

**BP RESPONSE TO THE
TANGGUH INDEPENDENT ADVISORY PANEL'S
SIXTH REPORT
ON THE
TANGGUH LNG PROJECT**

APRIL 2008

ACRONYMS AND INDONESIAN TERMS

ADB	Asian Development Bank
AMDAL	<i>Analisis Mengenai Dampak Lingkungan</i> – Integrated Environmental and Social Impact Assessment.
BHBEP	Bird’s Head Business Empowerment Programme
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 programme approach to facilitating community-driven development projects in Directly Affected Villages
DAV	Village originally identified as directly affected by the Tangguh Project
DCRI	Drill Cuttings Re-Injection
EITI	Extractive Industries Transparency Initiative
EMS	Environmental Management System
EPC	Engineering, Procurement and Construction contractor
GOI	Government of Indonesia
IBCA	Indonesian Business Coalition on AIDS
ICBS	Integrated Community Based Security Programme
ICITAP	International Criminal Investigative Training Assistance Programme – a US programme designed to develop capacity in democratic principals and respect for human rights.
IFC	International Finance Corporation
IMF	International Monetary Fund
IPB	Bogor Institute of Agriculture
ISO	International Organization for Standardization
ISP	Integrated Social Programme – an implementation unit within the Tangguh Project and the social-economic development programmes being managed by the unit.
JBIC	Japan 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
KODIM	Indonesian District Military Command
Kostrad	Indonesian Army 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.
LEMHANAS	National Defense Institute
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
PCHF	Papuan Children’s Health Fund (also Yayasan Anak Sehat Papua)
POLDA	Indonesian regional police command
POLRES	Indonesian District Police Station
RAV	Resettlement Affected Village
SBY	Indonesian President Susilo Bambang Yudhoyono
TIAP	Tangguh Independent Advisory Panel
TCHU	Tangguh Community Health Unit
TNI	Indonesian Armed Forces
UNCEN	University of Cenderawasih
UNDP	United Nations Development Programme

UNIPA	University of Papua
USAID	United States Agency for International Development
WMO	Workforce Management Office
YPK	A Christian education foundation
YPPK	An educational foundation affiliated with the Catholic Church

INTRODUCTION

We are grateful to the Tangguh Independent Advisory Panel (TIAP) for this sixth report and for the informed external scrutiny that the members have once again brought to bear on the project. Throughout the development of the Tangguh project, TIAP has provided objective advice that has enabled us to make many improvements in our social and environmental programmes and our relationships with the local community. The detailed, first-hand, independent commentary provided by TIAP has also proved useful for those who are interested in our work, but unable to see this remote site for themselves.

The project is now moving into its most critical phase as construction work comes to a close and preparations continue for the start of operations in late 2008. This transition will include the demobilisation of the large construction workforce and handover to a smaller operations team. As this change takes place, we remain firmly committed to engaging with local people and others with an interest in the project, being transparent in our communications and business dealings, and working to improve the sustainable development of local communities.

Given the Panel's expertise and familiarity with the project, we are pleased by its conclusion that support for the project remains strong among Papuan leaders and most affected Papuans and its observations on the benefits being brought to resettled and affected villages, including homes, infrastructure, employment, health and education. We also share the Panel's concern over continuing challenges, such as significant in-migration, concern among some villages of benefits enjoyed in others, and the tasks involved in enhancing livelihoods while providing for the continuance of the community's traditional fishing economy.

About the Tangguh project

The Tangguh project will produce and export liquefied natural gas (LNG) from a plant on the shore of Bintuni Bay, located in the West Papua province of Indonesia. The gas below the bay area was discovered in 1994 and includes more than 14 trillion cubic feet of proven reserves¹. At Tangguh, the gas will be extracted via wells drilled from unattended, remote controlled, wellhead platforms in the bay and transported 22 kilometres through subsea pipelines to the liquefaction plant. The liquefaction plant will consist of two 'trains', or sets of processing equipment, together designed to produce around 7.6 million tonnes of liquefied gas per annum. The liquid gas will be stored in two 170,000 cubic metre tanks and piped to the end of a jetty for loading into tankers. The total construction cost is estimated at \$5 billion.

Partners in the project (with shares of ownership as per February 2008) are: BP Berau Ltd (37.16%); MI Berau B.V. (16.30%); CNOOC Ltd (13.90%);

¹ Tangguh Fast Facts factsheet

Nippon Oil Exploration (Berau) Ltd (12.23%); KG Berau/KG Wiriagar (10.00%); LNG Japan Corporation (7.35%); and Talisman (3.06%).

Environmental, social and governance aspects of the Tangguh project

The Tangguh project is located in a remote area, in a community with a traditional subsistence economy based on fishing and agriculture. The surrounding environment is rich in biodiversity, with features including mangrove swamps, dolphins and sea turtles. Standards of education have been basic and villages around the project have suffered high rates of disease, such as malaria and diarrhoea. The siting of the plant required the resettlement of 127 families from Tanah Merah village.

Given these sensitivities and issues, BP and its partners have sought to make the project a source of benefits for local people while leaving the minimum footprint on the physical environment. The project has provided an opportunity to strive for best practice as well as to learn from experience.

For example, no roads have been built by the project to the LNG site. The route to be followed by tankers has been lengthened by over 500 km² to avoid a globally important marine nature reserve. An integrated social programme (ISP) has been developed to assist residents of the directly affected villages (DAVs), as well as the wider Bintuni Bay area, in areas such as health and education. Through surveillance monitoring and an innovative social marketing approach, the Project's health program has thus far reduced malaria prevalence rates across all DAVs from 23% in 2000 to 3.8 % at the end of 2007. New educational facilities have been built and around 200 teachers have received training. Residents of the Resettled Affected Villages (RAVs) have been provided with significant resettlement assistance relating to house construction and community facilities, and livelihood restoration. A community action plan (CAP) has been created for each affected village to support development priorities identified by the villagers. Micro-enterprises have been supported, while larger local companies have received training and support to become project suppliers. Programmes have been supported to assist the local government – at regency (or *kabupaten*) and provincial level – in building governance capabilities, as well as programmes in which the regency and project work together on areas such as education and local infrastructure development. In order to reduce any potential for conflict, security is provided through an integrated community-based security (ICBS) programme, which encourages the participation of villagers in the provision of the project's security contingent. Over 3,000 local people have attended events to raise awareness of Indonesian laws relating to security and human rights.

² Briefing Book page 47 “Tangguh has taken the decision to reroute its LNG tankers around the environmentally sensitive area of Raja Ampat Marine Reserve in Papua. The new westward path adds 550 km to the tankers' routes. The decision was based on a detailed risk assessment which concluded that protection of this globally important marine reserve was paramount and in keeping with the project's environmental value.”

The ISP activities continue to progress well, with tangible successes in a number of areas, including education, health, and capacity building in local governance. In education and infrastructure, strong partnership work is developing between the Project and the local regency headed by the Bupati. An MOU was signed with the local government for the establishment of a Bintuni Bay Foundation, through which we are supporting the provision of public facilities for North Shore villages, such as education buildings and rainwater harvesting systems.

A significant number of infrastructure projects have been completed, including rainwater harvesting systems in Tomu and Ekam, the Aranday Vocational Training Centre, and activities such as jetty construction under the CAPs programme.

The handover process of public facilities and applications for land titling for houses is underway in Saengga and Tanah Merah Baru. Programmes are also in place to assist in restoring livelihoods through improved prawn technology, fisheries processing, and farming.

We understand the importance of managing expectations as operations approach so that local communities have a realistic grasp of the likely economic benefits and timescales in which they can be achieved. In this regard, a major milestone achieved in the last year was a workshop conducted by central-level government officials to West Papua officials on the topic of production-sharing in the oil/gas industry.

Inevitably, not all programmes have proceeded according to plan and several difficulties have arisen. There have been complaints from villagers, particularly on the North Shore of the bay who feel they should have received benefits experienced by other villages. In-migration has swelled some local village populations, despite measures such as recruiting workers in towns some distance from the site to prevent the site becoming a 'hot-spot' of over-development.

We expected to face challenges as well as recording achievements and we regard the overall success of the project as being measured not in avoiding such issues, but on understanding and managing them towards positive outcomes.

Tangguh's progress

The Tangguh project is progressing on schedule and first drop of LNG is targeted for 4Q 2008. It has a strong safety record with 60.2 million man-hours expended and only 8 persons requiring a day away from work since March 2005.

As of the end of December 2007, the project was 85% complete and on track. All major infrastructure for the LNG facilities has now been installed. The LNG jetty has been completed and Trains 1 and 2 are slated for contractual handover in January and June 2009 respectively. Wells have been drilled

and tested and the two subsea pipelines have been covered with rock and connected to the onshore pipelines leading to the LNG facilities. The project has also reached its peak in terms of workforce employment, with over 10,000 workers in mid-2007. When production is underway the project is expected to employ approximately 1,500 people.

Environmental performance continues according to plan and there were no major spills or releases of materials during 2007. Environmental activity has focused on ensuring that the project is in compliance with applicable laws and regulations and preparing environmental management systems for the operations phase. One major milestone was reached in 2007 when the Government of Indonesia approved a plan to re-inject into the disposal well the cuttings and mud which are created as drilling takes place. Although drill Cuttings Re-Injection (DCRI) has been used for more than 20 years elsewhere in the world, this will be its first use in Indonesia. Its approval for use in Tangguh follows concerted project efforts to demonstrate the environmental benefits of the DCRI process to government representatives. This included sponsoring a visit of Government of Indonesia officials to a training centre in Aberdeen to increase their understanding of the DCRI process and its environmental benefits.

Security continues to be a major focus of attention and we are pleased with the progress of our distinctive Integrated Community Based Security (ICBS) programme and the co-operation that has already been demonstrated between community guards, police, military and human rights NGOs, including joint participation in exercises. This partnership approach needs to be reinforced as the project's building nears completion and as more Indonesian army and navy units are deployed in the area, as an independent initiative to Tangguh's presence.

In terms of employment, around 30% of the Project's 10,000 workers are from Papua, in line with the commitment made in the project's initial environmental and social assessment, the AMDAL. We are better managing our process for targeting job offers to residents of the RAVs following a period during which we fell short of the planned number of RAV residents to be allocated unskilled posts in the construction phase due to irregularities in the hiring process.

RESPONSES TO SPECIFIC TIAP RECOMMENDATIONS

Transition from Construction to the Operating Phase

1. TIAP recommendation: *BP and its contractors should provide jobs in the operating phase to as many local Papuans as possible, and make this commitment known. It is particularly critical that BP meet or, if possible, exceed its AMDAL employment commitments for Papuans,*

either directly or through its contractors in Project support activities such as supplies and shipping.

BP response: We agree with this recommendation and as the Panel notes, Tangguh has met its AMDAL requirements thus far, with Papuans consistently comprising more than 30% of project employees, exceeding the required 20%. Our AMDAL commitments ultimately envisage an operations workforce 20 years hence in which 85% are Papuans, with significant numbers of Papuans in key leadership positions. Our strategy for the future includes training Papuans progressively to take on semi-skilled, skilled, administrative and supervisory roles as well as helping Papuan businesses reach a point at which they can compete to supply goods and services to Tangguh LNG and others. For Tangguh Operations' contractors, there are clear targets for Papuan employment which are incorporated into their contracts and will be monitored. We also strive to ensure equal opportunities for Papuan workers and promote respect for the local culture among all involved at the project, whether from Papua or not. Within BP, the Papuan commitment will be guided by a steering committee, known as the Papuan Commitment Steering Committee, which assesses progress in recruiting and developing Papuans. We are looking for ways to build on successful approaches and maximise opportunities for Papuans to advance within the organisation. For example we intend to provide opportunities for Papuan operators to demonstrate their capabilities in the 'operations readiness' phase as the facilities prepare to begin production.

2. TIAP recommendation: *The Papuan Commitment Steering Committee must have the attention of senior Project management and a commitment from management to overcome obstacles. It should meet with management regularly, and issue a public report annually so that stakeholders are aware of BP's performance in this critical area.*

BP response: The Papuan Commitment Steering Committee, established in August 2007, not only has the attention of senior project management, but is chaired by BP Indonesia's Executive Vice President for Human Resources and Relations. Its role includes setting targets for Papuan employees and supervising recruitment, training, development and other activities such as taken to meet them. The Committee is scheduled to meet on a regular basis, and has so far met twice. We will communicate agreed actions through existing public channels such as the AMDAL and TIAP reports, and direct meetings with local government agencies and officials.

3. TIAP recommendation: *ISP programs should be reviewed and modifications made, if needed, to better achieve their goals. One focus of this review should be on the continuing value of each program during the operating phase, and the sustainability of its results.*

BP response: A comprehensive review of the ISP is indeed underway with the aim of enhancing the programme's focus and effectiveness; its technical rigor; monitoring systems; adherence to best practice; coordination between programmes; and long-term sustainability. We are reviewing lessons learned

from the programme so far with an eye to expanding or adjusting individual programme elements, as appropriate, and incorporating the review data into a long-term strategy. As stipulated in the ISP, an independent mid-term assessment is planned in 2008 which will evaluate programme elements in greater technical depth and complement existing review mechanisms such as those provided by TIAP and by the external Panel established by lenders to the project. The ISP programme has made significant achievements since its start, but we believe it is appropriate at this time to take stock and make necessary adjustments to ensure that it shows real value to stakeholders and generates sustainable results.

Security and Human Rights

4. TIAP recommendation: *BP officials should make sure that any new TNI and Navy units deployed in Bintuni Bay are familiar with Integrated Community Based Security (“ICBS”), and encourage them to take the human rights training provided to other security forces and participate in the annual joint training exercises with the Police.*

BP response: We agree. Currently, the TNI and Navy are invited as observers to ICBS joint-exercise events. They are also consistently invited to our annual JUKLAP Socialization events. The project has not yet included them as direct participants in our human rights and joint exercise activities because we are still in the process of developing the most suitable type of collaboration with respect to human rights between Tangguh security forces and the police, before formally inviting the military. A progressive approach is necessary given the sensitive nature of the ICBS and the concepts it is promoting, as well as comfort levels regarding this specific collaboration among the target groups. It is expected that within the next few years the military will be invited to be active participants in all our ICBS activities.

5. TIAP recommendation: *BP should make every effort to participate, as observer or otherwise, in discussions by the National Defense Institute (“LEMHANAS”) or the Energy Ministry, of security preparedness in Bintuni Bay to be aware of any actions being considered and to impress upon all participants the agreed upon structure and processes of community based security.*

BP response: We have already expressed to the Gol our willingness to be involved in these discussions. We will continue to monitor the situation and to ensure that every effort is made for the project to be included in the survey process and to explain the principles underlying community-based security.

Benefits to the Bintuni Bay Region

6. TIAP recommendation: *TIAP endorses the Resettlement Panel recommendations that BP: (1) offer jobs to RAV residents on a household-by-household basis, rather than through the village head; (2) offer jobs to RAV residents at other Project facilities beyond the LNG site, such as at Babo or Bintuni; (3) implement the demobilization*

program in a flexible manner in an attempt to meet LARAP job length and income targets; and (4) increase vocational training opportunities for LARAP households.

BP response: We support this recommendation and are pleased that TIAP endorses the Resettlement Panel's approach. Our workforce audit demonstrated that while there have been some irregularities in hiring and inaccuracies in data, only 16 households out of the 259 registered in the 2002 census did not demonstrate evidence of being offered Tangguh employment. The recommendations of the workforce audit among RAVs are now being implemented in the field and these are aligned with TIAP points: (1) RAV jobs are being offered directly to households with focus on the remaining 16 households who did not demonstrate evidence of being offered Tangguh employment. Since the audit, job offers have been extended to these 16 households. Fourteen candidates appeared for a medical check up; 2 did not. Of the remaining two candidates, one declined the job offer due to his elderly status and the other passed away a few years ago. (2) We support this recommendation and will target RAV residents through contractors and ISP activities, as appropriate. One issue that must be managed are jealousies among non-RAV villages toward RAV villages seen as having received a disproportionate share of Tangguh benefits under the resettlement program. (3) We are prioritizing RAV residents for employment for the remainder of the construction period and during operations, both through BP and contractor opportunities. We have adjusted hiring procedures to also allow high performers to transfer directly to other contractor employment opportunities upon demobilization. (4) The project is placing increased emphasis on Livelihood Restoration and training programmes in agriculture, fisheries, computer skills, and cottage industries, such fish processing. These activities will offer alternative income sources to RAV residents toward sustaining the village economy.

7. TIAP recommendation: *Following consultations with the Bupati and the communities, all public buildings which can be managed locally should be transferred to the communities promptly.*

BP response: We agree and we are working with the local government and community to finalise the handover agreements to ensure there is compliance with all existing agreements between community members, local government and the project; and that facility operations are sustainable after the handover. We expect handover of public facilities to the local government to be completed by the end of 2008.

8. TIAP recommendation: *An agreement to transfer the electric and water utility assets in the RAVs to the kabupaten government or the community should be concluded prior to the start of Project operations. The Handover Agreement, required by the LARAP, for any assets not currently transferred to the community, could provide for the future transfer of operations to the RAV if the Bupati and communities determine that this is appropriate and permissible under local law.*

BP response: *We agree and, as with the above public utilities, aim for an agreement to transfer electric and water utility assets to the regency government by the end of 2008. However, considering the low financial capacity of local government to maintain these two facilities, the Project will provide financial support to the local government for a maximum of two years, starting from the date of handover. By the end of two years, we expect the local government will have sufficient financial and technical capability to run these facilities on its own.*

9. TIAP recommendation: *BP should complete its commitment to vest title of all new homes in Tanah Merah and Saengga to the individual households. The land titling process should be completed before the beginning of operations.*

BP response: We agree with this recommendation. However, for the process to move forward, the Project requires identification and family cards of community members to be submitted to the local land office in Manokwari. The majority of community members under whom the land will be titled are missing their ID and family cards. The Project team is now helping community members to apply for re-issuance or renewal of ID and family cards. Once these documents are complete, the project will arrange for the submission of land title applications. In addition, the Project has contacted the Land Agency to re-measure the plots and prepare plot maps as part of the land title application process. It is expected that the paperwork for the land certification process will be submitted to the local government land office by the end of 2008. This submission will be for titling of community housing in Tanah Merah and Saengga.

10. TIAP recommendation: *Although not required by the LARAP, an additional survey should be conducted two to three years after the start of operations to measure gains and ensure the sustainability of the programs the Project has put in place. This survey should be designed to capture villagers' views on the success or failure of Tangguh's programs.*

BP response: A census survey of the RAVs is underway. The final report is expected to be available at the end of March 2008. We agree that it would be beneficial to have a follow-on survey two or three years after the start of operations to measure gains. However, in the interest of efficiency, the objectives of this proposed survey may be integrated into other required survey instruments, without losing sight of its ultimate data objective.

11. TIAP recommendation: *It is imperative that the new pathway required by the LARAP from Tanah Merah to the Bay be completed if the exclusion zone around the marine facilities is to be respected and enforced. If this action is not effective to dramatically reduce incidents of violation, BP must develop an alternative means of managing and/or enforcing the exclusion zone.*

BP response: We agree with the recommendation and the project has reached verbal agreement with Tanah Merah villagers on the way forward for the pathway. A two-meter wide compacted path is planned for construction, based upon the original pathway. An MOU is being developed to include the points agreed. To enhance a sense of ownership, village workers will be included in the construction of the pathway themselves under direct supervision from technical staff from the project.

12. TIAP recommendation: *Outboard motors should be provided to all households of Saengga with a boat. Any ambiguity of this obligation in the LARAP should be read to benefit the villagers. It is crucial that distribution take place before the end of Project construction as fishing will become the dominant source of income as workers are demobilized.*

BP response: The outboard motor issue has been discussed at length with the Bupati on several occasions through to February 2008. The Bupati also held discussions with the Saengga community on this subject. The following changes resulted. First, it was agreed that local government will take leadership on this issue. Secondly, the Bintuni regent committed to finance 50 out of 125 outboard engines for Saengga. The remaining 75 units would be financed by the Project. Thirdly, the discussions took into account two important points: outboard motors are more appropriate for medium-distance travel rather than near-shore fishing; and not all RAV villagers are fisherpeople – some are engaged in agriculture. Thus, rather than granting each household one outboard motor, we will encourage the Bupati to offer each household the option of: (a) a smaller motor suited for near-shore fishing, plus a provision of fishing equipment; (b) agricultural equipment and inputs; or, (c) a 15 horsepower outboard motor as requested by the villagers. This process will be owned by the Bupati and is scheduled to be completed by 3Q 2008.

13. TIAP recommendation: *The Panel emphasizes the importance of completing successful clean water programs for all DAVs before operations begin.*

BP response: The Project recognizes the importance of clean water as a basic human need. We intend to assist the communities in achieving this as soon as it is feasibly possible. The Project has introduced clean water programs in all the DAVs, using a variety of low, medium, and high technology systems - with mixed results. Successes have been in Tomu-Ekam and Taroy where simple rainwater catchment systems were installed at each household. Less successful was Wireagar-Mogotira, where each house was provided with piped water filterized from the nearby river. The facilities soon malfunctioned due to a combination of inappropriate construction for the environment and low emphasis on community involvement in the planning and development of the systems, leading to a lack of community ownership. In Otoweri and Tomage, four wells were drilled by the ISP team, but the water proved to be highly saline. In Tofoi, pumps provided by ISP remain non-functioning, in part, due to lack of electricity. With these learnings, ISP has made several changes to the water and sanitation program. Rainwater

harvest systems have now been adopted as the preferred technology. Strategic oversight for water and sanitation has transitioned to the ISP Health program. Emphasis will be on Best Practice, structured community participation, and an integrated approach. This year, we plan to install public rainwater tanks in Wireagar-Mogotira with community ownership approaches built into the new design. Rainwater catchment systems will also be provided in Otoweri and Tomage.

14. TIAP recommendation: *The Tangguh Community Health Unit (“TCHU”) health care programs in the DAVs have been one of the most successful aspects of the ISP. The Panel supports the broadening of these programs within the DAVs and their expansion to the broader Bintuni region.*

BP response: We welcome the Panel’s acknowledgement of the success of the health programmes and agree with eventually expanding aspects of the TCHU programme. The details and timing of this expansion are still under consideration, taking into account several factors. First, in 2008, the programme is transitioning to management by a newly established local foundation called “Yayasan Anak Sehat Papua.” This foundation will have new staff, a new management structure, and will need time to consolidate and strengthen institutionally. To avoid risk, there will be no or limited health service delivery expansion in 2008. Any future expansion will emphasize strengthening the local Department of Health capability to replicate and deliver health services beyond the Tangguh DAV villages. Beyond 2008, it is hoped that the Yayasan Anak Sehat Papua will succeed in securing external, non-BP funds which will support gradual geographic expansion. In the meantime, we will continue to co-operate with other donors, NGOs, and private sector initiatives within the Bird’s Head area to build upon successes and interlock geographically in a progressive manner.

15. TIAP recommendation: *The Panel urges BP to commit to continuing its support for local education into the operating phase in an effort to raise achievement levels to national standards.*

BP response: We agree with this recommendation. The project intends to continue its support for education for at least the next 10 years, in conjunction with the local government. Such assistance is beginning to produce positive results which provide a firm basis for further development. Our focus will be on supporting the government’s planning and delivery of education, teacher training, and raising students’ academic competitiveness to national levels.

16. TIAP recommendation: *The adult literacy programs in the DAVs should continue for the duration of the ISP.*

BP response: The project intends to continue the adult literacy programme. A number of programme adjustments are also planned as we move forward. Given that the literacy programmes are currently attracting primarily female audience, we will seek to integrate them with work to promote issues of

health, household financial management, women's empowerment, and other key topics.

17. TIAP recommendation: *Microenterprise and small business development to diversify the area's economy are challenging assignments, and will take time. While refinements or changes may be in order, it is important that this program continue as a priority for at least the duration of the ISP.*

BP response: Economic development will become a core foundation for the ISP moving forward. To date, the ISP's focus has been providing assistance in relation to basic human needs such as health, education and infrastructure. The next logical - though more challenging - step is that of establishing a base for development of livelihoods, business and economic activity, based on sustainable and market-oriented principles. Clearly, this is an ambitious challenge, but one that we are committed to supporting in conjunction with the local government and other relevant stakeholders.

18. TIAP recommendation: *The vocational training center at Aranday is a positive development, particularly for the villagers on the north shore. It must be sustained by maintaining its physical plant and equipment and with qualified instructors. BP must work with the Bupati to ensure its long term viability.*

BP response: We are working closely with the local government - both with the Bupati and the local office of Manpower - to ensure agreement on the ongoing budget and operational needs of the center. This will be conducted bearing in mind budgetary and institutional challenges within the government.

19. TIAP recommendation: *A third survey of fish stocks in Bintuni Bay should be conducted after the commencement of operations, possibly in 2010, to assess the effect, if any, that Tangguh operations are having on fish stocks or fishing activities.*

BP response: We agree. The fishery survey will be implemented in 2010 as part of the Tangguh environmental programme.

20. TIAP recommendation: *BP should continue to work with local and Government of Indonesia ("GOI") officials to limit outside trawling activity in Bintuni Bay, both to preserve the livelihoods of the villagers and to thwart possible inaccurate charges in the future that Tangguh operations have depleted fish stocks in the Bay.*

BP response: The project is aware of this issue and will share the latest fishery study report with the government of Bintuni as a reference for developing sustainable fishery programmes for the bay and to provide long term benefit to the bay communities, rather than the short term benefit from trawling. At an institutional level, the governance programme will include technical assistance to the Office of Fisheries in Bintuni to conduct informed

and comprehensive planning on fisheries management, including trawling activities.

21. TIAP recommendation: *The Bintuni Bay Development Foundation, designed to support north shore infrastructure, has yet to be established. It should be established promptly and BP should provide the support needed in order for the Foundation's activities to produce initial tangible results by the time operations begin.*

BP response: As we continue our work towards establishing the foundation, which includes working with the government to obtain approval from the Minister of Human Rights and Justice, we have developed a task force, which is assisting in the spatial planning and building of teachers' houses. We have also focused on establishing the operating structure of the foundation, which will produce tangible benefits by year end, including: a school dormitory in Aranday; an informal, public library for children in Aranday; public rainwater harvesting systems for five non-DAV villages; and construction of teachers' houses (in both DAV and non-DAV villages).

22. TIAP recommendation: *The Panel has been supportive of the Community Action Plans ("CAPs") for the DAVs. However, at this time, BP should re-evaluate their structure and review their results to make sure that the village planning process is working effectively to produce improvements that benefit the community's interests and that can be sustained by the community over the long term.*

BP response: We agree with this proposal and plan to re-visit the CAPs programme with the objectives of: assisting the village planning process to be more long-term in view, ranging over three to five years; integrating the CAPs' planning process into the existing annual government budget and planning process (MUSRENBANG); and developing an appropriate exit plan which will reduce dependency on the project.

23. TIAP recommendation: *Development of local governmental capacity, both in individuals and institutions, must remain a priority well into operations. BP should review each of its capacity development programs – including those at the regional and provincial levels – to determine which programs are delivering useful benefits and which need to be modified. Any changes in local capacity building programs should be made in consultation with the Bupati.*

BP response: Local government capacity-building will remain a key pillar of Tangguh's social investment programme for at least another 10 years. We are currently reviewing and renewing the strategy of the governance programme with an eye to achieving greater focus, rigour, synergy between parties and ability to build on lessons learned. Priorities will include enhancing capacity in budgeting, planning, organizational development, administration, systems, processes, and ensuring on-the-ground implementation of the medium term regional development plan. We will also focus on providing assistance to enhancing capabilities of the local legislative bodies.

24. TIAP recommendation: *The community grievance process is functioning well and should be continued throughout the life of the Project. BP should review, compile, assess and publish the results annually to help determine whether any program changes are appropriate.*

BP response: We agree that the data on community grievances can be more systematically analyzed as a source of raw data for programme direction or change.

Wider Benefits to Papuans

25. TIAP recommendation: *The Panel again recommends that BP commence a higher education scholarship program for promising young Papuan students. The program could provide assistance at universities in Papua, elsewhere in Indonesia or abroad. It should target students studying practical disciplines such as energy, mining, agriculture, fisheries and technology. BP should also provide training and support for UNIPA and the University of Cenderawasih (“UNCEN”), the two major centers of learning in the region. These programs will help to leave a lasting legacy of Tangguh in Papua.*

BP response: We agree and are providing higher education scholarships for Papuans at universities in Papua and, in 2008, to other parts of Indonesia. We intend to increase this assistance gradually. However, we are also conscious that a sound basic education base is critical to ensure Papuan student success at the more competitive tertiary level. Thus, basic education will form the core of our education programme in the short-term and we plan to move gradually into more tertiary assistance as capabilities improve. In 2008 and onward, we will be providing UNIPA and UNCEN faculty members with financial support to participate in short-term training programmes, primarily related to education administration. This is based on the rationale that long-term technical scholarships are plentiful through other sources, and that the immediate need is for short-term programmes focused on tertiary education management.

26. TIAP recommendation: *BP should look to Papuans who have completed technical training to fill management and supervisory roles in the Project. If further non-technical training or language skills are needed, BP should provide such assistance to those Papuans who have demonstrated the capacity to rise to higher levels of authority.*

BP response: We recognize that this is an important need and we have initiated English language training for those Papuans who have completed the technical training. As we move into the operations phase, we will also provide additional developmental training.

27. TIAP recommendation: *Papuan procurement obligations of contractors in the operating phase should be monitored and enforced.*

The Business Empowerment Initiative, designed to train and mentor local businesses so that they can compete for opportunities in Tangguh and other projects, should be continued. This program has challenges and will take time, but it must be maintained if local businesses are to have any significant opportunities for procurement.

BP response: We agree with this recommendation. The Bird's Head Business Empowerment Programme completed has had a successful first phase, undertaken in partnership with the IFC. We are now moving into a second phase in which we plan to take a more prominent role, putting more emphasis on the specific factors involved in bringing local contractors to a level at which they can compete for contracts. For example, this includes meeting our minimum pre-qualification administrative requirements to all companies who participate in the mentoring programme, as well as standard requirements of Contractor Safety, Health and Environment Management System (CSMS) for large local companies with the ability to provide services under our general services contract. The programme will also continue to provide mentoring and training in business skills. Over the next two years, the programme expects to work with around 50-60 committed local companies in the Bird's Head.

Revenue Flow to the Region and Transparency

28. TIAP recommendation: ***BP should communicate to the Ministry of Finance ("MOF") its strong support for the Extractive Industries Transparency Initiative ("EITI"), and inform the MOF of the benefits of EITI to the oil and gas industry and to energy development in Indonesia. In addition, BP should work with the Minister of Energy to authorize publication of all non-proprietary aspects of the revenue streams flowing from Tangguh.***

BP response: We agree with the recommendation and we have advocated our support of EITI principles within the government, with particular focus on the Ministry of Finance and the Minister of Energy. However we also look beyond the question of formal recognition of the EITI to its underlying principle – which is that economic benefits of a project such as Tangguh should be experienced by the local community and that there should be transparency regarding such revenue flows. We are pleased that the Panel acknowledges that “transparency and accountability have increased markedly since the Panel began its work.” We are working to promote transparency through our local government strengthening programmes. While we recognize that the government will need time to embrace EITI explicitly, we are seeing evidence of the government working positively toward transparency in the extractive industry. One example is the posting on government websites of Regency revenues from the oil/gas industry.

Environment

29. TIAP recommendation: *To establish credibility and inspire greater confidence among stakeholders, BP should seek independent third-party certification of compliance with International Organization for Standardization (“ISO”) 14001. In addition, BP should include, as part of the ISO 14001 process, specific, substantive requirements that ensure that all national requirements are met and, where possible, international standards are achieved or exceeded. It should also provide a process by which environmental tracking reports are regularly reviewed by senior Project management, as a mechanism to better ensure early detection of any potential compliance issues.*

BP response: We agree with this recommendation. Tangguh has made a commitment in the AMDAL to obtain ISO 14001 certification from an independent certification body by the end of the first year of operation. A series of Environmental Standards Operating Procedures (SOP) are currently being finalized as part of the Environmental Management System (EMS) being designed to provide operation readiness. The EMS is expected to be developed and targeted for ISO 14001 certification before the end of 2009.

In addition, as part of the HSE Regulatory Compliance Assurance Programme, Tangguh will in 2008 implement the global system for compliance with laws and regulations known in BP as the ‘Emerald Project’. All Indonesian HSE regulations and relevant International standards will be assessed in detail as part of the Emerald Project. Tangguh’s compliance with all applicable HSE regulatory requirements will be assessed and actions will be developed and documented to fill in any gaps, with the target of being in full compliance by end 2010.

30. TIAP recommendation: *BP has published a guide for reducing impacts on marine mammals (primarily Sousa dolphins) and marine reptiles (turtles), which include a boat free “dolphin habitat zone” in shallow waters and procedures for minimizing disturbances. The Panel commends BP for this action but emphasizes that these procedures must be continually socialized and enforced to be effective.*

BP response: We agree with the recommendation. The guides relating to marine mammals and marine reptiles in Bintuni Bay and the actions required to prevent or minimize our impacts have been communicated regularly to the Tangguh workforce, especially to those who are working on the marine and harbour facilities and on the drilling rigs. Visual monitoring of marine mammals and reptiles has been carried out as part of daily environmental activities on the ENSCO 108 and 104 Drilling Rigs. All findings will be recorded to enhance our knowledge of marine mammals and reptiles in the bay area.

31. TIAP recommendation: *BP has developed a comprehensive Oil Spill Contingency Plan and has begun regular training in spill management and drill simulations. These procedures must be a priority for all personnel and contractors and continue to be so throughout the entire period of operations.*

BP response: The oil spill contingency plan will be reviewed regularly to reflect any update in the operation. Regular drills have been started and will continue to be carried out so that the processes are ready to be implemented if necessary.

32. TIAP recommendation: *BP should continue to press the GOI for a technical feasibility study of CO₂ re-injection.*

BP response: Under Tangguh's current design and approval in the AMDAL, CO₂ will be vented during, at least, the first four years of production. Tangguh will actively monitor the development of Indonesian policy and regulation in relation to CO₂ re-injection and a Clean Development Mechanism (CDM), per the Kyoto Treaty, for CO₂ injection. Tangguh will also maintain an active presence in Ministry of Environment, World Bank, and MIGAS meetings on Greenhouse Gas reduction programs, as well as encourage the government to develop the necessary regulations to allow for CO₂ re-injection as an option.

33. TIAP recommendation: *Throughout operations, BP should periodically monitor the areas around the platforms to be certain there are no significant adverse marine effects.*

BP response: Environmental monitoring, including seawater and sediment quality, marine biota, marine mammals and fishery will be performed regularly around the platforms as part of the environmental monitoring programmes required under the AMDAL.

34. TIAP recommendation: *Activities related to the Biodiversity Action Plan should be reactivated as quickly as possible after operations begin. BP's support is vital to its many environmental partners, both public and private, whose capacity and resources remain limited. The important gains already achieved could be lost if a lengthy hiatus ensues.*

BP response: We agree and Tangguh plans to reactivate the Biodiversity Action Plan programmes in the operations phase. The main focus of the programmes will be on sustainable fisheries, the implementation of the Bintuni Bay mangrove management plan and the marine mammals and reptile conservation programmes.

Public Information

35. TIAP recommendation: *The journalism training workshop for media in Papua and West Papua and the Papuan media visit to the LNG site and the DAVs are extremely valuable and should be repeated periodically.*

BP response: We recognize the importance of this training and the positive reception it has received from its media participants. The journalism training workshop and media visit to site have now become core annual events in our communication programme.

36. TIAP recommendation: *BP should use the events relating to first shipment of LNG to communicate its messages more forcefully. It should develop a specific public information work plan designed to engage with national, regional and local media regarding a campaign to convey information at first gas and first LNG shipment.*

BP response: We have an integrated communication plan designed to communicate key messages about the project to support the major events of the project in 2008 and 2009.

37. TIAP recommendation: *Throughout the operating phase, BP should continue to engage positively with the media in Jakarta on a regular basis. In particular, accurate information on the subject of the timing of revenue flow and other complex issues must be socialized through regular public information. If this is not done, misunderstandings regarding such issues may lead to false charges that will be difficult to rebut.*

BP response: We regularly engage with the local, national and international media through both formal and informal gatherings where we convey accurate information about Tangguh. To date, the media group most interested in the issue regarding revenue flows has been the local Papuan media. To ensure balanced and accurate information is not only reported, but understood, we conduct regular media trainings, which include the issue of revenue flows to Papua. We will continue our media engagement strategy going forward and understand that as a high-profile national project, Tangguh invites many different interests and opinions.