

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

**APRIL 2009**

## **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 program 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 Program
ICITAP	International Criminal Investigative Training Assistance Program – a U.S. program 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 Program – an implementation unit within the Tangguh Project and the social-economic development programs 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	Liquefied 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	Organization 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 Program
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 its seventh report and for the expert scrutiny, challenge and guidance that its members have provided to BP over the past seven years.

TIAP's advice has been invaluable in our efforts to make the Tangguh Project a positive example of how business can work with a local community, managing complex social, economic and environmental issues in collaboration with a range of partners.

The Panel's counsel has helped us to develop a clear vision of how the Project can create mutual advantage – bringing benefits to the company, community, government, employees, customers and investors.

TIAP's recommendations have prompted us to make many practical improvements in our programs and in our relationships with the local community. The reports, and our responses, have also provided those unable to visit the remote location with a window onto the project and the issues it has raised.

TIAP's work as an advisory panel has concluded with this seventh and final report. However independent expert scrutiny will continue as a new TIAP is established for the start of the operational phase. The new panel will have a focus on Tangguh's performance in the area of the non-commercial aspects of the operations. It will be structured to avoid duplicating the existing Tangguh Lenders Group's independent external review procedures.<sup>1</sup>

We are pleased that TIAP's work has concluded with many positive observations, including the finding that “there is near unanimous appreciation for the consultations among Papuans in which BP has engaged and for the specific tangible benefits that Tangguh has already brought to the area”. Among such benefits the Panel points to “improved health care, education, clean water, and economic development for the villagers”.

### **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 Papua Barat province of Indonesia. The gas below the bay area was discovered in 1994 and includes more than 14 trillion cubic feet of proven reserves<sup>2</sup>. At Tangguh, the gas will be extracted via wells drilled from unattended, remote controlled, wellhead platforms in the bay and transported 22 kilometers 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 tons of liquefied gas per annum. The liquid gas will be stored in two

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<sup>1</sup> Lenders Group reports are available on the Asian Development bank website at <http://www.adb.org/Projects/project.asp?id=38919>

170,000 cubic meter tanks and piped to the end of a jetty for loading into tankers. The total construction cost is estimated at US\$5 billion.

The project's safety record has generally been a strong one, as the Panel reports, with only 8 'days away from work cases' in over 86 million working hours. However BP is not satisfied with anything other than a zero accident record and we deeply regret that Tangguh suffered a fatality in May 2008 when a contractor fell approximately 29 meters from one of the Train 1 process vessels. We have taken several actions to prevent any such future occurrences, including a safety campaign initiated in September among our main contractor and subcontractor supervisors and workers. Two sessions were run each day for the workforce and an additional two sessions per week were provided to supervisor and managers. Within one month, approximately one third of the workforce had participated. A safety campaign bus will provide mobile training facilities in order to support the campaign and reach the remaining workers.

### **Environmental, social and governance aspects of the project**

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

BP and its partners have sought to make the project a source of lasting and continuing benefits for local people, while leaving the minimum footprint on the physical environment.

In both respects, the project has provided an opportunity to strive for best practice and to learn from experience. Among measures taken to minimize the environmental impact of the Project, no roads have been built to the LNG site and the route to be followed by shipping tankers has been lengthened to avoid a globally important marine nature reserve.

In terms of social and economic impacts, the Project has been a test case for the concept of sustainable development with business as a catalyst. BP's aim has been to facilitate benefits for the community and environment that will continue after the operational phase of the Project is over. This has required building relationships and working with local government, local professionals and communities to build structures and processes that are self-sustaining.

We have been striving to avoid a culture of dependency – aiming to design sound programs that involve the community and encouraging the local government to assume greater leadership and responsibility for social programs.

An integrated social program (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. The Project's health program has played a part in reducing the incidence of disease, although a major outbreak of diarrhea in 2008 which tragically caused 13 deaths starkly demonstrated the need to ensure that sufficient capability exists to ensure improvements made are sustainable.

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. Programs have been supported to assist the local government – at regency (or *kabupaten*) and provincial level – in building governance capabilities, as well as programs in which the regency and project work together on areas such as education and local infrastructure development.

In order to reduce the potential for conflict, security is provided through an integrated community-based security (ICBS) program, which encourages the participation of villagers in the provision of the project's security contingent.

### **Tangguh's recent progress**

As we write this response, Tangguh is approaching the commencement of operations. Gas has been introduced into Train 1 to mark start-up of the LNG processing facilities, and first commercial shipments will follow.

Dormitories, offices and support buildings for the operations phase are complete and the BP operations team has been deployed to the plant. The construction and operations teams are working together, which minimizes risks in the transition to operations.

As construction activities have come to a conclusion, a major demobilization of the workforce has been successfully managed, bringing the workforce from around 10,000 at peak to around 4,000.

We are now preparing for the long stretch of the extractive cycle, expected to last around 30 years.

The ISP is at a critical juncture as we assess the progress of the past seven years, building on successes and applying lessons learned to establish a solid and methodical foundation for the future. We have carried out a review of the ISP to assess the effectiveness of each unit and redesign them in favor of

greater ownership by the local government and community. The current 14 units are being consolidated into five in order to improve co-ordination.

As the years progress, we may have to adjust to changes in the political and social environment. This will require us to be flexible, yet clear on our ultimate objectives. As the external environment may develop in unexpected ways, it is important to embed robust processes and structures that can continue to drive development even though the context changes. We remain committed to leaving a positive legacy and ensuring that the people of Bintuni will be better off as result of Tangguh's presence.

Challenges remain. For example, some North Shore residents continue to assert traditional rights over the gas fields and providing equitably for villages on both shores requires fine judgments. In what was a very remote subsistence culture, the effort to train people and build skills remains a demanding one.

Managing expectations about revenue flows and material benefits for Bintuni and Papua more generally remains a difficult task. There is a continuing need to demonstrate through actions and words that BP does not intend its presence to be simply a source of windfall revenues and short term material gains, but a force for long-term, sustainable development through capacity building - for example by enabling local people to acquire new skills, build enterprises, access better education and experience improved health. At the same time a certain level of tangible benefits can be expected in Bintuni Bay. These will be additional to extra funding that is now being provided to West Papua by central government. However, here again, capacity is key as local government in the area is still acquiring the planning and budgeting capabilities to use these funds efficiently. We therefore need to constantly put over the message that genuine progress requires both finance and capability, with the latter being central to ongoing growth and development.

However, success for the Tangguh project is not measured by avoiding problems – as they are inevitable - but by learning from experience and finding ways to resolve issues as satisfactorily as possible.

We agree with TIAP that Tangguh can continue to deliver significant benefits to Papuans but that BP must remain vigilant, flexible, and patient in order for such an outcome to take place.

These are qualities that TIAP's guidance has helped to embed in the Project and its staff. We are grateful for the Panel's invaluable insight, criticism, and wisdom. BP, the Tangguh Project and the Bintuni Community have all benefited from the Panel's capacity to guide, challenge, and push us forward in our commitments.

## **RESPONSES TO SPECIFIC TIAP RECOMMENDATIONS**

### **Security and Human Rights**

**1. TIAP recommendation:** *BP should participate to the fullest extent possible to encourage continued GOI support for Integrated Community Based Security (“ICBS”) in any review by the GOI of security at Tangguh, by the National Defense Institute (“LEMHANAS”) or any other agency.*

**BP response:** We agree. Although we know of no current plans for such a review, we remain on standby to assist the government or LEMHANAS should one be carried out. BP Security has frequent discussions with the agencies responsible for national protection of key assets. These include the Ministry of Politics, Law and Security, the Ministry of Energy and Mineral Resources and BPMigas. ICBS has become a model program as a result of its systematic approach to human rights and its establishment of principles that have won support from police and military, amid ongoing dialogue. The government’s positive stance towards the ICBS has been shown in its encouragement of other oil/gas operations to adopt the same approach.

**2. TIAP recommendation:** *BP should work closely with the Bupati (Regent) and Papuan security officials on all arrangements related to any visit to Tangguh by any GOI officials or other dignitaries.*

**BP response:** We agree. We appreciate that such visits can arouse concerns and we plan to achieve closer coordination with local officials on future visits.

**3. TIAP recommendation:** *BP should be vigilant to underlying religious tensions and be careful to take no action that could be interpreted as favoring one religion over another.*

**BP response:** We understand the Panel’s concern and agree with the recommendation. We also note that, to date, there have been no significant religious tensions in the Bintuni area. However, we will continue to carefully monitor the situation as part of a broader plan to monitor issues of potential conflict in the area.

**4. TIAP recommendation:** *In light of the new threats that Tangguh could face as an operating LNG plant, BP should review the ICBS program, in parallel with its review of the entire ISP, to determine if any changes are appropriate. This security review should involve consultation with senior BP Group security personnel or outside experts who are experienced with security at locations that are remote and difficult to access. The review should consider remote contingencies such as*

***piracy against an LNG tanker or a terrorist attack against the LNG facility.***

**BP response:** We agree with this recommendation and have undertaken an internal review of the ICBS program in advance of the transition to operations and the first shipment of gas. The review has been carried out by a team including representatives of BP regional management and Group security from London. Its aims have included ensuring that the system is capable of responding to any security incident and those roles and responsibilities are clear. The review included a 'health check', undertaken by evaluating the Tangguh system against the Voluntary Principles for Security and Human Rights which were developed by energy companies working alongside governments and NGOs. The review found that the ICBS was 'robust'. However it made some recommendations for improvements, for example, to review and test the procedure for responding to human rights complaints, which has not needed to be used since being developed in 2005. The review also included desktop simulations of incidents under the Incident Management Team (IMT) rubric of possible security eventualities.

**5. TIAP recommendation: *BP should continue to encourage all security personnel involved with protection of Tangguh, including TNI personnel, to take human rights training.***

**BP response:** We agree. We do encourage all relevant security personnel to take part in our human rights programs and TNI representatives have participated in this training. In this context it is important to stress that our primary external security relationship is with the police and their representatives have been involved in training and exercises. Indeed, the police have cascaded the human rights training within the force and throughout the Bird's Head. However the army also has a potential role. We therefore talk to TNI personnel on a regular basis and they remain supportive of the ICBS. The ICBS has been successful in establishing alignment with the police/military on human rights, but this is an area that must continue to be monitored and encouraged diligently.

**6. TIAP recommendation: *BP should coordinate more closely with the TNI, and encourage the TNI to participate in the joint annual training exercise under the Field Guidelines for Security ("JUKLAP"). The annual training exercise should be expanded to simulate possible emergency security situations at the facility.***

**BP response:** The TNI was involved in the last Joint Exercise Program. The Company Commander for Bintuni participated in the Table Top Exercise and The Deputy Commander of Sorong Military Command attended as an observer. We understand the Panel's view and in the future, we will seek to incorporate possible emergency security situations in the exercises.

## Programs for Directly Affected Villages

### LARAP

**7. TIAP recommendation:** *The formal ending of the LARAP must not end the ongoing commitment to diversified economic growth in the RAVs. Throughout the operations phase, BP periodically should conduct and publish surveys measuring economic and social changes in these villages.*

**BP response:** We agree. Economic assistance to the RAVs will not stop with the administrative ending of LARAP. Assistance to the RAVs will be incorporated into the broader, ongoing ISP and we agree to conduct and publish surveys periodically. In keeping with the overall trend of the ISP, as the work with RAVs develops, it will more strongly emphasize longer-term sustainability. Key objectives will be to enable villagers to build sustainable income generation opportunities for the future, moving up the value chain from fishing and farming into semi-processing and becoming more assimilated into the Bintuni Bay economy.

**8. TIAP recommendation:** *If Tangguh is to be a world-class model for development, the buildings and facilities constructed in the RAVs must remain in good condition. BP should remain attentive to the condition of the facilities it has constructed in the RAVs, and work with the local government throughout operations to help ensure that these public buildings and facilities are well maintained and operational.*

**BP response:** We agree. We plan to work with both the community and the government to strengthen their capability to maintain the RAV buildings and facilities. For the community, we plan intensified training in operating and maintaining equipment such as generators, water plant and septic tanks. At local government level, we plan to analyze the overall Regency plan and budget for infrastructure maintenance, with special focus on the RAVs. If needed, we may provide technical assistance under our governance program to improve local capability to manage specific elements of infrastructure.

**9. TIAP recommendation:** *In order to expand upon the success of the RAV Cooperative landscaping contract, BP should consider allowing the Cooperative to plant and harvest indigenous fruit trees as part of the villagers' landscaping and re-vegetation work.*

**BP response:** We agree, in principle, with planting native species and involving the community wherever possible. However, if the location of the fruit trees is inside the LNG site, we will need to consider carefully the safety implications of encouraging community access to harvest the fruit. We are certainly encouraging the planting of fruit trees as part of the livelihood program with a plan for eventual supply for Tangguh catering needs. We will

explore possibilities of linking the indigenous fruit trees with the landscaping and re-vegetation effort, bearing in mind the safety concerns mentioned.

### **Manggosa Pathway**

**10. TIAP recommendation:** *BP should finish the Manggosa pathway promptly. To discourage violations of the marine exclusion zone, it should continue to socialize the risks of such violations and work with the marine police to seek more effective enforcement. If these efforts are not successful, BP should look to possible physical modifications that would make the transgressions more difficult, or even to the possibility of encouraging the use of some motorized transport service on the Manggosa pathway to promote its use. BP should also seek to identify the violators and work with RAV leaders to discourage this behavior.*

**BP response:** We agree with this recommendation. Construction of the Manggosa pathway is underway and completion is scheduled by the end of 2009. Meanwhile, we will continue to explain the risks of violating the exclusion zone. We already engage marine police to help patrol the zone and will continue to do so. Since involving the marine police, we have seen a reduction in violations and we will now assess whether violations continue once the pathway is completed. Should transgressions continue, we will certainly look into alternative solutions. We would work closely with community, local government, and security authorities in investigating such solutions.

### **Sustainable fisheries**

**11. TIAP recommendation:** *Because of the importance of the fish stocks in Bintuni Bay, BP should conduct a third survey after operations begin to assess the impact of Tangguh operations on fishing. It should also continue to work with the Bupati to develop and implement a strict regulatory regime that limits future externally-based trawling operations and consider whether it can support enforcement of such a regime in any way.*

**BP response:** We agree and will conduct a third survey as suggested immediately after operations begin. As with the previous surveys, results will be shared with the Bintuni regional government. We will also incorporate technical assistance to the Bintuni Department of Fisheries into our governance program. The purpose of this will be to enhance the department's capability to manage its fisheries resources as well as to encourage the government to develop, implement and enforce applicable regulation to control the trawling operations in Bintuni Bay.

## **Microenterprise and livelihood development**

**12. TIAP recommendation:** *In order to sustain the vocational training center at Aranday and ensure its success, BP should encourage the Bupati to agree to a phased plan to take responsibility for the facility and its operations.*

**BP response:** We agree. This is in line with our approach to sustainable development. We are in the process of developing a Memorandum of Understanding with the Bintuni government, outlining a phased plan for operational handover.

**13. TIAP recommendation:** *The Bintuni Bay Development Foundation, which is finally operational, must continue to develop infrastructure on the north shore. BP should support the Bupati and the Foundation to ensure its long-term success.*

**BP response:** We agree. We are committed to the success of the Bintuni Bay Development Foundation. It has now started work with activities including the building of teachers' houses and libraries.

## **Integrated Social Programs**

**14. TIAP recommendation:** *As part of the internal review of the ISP that is currently underway, BP should determine what modifications are needed to fit the changed conditions of an operating environment, rather than a construction site.*

**BP response:** We agree. This is the top priority for the ISP in 2009. Our review of the ISP has been very much focused on the needs of the operations phase and how these contrast with those of the construction period. Program planning and design is now being geared toward a 30-year operational time horizon. One change that has already been agreed is the consolidation of 14 ISP units into five areas: health; education; livelihood; governance; and community relations. Several specific programs will be absorbed into the mainstream divisions of the company, reflecting the fact that they are becoming part of BP's daily activity as opposed to a special or unusual feature of our work. For example oversight of the Bird's Head Business Empowerment Program which helps local businesses acquire the skills and know-how to become suppliers is being integrated into our procurement and supply chain management function. The ICBS will be managed as part of BP's overall security function. Throughout the ISP much greater emphasis is being put on the structures that will sustain progress as opposed to temporary improvements. In particular, we are looking to promote local economic development and facilitate the strengthening of local government.

## Governance

**15. TIAP recommendation:** *BP must maintain a sustained, long-term effort to increase capacities of government and civil society at the village, kabupaten, and provincial levels.*

**BP response:** We agree with this recommendation. It is directly in line with our overall approach and our record thus far. Our governance program has already provided training through specialist organizations to increase the capacity of the district and sub-district officials in planning, budgeting, administration, organizational development, legal drafting, demographic tracking, and computer skills.

The effort to build capacity will not only continue, but will be intensified. We will address governance needs through two simultaneous work-streams – at the management framework level and the technical level. The framework-level work-stream will help local government personnel to develop generic systems and processes such as budget management, planning, organizational development and data analysis. The technical-level work-stream will mobilize the ISP's sectoral programs in livelihood, health and education to provide technical assistance to the respective government agencies.

We also plan to continue to provide civil society groups with more focused training in areas such as management and finance, encourage them to engage in informed dialogue with local government agencies or authorities.

**16. TIAP recommendation:** *Given the importance of capacity building at the kabupaten level, BP should reinstate its governance support for the Regency government, including, at the earliest possible time, its legislative council (“DPRD”) and its civil society.*

**BP response:** We agree. As the previous answer shows, we have well-advanced plans for this work although we have adapted it to prioritize the need for sustainable progress. We plan to begin the new program of work in the 2<sup>nd</sup> quarter of 2009.

**17. TIAP recommendation:** *BP should continue to sponsor programs or other activities with the anti-corruption agency (“KPK”) that encourage transparency and ethical and competent governance.*

**BP response:** We agree and we concur with the panel's view on the effectiveness of this intervention. We will continue to support such activities. We are pleased that TIAP has confirmed in its discussions with the Minister of Finance and others that the GOI is increasing transparency over revenues and fiscal transfers, and that it has begun the process of application to the Extractive Industries Transparency Initiative. We very much welcome this development.

## Education

**18. TIAP recommendation:** *The building of the education culture, capacity, and infrastructure of Bintuni Bay will take considerable time. Thus, in order to accomplish lasting results, BP must continue its sustained effort in primary and secondary education, with its focus at the kabupaten level. It must maintain flexibility, assessing and re-evaluating the specifics of the program every few years.*

**BP response:** We agree that the building of educational capacity in Bintuni Bay is a long-term enterprise. The challenges to developing a sound educational system in Bintuni remain significant - logistically, bureaucratically, and culturally. Given the nature of the needs, with low levels of achievement at primary level, our main focus will continue to be on strengthening basic education, with an increasing emphasis on assistance at the secondary and tertiary levels as standards rise. Working with the British Council and others, we have prioritized teacher training, curriculum development and administration.

**19. TIAP recommendation:** *BP should increase the number of scholarships for deserving Papuan students, continue this program throughout the period of operations, and include in the program scholarships to quality higher education outside of Papua, particularly those with technical programs. If possible, these should be identified as Tangguh scholarships.*

**BP response:** We agree with this recommendation, particularly as we want to increase the number of Papuans with technical skills. We plan to increase the number of scholarships, encouraging study in technical programs outside Papua where possible. However as the Panel appreciates, we are also aware of the reality that owing to the low levels of basic education, few Papuans can currently qualify for technical courses. This is why we are concentrating much of our effort on basic education in a bid to strengthen the pipeline of qualified Papuans who are capable of going on to take advanced programs outside Papua. In addition to our existing tertiary scholarships, we are also sponsoring Bintuni Bay secondary students to study at the Oil and Gas Vocational School in Cepu, Central Java.

**20. TIAP recommendation:** *In addition to its long-term support for primary and secondary education in Bintuni Bay, BP should support UNIPA at Manokwari through training opportunities, scholarships, and partnering. This support for UNIPA will materially increase technical and educational capacity in the region.*

**BP response:** We agree. We already engage UNIPA in a number of partnerships related to studies and special projects for Tangguh operations and the ISP. Based on latest discussions with UNIPA, BP will be providing educational support for 25 UNIPA students starting mid 2009. We are in the

process of formulating a joint program with the university or third parties to provide short-term training to UNIPA faculty which, as an initial step, is focused on campus management and administration. Assistance to UNIPA in 2008 included sponsorship of faculty to attend a national Fisheries Workshop; and the apprenticeship of 25 UNIPA technical students at the Oil & Gas Training Center in Cepu, Central Java. We recognize UNIPA's potential as a center of educational excellence in the Bird's Head and will continue to intensify our assistance to its students and faculty.

## **Health**

**21. TIAP recommendation:** *While the transition of its health care programs to local actors is ultimately necessary, BP must continue to play an active monitoring and advisory role to ensure that gains made in the DAVs are not lost and the new sponsoring organizations receive the benefit of the Tangguh Community Health Unit's ("TCHU") experience and expertise.*

**BP response:** We agree. Events have demonstrated the need to sustain advances made in this area. Therefore although we have "localized" the health program to a local NGO, BP will remain integrally associated with its planning, implementation and monitoring.

**22. TIAP recommendation:** *As BP expands its health programs to the greater Bintuni Bay area and devolves responsibility to a local foundation, its primary focus must remain in the DAVs, where the gains already achieved must be sustained. Accordingly, BP should review the reasons for the increase in child diarrhea fatalities in 2008 and take steps to restore these earlier gains and continue improvement thereafter.*

**BP response:** We agree that our primary focus should remain within the DAVs. Any non-DAV assistance will be limited, fully considered and preferably led by the local government. We also agree that the diarrhea fatalities of 2008 require a closer review. On a broad level, this outbreak clearly demonstrated the need to sustain improvements that have been made as programs evolve to be led by local organizations.

**23. TIAP recommendation:** *BP should take the lead on establishing the Indonesian Business Coalition on AIDS' ("IBCA") Papua chapter. Once the chapter has been established, BP should ensure that the Coalition provides sufficient resources to Papua. If necessary, BP should supplement those resources.*

**BP response:** We understand and share the Panel's concern on this issue. BP is currently working with Freeport under the IBCA 'umbrella' to examine the feasibility of establishing a Papua Chapter of IBCA. Progress on this initiative will be highly dependent on the interest and support of BP Tangguh

and Freeport's business networks, and whether a 'critical mass' of membership can be achieved.

### **Livelihood and Procurement**

**24. TIAP recommendation:** *Sustainable development programs are more critical going forward in light of the limited job opportunities in operations. Because large gains will take time, BP must maintain a sustained, flexible effort for the long term.*

**BP response:** We agree with this recommendation. It relates to the central objectives of our ISP livelihood unit which is to ensure economic security and self-sufficiency for households in local villages. Activities implemented to date include: use of improved agricultural techniques, microenterprise training, providing fishing equipment such as nets and outboard motors, and support for semi-processing such as salting and drying fish. Results have been varied due to difficulties with markets, limited infrastructure, and program design issues. Learning from experience thus far, a shift is now underway to a more targeted forward strategy. This starts at the household level; ensuring households have food security, nutrition and supplementary income, and progresses to accessing external markets - the local market, the Tangguh project and wider external markets. Enterprises can then progress to seek additional financing and expansion. We are continuing to promote activity in agriculture, fishing and fish semi-processing, with the aim that each village should specialize in one or two products and develop clearly defined markets. In helping villagers develop these businesses, our aims include enabling them to achieve high quality and profitability in areas that can be replicated in other settings. The goal is to increase responsible investment in the Bintuni area, with local government providing a policy framework that is conducive for sustainable economic growth.

**25. TIAP recommendation:** *BP should continue the Bird's Head Business Empowerment Program ("BHBEP"), designed to encourage a more advanced and diversified private sector economy in the region, for the long term.*

**BP response:** We agree and we intend to continue the BHBEP in order to help local companies become BP suppliers and develop their capabilities. In line with the move to operations the program will be managed from within the BP procurement and supply chain management function. As well as enabling companies to bid for work in the short-term, our focus now is on helping local businesses lay the foundations to develop over the next 20-30 years, typically moving up the value chain by developing new skills and processes and accessing new markets.

**26. TIAP recommendation:** *Wherever possible, BP should include local procurement requirements in contractor contracts and ensure that these contractors fulfill their local procurement obligations. Enforcement should either be assigned to the Papua Employment Steering Committee or to a parallel committee that is established for procurement. Despite what will certainly be uneven results, BP should persist with these efforts for the full duration of the ISP.*

**BP response:** We agree. Such requirements are already being introduced and monitored closely. For example, we have recently agreed to purchase specific materials exclusively from Papua. Such agreements can only be realized if local businesses have the requisite capabilities and, thus, in the past four years, we have provided procurement related training and mentoring to over 300 local businesses. Recently we have agreed to purchase specific materials exclusively from Papua. We are now targeting 40-60 high-potential local companies for mentoring and continue to promote local business empowerment through on-the-job training, mentoring, and contracts with prime contractors. We will continue this work with local businesses, while recognizing that local business empowerment is a long-term process. It is important to add that local suppliers need to meet BP's standards in areas such as health and safety as well as the quality of their products. Assisting suppliers to reach such standards as well as to understand processes such as tendering is a central objective of the BHBEF.

### **Community Relations**

**27. TIAP recommendation:** *To help manage expectations, BP should continue to discuss with kabupaten and provincial leaders and with local people regarding the content and pace of revenues and benefits throughout the operations phase.*

**BP response:** We will follow this recommendation. Indeed, we have workshops dedicated to this purpose scheduled for 2009. Expectations regarding revenues and benefits need to be carefully managed both now and in the future as the situation is complex and needs to be made clear to the local communities. Residents need to be aware that the project will not deliver vast windfall benefits, but at the same time it is important that they do see some tangible results from the increase in funding that has already taken place, not yet as a result of the Project, but because of a boost in central government funding for the province. This depends on increasing the capacity of local government to deploy funds for the public benefit – and this is why our priorities include strengthening local government capabilities and involving community and NGOs in the government planning and budget process. In the longer term, the benefits for the local community are expected to proceed as much from their own increased capability for self sufficiency and economic growth as from direct revenue flows from the Project. This is why another priority for the ISP is to assist households and businesses in the DAVs to create sustainable livelihoods for themselves. We will also reinforce

discussion of these topics through our governance program, media briefings and project stakeholder meetings.

**28. TIAP recommendation:** *BP should annually compile and publish a summary of grievances filed by the community and BP's responses and the results in addressing local villagers' concerns.*

**BP response:** We agree to compile and transparently share a summary of grievances and corresponding responses on an annual basis.

**29. TIAP recommendation:** *Throughout the duration of the Community Action Plans ("CAPs"), BP should support the village decision-making processes to ensure that the CAP funding is fully utilized for the benefits of indigenous residents.*

**BP response:** We agree. We support village-based disbursement of revenues. Our efforts are focused on working with the community to sharpen their planning processes in order to use the funds in a way that is beneficial on a sustainable basis. In some cases, such as the provision of infrastructure such as electricity, this requires agreement with local government departments and while we seek to maintain momentum, the need for consultation with all relevant parties can affect the pace at which progress is made.

**30. TIAP recommendation:** *BP should work to strengthen civil society in the Bintuni Bay region and, as one means of engagement with NGOs and other local parties, sponsor an annual Papua stakeholder meeting.*

**BP response:** We agree with the need to build capacity among civil society organizations and we are acting to do so as set out earlier in this response – including holding annual stakeholder meetings, as recommended.

**31. TIAP recommendation:** *BP should continue its efforts to enhance the capacity of, and opportunities available to, women; for example, by ensuring that girls receive 50% of scholarships as required by the ISP.*

**BP response:** We agree and will continue with our efforts designed to empower women and enable girls to fulfil their potential through access to education and opportunity. Indeed we have already seen many women take leading roles in the development of enterprises, demonstrating their potential as entrepreneurs and leaders. We fully agree with the aim of ensuring that 50% of scholarships are received by girls and will work purposefully towards that outcome in a staged and appropriate manner. The challenge in the shorter-term is to provide sufficient numbers of girls with the prior education to benefit from these opportunities and we are actively working to help more girls

become part of the scholarship 'pipeline' as part of our program to enhance basic education.

### **Public Information**

**32. TIAP recommendation:** *BP needs to maintain an active communications program throughout operations. It is particularly important to continue an active engagement with, and training of, Papuan media in order to ensure accurate coverage of Tangguh accomplishments and avoid misconceptions and untruths.*

**BP response:** We agree. We have an active communications strategy and program. We will continue to facilitate training for local journalists, engage with reporters and broadcasters and sponsor media visits to site.

**33. TIAP recommendation:** *BP should continue throughout operations the several useful outlets it has established for information dissemination and communication in Bintuni Bay.*

**BP response:** We agree and intend to continue the use of local radio, newspapers and information boards to disseminate information to the Bintuni Bay area.

**34. TIAP recommendation:** *BP should use the early period of operations to focus public attention on the financial, energy, and social benefits of Tangguh to Indonesia through its communications activities. For the long term, BP should continue its engagement with national and international media in Jakarta, have regular briefings, and, to the extent possible, share information on programs and revenue transfers.*

**BP response:** We agree and we intend to communicate the benefits of Tangguh clearly and confidently to the international, national and local media. While being careful not to exaggerate what has been achieved, we can assure the Panel that we will robustly showcase the operations as a major effort to demonstrate how business can act to promote sustainable development through building capacity in a remote community.

### **Environment**

**35. TIAP recommendation:** *BP should monitor and supervise the remediation or other clean up activities that may be needed to address compliance violations related to solid waste disposal at the LNG site to ensure that compliance is achieved at the earliest possible time.*

**BP response:** We agree. The current non compliance issues related to the organic waste pit and improvement of the inert solid waste landfill are being addressed by the contractor KJP. BP will continue to monitor KJP's plans, both short and long term, as well as its execution of remediation and other

clean up activities. A close out report will be prepared on this prior to KJP's demobilization from the Tangguh site.

In terms of addressing the organic waste pit issue, in the short-term, the pit's leachate collection ponds are regularly being pumped out and sent to the Sewage Treatment Plan for treatment. Regular woodchip cover is provided to prevent the accumulation of rain water on the waste pit area. The longer term plan is to develop a new organic waste pit with an improved design. KJP's detailed plan for the organic waste pit and its management will be reviewed and approved by BP prior to construction. A soil permeability study has been undertaken and the result will be used in completing the landfill design.

In terms of the inert waste landfill, the design will be improved to meet the AMDAL and regulatory requirements.

**36. TIAP recommendation:** *Although not related to Tangguh, BP should conduct regular monitoring and sampling of heavy metal levels in water and sediment samples from Bintuni Bay, and report all results to the Ministry of Environment and, to the extent possible, to the public.*

**BP response:** Regular marine and sediment monitoring including heavy metal parameters will be continued as part of Tangguh's regular AMDAL (RPL) monitoring programs. The monitoring result will be reported to the MOE and other GOI institutions as part of the AMDAL six-monthly reporting

**37. TIAP recommendation:** *BP should continue to work with the GOI on carbon capture and storage regulations and encourage the approval of a technical feasibility study for carbon dioxide ("CO<sub>2</sub>") re-injection at the earliest possible time.*

**BP response:** We agree and we are proceeding in line with this recommendation. Tangguh is monitoring the development of a national policy and regulations for CO<sub>2</sub> injection as well as the development of a Clean Development Mechanism project for CO<sub>2</sub> injection. As required by the AMDAL, Tangguh completed a desktop feasibility study in 2003 for various CO<sub>2</sub> management options, including CO<sub>2</sub> reinjection. Results indicate that CO<sub>2</sub> reinjection is technically feasible. However, a field assessment to confirm the desktop study, including development of monitoring wells, 3D seismic and appraisal well, has not been approved by the GOI. BP will re-propose the CO<sub>2</sub> reinjection field assessment for the GOI's approval in the next phase of Tangguh's development.

**38. TIAP recommendation:** *Throughout operations, BP should regularly review its environmental procedures and seek improvement in its monitoring and controls to ensure that it is following best practices. It should also maintain a transparent, open, and inclusive process in its environmental compliance and reporting.*

**BP response:** We agree and we intend to continue to follow such a process of review and continuous improvement. The pattern has already been established, for example in 2008 by the development of environmental standards operating procedures and the setting of a target to achieve ISO 14001 accreditation by the end of the first year of operations.

**39. TIAP recommendation:** *The Biodiversity Action Plan was placed on hold as the Project transitions to operations. Because BP's support of this Plan is vital to its many environmental partners, and the important gains already achieved could be lost if a lengthy hiatus ensues, BP should reactivate it as quickly as possible.*

**BP response:** We understand and agree with the Panel's view. We plan to reactivate the biodiversity plan during the operations phase.

### **Principal Issues for the Future**

#### **Tensions between North and South Shore Villagers**

**40. BP recommendation:** *BP should actively work with the Bupati and with the GOI in an effort to expedite payments by the GOI that would help resolve traditional ("adat") claims by north shore villagers.*

**BP response:** We agree that there is a need to improve infrastructure and services among North Shore villages as part of the sustainable development of the region. We also recognize the strength of feeling related to the adat claims. As a general principle, while Tangguh is committed to respecting Adat rights and strengthening Adat institutions, we believe that Adat issues are the domain of the government. We are working with both the central and local government to find a workable and auditable solution that meets the development needs of the villages. We are reassured by the Panel's observation that opposition to the Project from residents on the north shore of Bintuni Bay has eased to a degree, along with tensions between north and south shore villagers. Much work has been put in to bring appropriate benefits and infrastructure to the north shore, and while concerns remain and we are far from complacent, it is gratifying to see this external endorsement that progress has been made.

#### **In-migration**

**41. TIAP recommendation:** *In order to discourage further in-migration, BP should continue its practice for the operating phase of only hiring at its offsite recruitment centers. Additionally, BP should not hire any employees at DAVs, or count toward its AMDAL obligations to hire qualified DAV residents anyone other than persons from those families*

***originally-registered in the 2002 DAV census. This practice should also be required of its contractors.***

**BP response:** We agree. This is in line with our approach throughout the Project. In-migration has swelled the populations of several DAVS although arguably the problem would have been greater had BP not implemented measures such as hiring in offsite centers. We will continue that hiring practice as recommended during the operations phase. Our support for local government is also instrumental in encouraging the drafting and implementation of regulations relating to issues raised by in-migration, such as crime, liquor dealing and trade rivalries.

**42. TIAP recommendation:** ***Throughout the term of the ISP, BP should regularly monitor its programs to ensure that the use of the CAP funding, and the other ISP initiatives, continue to benefit the original members of the community and support them economically.***

**BP response:** We agree. The current focus for the CAPs is to encourage more participation by the community and local government in the choice of initiatives to be supported. However, the Panel's recommendation is a timely reminder that we also need to ensure that original community members are prime beneficiaries of the process.

### **Safety**

**43. TIAP recommendation:** ***Safety must always remain a top priority. BP must maintain a continuing vigilance to safety procedures, training, and discipline for violations throughout the life of the Project.***

**BP response:** We agree. Safety is and will remain BP's top priority. Training and resources have been stepped up over the last year, prompted by the tragic fatality in 2008 and we will strive to improve our record in the operations phase going forward.

### **Papuan human resource development**

**44. TIAP recommendation:** ***One of the most important of BP's AMDAL obligations is that Tangguh be run almost entirely by Papuans within 20 years. To ensure full compliance with that commitment, BP management should conduct annual reviews to determine what, if any, additional actions are needed to guarantee compliance with AMDAL employment targets. To focus management on attaining this goal, annual performance reviews of BP managers should include incentives or penalties for meeting or failing to meet these targets.***

**BP response:** We agree and are taking action to fulfill this objective. We have made some early progress with our operators training program in which

54 Papuans have trained as technicians, fulfilling the Papuan employment targets during construction with more than 30% of 10,000 workers as Papuan hires. Our main contractor, KJP has run programs to enable DAV workers to gain skills. These short-term interventions mean we will meet our 2009 and 2011 targets of 33% and 42% of the workforce being Papuan. However, mid and long-term targets will be challenging and a comprehensive, long-term plan is being developed, by the Papuan Development Steering Committee. We have added additional staff resources to the Committee to support traction of annual decisions and actions toward meeting the post-2011 Papuan Development targets. In addition, the annual performance objectives of key BP personnel include specific and measurable actions related to Papuan employment and management.

### **Employment and demobilization**

**45. TIAP recommendation:** *BP should continue to provide as many jobs as possible in operations or through its contractors for demobilized workers. Support should also be provided to these workers through other livelihood development programs.*

**BP response:** We agree, although we are conscious of the need to avoid raising unrealistic expectations. We are addressing this issue through several means including training and redeploying high performers to positions with contractors, tracking demobilized workers in their villages for livelihood program assistance and providing short-term employment with some of the Community Action Plans' infrastructure development efforts. Some demobilized workers can be trained at the Aranday vocational center and others should be able to participate in household based businesses that are being encouraged through the livelihood unit of the ISP.

**46. TIAP recommendation:** *BP should provide management support for the Papuan Commitment Steering Committee's work to ensure that all Papuan and local employment targets for the operating phase are met. BP should issue a public report annually on Papuan employment in the Project.*

**BP response:** We agree, and are intensifying management support to the Committee. We also agree to transparently share the number of Papuan employees engaged by Tangguh on an annual basis.

### **Public Information**

**47. TIAP recommendation:** *BP should develop a robust public information program that incorporates both printed and electronic media and expands upon the media outlets, particularly the radio, currently used by the Project. This program should be targeted toward the various governmental and non-governmental stakeholders in Bintuni*

***Bay and Papua and should emphasize the Project's contributions to the development of the Bintuni Bay region, West Papua, and Indonesia.***

**BP response:** We agree and will strive to make our public information activities more effective and data-rich. This remains subject to the caveat referred to above whereby we wish to present a realistic picture of the benefits that are accruing from the project and ensure that we do not raise distorted or premature expectations.