure ownership and sustainability of projects. This has been evident in the development of the water access systems, which have progressed slowly but with full village participation.

We believe that the feeling of unfair treatment on the North Shore is a complex issue, which needs to be dealt with in a careful manner that will not

increase tensions and cause confusion with the specific benefits that have been provided on the South Shore in relation to resettlement. For this reason, we will treat cautiously any requests for large scale infrastructure projects, including electrification of the North Shore Directly Affected Villages (DAVs). We are concerned that additional BP infrastructure projects could increase tensions with other nearby villages, which would in turn exacerbate the feeling of unfair treatment.

Our plans for the Bintuni Bay Foundation, explained in more detail later in this response, with a government and community led approach to development will support the whole Bay area.

In construction terms, by the end of 2006, the Tangguh Project was around 60% complete and remains on track for operations scheduled to begin in late 2008. We maintained stable community and workforce relations and there were no serious security issues.

Safety remains a top priority and we are pleased to report that there were no major safety or environmental incidents throughout the year. The Project team has worked closely with the contractors to handle all of the environmental, health and safety issues that are expected in a project of the scale of Tangguh. All incidents have been properly investigated, recorded, and resolved in compliance with the laws regulations and the lenders policies.

Major infrastructure construction is on schedule at the LNG site and both platform jackets (which will become the production platforms) have been successfully installed offshore in Bintuni Bay. Offshore activities are now focused on completing pipelines to connect the platforms with the LNG facilities. Activities for 2007 include the main deck installation onto the jackets, the well drilling programme, offloading of major equipment for the LNG facilities and establishment of the shore base facilities for the drilling operation.

In preparation for the long term operations phase, the operations team is mobilising staff and the Technician (operator) Training programme, in which 50% of the staff are Papuans, has been expanded and is proving successful. Some of the Papuans from the Technician Training programme are already engaged in the commissioning of the main deck systems at the Guna Nusa fabrication Yard in Java and will graduate in May 2007. Another 24 technicians, all Papuan, were recruited to the programme late 2006.

Environmental and social management at Tangguh is carried out in line with the major impact assessment carried out in 2002 in advance of the Project. This assessment, known locally as the AMDAL, provides the blueprint for all activities undertaken to protect the environment and promote development in the area.

In mid-2006 Tangguh secured financing from ADB and the Japan Bank for International Cooperation (JBIC). The Project's environmental and social plans reflect ADB policies on indigenous people and resettlement. A Summary of the Environmental Impact Assessment, and the social plans, the Integrated Social Programme (ISP) and the Land Acquisition and Resettlement Action Plan (LARAP) are available on the ADB website. Both the ISP and the LARAP incorporate the AMDAL requirements and some programme plans now have an expanded geographic scope.

The Panel has made recommendations across a number of these programmes which we cover in this response. During 2006, following the Panel's last report, we paid particular attention to the following recommendations: recruitment and training of Papuans; communications in Bintuni Bay; establishing relations with the Bupati; and attempting to progress sustainable programmes for the North Shore communities.

In addition, in 2006, we established several partnerships with development agencies or NGOs, with specialisms and experience in developing social programmes. These include projects in areas such as strengthening of local government and civil society, revenue management and enterprise development. 2006 saw much development in these areas, for example our partner, the International Finance Corporation (IFC), ran basic business training for more than 50 small and medium sized enterprises in Papuan towns.

Furthermore, programmes to support health and education in the region are well established and showing significant results. For example fatality rates due to diarrhoea in children in the DAVs have fallen to below 3%, compared to 21% in 2004. The malaria prevalence rate in the DAVs has fallen to an average 5% compared to 23% in 2000. In the area of education, the Project supports NGOs which have enabled each DAV to have new school buildings and teachers. Adult literacy programmes are also run in various villages.

Security has been organised around the pioneering Integrated Community Based Security (ICBS) programme which makes locally recruited guards the first line of security with local police available in reserve and beyond them the military. The programme is well underway and in early 2007 saw a major five day exercise in which all parties were involved, either as participants or observers. This followed a human rights workshop in 2006 attended by a wide group of stakeholders from Papua and delivered by the Centre for Human Rights Study of Cenderawasih State University (UNCEN).

In 2006, the Project's resettlement team focused on completing construction and relocation in the villages of Saengga and Onar Lama and the continuation of programmes such as those in health and education. Meanwhile in the

DAVs CAP<sup>2</sup> projects have included mosque building, boardwalk and bridge construction; purchase of outboard motors and fishing equipment; and capacity building initiatives such as outboard motor maintenance, cooking, baking, sewing and personal financial planning.

Challenges remain: the Project is located in a very remote location; the human development indicators of local communities are very low; local government is in early stages; and at times, short term outlook prevails within the communities. The Tangguh Project remains committed to working to overcome these issues and to provide the basis for the creation of long term sustainable development in Bintuni Bay.

## **Responses to Specific TIAP Recommendations**

### **Construction and Employment**

**TIAP recommendation:** *As the employment of most of the local construction workers will soon end, BP should: 1) socialize the demobilization process so that villagers are not unduly shocked or disappointed by the demobilization; 2) counsel and inform all DAV workers whose jobs have ended regarding opportunities for jobs in other areas, such as in fishing, agriculture or in fields that utilize the skills acquired during construction; and 3) work with the Ministry of Fisheries, together with the Bupati, to secure equipment and training for improved sustainable fishing opportunities.*

**BP Response:** With regard to part 1) of the recommendation, socialization of demobilization is already underway, directly on the construction site and via meetings with community and government leaders as well as regular airings on community radio. On site, demobilization is being discussed on a daily basis with workers by the KJP Training Co-ordinator and Industrial Relations officer during the 'tool-box meetings' held each morning.

The first radio programme on demobilization was aired on Saturday 10 February on the Bintuni-based Radio Merbau FM 89.2 which reaches most rural areas in Bintuni, the directly affected villages (DAVs) and the liquefied natural gas (LNG) site. The speakers included the Chief of the Bintuni office of Manpower, the Tangguh Workforce Management Supervisor and representatives of the construction contractor, KJP. The panel answered questions sent by text message from audience members. The main topics on which questions were asked were BP's commitment to develop local human resources, job training and the numbers of local people employed at Tangguh. The broadcast was recorded for use on other local radio stations and further programmes are planned for Mankowari, Sorong and Fak-Fak. We will

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<sup>2</sup> Nine DAVs directly affected villages were identified in the AMDAL (ESIA) during 2000-2002 and each village receives a CAJP Community Action Plan fund of approx \$30k.

continue the demobilisation communications programmes throughout 2007 and 2008.

With regard to part 2), BP's commitment under the AMDAL is to demobilise workers back to their point of hire. For DAV workers this means demobilising workers back to their villages. Following the Panel's recommendation we will provide briefing materials to DAV workers explaining the demobilisation process and informing them of opportunities to get involved with the Institute of Agriculture of Bogor (IPB) work, aiming to improve fisheries and opportunities for training at the vocational training centre on the North Shore, opening later in 2007.

With regard to part 3) of the recommendation, IPB is already working to improve fishing business opportunities for villagers in Bintuni Bay, supported by the Project, under a 3 year Memorandum of Understanding. The local government is involved in this effort and the Minister of Fisheries has expressed support. IPB implementation will continue throughout 2007 and beyond and the Institute currently has six mentors for fisheries located in various villages.

**TIAP recommendation: *BP should oversee use of the employee grievance procedure developed by the Engineering, Procurement and Construction ("EPC") contractor to ensure that it is applied fairly and that workers are regularly made aware of the procedure's availability.***

**BP response:** Tangguh has supported KJP in developing and implementing the workforce grievance procedure which was formally launched in July 2006. The procedure includes formal grievance cards and response mechanisms, with a process for resolution of issues that includes an investigation by 'workforce grievance committees' consisting of representatives from subcontractor, contractor and workers. The Project also has several members of the BP team onsite to regularly monitor industrial relations issues. This is very important to us and we will continue to monitor this process.

**TIAP recommendation: *Objectives should be established by BP to ensure that Papuans occupy a reasonable number of semi-skilled and skilled positions at start-up of operations, and at intervals of 5, 10, 15 and 20 years thereafter. BP should perform an annual audit to ensure that these targets are met.***

**BP response:** We support this recommendation and targets exist in the AMDAL to ensure that Papuans occupy a number of semi-skilled and skilled positions throughout the operational phase of the Project. Since 2004 we have been training Papuans, now 53 in number, to international standard to take up skilled Technician positions. In the third quarter of 2006, we advertised for new technicians in the four Bird's Head towns and Papuan universities. We received over 400 applications and over 100 candidates were

interviewed. Of these 24 were hired. In addition, the BP team has more than 50 Papuans on its staff whom it is currently developing in operational positions including those in geology, administration, planning, community relations & development as well as communications. With these numbers we will more than meet start up targets set out in the AMDAL. Regarding audits, we currently carry out audits to ensure that the construction side of the Project is meeting its AMDAL target for Papuan workforce numbers and we will continue to monitor to make sure targets are met.

**TIAP recommendation: *BP should continually reinforce the priorities of health, safety and environment to all contractors, subcontractors and employees.***

**BP response:** Safety remains the top priority for the Project. We continue to follow our construction plan and there were no major safety or environmental incidents during the year. With a workforce of over 7,000 and increasingly complex operations, our focus is to ensure that all workers undergo induction programmes as they start work. Daily risk assessments continue to ensure workers understand the nature of the tasks ahead. We aim to avert minor injuries as well as major incidents and a campaign of awareness and prevention for hand and finger injuries is in progress.

### **Security and Human Rights**

**TIAP recommendation: *BP should continue to socialize the Field Guidelines for Security ("JUKLAP") to make clear the respective roles of private security and the police, and should continue to provide regular human rights training to all personnel involved in Project security.***

**BP response:** We will continue to socialise our ICBS and the field guidelines (JUKLAP) with the security forces. We will continue to provide human rights training and take action to embed community based policing in the area. There are 273 guards in the ICBS programme of whom around 258 are Papuan. All of the guards have been trained in human rights or are scheduled for training, in partnership with NGOs.

Comprehensive socialization of ICBS and the JUKLAP took place during 2006 culminating in a five day joint project and police security exercise to test these field guidelines in February 2007. The exercise successfully followed the practice of the Voluntary Principles on Security and Human Rights (VPSHR) and more than 150 people were involved. Observers attended from BPMIGAS, Indonesian police headquarters, NGOs and the Indonesian Armed Forces (TNI). TNI observers included the commander from Sorong and three senior officers.

**TIAP recommendation: *TNI should be kept fully informed of all security training for Tangguh and, with police concurrence, should be invited to observe any socialization or training exercises.***

**BP response:** We agree with this recommendation and have already had the opportunity to implement it. As explained above, senior TNI officers attended the first major field exercise for the guidelines in February 2007 and are regularly informed of our security training. We will continue this practice.

**TIAP recommendation: *All funds provided by BP to the police should be made public and posted on BP's website, whether or not payments are made directly to the security forces or indirectly through BPMigas, as specifically required by the Field Guidelines for Security.***

**BP response:** The 2006 data has been made public on our website at [www.bp.com/indonesia](http://www.bp.com/indonesia). We will continue to publish payments.

**TIAP recommendation: *Should additional security forces be deployed to Bintuni, BP should seek to ensure that all such forces receive the same human rights training that is currently provided to security forces directly serving the Project.***

**BP response:** Under the JUKLAP, the joint exercise and training are required. These include training on the VPSHR for security forces. Should additional forces be deployed who could potentially be involved in Tangguh's security, they will be subject to the same socialisation, joint exercises and training as per the JUKLAP.

### **Benefits to the Bintuni Bay and Bird's Head Area**

**TIAP recommendation: *The feeling of unfair treatment of North Shore villages has not yet been sufficiently or successfully addressed. BP should accelerate benefits to the north shore by:***

- ***promptly implementing the Bintuni Bay Development Foundation infrastructure development program;***
- ***working to secure approvals needed in Jakarta for the use of the timber lying unused and deteriorating at the LNG site;***
- ***continuing to work with village leaders to implement the Community Action Plans ("CAPs") fully and effectively;***
- ***working with the Bintuni Bupati (Regent) to bring electricity to the non-resettlement DAVs;***
- ***completing the clean water programs for the north shore villages;***

- ***renewing its efforts to establish a functioning microfinance and micro enterprise program in the Bintuni Bay area.***

**BP response:** As indicated earlier, we acknowledge dissatisfaction expressed by villagers on the North Shore. However we are aiming to promote ongoing development that is characterised by self-sufficiency rather than dependence. We are prepared to support initiatives of many kinds but our approach is to encourage these to be led by the local government and community. Here we address the specific recommendations one-by-one.

### **The Bintuni Bay Development Foundation**

We agree with this recommendation and Tangguh is seeking to cooperate with the local government in establishing a foundation dedicated to the development of Bintuni Bay over the next few years. A draft memorandum of understanding (MOU) to support the setting up of the foundation is now being developed by the Bupati and BP. We expect the MOU to be signed during the second quarter in 2007. As part of the foundation set-up, we will develop a joint work programme with the local government by the third quarter of 2007 and the foundation will be fully established by the fourth quarter in 2007. This arrangement accords with the underlying principle that all development activity stimulated by the Project should be directed towards future self-sufficiency and sustainability of the local community, as opposed to ongoing financial or other dependency on the Project itself.

The foundation will be an independent entity, will be staffed with relevant development and technical expertise, and will ensure strong government participation, while enabling community input. The foundation will receive a specified amount of funding from Tangguh only on a program-specific basis, and will be accountable for the implementation of projects with those funds. The projects that can be funded will be carefully defined, and may include specific community infrastructure and housing projects for North Shore villages. Using a foundation as the vehicle for development means that activity can take place on a regency-wide basis, with funds allocated to specific projects. Transparency and ethical business practices will be built into the foundation by applying relevant laws governing foundation formation and management.

In order to move forward, the Tangguh Project and Teluk Bintuni Government must reach formal agreement on the objectives, funding and management of the foundation. Therefore the priority now is to reach an agreement between both parties, covering the amount and allocation of resources, conditions on the use of funds and practical details such as management and staffing.

### **Using timber from the LNG site**

We will continue to action this request however, the release of these materials depends on approvals from various agencies beyond the control of BP.

### **Implementing Community Action Plans (CAPs)**

We are working to implement the CAPs fully throughout the DAVs to help ensure that the funds are used to improve the community. If the villages do not use the CAP in a given year, the funds roll over into the next year. The CAPs have already resulted in tangible benefits in health, education, access to water and other local improvements selected by the villagers. CAPs began in the majority of the DAVs in 2004, while the Resettlement Affected Villages (RAVs) will start in the near future. In the meantime, RAVs are benefiting from the livelihood restoration program. We will continue these programmes as per AMDAL requirements.

### **Working with the Bintuni Bupati (Regent) to bring electricity to the non-resettlement DAVs**

We believe that we have a comprehensive integrated development program underway in Bintuni Bay and that additional initiatives should be introduced through the foundation. We support working with the Bupati on development projects such as vocational training and additional access to water and support for education systems. We therefore do not believe that a spate of infrastructure projects initiated from outside the community will have lasting benefits. Examples exist of projects which did not have local community or government participation and which consequently fell into disrepair and became unsustainable. We acknowledge that a different situation prevails in the RAVs where the Project was directly responsible for resettling those affected by the Project and new infrastructure and housing was provided as part of the agreement. In the matter of the non-resettled DAVs, the Project will work with the Bupati, via the Bintuni Bay Foundation, on a plan to prioritise infrastructure requirements across the villages in the regency – which covers a larger number of villages than the DAVs - but progress will inevitably be relatively slow.

### **completing the clean water programs for the north shore villages**

The Community Development team will complete implementation of the access to water programme. This programme is already complete in Weiager-Mogotira. It is near completion in Tomu and Ekam, and will be completed in Taroy in 2007. The programme includes filtering river water systems for Weriagar and Mogotira and rain water collection systems for Tomu, Ekam and Taroy. Villager's participation in these programmes is high.

## **renewing its efforts to establish a functioning microfinance and micro enterprise program in the Bintuni Bay area**

During 2006 we with partnered with IPB, which focused on technical expertise for local businesses, in particular fisheries mentoring. In 2007, we will focus on business planning and administration. In the Bintuni Bay area, we will support a micro-finance and micro-enterprise institution to initially support select community programmes. The implementation phase will occur in the third quarter in 2007 with appointed community members and local professionals running the organisation. Membership will be expanded to community members on a Bay-wide level once the structure of the institution is determined to be sustainable. We are also supporting a Roman Catholic church-supported credit union, which offers services in five DAVs and is expanding slowly to other areas in Bintuni Bay. On a local level, we have had success in Arandai where the women's group has been successful in establishing a savings cooperative which then supports micro-enterprise. This local programme will eventually be incorporated as one of the Bintuni Bay micro-finance and micro-enterprise institution run programmes. During 2007 we will also establish a programme to support other non fishery micro-businesses.

**TIAP recommendation: *BP should continue to work with the Bintuni Bupati to support educational efforts in the DAVs; and should expand the successful work of the Tangguh Community Health Unit ("TCHU") to help control malaria, diarrhoea, malnutrition and HIV/AIDS throughout the Bintuni Bay area.***

**BP response:** We appreciate the Panel's recognition of the work carried out in the areas of education and health. BP invests in education as we believe it provides lasting benefits for individuals and communities and makes a fundamental contribution to future development and sufficiency. In Papua, our educational programme has directly supported education service providers in delivering primary and secondary education for all DAVs and from 2007 will build capacity of the Kabupaten Teluk Bintuni basic education system. The Indonesia-based British Council has been selected to deliver the programme.

Additionally, in July 2006, the Project and the US Agency for International Development (USAID) established an alliance known as the Bird's Head Initiative (BHI), which comprises three development sectors; education, governance and health. Through BHI, USAID's Decentralised Basic Education Programmes will be implemented in various Irian Jaya Barat (IJB) regencies to improve teacher capacity in the region.

In health, 2006 saw consolidation of the malaria, HIV, and maternal & child health programmes in Teluk Bintuni. The malaria control programme continued its activities, supporting treatment and utilizing trained village malaria workers in the DAVs. Results of surveys in four villages showed that

that the average malaria prevalence rate in the DAVs has fallen to approximately 5% compared to 23% in 2000. The HIV programme now has a dedicated programme manager and has commenced collaboration with Family Health International to develop HIV interventions in Bintuni, Manokwari and Fak-Fak.

The maternal & child health programme, which has focused on nutrition, has contributed to an improvement in full childhood immunization coverage to nearly 40%, an increase in the proportion of midwife-attended births to over 30% and a fall in child fatality rates due to diarrhoea from 21% in 2004 to less than 3%.

In 2007 we will work closely with USAID in the development of the Bird's Head Initiative, through which the TCHU will collaborate with USAID-supported HIV/AIDS, tuberculosis (TB) and malaria control programmes. In addition to bringing more resources to health programming in the Bird's Head region, the Health Initiative also strengthens coordination among health workers and encourages more systematic approaches across the region.

**TIAP recommendation: *BP should invest in higher education in the Bird's Head region by creating "Tanggung" scholarships for deserving Papuan students at the University of Cenderawasih, UNIPA or other institutes and should also endow "Tanggung" chairs or professorships at such schools in subjects important for training future leaders of Papua.***

**BP response:** We agree with this recommendation, understanding the importance attached to it by TIAP and government representatives at all levels. BP has signed a contract with the British Council to design a scholarship programme, which we will implement in 2007. We currently support the BPMIGAS scholarship programme for deserving students at Universities in Papua. Approximately 125 students benefit from this programme each year in a variety of subjects, including fisheries management and rural agricultural development.

Also towards the end of 2007, BP's Director of Education will help Tangguh with a feasibility assessment of how the Panel's recommendation on endowments could work in the local context.

**TIAP recommendation: *BP should facilitate business development and empowerment in the Bird's Head by encouraging its contractors to increase procurement from local businesses and by continuing to support training of business enterprises in the Bird's Head.***

**BP response:** BP continues to encourage its contractors to increase procurement from local businesses. However, as the Panel has noted, local suppliers need support to attain the required standards in quality, pricing and areas such as safety and good financial management. BP is keen to encourage local enterprises and, as the Panel recognises, is working towards

fulfilling this recommendation by partnering with the IFC and the UN Development Programme (UNDP) in the Bird's Head Business Empowerment Programme (BHBEP). Activity in 2006 has included more than 50 companies participating in basic business planning and financial management training, and the appointment of the Indonesian affiliate of the training organisation, Austraining, to run training programmes. We will continue implementing the plan in 2007.

### **Coordination with Local and Regional Governments**

**TIAP recommendation:** *Now that a Governor of IJB has been elected and a provincial capital at Manokwari established, BP should increase its communications presence in Manokwari, and have full capacity to liaise with the Governor, his key cabinet officials and the leaders of the provincial legislature so that regional government officials are kept informed of Tangguh's economic and social programs and consulted where appropriate.*

**BP response:** We agree with this recommendation and are increasing our efforts to build strong and constructive relationships with the new Governor, officials and others. The Project has already held courtesy review meetings with the Governor and his staff at Manokwari to provide updates and discuss social programmes and challenges such as demobilization. The meetings have also provided an opportunity for us to understand the Governor's priorities and to receive his feedback on the Project. We will continue with this in 2007.

**TIAP recommendation:** *BP must continue to coordinate closely with the Bupati and support governmental capacity development in Bintuni to help the local administration function effectively and transparently, and improve its delivery of basic public services, such as health, education and economic development.*

**BP response:** Through a range of partnerships, Tangguh is supporting programmes designed to improve government capacity and transparency in areas such as managing budgets and delivering social services. Our partnerships are with the UN Development Programme (UNDP) at the provincial level, with the US Agency for International Development (USAID) at the Bird's Head level, and with the Centre for Local Government Innovation (CLGI/YIPD) at the regency or kabupaten level. These programmes were underway in 2006 although progress is slow, especially in Manokwari and Bintuni as the administration builds its capacity. During 2007 we will continue our efforts in this area, recognising that the activities of local government are critical to long term success.

**TIAP recommendation:** *BP also should continue to support capacity development and transparency at the regional level through its work with the USAID and UNDP. Now that UNDP has moved its offices to Manokwari, BP and UNDP should modify their Memorandum of Understanding (“MOU”) with Papua to include IJB.*

**BP response:** We are supporting capacity building and transparency at regional level in the shape of the *Capacity 2015* planning initiative, under which the UNDP moved staff to Manokwari shortly after the inauguration of the Irian Jaya Barat (IJB) Governor to support both central and provincial governments. As part of the BP supported program, the UNDP staff supported the provincial government in developing its draft medium term development plan (referred to as the RPJM). The IJB government has adopted the Project’s Diversified Growth Strategy concepts into its RPJM development plan. Following a steering group, the UNDP is currently working to secure a new MOU, which incorporates the new official status of IJB.

### **Transparency of Revenue Flow to the Region**

**TIAP recommendation:** *BP should continue its support of fiscal transparency and adoption of the Extractive Industries Transparency Initiative (“EITI”) among senior central government officials and should specifically encourage BPMigas, the Ministers of Energy and Finance and other officials to make public all non-confidential revenue generation and allocation information from Tangguh.*

**BP response:** BP strongly supports increased transparency among companies and governments worldwide, through the EITI and through other national mechanisms. We recognise that the issue relates to the deployment and use of energy revenues by governments as well as to financial flows from companies to governments. Indonesia is making progress towards greater transparency, working with third parties such as the World Bank and IMF. While recognising that sub-national flows are not currently in the EITI mandate, BP continues to support this process, working with all parties, including the ministry of finance and BPMIGAS. The EITI is founded upon industry-government-civil society engagement.

**TIAP recommendation:** *BP should encourage the World Bank, which conducted a groundbreaking study on Papua revenue flow in 2005, to collect available data annually and publish an analysis so that policymakers in Papua will have a better understanding of sources and uses of revenue and fiscal transfers.*

**BP response:** While fully recognising the separate roles of BP and the World Bank (WB), we will encourage the WB to work with the DG of Fiscal Balance and other government agencies to study and publish sources and uses of funds.

**TIAP recommendation: *BP should ensure that transparency is one of the key elements in its support of current and future programs with USAID, UNDP, the Center for Local Government Innovation (“CLGI/YIPD”) and the World Bank designed to improve civil governance, fiscal management and budgeting in Papua.***

**BP response:** We agree that transparency should feature prominently in the development programmes which we support. The Bird’s Head Initiative (BHI) undertaken with USAID covers governance as well as education and health, the governance aspect aiming to improve fiscal transparency and revenue management through capacity building among regency and local governments. The initiative will see the USAID-sponsored Local Governance Support Programme (LGSP) being implemented in a number of regencies in the Bird’s Head. Transparency is a key element of UNDP work at provincial level and CLGI/YIPD work at regency level. We will continue to support these organisations.

**TIAP recommendation: *BP should seek to stay apprised of how revenue transfers pursuant to the Special Autonomy policy develop, particularly as they relate to transfers of natural gas revenues.***

**BP response:** We appreciate the need to remain aware of developments in this area. This is an active part of the remit of our government affairs team in Jakarta and an integrated engagement plan has been established to track the effort. The communications and engagement plan involves both central and local government.

## **Environment**

**TIAP recommendation: *BP’s senior environmental personnel as well as those of its contractors should regularly monitor the AMDAL compliance tracking system to make sure that it covers all significant areas and review the results on a current basis so that gaps can be spotted and corrected promptly. Any deficiencies should be brought promptly to the attention of the EPC contractor (“KJP”) and any subcontractor responsible, which should devise with BP a plan for immediate correction.***

**BP response:** This process is currently underway, in line with the AMDAL and TIAP’s previous recommendations. An environmental field team has been deployed to monitor and support the contractors with their environmental performance at site. The Project conducts day-to-day monitoring of the contractor’s environmental performance and has a tracking matrix. This matrix is discussed on a weekly basis with the contractors. The discussion is followed by a walk through of any areas of concern. Issues are identified and corrective actions are discussed and agreed with the Contractors. The agreed actions are then recorded for follow-up. The tracking

system facilitates identification of gaps as early as possible and implementation of necessary measures to correct them.

**TIAP recommendation:** *BP should encourage the GOI to make public all Ministry of the Environment (“MOE”) reports and BP’s written responses to the MOE; and BP should make public all related environmental audits and reports, such as those by the Asian Development Bank. In addition, BP should make publicly known any actions taken to correct environmental deficiencies.*

**BP response:** We will encourage MoE to make public these reports and BP’s written responses to the MoE. In addition, the Project’s environmental report to lenders will be made public through posting on the ADB website, along with the reports on the ISP and LARAP.

**TIAP recommendation:** *BP should impose strict controls to prevent any significant discharges relating to the Project, including best efforts to prevent and manage any spills by any vessel that could impair fishing in the Project area. To this end, BP should enforce all international treaty standards on all vessels docking at the site.*

**BP response:** We agree with this recommendation and are taking steps to enforce controls and standards as proposed. In addition to following the Indonesian regulations, the Project is also applying International Maritime Organization (IMO) standards for our marine operations, including for the discharge (solid, liquid, sewage) from vessels docking at the site. BP Shipping also maintains a rigorous vessel vetting process. We apply best practice for ballast exchange, as pledged in the AMDAL and set forth in the IMO Resolution. Vessels docking at the Tangguh site should carry out ballast exchange far offshore at sea beyond 50 nmi (92.6 km) of the Berau/Bintuni Bay.

**TIAP recommendation:** *In consultation with its Marine Mammals expert team, BP should institute a long term monitoring and management plan that mitigates adverse effects on Sousa dolphins and other marine mammals and reptiles. As part of this effort, BP should immediately begin educating boat captains about the need to take action to avoid direct contact with marine life.*

**BP response:** In line with this recommendation, a long-term monitoring and management plan is in place. The marine mammals study results have been explained to boat captains and brochures and posters are provided to boat operators. In addition, based on the recommendations from the Marine Mammals studies, the boat route from Babo to the LNG site has been redefined to keep boats further offshore and create an exclusion zone for Sousa dolphins. The new boat route has been communicated to boat captains and is being used, except in instances of bad weather where safety is of paramount concern.

**TIAP recommendation: *BP should continue to urge the GOI to allow capture and re-injection of CO2 at the earliest possible time as the long-term strategy for management of CO2 emissions from Tangguh.***

**BP response:** We agree with this recommendation as we believe that CO2 reinjection represents the optimum long term strategy for management of emissions from Tangguh. At the current stage, CO2 reinjection is not a viable option as there is no regulation to support it in Indonesia. It is a new technology which has not been applied and proven locally and it will take some time for knowledge transfer and capacity building to take place in order for regulations to be developed. Indonesia has developed some aspects of the Clean Development Mechanism (CDM) under the Kyoto Protocol but the current focus is on energy efficiency rather than CO2 reinjection. To support injection as the long term strategy, we are actively following up GOI initiatives, supported by the World Bank, for the development of regulations and mechanisms related to CDM for reinjection in Indonesia.

**TIAP recommendation: *With its environmental partners, BP should continue its successful Biodiversity Action Plan relating to Papua capacity building in environmental management, biodiversity protection, fisheries health assessment, flora and fauna survey and mangrove preservation.***

**BP response:** We agree with this recommendation. The Biodiversity Action Plan (BAP) established a valuable baseline for Bintuni Bay, and the establishment of the Papuan Conservation Training and Resource Centre offers an opportunity to build capacity. Beyond this, in the short term, we will prioritise the BP environmental team's effort towards assurance of AMDAL compliance during the intense construction phase. Building on the baseline established and the knowledge gained by the BAP, we will consider what programs would be appropriate for the longer term in the operations phase of the Project.

### **Public Information**

**TIAP recommendation: *Now that Manokwari is the regional capital of the IJB province, BP should increase information dissemination in Manokwari through radio, newspaper articles and advertisements or other media.***

**BP response:** We agree with this recommendation and are extending our communications as suggested. In particular we have set up three information boards in Manokwari. These are designed to improve local communities' access to the 'Kabar dari Teluk' monthly bulletin.

The three units in Manokwari have been erected in the airport, a shopping mall and outside the provincial governor's office.

Communication with IJB media outlets such as Papua Barat Pos, Radar Sorong, Fajar Papua and Papua Express also being developed and improved, through visit and e-mail correspondents.

In 2006, we also organized a training programme for journalists in Manokwari to help build their capacity and develop constructive relationships. The training covered objective reporting skills, writing, ethics, basic information about the oil and gas industry and the sharing of best practices by a successful senior Papuan Journalist now working on the national level. At the end of the training an update on Tangguh was also provided. In 2007, we will conduct similar training for Papuan journalists in a different Bird's Head town.

**TIAP recommendation: *BP should continue to expand communications in Bintuni Bay, with the north and south shore radios, which could focus on discussion of Tangguh activities with interactive programming; the monthly newspaper, which should be distributed throughout the LNG site and Babo base camp; and pictorial brochures or videos, which can be used to communicate important issues to a broad local audience.***

**BP Response:** Community radio in Tanah Merah continues to broadcast items on various Project related issues including the exclusion zone, grievance procedures for the community, health related topics and workforce related issues. The radio personnel are keen to access independent financial support so that the station can more independent from the Project's financial aid.

The 'Kabar dari Teluk' monthly bulletin now has a print run of 10,000 copies, half of which are distributed to the Project workforce at LNG site while the rest are distributed in Bintuni, including the DAVs, Sorong, Fak-Fak and Manokwari.

**TIAP recommendation: *BP should better inform the national media in Jakarta about Tangguh to elevate understanding of the economic and social benefits of the Project among Indonesian opinion leaders.***

**BP response:** This is a priority for the Project's media team and efforts are continuing to inform Jakarta based media about the Tangguh Project. For example, in December 2006, the Project held its annual year-end press briefing for international, national and local media outlets, including journalists from Papua. This provided an opportunity for reporters to put questions to the Project's senior management team on operational, social and environmental issues and resulted in a number of well-balanced articles about the Project. During 2006, the media team also took part in several events such as conferences and exhibitions to convey more information about the Project and hosted a media visit to Tangguh for national and international

journalists. We will implement a similar media plan in 2007, including all of the activities previously described.

## APPENDIX

### *Review of TIAP Recommendations for 2006 and BP Progress*

Highlights of progress made in meeting our response to TIAP during 2006 are noted in this table.

BP Response	Progress
<ul style="list-style-type: none"> <li>Continue to identify successors for key roles, actively seeking to develop Papuan staff, for example by offering mentors and training.</li> </ul>	<p>Underway - significant progress has been made in this area, with more than 55 Papuans currently employed in semi-skilled and skilled positions in communications, community development and administration.</p>
<ul style="list-style-type: none"> <li>Train local people as heavy equipment operators, helping them reach the standards required to gain permit licenses.</li> </ul>	<p>Underway - under the construction project &gt; 50 people have reached skilled level – i.e. heavy equipment operators.</p>
<ul style="list-style-type: none"> <li>Arrange on-the-job training in the contractor catering company to allow local women &amp; men to develop skills in catering and camp maintenance.</li> </ul>	<p>Underway - Papuans now make up a significant proportion of the catering and camp maintenance staff.</p>
<ul style="list-style-type: none"> <li>Work with IFC on Papuan business empowerment programme.</li> </ul>	<p>IFC business empowerment programmes are underway.</p>
<ul style="list-style-type: none"> <li>Work to ensure that employees from local villages are paid at their village.</li> </ul>	<p>This plan was not practical. However, according to the AMDAL all non-DAV workers are being paid at their point of hire. While villagers continue to be paid onsite.</p>
<ul style="list-style-type: none"> <li>Continue to support locally-based church-operated savings scheme to allow people to save money.</li> </ul>	<p>Underway - we are supporting a catholic church supported credit union, which offers services in five DAVs and is expanding slowly to other areas in the Bay.</p>
<ul style="list-style-type: none"> <li>Provide an induction session on the camp rules to all employees, BP and contractors, and make them aware of penalties for violation of these rules.</li> </ul>	<p>Action complete. All workers (BP and contractors) participate in the mandatory induction session, which includes information on penalties for violation of rules.</p>

<ul style="list-style-type: none"> <li>• Provide a means for employees &amp; contractors to report breaches of BP policy confidentially (Open Talk), with reports referred to regional ombudspersons independent of BP Indonesia &amp; Tangguh.</li> </ul>	<p>There are difference procedures for different audiences. Communities and workers have access to separate grievance procedures. BP employees have access to a grievance system called Open Talk.</p>
<ul style="list-style-type: none"> <li>• Carry out an audit to ensure that appropriate grievance mechanisms are not only available among contractors, but properly documented as stipulated in the AMDAL.</li> </ul>	<p>Action complete.</p>
<ul style="list-style-type: none"> <li>• Examine procedures to ensure that independent review is provided for in the case of a BP employee being involved in an allegation.</li> </ul>	<p>Action complete.</p>
<ul style="list-style-type: none"> <li>• Consult local people on the Tangguh grievance procedure which allows for the formal filing of grievances with the project by people from local communities.</li> </ul>	<p>Action complete.</p>
<ul style="list-style-type: none"> <li>• Make the grievance procedure available on BP's web site.</li> </ul>	<p>Action complete. Procedure is available at <a href="http://www.bp.com/indonesia">www.bp.com/indonesia</a>.</p>
<ul style="list-style-type: none"> <li>• The safety exclusion zone has been and will continue to be extensively communicated in the form of posters, comic books and radio broadcasts.</li> </ul>	<p>Action complete.</p>
<ul style="list-style-type: none"> <li>• Finalize plans to provide an outboard motor to each family registered in the 2002 census.</li> </ul>	<p>The project will not provide outboard motors to each family registered in the 2002 census. Instead, we are working with IPB on a Bay-wide fisheries programme.</p>
<ul style="list-style-type: none"> <li>• Facilitate construction of new boats by loaning tools</li> </ul>	<p>IPB is working in Bintuni Bay, supported by the project under a 3 year MOU to improve fishing business opportunities for villagers. The local government is involved in this effort and the Minister of Fisheries has expressed support.</p>

<ul style="list-style-type: none"> <li>• Conduct another three human rights training sessions to cover the personnel who were not able to engage in the 2005 programme.</li> </ul>	<p>Action complete. Workshops were held throughout the year.</p>
<ul style="list-style-type: none"> <li>• Engage in joint training with the police, including human rights.</li> </ul>	<p>Action complete. The joint exercise (training) was conducted in Feb. 2007.</p>
<ul style="list-style-type: none"> <li>• Continue to emphasize importance of the security field guidelines to the new Papua Chief of Police and to police and military personnel in the Bintuni Bay area.</li> </ul>	<p>The security field guidelines have been and will continue to be socialised and emphasized to the Papua Chief of Police and to police and military personnel.</p>
<ul style="list-style-type: none"> <li>• Work with BP Migas on a socialization programme for the police to reinforce the Security Field Guidelines.</li> </ul>	<p>Action complete. This socialization programme was included as part of the Joint Exercise (training) held in Feb. 2007.</p>
<ul style="list-style-type: none"> <li>• Maintain 3 procedures to address the issue of reporting &amp; handling concerns relating to human rights: security procedure on handling human rights violation allegations, Open Talk, and community grievance procedure.</li> </ul>	<p>There are 3 grievance mechanisms in place. If there are allegations of abuse or related incidents in the provision of security, the Tangguh Project Security Procedure is triggered to handle the matter.</p>
<ul style="list-style-type: none"> <li>• Work towards furthering the notion of a government-owned pilot health and housing initiative that could incorporate provisions for clean water and sanitation.</li> </ul>	<p>This relates to our approach to enable sustainable development on the north shore, where we aim to create programmes owned by local government and communities, not projects decided by BP. In 2006 we drafted principles and documents to enable the launch of a development Foundation in Bintuni Bay. The draft memorandum of understanding (MOU) is now being reviewed by the Bupati and BP. We expect the MOU to be signed during the second quarter in 2007.</p>
<ul style="list-style-type: none"> <li>• Discuss with the new bupati about ways ISP can complement the kabupaten's development plans.</li> </ul>	<p>In March 2006, an MOU outlining how we work together with the Bupati was signed. The MOU calls for regular meetings to align the Project's plans with the government's plans.</p>

<ul style="list-style-type: none"> <li>• Institute 10-year CAP programme in each DAV.</li> </ul>	<p>The CAP programme has been established in all villages, except for the Resettlement Affected Villages (RAVs) which will follow in the near future and the commitment will last 10 years.</p>
<ul style="list-style-type: none"> <li>• Expand successful health programmes, including working on health policy with the government and establishing an independent health-provider NGO.</li> </ul>	<p>Underway.</p>
<ul style="list-style-type: none"> <li>• Increase HIV/AIDS educational outreach to encompass all new workers at the LNG site and Babo base camp, a move which is being coordinated with the construction contractors.</li> </ul>	<p>Underway.</p>
<ul style="list-style-type: none"> <li>• Sign an MOU with the Bupati which sets 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.</li> </ul>	<p>Action complete. The MOU was signed in 1Q 2006.</p>
<ul style="list-style-type: none"> <li>• Conduct monthly meetings with district officials in Aranday and Babo and engage with officials in Jayapura and Manokwari.</li> </ul>	<p>We've held regular meetings with officials in Babo and Aranday. Meetings with provincial officials were difficult until elections and inaugurations of the Governors were completed in the third quarter of 2006.</p>
<ul style="list-style-type: none"> <li>• Begin governance-related initiatives at the Bird's Head, Kabupaten and village level.</li> </ul>	<p>Action complete. Governance related initiatives are underway.</p>
<ul style="list-style-type: none"> <li>• Continue discussions with Ministry of Finance, Ministry of Home Affairs and the National Development Planning Agency (Bappenas) on ways they can help improve awareness of these flows at the provincial and local government level.</li> </ul>	<p>Underway - we are communicating regularly with the Director General of Fiscal Balance on this issue, who manages revenue flow for the Government of Indonesia.</p>
<ul style="list-style-type: none"> <li>• Explore possibilities for furthering government-to-government discussion to promote the transparency agenda</li> </ul>	<p>Underway - discussions are ongoing. In cooperation with BPMIGAS, the Project socialized the oil and gas law with key stakeholders, including government officials in Sorong. Meetings in Bintuni will be held in 2007.</p>

<ul style="list-style-type: none"> <li>Continue to encourage visits to the LNG site by regional or local environmental authorities and provide updates to the Bintuni Environmental Authority on the Tangguh Environmental Programme every two to three months.</li> </ul>	<p>Action complete. Regular visits are encouraged and updates are provided.</p>
<ul style="list-style-type: none"> <li>Conduct another flora and fauna survey in 2007.</li> </ul>	<p>Survey remains planned for 2007.</p>
<ul style="list-style-type: none"> <li>Continue to involve local environmental NGOs and other experts our environment-related activities.</li> </ul>	<p>Underway - local environmental NGOs and other experts are included in the Project's environment-related activities.</p>
<ul style="list-style-type: none"> <li>Improve the ISP team's communications products and develop more innovative approaches.</li> </ul>	<p>Underway - we are making continuous improvement in this area. Communications products have been enhanced and new and innovative approaches to communicate with villages and workforce have been implemented.</p>
<ul style="list-style-type: none"> <li>Follow media strategy to increase the frequency of media briefings and take a more proactive approach to gaining coverage on Tangguh in local and national press.</li> </ul>	<p>Action complete. Media strategy has been developed and is being followed.</p>
<ul style="list-style-type: none"> <li>Consider the Panel's recommendation to commission a book on the history of the Project that could release about the time that gas production begins, along with other means of achieving this goal.</li> </ul>	<p>The power of film is undeniable in its ability to reach a wide audience and create a lasting impression. As such, an alternative approach has been chosen to document the history of the project, which includes a series of annual videos, which can be shared with a wide-range of audiences.</p>