

TANGGUH INDEPENDENT ADVISORY PANEL

**SEVENTH REPORT
ON THE
TANGGUH LNG PROJECT**

and

**OVERVIEW OF PANEL'S EXPERIENCE
(2002 – 2009)**

MARCH 2009

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ACRONYMS AND INDONESIAN TERMS

<i>adat</i>	Local and traditional customs, laws, and dispute resolution systems used in many parts of Indonesia
ADB	Asian Development Bank
AMDAL	<i>Analisis Mengenai Dampak Lingkungan</i> – Integrated Environmental and Social Impact Assessment
ASP	<i>Anak Sehat Papua</i> or Papuan Children’s Health Fund – Indonesian health NGO
BHBEP	Bird’s Head Business Empowerment Program
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
BRI	<i>Bank Rakyat Indonesia</i> – Indonesian bank specializing in microfinance
Brimob	Mobile Indonesian police brigade
<i>Bupati</i>	The head of a <i>kabupaten</i> , or Regency
CAP	Community Action Plan – the support program approach to facilitating community-driven development projects in Directly Affected Villages
CDM	Clean Development Mechanism – a provision of the Kyoto Protocol that allows countries to earn saleable certified emission reduction credits for emission-reduction projects in developing countries; these credits can be counted towards meeting Kyoto targets
CLGI/YIPD	Center for Local Government Innovation
CO ₂	Carbon dioxide
ComRel	Community relations
ComDev	Community development
CTRC	Conservation and Training Resource Center
DAK	Specific grant under regional autonomy for education, health, water, and road infrastructure, fisheries, agriculture, local government infrastructure, and the environment
DAU	<i>Dana Alokasi Umum</i> – General purpose grant from the Government of Indonesia to the provinces under regional autonomy

DAV	Directly affected village as originally identified by the Tangguh Project
DCRI	Drill Cuttings Re-Injection
<i>Dewan Pendidikan</i>	Education Council
DGS	Diversified Growth Strategy
DPR	<i>Dewan Perwakilan Rakyat</i> – the Indonesian legislature
DPRD	<i>Dewan Perwakilan Rakyat Daerah</i> – local parliamentary body
EITI	Extractive Industries Transparency Initiative
EMS	Environmental Management System
GDP	Gross domestic product
GOI	Government of Indonesia
HSE	Health, safety, and environment
IBCA	Indonesian Business Coalition on AIDS
ICBS	Integrated Community Based Security Program
ICG	International Crisis Group
IFC	International Finance Corporation
IPB	<i>Institut Pertanian Bogor</i> , or Bogor Institute of Agriculture
IPWP	International Parliamentarians for West Papua – a separatist organization
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
<i>kota</i>	City

KPK	<i>Komisi Pemberantasan Korupsi</i> , or Corruption Eradication Commission – Indonesian anti-corruption agency
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
LGSP	Local Government Support Program – an activity of USAID Indonesia
LNG	Liquefied Natural Gas
MOE	Ministry of the Environment
MOF	Ministry of Finance
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 Cooperation and Development
OPM	<i>Organisasi Papua Merdeka</i> , or Free Papua Movement – a separatist organization
Pangdam	Papua Regional TNI Command
PBM	Participatory planning and evaluation
PERT	Training course offered by SatuNama in Household Economic Management
POLDA	Indonesian regional police command
PSC	Production sharing contract
PSCM	Procurement and Supply Chain Management – BP’s procurement team
RAV	Resettlement Affected Village as originally identified by the Tangguh Project – Tanah Merah Baru, Saengga, and Onar
SBY	Indonesian President Susilo Bambang Yudhoyono
SOP	Standard Operating Procedure
TCHU	Tangguh Community Health Unit
TIAP	Tangguh Independent Advisory Panel
TNI	<i>Tentara Nasional Indonesia</i> – Indonesian armed forces

UNCEN	University of Cenderawasih
UNIPA	The University of Papua
USAID	United States Agency for International Development
USTJ	Science & Technology University of Jayapura
<i>yayasan</i>	Foundation
YPK	A Christian education foundation
YPPK	An educational foundation affiliated with the Catholic Church

I. Introduction

The Tangguh Independent Advisory Panel (“TIAP”) was established by BP in early 2002 to provide external advice to senior decision-makers regarding non-commercial aspects of the Tangguh LNG Project (“Tangguh” or the “Project”). The Panel is chaired by former U.S. Senator George Mitchell and includes Lord Hannay of Chiswick from the U.K., Ambassador Sabam Siagian from Jakarta, and the Reverend Herman Saud from Jayapura.¹ The Panel is charged with advising BP on how Tangguh can achieve its potential as a world-class model for development, taking into account: the Project’s effects on the local community and the environment; the Project’s impact on political, economic, and social conditions in Indonesia generally and Papua² in particular; and the Panel’s evaluation of Indonesia and Papua “country risk.”

This is the Panel’s seventh and final report. All previous reports are available, together with BP’s responses, from the Panel or on BP’s website.³ In December 2008, the Panel took its final trip to Indonesia, visiting the LNG site, the towns of Babo and Bintuni, and the cities of Jayapura, Manokwari, and Jakarta. The Panel again met with a wide variety of Indonesians, including leaders of the Directly Affected Villages (“DAVs”) and towns and villages on the north and south shores of Bintuni Bay; officials from the Regency (“*kabupaten*”) of Bintuni Bay; government leaders and NGOs in Jayapura and Manokwari; Ministers and other government officials and NGOs in Jakarta; officials from the University of Papua at Manokwari (“UNIPA”);

¹ Senator Mitchell, who participated in the preparation of this report, resigned from the Panel following his appointment as U.S. Special Envoy for Middle East Peace.

² The exact meaning of the names Papua and West Papua have changed over the years. For the purposes of this report, the term “Papua” refers to the region encompassing both Papua province and Papua Barat (“West Papua”) province. The term “Papua province” refers to the province of Papua following its split with Papua Barat province. The term “Papua Barat” or “West Papua” refers to province of Papua Barat (previously known as Irian Jaya Barat) following its establishment in 2004. Maps of Papua showing key locations related to Tangguh are included as Appendix 1.

³ BP’s website is www.bp.com/indonesia. Communications directly with the Panel can be made by e-mail to tiap@tangguh.net.

the U.S. and U.K. Ambassadors to Indonesia; representatives of donor agencies, including the World Bank and the United States Agency for International Development (“USAID”); the Asian Development Bank (“ADB”); and BP’s prime contractors on the Project (“KJP”).⁴ The Panel utilized independent legal counsel, and was given complete access to all information it requested and total independence in its inquiries and findings. The conclusions and recommendations in this report are those of the Panel alone.

The Panel considers BP’s activities in relation to the most respected current global norms that establish best practices for projects in developing countries. These include the Universal Declaration of Human Rights; the U.N. Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights; the Organization for Economic Cooperation and Development (“OECD”) Guidelines for Multinational Enterprises; the International Labor Organization Convention Concerning Indigenous and Tribal Peoples in Independent Countries; the World Bank Operational Directive with respect to indigenous peoples; the U.S.-U.K. Voluntary Principles on Security and Human Rights (the “Voluntary Principles”); and the International Organization for Standardization (“ISO”) environmental standards.

The Panel does not audit BP’s compliance with Indonesian and local law, but each year has reviewed BP’s obligations under the AMDAL (which governs BP’s social and environmental obligations), the Integrated Social Program (“ISP”), and the Land Acquisition and Resettlement Action Plan (“LARAP”).⁵

⁴ A list of all individuals and entities consulted by the Panel during the past year and over the period of its work since 2002 is included at Appendix 2.

⁵ BP’s LARAP, AMDAL, and ISP obligations are also reviewed by the External Lenders’ Panel (“Lenders’ Panel”). The Lenders’ Panel ISP and resettlement reviews take place biannually until 2009; the environmental monitoring will take place annually for the duration of the loan period (15 years) to ensure compliance with the requirements of the Asian Development Bank and the Japan Bank for International Cooperation.

II. Current Observations (2008 – 2009)

This was the Panel's seventh visit to Papua and Bintuni Bay. Because this is the Panel's last report, it also contains a comprehensive retrospective overview that provides greater perspective on the changes that have taken place since 2002 in both Papua and in the Bintuni Bay region as well as a review of the key long-term issues BP is most likely to face in the period ahead. These discussions appear after the 2009 report in sections X and XI below.

The LNG facility is nearing completion and will be operational in the second quarter of 2009. The facility's storage tanks and liquefaction towers rise 130 feet and are clearly visible from many portions of the Bay. However, the onshore portion of the facility remains surrounded by indigenous forest even within its perimeter, and is not visible from nearby portions in the Bay, other than the nearby Resettlement Affected Villages ("RAVs") of Tanah Merah Baru and Saengga.

Support for the Project is strong among both Papuan and local leaders. Although some complaints exist, 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. Programs in the villages most proximate to the LNG site – the RAVs and DAVs – have delivered improved health care, education, clean water, and economic development for the villagers. Tensions between north and south shore villagers seem to have eased somewhat, as has opposition to the Project from some north shore residents, as better infrastructure and other benefits accrue to the north shore.

Population in the Bintuni Bay region continues to grow from in-migration, particularly in the capital, Bintuni, where the *kabupaten* is constructing an entirely new area for government offices and residences. Thus far, this growth has not created any serious social or economic

problems in Bintuni, although substantial in-migration in the RAVs has produced some tensions between indigenous people and migrants. These tensions are being addressed by local regulation of in-migrant activities. This rate of in-migration attributable to the Project is likely to diminish with the end of construction and its attendant jobs.

Demobilization of the construction workforce is ongoing and will be completed by mid-year. Most Papuan employees have already returned to their homes and most, but not all, non-Papuans have left Papua. Many demobilized employees from the DAVs are being assisted as they return to traditional fishing; some are being trained for employment in the operations phase and others trained at the vocational training center with new skills.

Support for the Project in Jakarta remains strong at senior levels of government. The Government of Indonesia (“GOI”) also has demonstrated a commitment to Special Autonomy for Papua and for greater transparency. However, the security forces and the judicial system sometimes react harshly in response to what they view as separatist activities and symbols of support for an independent Papua. Their actions continue to raise human rights problems. Yet, both the TNI (Indonesian armed forces) and the police in West Papua are receptive to ongoing human rights training and are demonstrating commitment to community based security at Tangguh.

As TIAP completes its assignment, it is optimistic that Tangguh can continue to deliver significant benefits to Papuans, particularly those in the Bintuni Bay area. But in order to accomplish this objective, and to avoid effects that would be disruptive to the social, cultural, environmental, and economic structure of the region, BP must remain vigilant, flexible, and patient for the duration of the operating phase as it implements Tangguh’s social and economic programs.

III. Principal Recommendations

Security and Human Rights

- 1. 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.**
- 2. 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.**
- 3. 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.**
- 4. 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.**
- 5. BP should continue to encourage all security personnel involved with protection of Tangguh, including TNI personnel, to take human rights training.**
- 6. 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.**

Programs for Directly Affected Villages

LARAP

- 7. The formal ending of the LARAP must not conclude 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.**
- 8. 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.**

9. In order to expand upon the success of the RAV Cooperative's landscaping contract, BP should consider allowing the Cooperative to plant and harvest indigenous fruit trees as part of the villagers' landscaping and revegetation work.

Manggosa pathway

10. 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 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.

Sustainable fisheries

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

Microenterprise and livelihood development

12. 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.
13. 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.

Integrated Social Programs

14. 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.

Governance

15. BP must maintain a sustained, long-term effort to increase capacities of government and civil society at the village, *kabupaten*, and provincial levels.
16. 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.

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

Education

18. 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 reevaluating the specifics of the program every few years.
19. 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 institutes of higher education outside of Papua, particularly those with technical programs. If possible, these should be identified as Tangguh scholarships.
20. 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.

Health

21. 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.
22. 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.
23. 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.

Livelihood and procurement

24. 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.

25. 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.
26. 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.

Community relations

27. To help manage expectations, BP should continue to discuss with *kabupaten* and provincial leaders and with local people the content and pace of revenues and benefits throughout the operations phase.
28. BP should annually compile and publish a summary of grievances filed by the community as well as BP's responses and the results in addressing local villagers' concerns.
29. 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.
30. 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.
31. 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.

Public Information

32. 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.
33. BP should continue throughout operations the several useful outlets it has established for information dissemination and communication in Bintuni Bay.
34. 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.

Environment

35. 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.
36. BP should continue the regular baseline monitoring and sampling of seawater and sediment quality in Bintuni Bay. It should report all results in its AMDAL reporting to the Ministry of Environment and, to the extent possible, to the public. This monitoring will include levels of heavy metals which, although not likely related to Tangguh, should be carefully checked.
37. BP should continue to work with the GOI on carbon capture and storage regulations and encourage the approval of a field study for carbon dioxide (“CO₂”) re-injection at the earliest possible time.
38. 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.
39. 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.

Principal Issues for the Future

Tensions between North and South Shore Villagers

40. BP should actively work with the *Bupati* and with the GOI in an effort to expedite assistance by the GOI that would help address traditional (“*adat*”) claims by north shore villagers.

In-migration

41. 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. BP should also require its contractors to adhere to this practice.

42. 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.

Safety

43. 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.

Papuan human resource development

44. 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.

Employment and demobilization

45. 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.
46. 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.

Public Information

47. 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.

IV. Political and Security Developments

A. Political Developments

The political environment in Papua is as stable as at any time since the Panel began. For the first time since 2003, there are no major disputes about division of the province or applicability of Special Autonomy. As promised by President Susilo Bambang Yudhoyono

(“SBY”), the national legislature (“DPR”) in 2008 enacted a law that recognizes West Papua as a province entitled to Special Autonomy on an equal basis to Papua province, and his administration began to implement what he has described as a New Deal for Papua.⁶ Significantly, the Papuan People’s Council (“MRP”) has now endorsed the creation of the province of West Papua, which validates it under the Special Autonomy law. Although there are local political forces seeking to carve out additional provinces, and it cannot be excluded that this will occur (several leaders opined that there would eventually be four provinces in Papua), the SBY administration informed the Panel that it has halted the creation of new provinces in Papua.⁷ These actions by the GOI further stabilize the political situation.

Complaints in Papua about Special Autonomy remain, particularly skepticism regarding the use of the funds, and questions as to why provincial GDP and social indicators remain so low. However, there is little talk among leaders of outright rejection of Special Autonomy, as there was earlier.⁸ In part this is because SBY has made a concerted effort, with his New Deal for Papua, the expansion of Special Autonomy to West Papua, and his visit to Manokwari in January 2009 to deliver earthquake reconstruction funds and inaugurate ten new infrastructure projects,⁹ to demonstrate that Jakarta cares about Papua and is intent on raising its economic level while respecting its unique cultural history.

The Panel met with the Governors of both provinces. Although their priorities differ, the two Governors respect each others’ programs and responsibilities. In a demonstration of their solidarity, the Governors walked out of a national DPR hearing on funding to protest what they

⁶ See the Panel’s Sixth Report (2008), at 15 and Appendix 3.

⁷ SBY recently called for a moratorium on the creation of new provinces in light of a violent protest demanding the establishment of a new province in the southeastern part of North Sumatra province. The head of the North Sumatra DPRD died as a result of the protest. See Sally Piri, *SBY Calls for Halt on New Regions*, THE JAKARTA GLOBE, Feb. 7, 2009.

⁸ The biggest challenge regarding Special Autonomy is now likely to come in 2026, the year when the law officially expires.

⁹ Nethy Dharma Somba, *Billions Pour into Papua*, THE JAKARTA POST, Jan. 23, 2009.

viewed as a disproportionate allocation of infrastructure funds to West Papua. Governor Bram's priorities for West Papua seem more focused on infrastructure, including new or improved roads from Manokwari to Bintuni and Sorong. Governor Suebu, although also interested in improving Papua province's transportation infrastructure, is focused on restructuring spending to limit costs of "administration" and increase local social spending. He continues to implement his Village Strategic Development Program, or "RESPEK," providing about \$10,000 each year to every village in Papua province, a total of Rp. 320 billion.¹⁰

B. Security Issues

The policy of GOI continues to reflect concern about the security threat from separatism in Papua. However, the principal separatist organization, the Free Papua Movement ("OPM"), which claimed to have initiated a number of attacks this past year, has not demonstrated any presence in the Bintuni Bay region. A leading publication suggests that the never-large OPM has weakened further, lacks ammunition, and relies on bows and arrows.¹¹ Nonetheless, the security forces believe that separatists constitute an active threat and have arrested individuals elsewhere in Papua who they claim to be with OPM or who are connected to the London-based International Parliamentarians for West Papua ("IPWP"),¹² a group that was launched in October 2008 and which advocates separatism.

Concerns about the human rights practices of security forces in Papua continued in 2008. In January 2009, Human Rights Watch published its annual World Report which condemned what it saw as a lack of Indonesian human rights progress in 2008.¹³ The report specifically noted that security forces, particularly Brimob (the police mobile brigade), engaged in human

¹⁰ Although the exchange rate between the rupiah and the dollar varies daily, the Panel is utilizing an approximate exchange rate of Rp. 10,000/\$1 in each of the current conversions included in this report.

¹¹ *Flagging Support*, TEMPO, Dec. 29, 2008, at 102-03.

¹² West Papua here refers to all of Irian Jaya.

¹³ HUMAN RIGHTS WATCH, *Human Rights Watch World Report 2009* (Jan. 2009), at 262.

rights abuses in the remote highland regions, and it chronicled numerous incidents in which police arrested, assaulted, and, in at least one case, killed Papuan protestors and activists at rallies. Arrests and harsh prosecutions also continue for those who assert Papuan sovereignty by raising the Papuan Morning Star flag. Judges in Manokwari recently sentenced to at least three years in prison eleven people who raised the Papuan flag, saying that the men posed a threat to the integrity of the Indonesian state in seeking the separation of Papua, and that there had been an increase in separatist activities in the recent past in the whole of Papua which were being organized from abroad. Thus, it appears that these tensions will remain for some time.

Despite the impending start of Tangguh operations, there have been no recent increases in troop deployments or other security force upgrades in the Bintuni Bay region. According to senior officials, there are no plans for any increases in the future. The TNI believes that its company of about 130 troops in Bintuni/Babo is sufficient to handle any security threats. There has been no further movement on the possible construction of a small Navy base in Bintuni Bay.¹⁴ However, the TNI in Papua believes that it lacks mobility, and that a more effective rapid response capability will be needed to deal with security threats at Tangguh because of its remote location. Significantly, there were no requests by the TNI to BP for any use of resources or payments of any kind and no extraordinary requests for any direct payments or reimbursement of costs for police during the year. All ordinary reimbursements for police activities related to Tangguh, most of which relate to training exercises and joint patrol of the marine exclusion zone, are posted on the BP website.

There have been increases in Papua police. Much of the increase involves Papuan recruits, a change specifically adopted under the New Deal for Papua. Recently, 1,500 Papuan recruits completed their training and will become members of the Papuan police force. Plans for

¹⁴ A new Navy base has been opened in Meruake, on the southeast coast of Papua.

a separate police headquarters (“POLDA”) in West Papua still exist, but there is no immediate activity to create it and no timetable.

One year ago, the Panel was informed of LEMHANAS’s intention to conduct an assessment of security preparedness at Tangguh.¹⁵ But it apparently has not taken place and there seemed to be no immediate plans to proceed with it. In fact, there was no suggestion from any security officials of any upgrades to the police or TNI commands in the Bintuni Bay area as a result of Tangguh operations. However, as the Panel stated last year, if such a security review by LEMHANAS does take place, it is essential that BP be aware of it and participate to the extent possible to encourage continued GOI support for ICBS.

The GOI persists in its policy of restricting access to Papua and continues to deny entry to foreign nationals who are with NGOs, the media, or who do not have specific business there. The Panel again made its opposition to this policy known to GOI officials, who have difficulty explaining its rationale.

The U.S. Congress has continued its restrictions on funds for Indonesia “Foreign Military Financing.” Conditions were instituted in protest of Indonesia’s human rights practices, and more recently, criticism over the limited access to Papua. The full level of appropriated funds, \$15.7 million, will only be made available following a report by the Secretary of State describing steps taken by the GOI on military reform, accountability, and access to Papua.¹⁶ In addition, the U.S. Department of State, in its 2008 annual Country Report on Human Rights Practices, again highlighted a range of human rights infringements by the security forces in Indonesia, some of which occurred in the Bird’s Head region. These included possible killings; the beating and detention of numerous Papuans for raising the Morning Star flag; monitoring, threatening, and

¹⁵ See the Panel’s Sixth Report (2008), at 20-21.

¹⁶ H.R. 1105, 111th Cong. 1st. Sess. (2009), Division A, Title IV; Title VI, Sec. 7071(c).

intimidation of Papuan NGOs by Indonesian intelligence forces; and restrictions on travel to Papua.¹⁷

Indonesia's national elections will take place in 2009. The election of Members of the DPR will take place on April 9, 2009; the first round of presidential elections will take place on July 8, and the second round, if needed, will be in September. These election campaigns may bring senior GOI officials to Papua, and possibly to Tangguh. Visits by high-level officials are difficult to manage and require close coordination with local government, the police, and the TNI. It is not BP's role to manage logistics and security for such visits, other than within the LNG facility itself. However, it is important that BP maintain communications and work closely with the *Bupati* and Papuan security officials on all arrangements related to each visit by any GOI officials or other dignitaries.

C. Religious Tensions

Security and social order may also be affected by disputes between Muslims and Christians in Papua that have the potential to escalate. There is significant religious tension in Manokwari, and other parts of the province of West Papua. In the early years of the Panel's operations, there were reports of religious tensions involving Islamic militias. In recent years, these seemed to subside. However, a report by the International Crisis Group ("ICG") in June 2008 suggests that religious tensions remain, that violence last year in Manokwari and Kaimana was narrowly averted, and that bitterness remains on both sides.¹⁸

The problem in Manokwari arose when local leaders prevented the construction of a grand mosque on Mansinam Island, the place where Christianity was brought to Papua in 1855. These leaders then sought to enact a regulation that would inculcate Christian values in public

¹⁷ U.S. DEPARTMENT OF STATE, *Country Reports on Human Rights Practices – 2008* (March 2009).

¹⁸ INTERNATIONAL CRISIS GROUP, *Indonesia: Communal Tensions in Papua*, Asia Report N° 154 (June 2008). The Papua Consultative Interfaith Forum is a non-governmental organization designed to reduce these tensions.

life and declare Manokwari “Gospel City.” This was vigorously opposed by local Muslim leaders. Although local leaders insisted to the Panel that these tensions were past, they could arise again at any time. They arose recently in Manokwari in relation to a GOI regulation that stipulated Sunday as a workday for certain government employees, thus incurring the wrath of the Christian community.

While the underlying problems may be Papua-wide, the current hot spots seem to be limited to some of the more urban areas of West Papua, where the numbers of Christians and Muslims are more balanced, rather than in the interior where the population is primarily Christian. The Christian population fears the Islamicization of their culture. At this point, these tensions do not appear to be significant in Bintuni Bay, although the in-migrant influx has the potential to bring such disputes to the region. BP should be vigilant to these underlying tensions and be careful to take no action that could be interpreted as favoring one religion over another.

Recommendations

- 1. BP should participate to the fullest extent possible to encourage continued GOI support for ICBS in any review by the GOI of security at Tangguh, by LEMHANAS or any other agency.**
- 2. BP should work closely with the *Bupati* and Papuan security officials on all arrangements related to any visit to Tangguh by any GOI officials or other dignitaries.**
- 3. 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.**
- 4. 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.**

5. **BP should continue to encourage all security personnel involved with protection of Tangguh, including TNI personnel, to take human rights training.**
6. **BP should coordinate more closely with the TNI, and encourage the TNI to participate in the joint annual training exercise under the JUKLAP. The annual training exercise should be expanded to simulate possible emergency security situations at the facility.**

V. Revenue Flows and Transparency

Central government transfers to Papua have increased dramatically during the past decade. As detailed in last year's report, the revenue being transferred from the GOI to provincial and local governments in Papua has increased from Rp. 3.85 trillion in 2001 to approximately Rp. 24 trillion (\$2.4 billion) in fiscal 2009, an increase of more than 600%.¹⁹ The largest increase relates to the *Dana Alokasi Umum* ("DAU" or General Allocation Fund), which is one of the general regional autonomy fiscal transfers to all provinces, based in part on need. The Special Autonomy fund, of which 80% is dedicated to health and education and the remainder to infrastructure, including natural resource revenue sharing, has increased nearly 400% during this period. Even in advance of any revenues from Tangguh, fiscal transfers to the two provinces are and will likely remain well in excess of per capita levels of fiscal transfers to any of Indonesia's other 31 provinces. The World Bank, which has analyzed and compiled these data, calculates that the total transfers in 2009 will amount to about Rp. 9 million (\$900) per person.²⁰

The West Papua provincial government in Manokwari has become an equal partner with the provincial government in Jayapura. For the first time West Papua will receive Special

¹⁹ These figures are nominal. See the Panel's Sixth Report (2008), at 40.

²⁰ See Wolfgang Fengler, Dian Agustina & Adrianus Hendrawan, WORLD BANK, *Spending for Development in Papua—Social, Economic and Fiscal Trends, Presentation for the Tangguh Independent Advisory Panel (TIAP)* (2009). The Report is available for download in full at <http://tinyurl.com/cfr8s3>, and selected statistics are included at Appendix 9.

Autonomy funds directly. Although this is not certain to continue without change, this development brings a level of stability to the budget and planning process for West Papua. Significantly, if implemented unchanged, this could mean that natural resource revenues, including the revenues from Tangguh, could be divided among the jurisdictions in the producing province only, rather than split among all jurisdictions in both Papuan provinces. If this policy remains in effect, the full 70% of Tangguh revenues, post taxes and after cost recovery, when they begin to flow in about 2011, will be shared within the province of West Papua, by the provincial government, the Bintuni Bay *kabupaten*, and the other *kabupatens* and *kotas* (cities) in the province. But Special Autonomy revenues from natural resource projects in Papua province, such as the Freeport McMoRan gold and copper mine near Timika, will be allocated only among the jurisdictions in that province. Given the many changes that have taken place since Special Autonomy was enacted, it is also possible that a different split of natural resource revenues may ultimately be implemented.

Revenues from Tangguh will be a substantial increment for West Papua and Bintuni Bay, but a much smaller portion of total revenues than initially projected. In its 2002 report, the Panel estimated that Tangguh revenues at peak could equal or exceed Papua's entire budget.²¹ In 2003 when the *kabupaten* of Bintuni Bay was created, it appeared that Tangguh revenues would dwarf the other revenues received by the Regency. Tangguh revenues will still provide a major increase in revenues to the West Papua provincial government and will also increase revenues substantially for Bintuni Bay.²² However, Tangguh revenues, during the peak years, would

²¹ See the Panel's First Report (2002), at 6.

²² The *kabupaten* of Bintuni Bay, now only five years old, will experience a substantial increase in revenues when Tangguh revenues flow. It is already receiving funds directly under the formulas of both the general regional autonomy funds (DAU, DAK) and Special Autonomy. This currently amounts to about Rp. 650 billion (\$65 million). As the *kabupaten* where Tangguh is located, it could also receive a substantial portion of the natural resource revenues from Tangguh. Under current regulations, this could amount to twice the revenues allocated to the provincial government, and the same amount allocated to all of the other *kabupatens* in West Papua combined.

likely be on the order of 10-15% of total transfers to the two Papuan provinces, depending on the price of oil.²³

During the past several years, the Ministry of Finance's ("MOF") Office of Fiscal Balance, under Minister Sri Mulyani, has expanded published knowledge about these fiscal transfers and increased transparency of revenues generally. As a result, it is possible for the Panel to review these revenue transfers, and for institutions such as the World Bank to monitor and analyze the data. But the GOI has not yet publicly provided revenue information regarding specific natural resource projects. This may soon change. The Minister of Finance expressed to the Panel her support and intention to move forward with adoption of the Extractive Industries Transparency Initiative ("EITI"). Since the Panel's visit, the GOI has begun the process of application to EITI, which should be accomplished in the near future.²⁴ This would likely lead to greater disclosure of revenues and their uses from specific projects, including Tangguh. The Panel warmly welcomes this development.

It is also possible that changes will take place that allocate these revenues more evenly among multiple *kabupatens*. See the Panel's Fourth Report (2006), at Appendix 4. Although this increment may be relatively small in the early years, it will grow during peak years before declining as gas production ebbs. Depending on the price of oil (which is a key factor in the price of Tangguh's LNG), revenues to the *kabupaten* could more than double in some years. Thus, total revenues received by Bintuni Bay during the years of production (at least from about 2017 until the end of the current Special Autonomy law in 2026), could provide one of the highest levels of per capita revenue for any *kabupaten* in Indonesia.

²³ See Wolfgang Fengler *et. al.*, *supra* note 20.

²⁴ In mid-January 2009, the Coordinating Minister for the Economy, the Minister of Finance, and the Minister of Energy and Mineral Resources signed a Note of Understanding to Prepare for the Implementation of Extractive Industries Revenue Transparency. The Note states that "the parties agree to work together on the implementation of extractive industries revenue transparency based on international best practices including the criteria and implementation indicators of the Extractive Industries Transparency Initiative (EITI)." The note agrees to the formation of a "Coordinating Team for the Preparation of the Implementation of Extractive Industries Revenue Transparency."

VI. Programs for Directly Affected Villages

A. LARAP

In previous years, the Panel has focused much attention on the LARAP, because it details BP's commitments to the people of the RAVs, who are of course most affected by the Project, and must be completed by 2009. Thereafter, assistance and projects within the RAVs will be integrated into the broader ISP programs. The Resettlement Monitoring and Advisory Panel, which was created solely to oversee LARAP commitments, concluded that the Project had successfully completed the physical construction phase of LARAP implementation.²⁵ Other outstanding LARAP obligations that the Panel was concerned about last year, which relate to employment, public buildings, land titling, and livelihood enhancement, are being addressed.

First, BP has implemented the actions recommended by its audit to correct deficiencies in its obligation to offer construction phase jobs to every family in the 2002 RAV census. Most significantly, job offers were made to at least one member of every family. Second, handover of RAV utilities and other public buildings from BP to local government is underway. Pursuant to agreement between the village leaders and the *Bupati*, certain facilities will be owned by the village, others by the *kabupaten*, and the religious facilities will be owned by their charities. Despite the start of formal handovers which will be phased in over two years, financial responsibility for sustaining and operating the utility facilities remains a serious concern. Third, land titling for the homes of residents of the RAVs has been substantially completed. Fourth, with the support of the Bintuni government, outboard engines have been provided to fishermen in Saengga. And fifth, the Dimaga Foundation, required by the LARAP, is functioning, with its focus on livelihood development. These are all positive developments. But it is important that

²⁵ The Resettlement Monitoring and Advisory Panel's final report, "BP Tangguh LNG Project: LARAP's Implementation Performance in 2006," May 15, 2007, is available on the BP website.

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

The formal ending of the LARAP program should not result in the termination of all RAV-specific programs, particularly the above-described ongoing and long-term commitment to diversified economic growth. Throughout the operating phase, the residents of the RAVs will be the most affected by the Project, and the people with the most risk of adverse consequences. Accordingly, the Panel previously recommended that, in addition to the surveys of RAV households required by the LARAP in 2009, an additional survey measuring economic and social changes in these villages be conducted several years after the start of the operating phase, and that the results of this survey be published by BP. In addition, although not required by the AMDAL, the effects of the Project on all the DAVs are also important to monitor. Thus, we now recommend that periodic surveys be conducted covering all or a sample of all the DAVs. Information from these surveys on the effects of Tangguh on DAV households should be of continuing interest to BP, the government, and the wider community that follows Tangguh. Such monitoring will also result in better fine-tuning or even major modification of continuing ISP programs affecting all of the DAVS. Thus, BP should continue household surveys periodically throughout the operating phase.

B. Manggosa Pathway

One LARAP obligation of continuing concern is the construction of a pathway from Tanah Merah Baru around the LNG facility to provide access to the fishing camp east of the facility at Manggosa. After lengthy delay, construction has begun and is expected to be

completed in 2009. The pathway and the provision of outboard motors are measures designed to allow local fishermen access to fishing grounds; that access has been impaired by the safety exclusion zone around the Project's jetties. However, the pathway is 14 kilometers in length, and therefore may not be a viable mechanism for daily pedestrian travel.

Trespasses in the marine safety exclusion zone remain a difficult problem. Despite the several-year effort to socialize the dangers of entering the marine exclusion zone surrounding the docks and the platforms, there continue to be regular violations, and BP has no legal authority to enforce the exclusions. Several of the socializations have included representatives of the local police, the Navy, and the Coast Guard. In addition, since June 2008, the marine police have intermittently participated in enforcement of the zone. During these periods, incursions diminished significantly.²⁶ The completion of the Manggosa pathway is not likely of itself to eliminate these transgressions. The dangers to trespassers will increase further once LNG tankers begin to arrive. Violations clearly imperil safety and, unless penalized, encourage flouting of safety rules.

BP should finish the Manggosa pathway promptly, continue to socialize the risks of violations of the marine safety exclusion zone, use its patrol boats to discourage violations at the time when most violations occur, and work with the police to seek more effective enforcement. If these efforts are not successful, BP should look to possible modifications of the jetties that would make the transgressions more difficult; to the possibility of encouraging the use of some transport service on the Manggosa pathway to promote its use; and to urging greater enforcement by local authorities to deter violations. BP should also seek to identify the violators, determine whether it is many or just a few who transgress frequently, and work with RAV leaders and the *Bupati* to discourage this behavior.

²⁶ A table that details the exclusion zone incursions is included as Appendix 4.

C. Sustainable Fisheries

The Panel has emphasized for some time the importance of establishing an accurate baseline regarding fish and prawn stocks in Bintuni Bay. The prawn catch is the most important source of revenue to the indigenous peoples. It is critical that Tangguh not itself be a cause of any diminution in stocks, and that if such a diminution does occur, its real causes can be identified and remedied. Two surveys were conducted in 2004, and again in 2007/2008. The recent surveys indicated no reduction in fish stocks and fertile fishing grounds. To some extent, the results may reflect the reduction of large external trawling operations in the Bay at the time. Because of the importance of this issue, the Panel recommends a third survey after the operating phase is underway, possibly in 2010.²⁷

The Panel believes that the most critical factor relating to the adequacy of fish stocks is the level of external trawling. Accordingly, it also recommended previously that BP encourage the local government to “impose a strict regulatory regime to limit future trawling operations and preserve stocks for local fisherman.”²⁸ This year, the *Bupati* informed the Panel that he has imposed these restrictions, and, at least for the time being, no trawling operations are permitted. It is not clear that restrictions will remain in place, or that they can be enforced properly, but this is a useful step forward that BP should support. It is possible that BP can support enforcement by alerting tanker crews to report any trawlers seen in the Bay, and thereby at least identify any potential violators.

D. Microenterprise and Livelihood Development

The livelihood development program covers all of the DAVs, pursuant to the AMDAL. It has been important throughout, but is even more critical today in light of the demobilization

²⁷ See the Panel’s Sixth Report (2008), at 32.

²⁸ *Id.*

taking place among local workers. It has always been clear that Tangguh in its operating phase cannot provide a source of income to a large number of individuals in the Bintuni Bay region and that marketable skills and indigenous enterprises must be developed. Toward these goals, BP has worked for the past two years with the SatuNama Foundation and the Bogor Institute of Agriculture (“IPB”). These two implementing partners have demonstrated creativity and flexibility in their effort to develop effective programs. Immediate results are modest, and as with education and governance, large gains will take time and continuing work. The Panel saw some limited progress last year. This year, the somewhat modified program seems to be generating even more positive results.

IPB is working with RAV villagers to increase supply, variety, and quality of agricultural products, both to improve family nutrition and develop cash earnings. More than 130 households are participating. It is also working to increase fish production by introducing more effective “trammel” nets. It is helping to develop markets for the shrimp crackers that are being produced in the RAVs. The immediate goal is for each village to specialize in one or two key products. Coastal villages will then sell to inland villages and vice versa. Outside the RAVs, IPB is working with crab fishermen in Babo and Bintuni to develop crab fattening techniques and improved marketing to increase family income. There are approximately 100 participants. Separately, IPB is working to strengthen local government capacity to assist enterprise development in order to produce a sustainable government-supported program.

SatuNama is charged with agriculture and microenterprise development in the non-RAVs. It has assisted with 129 enterprises in the DAVs, including commercial kiosks, crop production, fisheries, and handicrafts. It has also trained six north shore villagers, and is training eight more, as “community organizers” who are assisting each village’s CAP committee in

selecting and implementing projects funded under the CAP program. Thus far, in villages with a “community organizer” there has been more effective utilization of CAP funds.²⁹ In addition, SatuNama is working with villagers to encourage maintenance of fishing nets and outboard engines, which are generally not repaired but thrown out. It seeks to establish a maintenance workshop in each village.

A villagers’ cooperative in the RAVs has begun landscaping the grounds within the LNG site through a contract with the Project. In addition to its income-generating benefits, the landscaping contract will help the RAV villagers build business capacity and contribute actively to the Project. In order to expand upon the success of the existing contract, BP should consider organizing the Cooperative to plant and harvest indigenous fruit trees as part of the villagers’ landscaping work. The fruit could be sold in the DAVs or to the catering contractor and would serve the dual purpose of generating additional income for the cooperative and improving villagers’ access to nutritious produce.

Separately, after several failed efforts at establishing a banking system in the region, Bank Rakyat Indonesia (“BRI”), the largest rural banking system in Indonesia, is now beginning to provide credit and savings accounts to RAV residents. Villagers can qualify for a loan only after they have completed a course given by SatuNama in Household Economic Management (“PERT”). There have been 43 loans approved of \$100 each for four months at 9% interest, all for fishing nets. The program hopes to expand to other purposes and to other villages.

The vocational training center in Aranday opened in late 2007, and has now trained 74 local villagers in carpentry, masonry, and administrative skills. The Panel has long supported this effort to expand the number of villagers, particularly those on the north shore, who have practical skills that could be put to work in their communities. It continues to do so. However,

²⁹ See Appendix 5.

the vocational training center already faces serious challenges to its sustainability. First, in order to continue for the long term, the local government should assume responsibility for both maintenance and management. Second, in order to attract trainees, training in skills that will lead to successful employment of graduates is essential. This is an important program to elevate those local skills which the *Bupati* considers a priority. BP should make every effort to engage him and his administration to agree on courses to be taught and to a phased plan to take responsibility for the training center.

E. Infrastructure and Community Development

The CAPs, which provide annual support for the DAVs, Babo, and Aranday, are now in the sixth year of their ten-year duration. Although there are challenges in some villages regarding integration of the CAP participatory planning process with village governance, this program continues to deliver tangible specific benefits that are selected by the villagers. A majority of the funding has been spent on infrastructure projects, such as mosque, walkway and jetty construction. But an increasing amount is being devoted to capacity building and educational assistance, as well as community rainwater harvesting systems.³⁰ BP partner SatuNama has also trained a “community organizer” in several north shore villages to help implement the CAP process. This has led to an increased percentage of available funds being spent in the year first available.³¹

The Bintuni Bay Development Foundation, designed to support infrastructure on the north shore and offset some of the perceptions of unbalanced benefits, is functioning (although its legal status is not yet formally registered). In 2008, the Foundation constructed ten teacher’s houses, and began construction of one student dormitory, one kindergarten, and two libraries. In

³⁰ See *id.*

³¹ 93% of available funds were spent in these villages. The CAP funds remain available in subsequent years if not spent in the year in which they become available.

2009, the program will include ten community houses, two teacher's houses, and improvements to clean water systems. Despite challenges in organization and implementation, the Foundation's projects on the north shore are already helping to diminish tensions.

Recommendations

LARAP

- 7. The formal ending of the LARAP must not conclude 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.**
- 8. 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.**
- 9. In order to expand upon the success of the RAV Cooperative's landscaping contract, BP should consider allowing the Cooperative to plant and harvest indigenous fruit trees as part of the villagers' landscaping and revegetation work.**

Manggosa pathway

- 10. 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 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.**

Sustainable fisheries

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

Microenterprise and livelihood development

- 12. 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.**
- 13. 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.**

VII. Integrated Social Programs

The progress made in the ISP has been significant and has produced tangible results. However, there is a need for sustained, long-term efforts if there is to be meaningful progress in the effort to bring the people of the area closer to the economic and social standards of the rest of Indonesia. An internal ISP review has been ongoing since March 2008. This review is designed to consolidate the programs into five broad sectoral areas: Governance, Education, Health, Livelihood Development, and Community Relations. The review is also intended to reduce BP's role and increase that of local government and the community. These proposed changes, which would be useful, are expected to be completed in 2010. As part of this review, BP also should evaluate the ISP programs to determine what modifications are needed to fit the changed conditions of an operating facility rather than a construction site.

A. Governance

In many respects, BP's support for government and civil society capacity may be the most critical of any area within the ISP. The inevitable need to have government take charge of all social programs, the clear benefit of this occurring at the earliest possible time, and the large increase in local revenues that will take place all put a premium on effective governance. This undertaking is challenged by the weak capacity of local governments, particularly in planning, fiscal management, and service delivery; the even weaker capacity of local DPRD's; the distrust

among officials and their continuing turnover; the limited capacity of civil society to promote good government; and the multiple and proliferating jurisdictions and management units, from village level to the province. Despite useful efforts over several years, it is apparent that these programs can only be effective if continued for the long term. While short-term progress is useful, it is not sufficient given the low starting capacities, the changing districts, and the rotating personnel.

BP should focus on three priorities, and these commitments will need to continue into the operating phase. First, the villages and districts in the immediate area: efforts in this area should include strategic planning for basic infrastructure and services, and CAP implementation and planning. These are BP programs that are a direct consequence of the Project and are specific obligations under the AMDAL. It is of course essential that these localities manage their funds effectively. Second, the Bintuni Bay *kabupaten*: this has the primary authority for program development and implementation in the region and is the recipient of large transfers from the GOI which will grow significantly after Tangguh revenues begin to flow. And third, the West Papua provincial government: this has significant authority and resources that directly affect the people of Bintuni Bay and will also receive substantial new revenues resulting from Tangguh.

The Panel is concerned that the governance program for the *kabupaten*, run by implementing partner the Center for Local Government Innovation (“CLGI /YIPD”) since 2006, ended in December 2008. BP is actively reviewing the ongoing needs of this program and expects to continue with a contractor through a second phase of three to five years. BP is seeking better integration with other elements of capacity building, particularly those related to the sectoral specific programs being run in education, health, and economic development. BP should reinstate its general support for the Regency government, including the DPRD and civil

society organizations, at the earliest possible time, working with the *Bupati* to shape a program that meets his needs. BP recognizes that the *kabupaten* capacity building program is a long-term effort. The long-term goal should be to make Bintuni Bay a model *kabupaten* for working with foreign companies for the benefit of its people.

The governance support program for the Bird's Head region, which includes the West Papua provincial government, ends in 2009. It has been a three-year partnership with USAID in its Global Development Alliance, and implemented by Local Government Support Program ("LGSP"). This program has been useful in its assistance to the Bird's Head region, including local governments in Fak-Fak, Kaimana, and Manokwari as well as the provincial government. It has trained many local officials in finance and budgeting, participatory planning, and legislative and civil society strengthening. This experience demonstrates the lengthy commitment needed for improved revenue management and thus the need to concentrate on the jurisdictions most critical to Tangguh. Following this initial program, BP should refocus on the provincial government in Manokwari. One excellent element of this program that should be continued is the seminar conducted in Manokwari in February 2008, with the anti-corruption agency KPK, entitled "Managing Ethical Dilemmas and Facilitating Payments." Activities such as this should be sponsored by BP annually, and centered in Manokwari. BP should come to be known as the company associated with transparency and ethical and competent governance.

B. Education

BP's investments in primary and secondary education have been beneficial, although the measurable gains thus far have been modest. For the past two years, the principal education initiative has been the partnership with the British Council. Its work has focused on elementary and secondary education in Bintuni Bay, including efforts to raise the capacity of the Bintuni

Bay education office. In August 2008, the British Council published a mid-term evaluation of this program. The review found that several aspects of the basic education program have been well implemented and are having a positive impact on education in Bintuni, including teacher training, education planning, and budgeting. However, the report found that other aspects of the program have been less effective, such as the failure to establish a functioning Education Council (*Dewan Pendidikan*) at the *kabupaten* level, which is mandated by the GOI in all districts. Other issues that require additional attention include coordination and communication among key education stakeholders in Bintuni, the negative perception of the British Council by the *Bupati* and others, and the failure of schools to establish libraries from which students can borrow books.

Although not directly related to the British Council program, the region's low educational base was highlighted this year when only one student from Bintuni and 13 from Aranday passed the national examination out of the senior secondary public school system. Although some unfairly criticized the British Council, this outcome rather demonstrates the need to build the education foundation at the primary levels and continue for the long term. Building of education culture, governance, and infrastructure among the villages will take considerable time. The Panel urges BP to continue this focus on basic education, with its main effort in the *kabupaten*, while assessing and reevaluating the specifics of the program every few years.

The Panel has also urged BP to increase support for Papuan higher education and opportunities for Papuan students. BP participates in the BPMigas scholarship programs for higher education, started in 2003, and funded by all Production Sharing Contract ("PSC") operators in Indonesia through a mandatory per barrel contribution. In 2008, this program provided 175 scholarships for Papuan students to universities in Papua. The Bintuni Bay

kabupaten also has a large scholarship program for study in other parts of Papua and outside Papua. In 2008, it provided scholarships to 657 students at secondary and tertiary levels. These are both very important programs.

The BPMigas program may be transferred to the GOI Department of Education in 2009. BP is assuming responsibility for only 60 Papua based scholarships in 2009. These will be limited to UNIPA, the University of Cenderawasih (“UNCEN”), and the Science & Technology University of Jayapura (“USTJ”). Although BP may have to assume a greater administrative burden because of the possible transfer, it is not clear why the number of scholarships has been reduced so drastically. Whether or not the program is formally transferred to the Department of Education, BP should endeavor to increase the number of scholarships, continue this program throughout the period of operations, and include in the program scholarships to quality institutes of higher education outside of Papua, particularly those with technical programs. These should be identified as Tangguh scholarships.

BP has also provided support for UNIPA through training opportunities, scholarships to UNIPA lecturers, and partnering with UNIPA on the Bintuni Bay fisheries surveys. UNIPA informed the Panel that its scholarship students supported by BP are not receiving the national standard stipend, and that additional support for research in science, engineering, mining, and petroleum would improve the quality of the university, and thereby benefit West Papua. The Panel agrees. Demonstrable support for UNIPA will increase technical and educational capacity in the region. It is an ideal location to educate many of the Papuans who will form the core of Tangguh managers and supervisors in the future. Some of the local beneficiaries of these improved programs will return to the area, benefiting Tangguh and its associated communities.

C. Health

During the past year the community health program transitioned from the BP-managed TCHU to a newly-established local health NGO, the *yayasan* Anak Sehat Papua (the Papuan Children’s Health Fund or “ASP”). ASP, for which BP is seeking additional donors, focused initially on carrying on the village health programs established by the TCHU, while the TCHU played a supervisory role to ensure the continuity of the various health program components. ASP plans to expand over the next few years into a broader regional program, with a sustainable and cost-effective “social business model” similar to TCHU and a diversified funding base, that will work for and with the private sector, government, and donor agencies to provide health services.

ASP continued to make progress on malaria control in 2008, with prevalence rates maintained below 5% since the middle of 2007 and an annual average of 2.15% in 2008.³² By promoting and expanding the use of innovative village kiosks staffed by local health workers who sell inexpensive, easy-to-use malaria medication, ASP is continuing to develop a health microenterprise development program.³³ This program is designed to allow local Papuan health workers to treat malaria effectively and to provide other basic health services in remote villages.

ASP also continued the TCHU’s efforts regarding maternal and child health, with a focus on immunizations for children under five, proper childhood nutrition, and prenatal education and examinations for women. In addition, the health program made progress on ensuring community access to clean water and sanitation, including establishing the Community-Led Total Sanitation program which emphasizes awareness of the behavioral changes necessary to promote personal sanitary habits.

³² See Appendix 6.

³³ See the Panel’s Sixth Report (2008), at 28-29.

However, despite continuing to make progress in certain areas, the health care program faces serious challenges. First, while the transition of the health care programs to local actors is ultimately necessary to ensure the programs' long-term sustainability, BP must retain a role and remain vigilant to ensure that its hard-won progress in critical areas is not lost. As one key example, BP had made important progress since the start of the Project in combating diarrhea-related deaths in the DAVs among children under five, reducing fatalities from 21 in 2003 to five in 2007. During September and October of 2008, however, a seasonal rotavirus outbreak epidemic in the north shore DAVs resulted in the deaths of 13 children, partly as the result of the inexperience of new medical personnel in the area.³⁴ BP must continue to play an active monitoring and advisory role as its program transitions to new leadership to ensure that organizations such as ASP receive the benefit of the TCHU's experience and expertise.

Second, BP must continue to play a leading role on HIV/AIDS. Rates of HIV/AIDS are alarmingly high in Papua, with an estimated 2.4% of adult Papuans infected due to a combination of poverty, isolation, poor education, and misperceptions regarding the transmission of the disease. ASP is working with the Papuan business community, government, and civil society to implement prevention programs, and BP is a founding member of the Indonesian Business Coalition on AIDS ("IBCA"), which is considering establishing a chapter in Papua. BP should take the lead on ensuring that this chapter is established as quickly as possible. Once the chapter is operating, BP should ensure that the IBCA provides sufficient resources to Papua. If necessary, BP should supplement those resources. In addition, BP has engaged in media campaigns to raise HIV/AIDS awareness, has implemented an awareness and prevention program at the LNG site, and has supported local NGOs that provide services to high-risk populations. BP should continue all of these efforts.

³⁴ See Appendix 6.

D. Livelihood and Procurement

The BHBEP may be the Project's most important long-term livelihood program. It is designed to encourage a more advanced and diversified economy in the region. In the Panel's view, although results have been slow, it must remain a priority. The Phase I partnership with the International Finance Corporation ("IFC"), described in previous reports, ended in December 2007. Phase II of the BHBEP began with a new two-year contract with Indonesian partner PT Austraining Nusantara. In its first year, this program conducted business training in Manokwari, Sorong, Fak-Fak, and Bintuni. Thus far, 145 businesses have attended. Of these, 65 local businesses have been selected for a mentoring program, each of which is also described in a Mentee Profile booklet that has been distributed to the BP procurement team ("PSCM"), and to prime contractors, to encourage their selection as subcontractors.

Procurement from these targeted companies must be a continuing effort, particularly among contractors, which have greater and more diverse needs. PSCM has committed to purchase all landscaping services, uniforms, stationery, basic electrical goods, and cleaning equipment from Papuan companies. Other goods and services, including catering, boat rentals, dry goods supply, fresh water, sand and aggregate, housing construction, fencing, and jetty construction have gone to Papuan businesses. But the total for the entire construction phase is only \$103.6 million, barely 2% of Tangguh's costs.³⁵ PSCM included a local procurement requirement in its contract with Indocater, the contractor responsible for supplying food services to the LNG facility. Indocater is also required to establish fish and produce stocking points in the Bintuni area. It is doing so in Bintuni for fresh produce and in Arguni for fresh fish. Additional points are planned in Tofoi and in the RAVs. This requirement should promptly and

³⁵ Of the \$103 million, \$11.9 million was from BP's procurement for the construction phase, \$17.2 million was from procurement related to the ISP, and \$74.6 million was from KJP's procurement during the construction phase.

materially increase local procurement and incomes. It is precisely the kind of contractual obligation that should be considered for all procurements.

With the exception of local procurement of fish and produce, these programs may not all show immediate and substantial results. But their success is essential to help create a diversified and sustainable economy in the Bird's Head region that will not ultimately be dependent on Tangguh. BP should include local procurement requirements (or, where not possible, local employment obligations) in all contractor contracts. It must ensure that contractors fulfill their local procurement contractual obligations. Compliance should either be assigned to the Papua Employment Steering Committee for continuing review, or to a parallel committee that is established for procurement that has similar authority. Despite what will be uneven results, BP should persist with these efforts for the full duration of the ISP.

E. Community Relations

The Panel met with leaders from each of the DAVs and other local communities. Although there were some specific requests and complaints, almost every local leader was supportive of Tangguh and appreciative of BP. This level of satisfaction is also reflected in the number of community grievances filed, which declined from approximately 40 in 2007 to 21 in 2008 and were primarily related to workforce and community development ("ComDev") issues.³⁶ The BP community relations ("ComRel") team has done an excellent job of working with the local villagers on most issues and addressing their concerns. Once again, the Panel urges BP to compile and publish a summary of complaints filed and results obtained.

The annual CAPs have not been uniformly successful. Programs in several DAVs have not been fully implemented. Some successes this year were: Tomu & Ekam: long-boats and outboard engines; Taro-i: mosque completion and walkway completion; Weriager-Mogotira,

³⁶ See Appendix 7.

Otoweri, Tomage: rainwater harvest programs. One reason for the lack of full utilization of the CAPs is the decision-making process. It is a challenge to integrate participatory planning and evaluation (“PBM”) for the CAPs into the more general village planning processes and to involve and ultimately transfer this decision-making to village government. BP, through its local partners, should continue to work with local leaders to help to make this process effective.

The ComRel program continued to strengthen civil society in Bintuni Bay and the Bird’s Head generally. A Papua Stakeholder meeting held in Bintuni was attended by 60 participants. Concerns raised included workforce transparency, issues regarding ICBS during operations, requests for assurances related to possible disasters, and *adat* compensation. These local stakeholder meetings should continue annually throughout the operating phase. They are essential as a means of engagement with all local parties, who may have no other way to communicate with BP. Separately, NGO strengthening training took place in Manokwari, Jayapura, and Jakarta. These activities not only build the NGO capacity; they also build support for Tangguh.

The ComRel team also continued to focus on women’s empowerment initiatives. It conducted a women’s empowerment seminar through UNCEN with local women’s leaders, and local government officials. In addition, meetings were held in Tanah Merah Baru and Saengga to allow women the opportunity to provide input on the formulation of village regulations and raise a variety of concerns regarding in-migration, violence, alcohol abuse, and prostitution. One suggestion made was to institute a women’s empowerment campaign through the local radio. The Panel endorses this as yet another good way to use local radio for public benefit. Despite these commendable activities, however, gender inequality remains pronounced in Bintuni Bay.

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.

Recommendations

- 14. 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.**

Governance

- 15. BP must maintain a sustained, long-term effort to increase capacities of government and civil society at the village, *kabupaten*, and provincial levels.**
- 16. 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 DPRD and its civil society.**
- 17. BP should continue to sponsor programs or other activities with KPK that encourage transparency and ethical and competent governance.**

Education

- 18. 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 reevaluating the specifics of the program every few years.**
- 19. 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 institutes of higher education outside of Papua, particularly those with technical programs. If possible, these should be identified as Tangguh scholarships.**
- 20. 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.**

Health

- 21. 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 TCHU's experience and expertise.**

22. 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.
23. BP should take the lead on establishing the IBCA's 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.

Livelihood and procurement

24. 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.
25. BP should continue the BHBEP, designed to encourage a more advanced and diversified private sector economy in the region, for the long term.
26. 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.

Community relations

27. To help manage expectations, BP should continue to discuss with *kabupaten* and provincial leaders and with local people the content and pace of revenues and benefits throughout the operations phase.
28. BP should annually compile and publish a summary of grievances filed by the community as well as BP's responses and the results in addressing local villagers' concerns.
29. Throughout the duration of the CAPs, BP should support the village decision-making processes to ensure that the CAP funding is fully utilized for the benefits of indigenous residents.
30. 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.
31. 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.

VIII. Public Information

The Panel has long urged BP to increase and expand its communications activities. By 2008 many of these recommendations have been implemented. Despite serious logistical challenges, there are now several useful outlets for information in the Bintuni Bay area: the monthly newspaper, the radio, and the information boards in the DAVs. Without question, these must continue in one form or another for the life of the Project.

BP also agreed to conduct media training and a site visit for local journalists on a regular basis. This year, ten local journalists participated in the training, which focused on revenue sharing issues and practical issues affecting reporters. BP has agreed to conduct such training annually. The Panel reemphasizes the importance of this exercise and the need for it to continue throughout the operating phase.

BP also conducted two media briefings for national and international media in Jakarta, providing current information on Tangguh and social programs. This was useful and should be continued. To the extent permissible, BP should share information with the media on revenue projections and fiscal transfers. BP should assume full responsibility during operations to inform the public about Tangguh.

BP has not, however, utilized the commencement of the operating phase as an effective tool for presenting information and accomplishments. As the Panel has said, the start-up of the plant may be the best opportunity for capturing the attention of the nation and the international public. For a short time, this opportunity remains open.

Tangguh has been most visibly in the news not because of any media or communications strategy related to start-up but as a result of discussion and debate about the terms of the Tangguh contract with China to supply the Fujian LNG terminal. The agreement was negotiated

in 2003 in a period of low oil prices and abundant gas supplies. This debate reached its height in the summer of 2008 when oil prices reached \$147 per barrel. Vice President Kalla is chairing a committee to seek renegotiation of the contract. Whether or not this contract is revised, neither the start of the operating phase nor any of the activities conducted by BP should be affected.

It is unfortunate that this ill-informed flurry of media activity, generally characterized by headlines such as “Indonesia May Suffer Loss on Tangguh,”³⁷ is the principal news in the public domain regarding the Project. It should be countered with accurate information about Tangguh. At this point, the Panel recommends that BP use start-up and the early period of operations to focus attention on the financial, energy, and social benefits of Tangguh to Indonesia. The beginning of tanker activity in Bintuni Bay and the flow of revenues to Indonesia should provide a degree of public interest.

Recommendations

- 32. 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.**
- 33. BP should continue throughout operations the several useful outlets it has established for information dissemination and communication in Bintuni Bay.**
- 34. 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.**

IX. Environment

As the construction phase of the Project concludes, the most significant compliance problems have been related to solid waste disposal, largely caused by the much higher manpower

³⁷ INVESTOR DAILY (Jan. 26, 2009), p. 20.

count than initially contemplated. These issues are being addressed with the purchase and installation of an industrial composter, construction of a new sanitary landfill, and installation of monitoring wells to determine what, if any, remediation may be needed. The new composter will produce 15,000 kg/month of compost that can be used in the LNG site revegetation program.

Monitoring programs of water and sediment were conducted in 2007 and 2008 to provide an update of baseline data. High levels of several heavy metals, including arsenic, mercury, and nickel were reported in some sediment samples and nickel in some water samples. It is unlikely that these concentrations are related to Tangguh. BP has reviewed baseline data dating back to 1996 and has concluded that these levels are background levels that, for unknown reasons, exist in various parts of Bintuni Bay, including portions far from Tangguh. This baseline monitoring is important. The Panel recommends that BP continue to examine this issue, conduct regular monitoring and sampling, and report all results in its AMDAL reporting to the Ministry of Environment and, to the extent possible, to the public.

The possibility of water or sediment contamination illustrates the importance of BP's use of re-injection to manage drilling mud wastes and cuttings (Drill Cuttings Re-Injection ("DCRI")). This practice is environmentally preferable to the overboard discharge of all mud wastes and drill cuttings, which presents a risk to the fishing industry and sensitive mangrove areas of the Bay. BP resisted the GOI's suggestion that it use overboard discharge. Although DCRI has been used for more than 20 years elsewhere in the world, this is its first use in Indonesia. Its approval for use in Tangguh followed concerted Project efforts to demonstrate the environmental benefits of the DCRI process to government representatives.

Management of CO₂ emissions remains a difficult challenge. Under Tangguh's current design, as approved in the AMDAL, CO₂ will be vented during operations. Currently, CO₂ re-injection is not a viable option as there is no regulation to support it in Indonesia. The fact that CO₂ re-injection does not qualify yet as a Clean Development Mechanism ("CDM") project under the Kyoto Protocol is an additional disincentive to its use in Indonesia. The Panel reiterates its recommendation that BP should urge the GOI to approve a field assessment of CO₂ re-injection at the earliest possible time. This would increase the possibility that capture and re-injection of CO₂ will become the long-term strategy for management of CO₂ emissions from Tangguh.

Recommendations

- 35. 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.**
- 36. BP should continue the regular baseline monitoring and sampling of seawater and sediment quality in Bintuni Bay. It should report all results in its AMDAL reporting to the Ministry of Environment and, to the extent possible, to the public. This monitoring will include levels of heavy metals which, although not likely related to Tangguh, should be carefully checked.**
- 37. BP should continue to work with the GOI on carbon capture and storage regulations and encourage the approval of a field study for CO₂ re-injection at the earliest possible time.**
- 38. 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.**
- 39. 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.**

Overview of TIAP's Experience (2002 – 2009)

X. Retrospective Overview

This was the Panel's seventh and last visit to Papua and Bintuni Bay. The plant is almost completed and operations will begin in 2009. This report therefore presents an opportunity to reflect on changes that have taken place, issues and concerns that will likely continue throughout the operating phase, and lessons that may be learned from the construction phase.

Much has changed physically in the area since the Panel began. The Panel's first visit, in June 2002, predated any construction or relocation activities. The village of Tanah Merah was located on land that would become a part of the LNG facility. Homes in Tanah Merah, as well as in the villages of Saengga and Onar, were primitive, wooden houses with thatched or corrugated metal roofs and no indoor plumbing, electricity, or cooking facilities.³⁸ There was almost no commercial activity in the RAVs. None of the nine DAVs had clean water collection systems or any health care professionals or facilities. Malaria, diarrhea, and malnutrition were rampant, causing large numbers of childhood deaths. Diet was extremely limited and poor, based largely on sago, a starch made from the pith of sago palm stems. Schools in all the DAVs were run down with poor teachers and inadequate supplies; attendance was sporadic and not encouraged. There was limited electricity and no telephones or local radio. There were no motorized vehicles in the villages or any roads connecting them. Other than by small boat, access to the area was limited to a helicopter pad in a small base camp near Saengga village (built by BP's predecessor ARCO); there was no airstrip on the south shore of Bintuni Bay.

In 2002, there were legitimate concerns regarding threats to the lifestyles and culture of the indigenous Papuan people, particularly those in the village of Tanah Merah, which would have to be relocated and Saengga, on whose land the new village of Tanah Merah Baru would be

³⁸ See photographs at Appendix 3.

constructed. There were environmental concerns, particularly regarding the preservation of the mangroves along the shore, which constitute the largest intact mangrove forest in Southeast Asia, and the stability of the shrimp and fisheries stocks in Bintuni Bay, which constituted the only cash crops for the local villagers. There were also concerns regarding security, both with regard to the role and the conduct of the TNI and police in guarding the facility and also whether the TNI would make financial demands on BP, as it had on other companies.

Politically, the Bintuni Bay area was divided among three separate *kabupatens*: Manokwari, South Sorong (on the north shore), and Fak-Fak (on the south shore). Tangguh was in Papua province (Irian Jaya), with its capital at Jayapura, 834 kilometers away. There was no *kabupaten* of Bintuni Bay and no province of West Papua. The Governor of the province and the *Bupatis* of the *kabupatens* were appointed by officials in Jakarta. Thus, little capacity, human or physical, existed at either the provincial or *kabupaten* levels. Other than in Jayapura, there was also very little civil society capacity, with the exception of religion-based entities and some human rights/legal defense groups in Manokwari.

Laws providing for Special Autonomy for Papua and Regional Autonomy for all of Indonesia's provinces had only recently been enacted. The leader of the Papua Presidium Council, Theys Eluay, who was instrumental in pressing for Special Autonomy, had just been assassinated after meeting with the TNI in Jayapura. OPM, the militant separatist organization, was believed to be operating extensively in Papua and, in August 2002, was accused of the murders of three expatriate teachers working for the Freeport mine. Concerns about religious tensions were rising, caused in part by fear of radical Islamic militias, such as Laskar Jihad. Although entirely separate from conditions in Papua, an insurgent uprising was raging in Aceh, at the other end of Indonesia.

In 2001, the entire budget of Papua and all its *kabupatens* was Rp. 3.85 trillion, or about \$400 million. Papua (including all its *kabupatens*) in 2002 received about Rp. 5.54 trillion (about \$550 million) in fiscal transfers from Jakarta, and had a GDP of about Rp. 9 million per capita (about \$900). There was a shortage of revenue for basic social programs as well as infrastructure, and much of the limited available funds were spent on “administration” and “unspecified.”³⁹ At that time, it seemed that Tangguh revenues to the province, when they approached peak levels, could have exceeded the entire budget for the province of \$190 million. This, of course, would have had enormous impact on the province and its local jurisdictions. To moderate this impact, in several of its early reports the Panel raised the need to accelerate and smooth out any increase in the flow of revenues to the province and the *kabupaten*.⁴⁰

The poverty level in Papua was 46%⁴¹ (the highest in all 30 Indonesian provinces), and was much higher in remote areas such as Bintuni Bay. Papua’s literacy rate was 74.4%, the lowest of all 30 provinces,⁴² and the average Papuan had only six years of schooling, worse than all but one other Indonesian province.⁴³ Papua ranked 29th out of the 30 Indonesian provinces in the overall Human Development Index, which measures life expectancy, adult literacy rate, mean years of schooling, and adjusted per capita expenditure.⁴⁴ In the Bintuni Bay area, the main economic activity was trawling by foreign or Java-based fishing companies, which did not involve local Papuans. Virtually the sole source of income for locals came from fishing, primarily for shrimp, which was done almost entirely by hand paddled dugout canoe with the catch sold to traders.

³⁹ WORLD BANK, *Papua Public Expenditure Analysis Overview Report* (2005), at 36.

⁴⁰ See the Panel’s First Report (2002), at 16-17; the Panel’s Second Report (2003), at 15; and the Panel’s Third report (2005), at 26-28.

⁴¹ See Appendix 9 (note that figure is from 2000, as the 2001 figure only represents Papua’s capital).

⁴² UNDP, *Indonesia Human Development Report 2004*, at 101 (note that Papua numbers are from 2003).

⁴³ *Id.* at 97.

⁴⁴ BADAN PUSAT STATISTIK (BPS STATISTICS INDONESIA), *Trends of the Selected Socio-Economic Indicators of Indonesia* (March 2008), at 34.

Papua's primary experience with a large external mining project was the enormous Freeport McMoRan gold and copper mine near Timika, almost 500 km away from Bintuni Bay, which had aroused controversy regarding human rights abuses by security forces, environmental degradation, limited benefits to the indigenous people, and social tensions relating to the large number of immigrant workers that had flooded into the area. BP promised to act differently than Freeport had in the past, but there was skepticism regarding its assurances of consultation and engagement. At the same time, BP's engagement led to a momentum of expectations for benefits each stakeholder group hoped to enjoy from the Project. As the Panel said at the outset, "Tangguh was both welcomed as a new model for international corporate conduct and feared because of Papua's past experience."⁴⁵ Indeed, the historic experience of Freeport also raised serious questions within the international corporate sector as to whether it was possible to invest large amounts of capital successfully in the political and social environment of Papua.

At the local level, there were tensions between north shore and south shore villagers over benefits, particularly regarding the new homes and community facilities that would be built for the RAVs, which are all on the south shore. This was exacerbated by many north shore villagers' belief that they owned the gas fields, and that they should be compensated for it under the traditional *adat* system. In fact, many north shore leaders demanded that the LNG facility be built on the north shore so that they would receive greater benefits.

Today, construction of the facility is virtually complete and the transition to operations is well underway and should be completed shortly after this Report. Train 1 is almost 100% commissioned and Train 2 will be in the second quarter of 2009. Operations are set to begin in

⁴⁵ See the Panel's First Report (2002), at 8.

the second quarter of 2009.⁴⁶ Operations personnel are integrated with the Project construction team for the hand off of health, safety, and environment (“HSE”) procedures. Many Papuans are working in the facility, both for BP and its contractors, including some in the highly technical operations control room.

The LNG facility, with its two massive storage tanks, two liquefaction towers, and related buildings and facilities, dominates a portion of the south shore. There are attractive dormitories and recreation/dining facilities for the 500 employees. The plant is self-contained and, other than from the RAVs, it is not visible from other points on shore. The 335 hectares of cleared land are being revegetated with 400,000 seedlings from the surrounding forests, which are being grown in the Tangguh nursery. The two unmanned drilling platforms are operating in the Bay.

No decision has been made regarding construction of additional LNG trains. This will depend on the extent of provable reserves that are found in Bintuni Bay as well as the level of demand. BP is conducting new seismic activity in Bintuni Bay to more accurately determine the size and characteristics of the reservoirs and specifically whether reserves are sufficient to construct a third train. If a third train is feasible, and customers for the gas are secured, a new AMDAL would be prepared that could update BP’s obligations to the region. This process would provide an opportunity for the Bintuni Bay *Bupati* and other locals to participate in consultations before any decisions are taken.

The Bintuni Bay region around the LNG facility has changed dramatically. The RAVs of Tanah Merah and Saengga have been entirely rebuilt. Each has a new home for every family registered in the baseline census. These electrified homes have three bedrooms and separate

⁴⁶ Start-up was delayed as a result of BP’s discovery of several defective valves. Upon learning that certain valves that had been produced in Indonesia were defective, although they had passed the supplier’s earlier quality control tests, BP ordered the replacement of more than 1,600 valves throughout the facility, delaying operations by several months. This decision was safety based, and while costly, made clear that safety is BP’s top priority.

cooking and toilet facilities.⁴⁷ Each of the villages has new public and religious facilities that are large, comfortable, and modern. Onar also has the same new homes for each of the original residents of Tanah Merah that chose to settle in Onar, as well as new homes of a different design for each of the original residents. All of the DAVs have new systems for clean water collection, some electricity, improved schools and teacher housing, and health care kiosks manned by trained local personnel. Fishing boats in the RAVs are now outfitted with outboard motors and many fishermen have modern nets. Fishermen are being taught engine maintenance and net repair. Women in the RAVs are engaged in various microenterprises, including growing new crops and producing shrimp crackers. Many have taken literacy courses and some families are participating in saving and borrowing programs to grow their businesses.

The greater Bintuni Bay region has also changed economically. Babo and Bintuni, the two larger towns in the region, are growing economically. Babo is the location of the Tangguh base camp and of the airport developed by BP for Tangguh. Commercial air service now exists there for the first time. (BP rebuilt the Japanese constructed runway that was destroyed by U.S. bombers during World War II). Bintuni, as the capital of the new *kabupaten* of Bintuni Bay, has more than doubled in population to about 15,000, has an active commercial airstrip, and shows signs of significant commercial development.⁴⁸ The *Bupati* is also building an entirely new and separate government center with housing and offices for *kabupaten* workers. The road from Bintuni to Manokwari, previously more than a ten hour drive, is being improved. Although there have been some disputes related to Tangguh construction recruitment policies, no social tensions are apparent at either Babo or Bintuni.

⁴⁷ See Appendix 3.

⁴⁸ Despite this economic progress, Teluk Bintuni still lags behind in most social and economic indicators. For example, among the nine *kabupaten* in Papua Barat, Teluk Bintuni ranks 8th in the Human Development Index (which measures life expectancy, adult literacy rate, mean years of schooling, and adjusted per capita expenditure), and 8th in its net enrollment rate for primary school students. See Appendix 9.

Serious concerns still exist. Because of the safety exclusion zone around the two docks, RAV fishermen must travel greater distances to get to choice fishing grounds, and some are violating the exclusion zone. There is no culture of maintenance and repair, so torn fishing nets and broken outboards are often discarded. There are a large number of migrants in each of the RAVs. Their population has grown from 1,074 to 2,153, with Onar having the most dramatic growth of almost 300%. Many of the migrants are sharing or renting homes of the original residents. This has raised tensions over agricultural and fisheries resources, village governance, population management, and social issues including prostitution, alcohol, and gambling. There is substantial commercial activity, particularly at Tanah Merah Baru, where many kiosks sell diverse foods and goods, and there is a thriving motorcycle taxi service driving residents through the village. Many of these activities, however, are run by recent migrants.

Political stability in the region has improved considerably. While changes in the future are always possible, there is a recognition that the province of West Papua will remain, its capital will be Manokwari, and Tangguh will be in that province. The Governors of both Papua and West Papua provinces and the *Bupati* are now popularly elected in free elections. In these three instances at least, there has been an improvement in the performance and accountability of these officials and their administrations.

The region's fiscal condition as well as fiscal transparency at the national level also have improved dramatically. The central government's move toward regional autonomy and its attempt to counter separatist sentiment in Papua with Special Autonomy have resulted in large capital inflows to the province, which are beginning to show results in health and education spending and in infrastructure development. The poverty level in Papua, while still the highest

in Indonesia, has declined 10% to about 36%.⁴⁹ In 2009, the total fiscal transfers will reach almost Rp. 24 trillion.⁵⁰ This would have exceeded the entire GDP of Papua in 2002. By 2006, the Papua GDP had more than doubled to almost Rp. 56 trillion, or about Rp. 21 million (more than \$2,000) per capita.⁵¹ Over time, with revenues to the province and the *kabupaten* rising rapidly, it has become clear that the additional revenues from Tangguh, while substantial, would be a much smaller percentage of the totals for all jurisdictions.

The central government has sought to bring an added element of affirmative economic support and stability to Papua. Fiscal transfers have grown dramatically, both under Special Autonomy and the regional autonomy distribution formulae that apply to all provinces. In 2008, Jakarta also made clear that Special Autonomy would apply equally to West Papua province and that, for now at least, there would be no further division of Papua.

On the security front, several positive developments have taken place. The GOI during this period has taken several steps to limit possible abuses by the TNI in providing security to industrial facilities. As the Panel began its assignment, the police had just been separated from the TNI. Over the period, this separation has led to a diminished militarization of the police. This was evident in the Panel's first visit, when then Papua Police Chief I Made Pastika, who went on to become Governor of Bali, told the Panel that this reorganization of the police would lead to a new "paradigm" in which there would be more community based policing and the TNI would only be needed for the most serious threats.

⁴⁹ Although the poverty level has declined, it is still significantly higher than the national average of 15.4%. See Appendix 9.

⁵⁰ These transfers are divided between the two provinces. Papua will receive about Rp. 17 trillion and West Papua about Rp. 7 trillion. West Papua, with a population of about 26% of the total, will receive approximately 29% of the fiscal transfers, in advance of Tangguh revenues.

⁵¹ In 2009, West Papua had a GDP per capita of Rp. 13 million, and Papua had a GDP per capita of Rp. 23.8 million. See Appendix 9.

Further, in the Military Reform law of 2005,⁵² the TNI's responsibility to secure all "vital national assets" was eliminated, and its involvement in private sector business activities was reduced. Under Defense Minister Juwono Sudarsono, the military has adopted a counterinsurgency policy which respects local culture and reduces the incidence of and the potential for brutality and other human rights abuses. Of course, this could change and some regional commanders may not implement this policy fully. But, for now at least, national policy is moving in the right direction.⁵³

The GOI also has moved steadily toward more transparency and accountability in its fiscal affairs, and toward the reduction of corruption and extortion by public officials. The KPK recovered Rp. 410 billion (about \$40 million) of state assets from corruption cases in 2008, nearly ten times the amount the KPK recovered in 2007. Government officials throughout Indonesia, including several in Papua, have been arrested for embezzlement. At the provincial level, there also has been an effort to increase transparency and reduce corruption, particularly by Governor Suebu, who considers this a priority. Nevertheless corruption continues to pose a serious problem in Papua and West Papua, with the Indonesian chapter of Transparency International recently ranking Manokwari as the third most corrupt city in Indonesia.⁵⁴

In addition, under Finance Minister Sri Mulyani Indrawati, the Director General of Fiscal Balance now compiles, analyzes, and publishes the allocations from each source of government spending, allowing external parties to monitor and assess the results. The Panel was recently informed that Indonesia will soon adopt the EITI, which would publish further information on specific projects, including Tangguh.

⁵² See the Panel's Third Report (2005), at 10-11.

⁵³ In addition, the threat of radical Islamic militias operating in Papua appears to be much reduced, at least at this point.

⁵⁴ ANTARA, Jan. 22, 2009.

Although much has changed, Tangguh remains a project of great significance to Indonesia and to Papua. It is important in its own right because of the large foreign exchange revenues it will contribute, the opportunities and benefits it will provide to Papuans, and the long length of the operating phase. But Tangguh may be even more significant as a precedent. Until now, few western companies have invested in Papua; the experience of others suggested that the barriers to success and the risks of failure were high. If Tangguh continues successfully to manage its relations with the indigenous people and its effects on the local environment, it will demonstrate to companies worldwide that large investments can be made successfully in Papua and that such investments can bring benefits to the country and its people.

XI. Principal Issues for the Future

Despite the dramatic changes in Papua and the Bintuni Bay region since 2002, many of the issues that most concerned the Panel at the outset are still with us today in one form or another. Very few have disappeared entirely. The evolution of these issues strongly suggests that they are likely to remain significant for the operating life of the Project. BP will need to be patient, vigilant, and flexible as it seeks to avoid problems and build a self-sustaining stable environment around the Project.

The key issues that will remain for the long term include:

A. Tensions between north and south shore villages

Adat related demands, primarily by north shore villagers, have been a source of tension since initial exploration of the area by ARCO.⁵⁵ North shore villagers believe they have a claim to payment deriving from traditional ownership rights of the gas, which in part underlies their land. These strains were exacerbated by the substantial benefits that, pursuant to the LARAP,

⁵⁵ See, e.g., the Panel's Fifth Report (2007), at 23 and the Panel's Third Report (2005), at 16.

were provided to the RAVs, all of which are on the south shore. Initially, there were demands that BP build the LNG facility on the north shore, which was not technically feasible, and there were threats to disrupt operations. More recently, *adat* leaders have requested payments from BP and from the GOI. Throughout, the Panel has recommended that BP make clear that this issue is for the government to address and that, as a contractor, BP cannot deviate from the terms of its PSC. BP has abided by this advice.

It is now possible that these *adat* claims could be resolved, at least for now. In discussions between the GOI and the *Bupati*, an agreement has been reached that the GOI will provide funding of \$600,000 for infrastructure projects on the north shore. A proposal for use of such funding has been submitted by the *Bupati* to BPMigas, which is consulting with other Departments. The Panel encouraged the GOI to resolve the issue promptly. There are complications about how this payment will be financed. However, if it is implemented, it would certainly reduce one of the principal sources of tension between north and south shore residents. BP should cooperate fully in any GOI plan to resolve this issue.

B. Tensions from in-migration

This is, so far, primarily an issue in the RAVs. There is very little in-migration in the north shore DAVs. The population of Onar has increased by almost 300%, and the other RAVs have also grown substantially. Unfortunately, competition for scarce resources and, to some extent, alcohol, prostitution, and gambling has accompanied the influx of migrants. Despite sustained efforts by BP and its contractors to keep in-migration to the minimum possible, it has occurred and cannot practically be undone. This has created social tension, and has the potential to marginalize some of the indigenous villagers.

A process is underway involving village governments and the *Bupati* to regulate in-migrant activities. These rules would require registration, deposit of fees for transportation back to the migrants' place of origin, and limitations on length of stay and permissible activities, including participation in agriculture and fisheries.⁵⁶ Local government leaders and not BP are the people to decide what, if any, restrictions should be placed on migrants. BP should continue its practice into the operating phase of the Project of only hiring at its offsite recruitment centers, and not hiring in-migrants at DAVs or counting as DAV employees anyone other than originally-registered DAV residents. BP should ensure that this practice is also followed by its contractors. Through close monitoring, BP must also seek to ensure that the use of the CAPs, and the other ISP programs, benefit to the maximum extent possible the original members of the community and support them economically. The in-migration problem may become less prominent now that there are no new jobs in construction, and there are fewer new economic opportunities in the RAVs.

However, migration is bound to continue into the *kabupaten* generally and into the town of Bintuni, which has already doubled in population in the past four years to about 15,000. This increase is caused in substantial part by Bintuni's designation as a *kabupaten* capital, and not just because of Tangguh. The *Bupati* believes the more diverse population is good for the region economically and culturally. Thus far, unlike in the RAVs, this influx has not created any serious problems such as unemployment, crime, or social unrest. Although there may not be a

⁵⁶ The RAVs and Babo, and separately, the *kabupaten*, have drafted local regulations (PERDAs) that impose restrictions on migrants. These regulations include: mandatory registration and the payment of a "guarantee" by migrants to the government (which is generally defined as a fee equal to the cost of transportation back to the migrant's region of origin) in return for a temporary certificate of domicile; a prohibition against migrants building temporary or permanent homes; and a prohibition against migrants starting a business (migrants are, however, allowed to trade in the central market upon receipt of a permit from the village government). "Outside businesses" are also generally restricted from building a permanent facility without permission from the village government, and are prohibited from directly harvesting marine or forest products (although they may act as buyers from local businesses and residents).

consensus on appropriate policies relating to in-migrants, it is for the *Bupati* and the local DPRD to determine and manage its effects.

C. Security and human rights

From the start, concern regarding a possible influx of TNI and police into the area to guard the LNG facility, and how they might act, has been a serious issue. This concern is likely to continue during the operating phase. BP's conception and implementation of its ICBS has been successful thus far. With the early support of the Panel, BP secured regional and national endorsement for the ICBS concepts and, under a BPMigas policy, executed the JUKLAP agreement with the Papuan Police. The JUKLAP delineates their respective roles and incorporates the Voluntary Principles and the Basic Principles on the Use of Force and Firearms by Law Enforcement Officials in the periodic human rights training required by the agreement. The community security guards, who are the first line of defense and are almost all Papuans, also have worked effectively during the construction phase. This new form of security is becoming a model in Indonesia. The GOI is asking other companies to include similar programs in their PSCs and is asking Freeport to look to community security as well.

This is a real change in attitude from seven years ago, when many thought the ICBS concept was unworkable. But the challenge will increase in the operating phase. The Tangguh installation now represents a potential target for terrorists and local unrest. Both the police and the TNI will need to be prepared to protect it from certain threats, although its inaccessibility and remoteness reduce these threats. Given the new and different threats that the facility could face as an operating LNG plant, BP should review ICBS, in parallel with its review of all ISP programs, to determine if any changes are appropriate. This security review should involve consultation with senior BP Group security personnel or other experts who are experienced with

security at locations that are remote and difficult to access. The review should include even remote contingencies such as piracy or a terrorist attack against the LNG facility.

BP should also seek to consult more closely with the TNI. BP has worked very effectively with the police. But because BPMigas reached agreement only with the national Police on a security framework, there is no formal agreement (like the JUKLAP) with the TNI. Thus, the TNI has interacted less with BP; it is not obligated to participate in any of the human rights training or the annual joint training operations; and there has been no training involving the TNI that simulates an actual emergency.

From now on, all security personnel involved with protection of Tangguh, including TNI personnel, particularly those stationed at Bintuni or Babo, should be offered and encouraged to take human rights training. Thus far, all participating security forces have welcomed human rights training. This training also has been endorsed by NGOs involved in human rights in Papua, which have praised BP for the training that it has sponsored for security forces.

In addition, the TNI should be encouraged to participate in the joint annual training exercise under the JUKLAP, as it did last year. It has already proved to be a useful mechanism to acquaint security forces with the ICBS framework. Thus far, the TNI has not been a full participant in these exercises, in part because it is not a party to the JUKLAP. To the extent possible, since both may be involved in Tangguh security, the local police and the TNI should participate each year in this annual training exercise. Also, the annual training should be expanded to simulate an emergency security situation at the facility. This is a point the Pangdam emphasized is important to effective training. The Panel agrees. BP should consult with the TNI officials and BPMigas to advance this proposal. Although TNI participation in the training may

raise some concerns locally, it is the only effective way to ensure that the local and regional TNI understand their roles under ICBS in an emergency and can execute them properly.

D. Environment

Protection of the Bintuni Bay environment has been a principal focus of the Panel from the start, even before the AMDAL was completed. Designing, constructing, and operating a major LNG facility in a remote, ecologically sensitive area presented numerous challenges. BP has sought to avoid, minimize, and mitigate any adverse environmental impacts. The AMDAL that was approved by the GOI sets out a rigorous, comprehensive program that includes legally binding environmental monitoring requirements throughout the life of the Project. Through the construction phase, although some breaches have occurred, BP has done a commendable job in meeting its AMDAL commitments and in taking other actions to protect the environment.

As the Project enters the operating phase, with LNG tankers in the Bay and liquefaction operations onshore, the risks to the environment are potentially larger. BP has committed to meet rigorous standards, impose monitoring procedures and reviews that will identify and correct any problem quickly, and seek continuous improvement. Because the consequences are so serious, BP must remain vigilant as it continues to monitor and control activities that might impact land, water, or air resources. In addition, maintaining a transparent, open, and inclusive process is crucial to continued environmental success.

BP has already determined that it will route all LNG tankers around the Raja Ampat Marine Preserve in northwestern Papua, an area with a sensitive ecosystem that is also a crucial route for whale migration. The modified route will add about 550 km for each tanker, thereby increasing costs. Similarly, based on the recommendations from the Marine Mammals studies, the boat route from Babo to the LNG site has been redefined to keep boats further offshore and

create an exclusion zone for Sousa dolphins. In line with the Panel's recommendation, a long-term monitoring and management plan is in place for marine mammals and reptiles.

In addition to avoiding adverse impacts, BP has made significant contributions to protecting and improving the environment of the region and of Papua generally. The Panel has supported these efforts from the outset, collectively called the Biodiversity Action Plan, which includes:

- The Conservation and Training Resource Center ("CTRC"), a partnership involving international NGOs, government, and Papuan universities. The CTRC was designed to provide a conduit for developing practical, applied conservation capacity through state-of-the-art methods in engaging environmental officials, NGOs, civil society, and academia. The plan's process encourages Indonesian mentorship for developing a locally-owned conservation management plan.
- Development of the Bintuni Bay Mangrove Nature Reserve Management Plan, in partnership with UNIPA, The Nature Conservancy, Conservation International, IPB, local offices of the Ministry of Forestry, local, provincial and national government bodies, various other conservation organizations, and civil society groups. The Plan has been adopted by the Ministry of Forestry.
- The Bintuni Bay Resource Atlas, a regional land-use atlas developed with significant Papuan input from communities, universities, and government.
- The Ecology of Papua, a comprehensive work published as part of the Ecology of Indonesia series, which represents a major contribution to cataloguing and preserving the biological diversity of Papua's unique ecosystems.

In addition, BP conducted surveys of terrestrial flora and fauna and marine mammals and reptiles. These surveys are important contributions to strengthening the capacity of conservation organizations working in Papua, particularly in the Bintuni Bay area, and provide valuable baseline data for conservation programs.

Last year, the Biodiversity Action Plan was placed on hold while Project resources were focused on the transition to the operating phase. Because BP's support is vital to its many environmental partners, and the important gains already achieved could be lost if a lengthy hiatus ensues, the Panel again urges BP to reactivate the Biodiversity Action Plan as quickly as possible. BP endorsed this recommendation last year. Specific environmental issues are addressed above in Section IX.

For the future, BP has developed a series of Environmental Standard Operating Procedures ("SOPs") as part of the Environmental Management System ("EMS") being designed to provide operational readiness.⁵⁷ The EMS is targeted to obtain ISO 14001 certification before the end of 2009. The Panel has endorsed this goal.

In addition, external environmental monitoring will continue in several ways. First, the Ministry of Environment ("MOE") conducts an annual site visit, and audits BP's compliance. BP also submits AMDAL compliance reports to the MOE and other Indonesian authorities every six months. Second, the Lenders' Panel, on behalf of the ADB and the Japan Bank for International Cooperation ("JBIC"), conducts regular reviews and issues environmental compliance reports that are posted on the ADB website. These reviews will continue for the duration of the loan period (15 years).

⁵⁷ These SOPs address the following activities: 1) Environmental compliance monitoring; 2) Environmental monitoring; 3) Environmental reporting; 4) Non-hazardous solid waste; 5) Hazardous waste; 6) Fuel and chemical storage and handling; 7) Wastewater management; 8) Environmental sampling and analysis; 9) Flora and fauna protection; and 10) Marine mammals and sea reptiles protection.

E. Safety

It is critical that concern for personal safety continue throughout the life of the Project. However, past performance is not a guarantee of future results. Well-tested systems, daily vigilance, and thoroughly trained personnel are essential. The Project during construction had, until last year, an almost flawless safety performance. Unfortunately, on May 24, 2008, Tangguh suffered its first fatality. Despite multiple layers of physical and communications protection, a Japanese engineer, who was not properly secured, fell through a floor opening created by the removal of a grating and plunged 28 meters to his death. BP, with KJP, conducted a full investigation, determined the causes of the incident, and has implemented new safety training for all personnel. Although marred by this incident, Tangguh's safety performance otherwise continued to be top level. Remarkably, at the time of the Panel's visit in December 2008, there had only been eight "days away from work" cases on a project that had logged more than 83 million work-hours since March 2005. As with the environment, a continuing vigilance on both safety procedures and training will be required throughout the life of the Project.

F. Sustainable Development

It was clear from the start that Tangguh cannot provide a long-term source of outside income to a large number of residents of the region and that enterprises more indigenous to the region must be developed. The LARAP required a job in the construction phase for every household in the RAVs, but there are not enough suitable jobs in the operating phase for such extensive local employment. Thus, at the outset, BP instituted the Diversified Growth Strategy ("DGS") required by the AMDAL, designed to encourage microenterprise and foster sustainable and diverse economic development. BP also later built the vocational training center at Aranday; engaged in efforts to enhance revenue from fishing, the primary cash crop; and, more broadly,

instituted the BHBEP to develop private sector capabilities throughout the region. These programs, which have been important throughout, are even more critical in the period ahead in light of the demobilization taking place among local workers and the limited job opportunities in the operating phase.

The specifics of these programs, and their implementing partners, have changed over time. But throughout, the Panel has been impressed with progress made in the face of real challenges and BP's flexibility to modify the program to accomplish results. BP's current partners at the local level, SatuNama and IPB, have demonstrated creativity and flexibility in their efforts to develop effective programs. SatuNama is making progress in improving agriculture and fishing; IPB is focusing on microenterprise development. Immediate results are modest, but encouraging. The current programs are more fully described in Section VI above. As with other social/economic programs that begin with a low base, large gains will take time and require a sustained, flexible effort, which the Panel fully endorses.

G. Papuan Human Resource Development

On almost every visit, Papuan leaders emphasized the important role Tangguh could play in Papuan human resource development. To many, it was their first priority. They properly view development of their physical resources as the best opportunity to develop their indigenous human resources. They want to see Papuans not only as managers at Tangguh, but in oil and gas projects worldwide. This is a vision shared by the Panel. The AMDAL requires that Papuans fill an increasing percentage of positions during operations, culminating in 100% of skilled positions, and significant portions of supervisory and other management jobs, in 20 years. BP's technical training program at Bontang has produced 54 Papuan technicians, who are now on the job at Tangguh, allowing BP to meet its more immediate skilled employment targets.

This is a good start. But in the Panel's meetings with these bright, young Papuans, it is clear that a comprehensive, long-term effort is needed that includes a commitment by senior management. To help with their success, this should include an accessible English language training program. For many reasons, BP will lose many of these technicians over time. Thus, BP needs to ensure that many more Papuans are trained to take these positions. It is therefore critical that BP management conduct a yearly review of progress and determine what, if any, additional actions are needed to guarantee compliance. To provide the proper focus for attaining this goal, annual performance reviews of BP managers should consider incentives and penalties for meeting or failing to meet these targets.

H. Governance

The importance of building governmental capacity was critical from the outset. The establishment of the new province of West Papua and the new *kabupaten* of Bintuni, which was created in 2003, brought this need into sharper focus. The performance of these jurisdictions in budget and fiscal matters and in delivering programs will be a key factor in ensuring that Tangguh contributes effectively to the economic and social development of the region. Building this capacity presents many challenges; there are 22 administrative units in the Bintuni *kabupaten* alone, but there is little infrastructure for these units, and there is constant rotation of its officials. Further, there is little civil society capacity to promote good government. Nonetheless, sound and transparent governmental management is a prerequisite to effective program delivery, which is necessary for Tangguh to be successful.

Thus, no matter how frustrating in the short term, BP must maintain a sustained, long-term effort to increase capacities of government and civil society. This will be required at three distinct levels: village, *kabupaten*, and province. Flexibility will be needed and quality partners

are of course essential. In order to achieve lasting success through institutionalizing capacity, these programs will be needed for the duration of the Project. BP's governance programs are described in more detail in Section VII above.

I. Health

BP's health programs have demonstrated how an effective and targeted local effort can produce near term results that are meaningful. The Panel has been very positive about the TCHU throughout. The decrease in malaria prevalence has been most remarkable; but the increased immunization coverage, nutrition, sanitation, and clean water supplies have also improved health conditions in the DAVs. However, the past year also illustrates how tenuous are these gains, and how easy it is to regress. In September and October, there was a serious recurrence of the seasonal rotavirus diarrhea epidemic in the north shore DAVs that had been subdued in prior years. Although total cases did not increase, 13 children died, worse than in two of the past three years. The exact causes of this failure are not entirely clear.

Last year the TCHU transitioned its activities to the regional *yayasan* ASP, which was established this past year to broaden the program to a wider area and expand its donor base. It is not clear to the Panel whether the increase in diarrhea deaths was caused in part by the transfer of the TCHU to the new entity, which may have diluted the attention paid to health care in the DAVs. But whether or not this was coincidental, the return of the diarrhea epidemic to north shore DAVs demonstrates the fragility of progress unless there is continuing focus on building the institutions needed to sustain these improvements.

The Panel supports the expansion of the TCHU to the broader region. But the creation of the new *yayasan* and the expansion of the program must not come at the expense of progress in the DAVs, which must be BP's primary focus. Sustaining important gains in an area as critical

as health must remain a top priority throughout operations. Thus, the Panel recommends that BP review the reasons for the setback and take steps to ensure that the gains earlier made are restored in 2010 and maintained thereafter.

HIV/AIDS continues to increase dramatically in Papua. The prevalence rate is now estimated to be 2.4%, the third-highest provincial rate in Indonesia. This epidemic could reach disastrous proportions if not checked. BP participates in the IBCA, which is considering establishing a Papua chapter this year. It also supports NGOs in Papua providing services to high-risk groups and conducts HIV awareness and prevention programs at Tangguh. BP should take the lead in establishing the Papua chapter and ensure that the IBCA provides sufficient resources to Papua. BP should make a continuing contribution to those resources.

J. Education

Primary and secondary education is another example of a basic need that must remain a priority for the long term if Bintuni Bay students are to progress to the level needed to compete with those from other regions of Indonesia, which should be the program's goal. However, like other programs that are the responsibility of local government, success is not simply resource-constrained. It depends also on the capacity of the local government and the will of its constituents. There is little existing community support or institutional capacity, thus requiring a sustained effort at all levels. Early efforts were not well coordinated with local government. Progress since has been slow, but meaningful. The three local implementing partners, YPPK (a Catholic education foundation), YPK (a Christian education foundation), and Muhammadiyah (an Islamic foundation), have worked to support teacher capacities and supplies. The British Council has focused its activities at the primary and junior secondary levels, already with positive results. It has conducted extensive teacher training, covering 71% of Bintuni Bay

schools, and established standards for its teachers. It has also worked to increase capacity of the *kabupaten's* Office of Education. These forms of support, whether through these or other implementing partners, will be needed for the long term.

The Panel has met with leaders of Papuan universities on every visit and has been impressed with their capabilities, but also made aware of their limitations and needs.

Scholarships for Papuans and other support for Papua-based universities have been a priority of the Panel since 2002. Although not as urgent as the local education program, these programs can elevate many deserving Papuans and identify Tangguh as a source of their development. The Panel continues to urge BP to increase its long-term support for these programs. More detail on these education programs is in Section VII above.

K. Managing Expectations

BP has, thus far, met its AMDAL obligations and largely implemented the Panel's recommendations to bring tangible benefits in health care, drinking water, education, sustainable employment, and governmental capacity to the Bintuni Bay region. Although there are some complaints about specifics, all of these programs have progressed meaningfully over the period. In meetings with local leaders this year, there were few complaints and much gratitude about these improvements. However, there was, and is still, a momentum of expectations against which BP is judged. It will no longer be judged only in relation to Papua's previous experiences, particularly at the local level. BP's increased consultative process over the period has been helpful in explaining the content and pace of benefits. But, even with regular consultation, there is often confusion or misunderstanding, and such consultation itself at times increases expectations and encourages greater demands.

As the Project moves into the operating phase, there is a need to establish durable institutions that would ensure continuing and regular dialogue between all important stakeholders, including the Bintuni Bay community, the local *kabupaten* and provincial governments, and the GOI. Thus, the need to consult and explain to help manage expectations at all levels will continue. It may even increase in the near term after the operating phase begins, as a result of the reduction in local employment and the delay before large Tangguh-based revenues begin to flow to the region. Thus, in addition to its public information program, BP must continue to consult with *kabupaten* and provincial leaders and with local people on these specific issues and regarding expected benefits.

L. Employment and Demobilization

For several years, the Panel has highlighted the need to meet or exceed all DAV and Papuan employment targets and, more recently, to socialize and mitigate the effects of demobilization. BP and its contractors have consistently exceeded the AMDAL requirement of 20% employment of Papuans. Through much of construction, since 2005, Papuans have comprised more than 30% of the workforce.⁵⁸

The demobilization of workers from construction jobs will be completed in 2009. At the time of the Panel's visit, the workforce had already been reduced by more than half, from a peak above 10,000 to about 4,600. Employment of Papuan and DAV workers has declined more quickly, in part because of the job skills required as construction nears completion. Papuan employees in construction have declined from a peak of more than 3,400, or almost 40%, to 1,300, or about 31%, in November 2008. DAV workers have been reduced from a peak of 725, or 13%, in June 2006 to 186, about 4.6%, when the Panel visited. Thus far, there have been no

⁵⁸ See Appendix 8.

serious problems resulting from this demobilization, although some mistakenly asserted that the Project is deliberately releasing local workers more quickly.

There are limited opportunities for employment of DAV workers after the construction phase. Approximately 75 demobilized workers have been hired in short-term jobs in DAVs, such as in clean water and housing initiatives. There will be opportunities in community security and in revegetation. More significant for the long term is the need to elevate Papuans to higher skill levels and ultimately to the skills needed to be managers and supervisors in the LNG plant. KJP has provided “upskill” training sessions, which have resulted in 38 out of 40 Papuans passing qualification for semi-skilled logistics warehouse positions. An additional 30 DAV workers were selected for jobs with Harbor & Marine contractors. It is essential that BP and its contractors follow through on these early successes in employing demobilized workers.

The AMDAL requires BP to meet targets for employment of DAV and Papuan workers throughout the operating phase. These targets, which are different for each skill level, increase over time to 100% Papuans for all but skilled and managerial positions 20 years after operations begin.⁵⁹ Thus far, BP and its contractors have met all requirements for Papuan targets in the operating phase, employing 555 Papuans, or 51% of the early operations workforce. However, it is unlikely to meet the requirement that at start-up 100% of unskilled workers be from DAVs; only 50 of the 121 unskilled positions are currently filled by workers from the DAVs. The difficulty and importance of meeting these targets demonstrates the need for an annual review and a continuing high-level commitment. BP has established a Papuan Commitment Steering Committee to help meet these targets. In addition to meeting the 100% DAV target in 2009, the

⁵⁹ See the Panel’s Fifth Report (2007), at 16, and the Panel’s Sixth Report (2008), at 10, for discussion of AMDAL targets.

Panel again urges BP to provide management support for this Committee's work and to publish a public report annually on Papuan employment in the Project.

The challenge of limited employment and other economic opportunities for Papuans apart from Tangguh will remain a serious issue for the long term. In addition to meeting targets for jobs connected to the Project, this challenge must be addressed through sustained support for fishing, vocational training, infrastructure development projects, and related livelihood development initiatives.⁶⁰

M. Public Information

From the outset, the Panel has pressed BP to expand its communications programs, both locally and more broadly. BP has responded and some progress has been made, particularly in the Bintuni Bay region, where significant obstacles existed. The radio, the quarterly *Tabura* newsletter, the monthly newspaper, *Kabur dari Teluk*, village bulletin boards, and comic book handouts have all been useful. But these media outlets, particularly the radio, need to be expanded.

More recently, BP has begun active engagement with and training of Papuan media, who will provide the primary coverage of the Project; and more limited engagement with the national and international media in Jakarta. This has been useful. It is particularly necessary because of the GOI policy restricting foreigners, including journalists, from entering Papua. This engagement must continue if BP is to receive accurate coverage of Tangguh accomplishments and of any incidents or accidents that may occur; and avoid misconceptions and untruths.

With the Tangguh LNG project in operation, BP should develop a full-fledged and adequately funded public information program, making full use of printed and electronic modes

⁶⁰ Programs related to economic enhancement through livelihood development are discussed separately in Section VI.

of information. This program should bear in mind the various levels of the target audience: 1) the Bintuni Bay community: north shore and south shore; 2) the Bintuni Bay Regency: the bureaucracy and the legislative council; 3) the Governor of West Papua, the provincial bureaucracy, and the provincial legislative council (DPRD) in Manokwari; 4) the higher education community in Manokwari; and 5) the TNI and police leadership of Papua.

The message underlying all public information products is that BP's Tangguh project is not merely a business enterprise. It is also a significant contributing factor to the development and progress of Indonesia, and West Papua in particular.

Recommendations

Tensions between North and South Shore Villagers

- 40. BP should actively work with the *Bupati* and with the GOI in an effort to expedite assistance by the GOI that would help address *adat* claims by north shore villagers.**

In-migration

- 41. 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. BP should also require its contractors to adhere to this practice.**
- 42. 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.**

Safety

- 43. 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.**

Papuan human resource development

- 44. 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.

Employment and demobilization

- 45. 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.**
- 46. 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.**

Public information

- 47. 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.**

XII. TIAP 2

The TIAP has been operating since March 2002. Following the publication of this report and public meetings in Washington, D.C. and London in May, the Panel will end. But external review of the Tangguh project will continue.

BP has announced that it will commission a new Tangguh Independent Advisory Panel 2 ("TIAP 2") that will operate for five years. BP has stated that "[t]he focus for TIAP 2 will be to offer advice to BP on developments, and Tangguh's performance, in the matter of the non-commercial aspects of the Project—while not duplicating the existing independent external review procedures."

The Lenders' Panel, established by ADB and JBIC, will continue to visit the LNG site and the Bintuni Bay region to report on environmental issues for the term of the loan, and on resettlement and integrated social program issues through 2009.

The Panel commends BP for its decision to extend external independent monitoring and will follow the activities and reports of TIAP 2 and the Lenders' Panel with great interest.

The Panel also thanks BP staff, in London, Washington, and especially in Indonesia. For the entire period of the Panel's existence, they have worked diligently and thoughtfully to make the Panel's work effective, thorough, and accurate. Many requests were made for information and regarding people or locations that the Panel wanted to visit, and all were answered fully. Most importantly, the Panel was promised independence and that promise was kept. All of the Panel's decisions were made by its members, acting with total independence of judgment.

Finally, the Panel wishes to extend its heartfelt thanks to the people of Papua and Bintuni Bay, both its leaders and its villagers, who welcomed the Panel at every visit with hospitality and warmth. Each of the members of the Panel will always have fond memories of the many local people they met on every visit. The Panel ends its charter optimistic that Tangguh will deliver many benefits to the region and will significantly improve the lives of its people.

APPENDICES

APPENDIX 1

MAP OF WEST PAPUA



Note: Borders are inexact.

MAP OF PAPUA PROVINCE



APPENDIX 2

INDIVIDUALS AND ENTITIES CONSULTED

CONSULTATIONS IN 2008 LISTED IN BOLD

Government Officials: Indonesia

Boediono, Coordinating Minister for Economic Affairs

Dr. M. Lobo Balia, Environmental and Regional Affairs, Department of Energy and Mineral Resources

H.E. Soemadi Brotodiningrat, Indonesian Ambassador to the United States*⁶¹

Edi Butar-Butar, Media Relations, Ministry of Defense

N.T. Dammen, Charge d'Affaires, Embassy of Indonesia in London*

Tedjo Edmie, Director General of Defense Planning, Ministry of Defense

Ibnu Hadi, Counsellor, Economic Division, Embassy of Indonesia in Washington, D.C.*

Djoko Harsono, Executive Advisor, BPMIGAS

A. Edy Hermantoro, Director of Oil and Gas Upstream Business Supervision, BPMIGAS

Dodi Hidayat, Deputy of Operations, BPMIGAS

R. Ir. Pos Marojahan Hutabarat, MA, Advisor to the Minister of Defense on Economic

Mohamad Ikhsan, Senior Advisor, Coordinating Ministry for Economic Affairs

Sri Mulyani Indrawati, Chairman of National Development Planning Agency (Bappenas)*

Gellwynn Jusuf, Adviser for Social-Economics, Department of Marine Affairs and Fisheries

Kadjatmiko, Secretary, Directorate General of Fiscal Balance, Ministry of Finance

Manuel Kaisepo, Minister for Eastern Territories*

Ahmad Kamil, Deputy for Home Affairs, Coordinating Ministry for Political, Legal and Security Affairs

Dr. Dorodjatun Kuntjoro-Jakti, Coordinating Minister for the Economy*

Bonnie Leonard, Ministry of Defense

Nabiel Makarim, Environment Minister*

Andi Mallarangeng, Spokesperson to President Yudhoyono

Mardiasmo, Director General of Fiscal Balance, Ministry of Finance

Mardiyanto, Minister of Home Affairs

Albert Matondang, Deputy for Foreign Policy Affairs, Coordinating Ministry for Political, Legal and Security Affairs

Mohammad Ma'ruf, Minister of Home Affairs*

Agung Mulyana, Director, Department of Home Affairs

Sri Mulyani Indrawati, Minister of Finance

Dr. Daeng Mochamad Nazier, Director General, Department of Home Affairs

A. Sidick Nitikusuma, Senior Executive Advisor, BPMIGAS*

Freddy Numberi, Minister of Maritime Affairs & Fisheries

Progo Nurdjaman, Secretary General, Department of Home Affairs

I Made Pastika, Chief of Police for Bali, formerly Chief of Police for Papua*

R. Priyono, Chairman, BPMIGAS

Agus Purnomo, Special Assistant to the Minister, Ministry of Environment

⁶¹ * indicates that the person no longer holds the listed position

Mayjen Setia Purwaka, Head of the Papua Desk of the Coordinating Minister for Security and Political Affairs*

Yanuardi Rasudin, Deputy Minister, Ministry of Environment

Lt. Gen. Agustadi Sasongko, Secretary to the Coordinating Minister, Coordinating Ministry for Political, Legal and Security Affairs

Maj. Gen. Romulo Simbolon, Deputy for Defense, Coordinating Ministry for Political, Legal and Security Affairs

Dr. Sodjuangon Situmorang, Director General of Public Administration, Department of Home Affairs

Djoko Soemaryono, Secretary General to the Coordinating Ministry for Politics & Security

Mardiasmo, Directorate General of Fiscal Balance, Ministry of Finance

Dr. Heru Subiyantoro, Director General, Center for Research on Economics and Finance, Ministry of Finance

Widodo Adi Sucipto, Coordinating Minister for Political, Legal and Security Affairs

Dr. Ir. Sudarsono, Director General, Home Affairs

H.E. Juwono Sudarsono, Minister of Defense

Rachmat Sudibjo, Chairman, BPMIGAS*

Yoga P. Suprpto, Project Manager, Pertamina*

Benny P. Suryawinata, Assistant Deputy for Foreign Affairs to the Coordinating Minister for Security and Political Affairs*

Dadi Susanto, Director General for Defense Strategy, Ministry of Defense

Budi Susilo, Director General for Defense Potential, Ministry of Defense

Dr. I Made Suwandi, Home Affairs

Iin Arifin Takhyhan, Director General of Oil and Gas, Ministry of Energy and Mineral Resources*

Alex Bambang Triatmojo, Deputy for Communications and Information, Coordinating Ministry for Political, Legal and Security Affairs

Budi Utomo, Deputy for National Security, Coordinating Ministry for Political, Legal and Security Affairs

Kardaya Warnika, Chairman, BPMIGAS*

Ir. Rachmat Witoelar, Minister of State for the Environment

General Yudhi, Deputy Chairman, LEMHANAS*

Susilo Bambang Yudhoyono, Coordinating Minister for Security and Political Affairs*

General (Ret) Susilo Bambang Yudhoyono, President of Indonesia

Purnomo Yusgiantoro, Minister of Energy and Mineral Resources

General Nurdin Zianal, Regional TNI Commander for Papua Regional Government*

Government Officials: Papua

Abraham O. Atururi, Governor of West Papua

Colonel Max D. Aer, Chief of Operations of Papuan Police*

Agus Alua, MRP Chairman, and MRP Members

Decky Asmuruf, Secretary to Governor of Papua*

Frans Nikopas Awak, Babo Camat

Colonel Infantry Chairuly, PANGDAM Assistant, Intelligence

Irjen Pol. Drs FX Bagus Ekodanto, Chief of Police for Papua

Y. Berty Fernandez, Office of the Governor, Papua Province

Colonel Infantry Herunimus Guruh, PANGDAM Assistant, Operations

Deky Kawab, Deputy Regent of Bintuni

John Ibo, President, Provincial Assembly

Ibrahim Kaatjong, Vice Governor of West Papua

Jimmy Demianus Ijjie, Speaker, DPRD, Irian Jaya Barat and Members of DPRD

Pak Mandagan, Regent of Manokwari District

Pak Mandowen, President of Manokwari Representative Council

Daud Mandown, Ketua DPRD, Irian Jaya Barat

Dr. Alfons Manibui, Bupati of Bintuni

Pak Paquil, Vice *Bupati* of Bintuni

Colonel Molosan, Deputy to General Simbolon (during General Simbolon's post as Regional TNI Commander in Papua)

Maj. General TNI AY Nasution, PANGDAM

Bernard Nofuerbanana, Babo *Adat* leader

Lt. Colonel Yohanes Nugroho, Police Chief for Bintuni

Lt. Daniel Pakiding, Regional Police Chief for Babo

Colonel Heru Teguh Prayitno, Chief of Partnership-Building, Berau

Captain Puryomo, Local military commander

ML Rumadas, Deputy Interim Governor of West Irian Jaya*

Jaap Solossa, Governor of Papua Province*

Barnabas Suebu, Governor of Papua Province

Colonel Suarno, Director of Security of Police in Papua*

Brig. Gen. Pol. Dody Sumantiawan, Chief of Police for Papua *

Frans A. Wospakrik, M. Sc., Vice Chair of MRP

Irjen. Tommy Yacobus, Chief of Police for Papua*

Mayjen Zamroni, Local military commander

Officials of Bintuni Kabupaten government

Chairman, Committee on Security

Director of Planning for Manokwari, and several other senior officers of Manokwari

Government Officials: United States

Hans Antlöv, Governance Advisor, Local Governance Support Program, U.S. Agency for International Development ("USAID")

H.E. Ralph Boyce, U.S. Ambassador to Indonesia*

Karen Brooks, Director for Asian Affairs, National Security Council*

Christopher Camponovo, U.S. Department of State, Bureau of Democracy, Human Rights & Labor

Matthew Cenzer, Second Secretary, U.S. Embassy in Jakarta

Michele Cenzer, Assistant Cultural Affairs Officer, U.S. Embassy in Jakarta

Marc L. Desjardins, Counselor for Political Affairs, U.S. Embassy in Jakarta

Judith Edstrom, Chief of Party/Director, Local Governance Support Program, USAID

Nadine Farouq, USAID

Faye Haselkorn, Senior Local Governance Advisor, Local Governance Support Program, USAID

William A. Heidt, Economic Counselor, U.S. Embassy in Jakarta

James M. Hope, Director, Education Office, USAID Indonesia

Richard Hough, Director of Programming, USAID

H.E. Cameron Hume, U.S. Ambassador to Indonesia

Karin Lang, U.S. Department of State, Bureau of East Asian and Pacific Affairs, Office of Indonesia and East Timor

Allan D. Langland, Deputy Director, U.S. Department of State, Bureau of East Asian and Pacific Affairs, Office of Indonesia and East Timor

Jon D. Lindborg, Deputy Director, USAID

Walter North, Mission Director, USAID Indonesia

Office of Maritime Southeast Asian Affairs (Brian McFeeters, Deputy Director; Donald Mattingley, Indonesia Country Officer)

Anne Patterson, USAID

Richard Pedler, Communications Advisor, Local Governance Support Program, USAID

H.E. B. Lynn Pascoe, U.S. Ambassador to Indonesia*

Maria Pica, Senior Advisor, U.S. Department of State, Bureau of Democracy, Human Rights & Labor

Fred Pollock, Director, Natural Resources Management Program, USAID

Henry (“Hank”) M. Rector, First Secretary, U.S. Embassy in Jakarta

Geoffrey Swenson, Field Operations Advisor, Local Governance Support Program, USAID

Michael Uyehara, Energy and Minerals Resource Officer, U.S. Embassy in Jakarta

Kurt van der Walde, Energy and Mineral Resources Officer, U.S. Embassy in Jakarta

Shari Villarosa, Economic Counselor, U.S. Embassy in Jakarta

John Wegge, Advisor, Office of Decentralized Local Government, USAID

Holly Wise, USAID

Government Officials: United Kingdom

H.E. Richard Gozney, UK Ambassador to Indonesia*

H.E. Martin Hatfull, UK Ambassador to Indonesia

H.E. Charles Humphrey, UK Ambassador to Indonesia*

Eleanor Kiloh, Second Secretary (Political), UK Embassy in Jakarta

Theresa O’Mahony, Second Secretary (Political), UK Embassy in Jakarta

Matthew Rous, Deputy Head of Mission, UK Embassy in Jakarta

Jonathan Temple, UK Embassy in Washington, D.C.

Government Officials: New Zealand

H.E. Chris Elder, Ambassador, Embassy of New Zealand in Jakarta

Government Officials: China

Ma Jisheng, Counsellor (Political), Embassy of China in Jakarta

Tan Weiwen, Minister Counsellor (Economic and Commercial), Embassy of China in Jakarta

Xu Qiyi, Second Secretary (Economic and Commercial), Embassy of China in Jakarta

Residents of the Bird’s Head Region of Papua

Pak Biam, Camat (Mayor) of Aranday, and a village leader of Aranday

Marselinus Nanafesi, head of Tomage village

Jaelani Kabes, head of Otoweri village

Saleh Masipa, head of Tanah Merah Baru village

Mathias Dorisara, head of Tofoi village

Abdul Kadir Nabi, head of Pera-pera village
Soleman Solowat, secretary of Pera-pera village
A. Kadir Kosepa, head of Tomu village
Najib Alkatiri, community leader from Ekam village
Otto Siwana, head of Sumuri District
Adrianus Sorowat, staff from Weriagar District
Salehudin Fimbay, staff from Tomu District
I. Maneiri, Babo

Graduates of BP's LNG technical training program at Bontang: AB Korano Mirino, Eko
Muhammad Taher Bauw, Evert, Haris Rumbaku, Jonadap Dominggus Stepanus Sapari,
Soleman Saflafo, Steffi Edithya Florence Awom
Neles Tebay, Catholic Priest of the Diocese of Jayapura
Village leaders of Babo
Village leaders of Tanah Merah
Village leaders of Tomu/Ekam
Villagers of Aranday
Villagers of Onar Baru
Villagers of Saengga
Villagers of Tanah Merah, including the committee that oversees effects of the Tangguh project
Villagers of Taroy
Villagers of Tofoi
Villagers of Tomu/Ekam
Villagers of Weriagar/Mogotira

Non-Governmental Organizations

American Center for International Labor Solidarity (Timothy Ryan, Program Director, Asia Region)
Amnesty International (Charles Brown; Lucia Withers)
Asia Foundation (Rudi Jueng, Assistant Director)
Pastor Paul P. Tan
Dr. M. Gemnafle
BPR Pt. Phidectama Jayapura (Bram Fonata, Director)
British Council (Wendy Lee, Social Development Advisor; **Toto Purwanto, Program Manager, Education Management & Governance; Peter Hagul, Monitoring and Evaluation Officer; Fajar Anugerah, Program Officer**)
Catholic Church (B.R. Edi)
Center for Human Rights at the RFK Memorial (Miriam Young; Abigail Abrash Walton)
Citizens International (John Wells)
CTRC (Bas van Helvoort, Executive Director)
Conservation International (Barita Oloan Manullang, Species Conservation Senior Specialist; Jatna Supriatna, Executive Director and Regional Vice President for Indonesia; Yance de Fretes, Papua Species Specialist; Iwan Wijayanto, Partnership Director)
Down to Earth (Liz Chidley)
ELSHAM (Aloysius Renwarin, Director; Ferry Marisan; Yery Baransano)
Earthwatch (Coralie Abbott, Corporate Programmes Manager)
Eddy Ohoirwutun, Adat Consultant

FKIP Cenderawasih University (Dr. Leo Sagisolo)

FOKKER (Yuven Ledang, Chief of Steering Committee; **Septer Menufandu, Executive Secretary**; Budi Setiyauto, Executive Secretary; Yul Chaidir, Steering Committee; Robert Mondosi, Steering Committee)

Human Rights Watch (Mike Jendrzeczyk)

Human Rights Commission of GKI (Obeth Rawar)

IBLF, The Prince of Wales International Business Leaders Forum (Lucy Amis, Business and Human Rights Programme Manager)

Indonesia Human Rights Network (Edmund McWilliams)

International Committee of the Red Cross (Frank Sieverts, Assistant to the Head of the Regional Delegation, North America)

International Crisis Group (Sidney Jones, Indonesia Project Director; Kathy Ward, ICG Deputy Director)

International Labor Organization (Tony Freeman)

International Labor Rights Fund (Dr. Bama Athreya)

Komnas HAM Perwakilan Papua (National Committee for Human Rights) (Alberth Rumbekwan, Chief Executive)

LP3BH – Lembaga Penelitian, Pengkajian dan Pengembangan Bantuan Hukum (The Institute for Research Investigation and Development of Legal Aid) (Christian Warinusi, Director; Andris Wabdaro)

LBH HAM Papua – Sorong (Sonratho J Marola, Director)

LP3AP – Jayapura (Selviana Sanggenafa, Director)

National Democratic Institute for International Affairs (Blair King)

National Human Rights Commission (Frits Ramandey, Ricky Kogoya)

The Nature Conservancy (Ian Dutton, Country Director for Indonesia; Titayanto Pieter, Conservation Partnerships Manager, Arwandrija Rukma, Operations Director)

Papua Presidium Council (Thom Beanal, Willy Mandowen)

Proyek Pesisir (Coastal Resources Project) (Maurice Knight, Chief of Party, Coastal Resources Management Project)

Pt. PPMA Jayapura (Edison Giay, Director)

Pusat Study (Center for Studies) HAM Universitas Islam Indonesia (Suparman Marzuki, Director)

PusHam (Pusat Study HAM Universitas Negeri Cenderawasih) (Frans Reumi, Director)

SKP Sekretariat untuk Keadilan dan Perdamaian (Secretariat for Justice Peace) (Budi Hermawan, Coordinator)

TAPOL, The Indonesia Human Rights Campaign (Danny Bates)

UK Overseas Development Institute (Michael Warner)

US-ASEAN Council (John Phipps)

West Papua Association UK (Linda Kaucher)

Wildlife Conservation Society (Dr. Nicholas W. Brickley, Program Manager)

World Wildlife Fund (Heike Mainhardt; Benja Victor Mambai; Clive Wicks)

YPMD Yayasan Pengembangan Masyarakat (Decky Rumaropen, Director)

Yayasan SatuNama (Wahyu Sadewo, Program Manager; Sigit Wahyudi, Program Supervisor)

Private Sector

AGI Security & Business Intelligence (Don Greenlees, Director, Research and Analysis)

Asian Development Bank (Edgar Cua, Country Director; Indonesia Resident Mission:

Adiwarman Idris, Jean-marie Lacombe, Ayun Sundari, **Noraya Soewarno**)

Chemonics (Jonathan Simon, Senior Manager)

Citigroup International (Michael Zink, Citigroup Country Officer, Indonesia)

Halliburton KBR (John G. Baguley, Project Manager)

Indochina Capital (Rick Mayo-Smith, Founding Partner)

International Finance Corporation (Juanita Darmono, Program Manager, Oil/Gas/Mining

Linkages*; Carl Dagenhart, Program Manager; Hendro Hadianono, Business Development Officer*)

ISIS Asset Management (Robert Barrington)

JGC Corporation (Tadashi Asanabe, Project Director)

JMSB-KMSB-SIME Consortium (Ron E. Hogan, Project Director)

Kiani Kertas (Jend. TNI (Pur.) Luhut Panjaitan MPA, President Commissioner)

KJP (Okinari, Project Manager)

Perform Project, RTI International (Ben Witjes, Senior PDPP Regional Advisor)

YIPD/CLGI (Center for Local Government Innovation) (LeRoy Hollenbeck, Director, Business Development; **Alit Merthayasa, Executive Director**; Endi Rukmo)

International Institutions

United Nations Development Programme (Bo Asplund, UNDP Resident Representative in Indonesia; Shahrokh Mohammadi, Deputy Resident Representative; Gwi-Yeop Son, Senior Deputy Resident Representative; Kishan Koday, Program Officer-Environment Unit; Abdurrachman Syebubakar, Program Office-Community Initiative Unit; Dra. Judith P.C. Simbara MSi, National Project Manager, Capacity 2015; Reintje Kawengian, Institutional Development Specialist, Capacity 2015)

World Bank in Indonesia (Bert Hofman, Lead Economist; Andrew Steer, Country Director, Indonesia; Scott Guggenheim, Principal Social Scientist; **Wolfgang Fengler, Senior Economist; Cut Dian R.D. Agustina; Douglas Ramage, Senior Governance Specialist**)

World Bank Support Office for Eastern Indonesia (Petrarca Karetji, Coordinator; Richard Manning)

Academic Institutions in Papua

Bogor Institute of Agriculture (Dr. Ir. Syaiful Anwar, M.S., Secretary to Program Study, Department of Agriculture)

UNIPA (University of Papua, Manokwari) (Frans Wanggai, Rector; **Fenny Ismoyo, Vice Rector; Marlyn Lekitoo, Vice Rector; and Faculties**)

University of Cenderawasih (Frans A. Wospakrik, Rector, and Faculties; and B. Kambuaya, Current Rector)

Individuals

John Aglionby, Correspondent, Financial Times

Herbert Behrstock, International Development Consultant

Admiral Dennis Blair, Ret. U.S. Navy, Chair of the Indonesia Commission, Center for Preventative Action, Council on Foreign Relations

Dr. Jonah Blank, Professional Staff Member, U.S. Senate Committee on Foreign Relations
Professor Michael M. Cernea, Advisor to BP on Resettlement of Tanah Merah
Hugh Dowson
Bennett Freeman, Principal, Sustainable Investment Strategies
Brigham Montrose Golden
Bara Hasibuan, Intern, U.S. House of Representatives International Relations Committee
Ayse Kudat, Advisor to BP on Resettlement of Tanah Merah
Ismira Lutfia, Reporter, Jakarta Globe
Ambassador Edward Masters, Chairman, U.S.-Indonesia Society
John McBeth, Senior Writer, The Straits Times
Gabrielle K. McDonald, Human Rights Advisor to Freeport McMoRan
Octovianus Mote
Gerry Owens, External Lenders' Panel
David Phillips, Senior Fellow and Deputy Director of the Center for Preventative Action,
Council on Foreign Relations
Ed Pressman
Gare Smith, Foley Hoag
Agoeng Wijaya, Koran Tempo
Arintoko Utomo, External Lenders' Panel
Reverend Socrates Yoman, President of the Fellowship of Baptist Churches

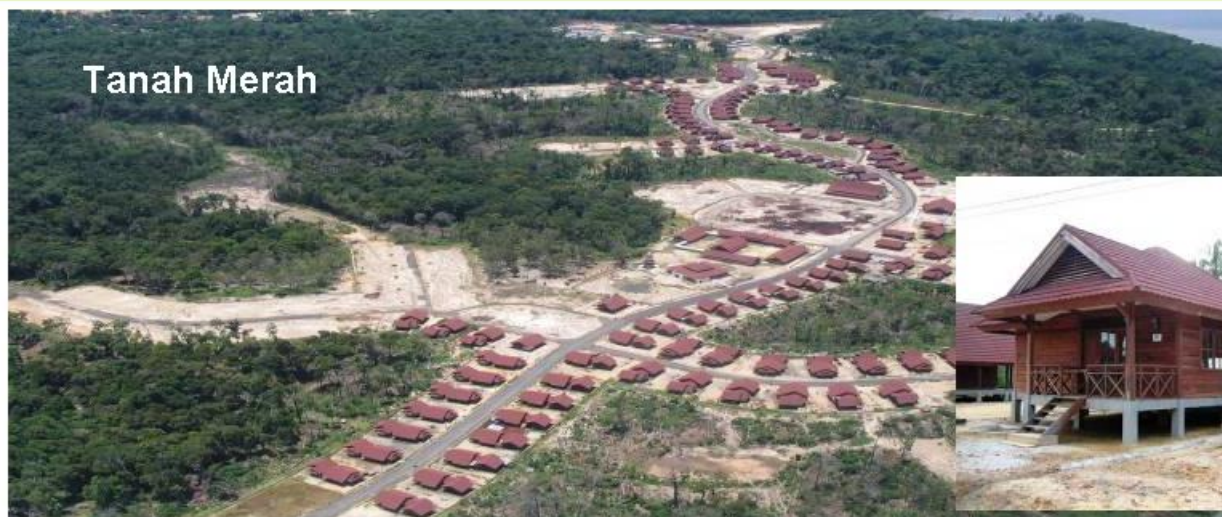
APPENDIX 3

PHOTOGRAPHS

Before.....



After....



Saengga Village



Before



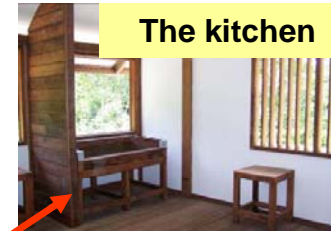
After



Main House

Service Area

The kitchen



The Bathroom



Saengga Village

New Church



Old Church



The Workers



APPENDIX 4

SAFETY EXCLUSION ZONE (“SEZ”) VIOLATIONS

	<u>JUN</u>	<u>JUL</u>	<u>AUG</u>	<u>SEP</u>	<u>OCT</u>	<u>NOV</u>
Approach SEZ	19	11	3	15	4	3
Enter SEZ	10	25	8	59	40	13
Trespass	5	5	3	3	7	5
Total	34	41	14	77	51	21

NOTE: Beginning in June 2008, BP conducted an intermittent joint marine patrol with the Bintuni Marine Police. The joint patrol was conducted in three phases:

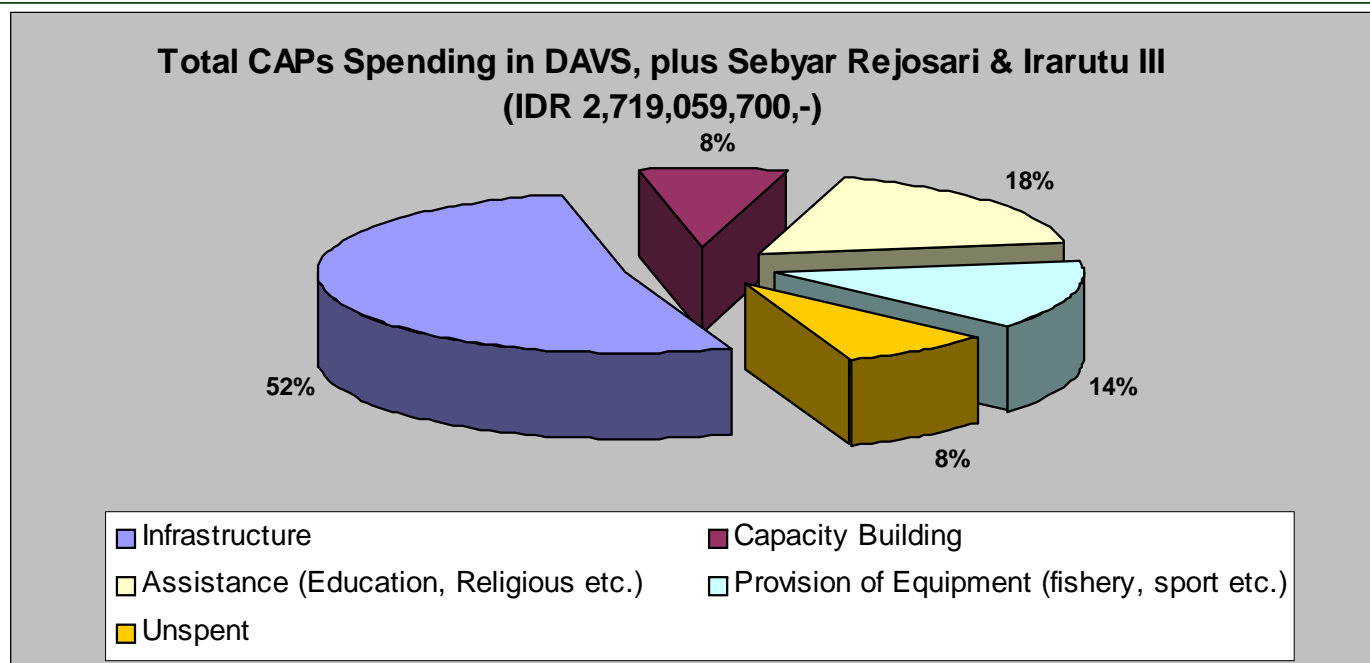
- *Phase 1:* 18 June – 17 August 2008
- *Phase 2:* 17 October – 16 November 2008
- *Phase 3:* 27 November 2008 – ongoing

Each phase involved six police officers embedded to a BP Patrol Boat. As shown in the chart above, exclusion zone violations decreased during the phases of joint patrol.

APPENDIX 5

VILLAGE CAPS FUNDING USE

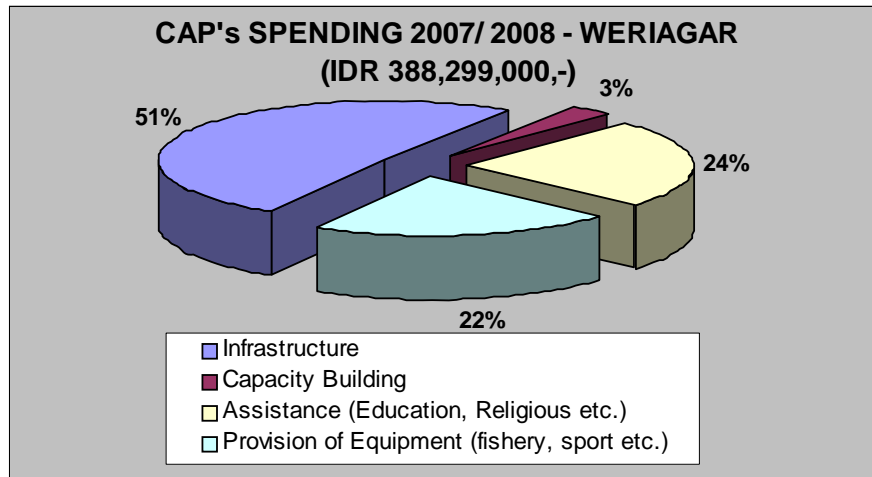
Total CAP's Spending



Note:

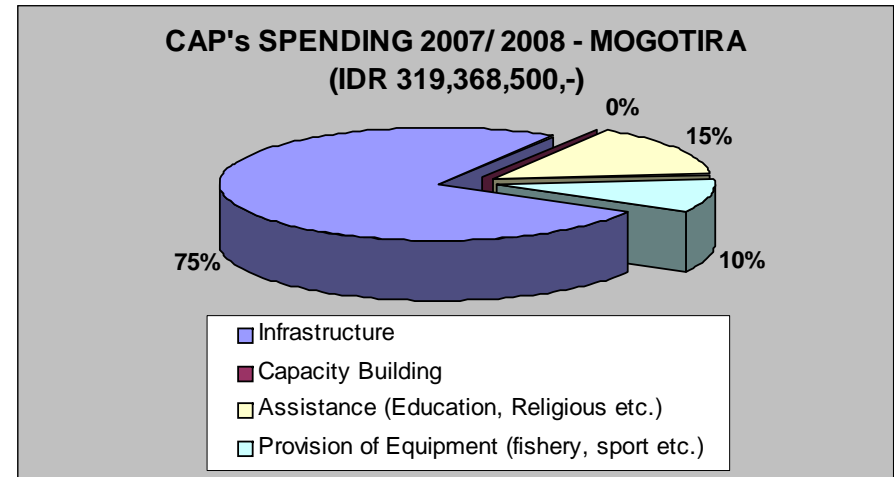
1. Excludes Tanah Merah and Saengga
2. Budget Allocation in 2008 : IDR 2,200,000,000
3. Total spend: IDR 2,719,059,700 (including carryover of 2007 unspent funds)
4. DAVs spending is IDR 2,501,067,700,- and Non-DAVs spending is IDR 217,992,000,-
5. Carryover of unspent 2007 funds: IDR 519,059,700
6. Unspent 2008 : IDR 237,389,958,-

CAPs 2008 Spend for Weriagar and Mogotira



Note:

- 2008 allocation: IDR 300,000,000,-
- Carryover of 2007 unspent funds: IDR 88,299,000
- Total 2008 actual spend: IDR 388,299,000

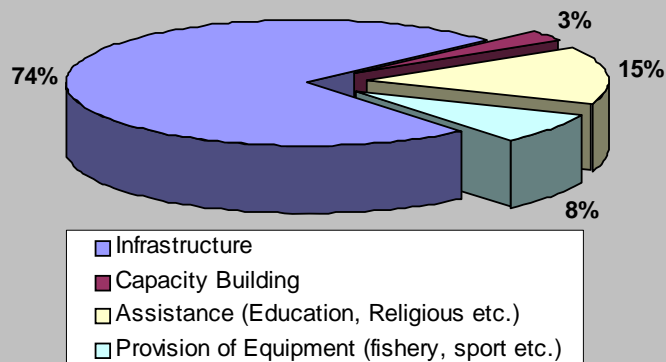


Note:

- 2008 allocation: IDR 300,000,000,-
- Carryover of 2007 unspent funds: IDR 19,368,500
- Total 2008 actual spend: IDR 319,38,500

CAPs 2008 Spend for Tomu & Ekam

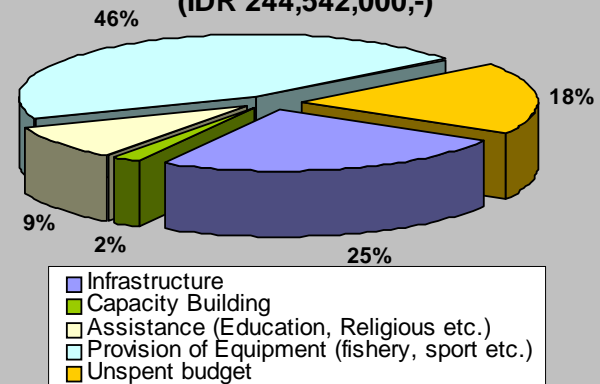
CAP's SPENDING 2006/ 2008 - TOMU
(IDR 507,166,900,-)



Note:

- 2008 allocation: IDR 300,000,000,-
- Carryover of 2007 unspent funds : IDR 207,166,900
- Total actual 2008 spend: IDR 507,166,900

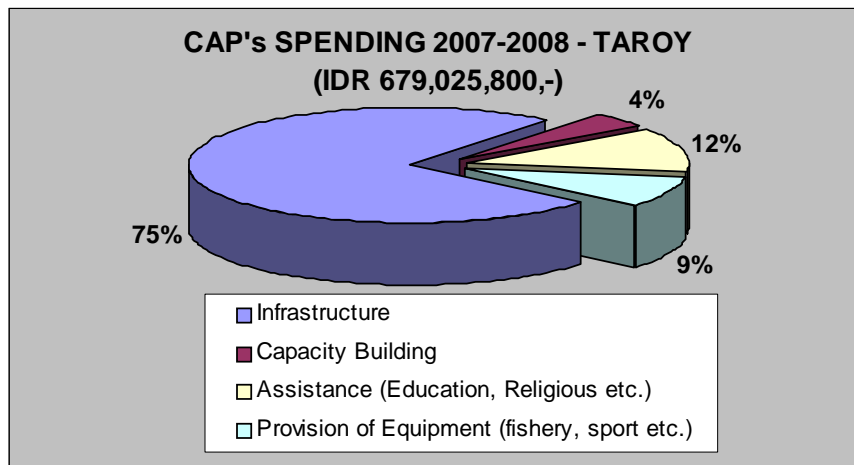
CAP's SPENDING 2007/ 2008 - EKAM
(IDR 244,542,000,-)



Note:

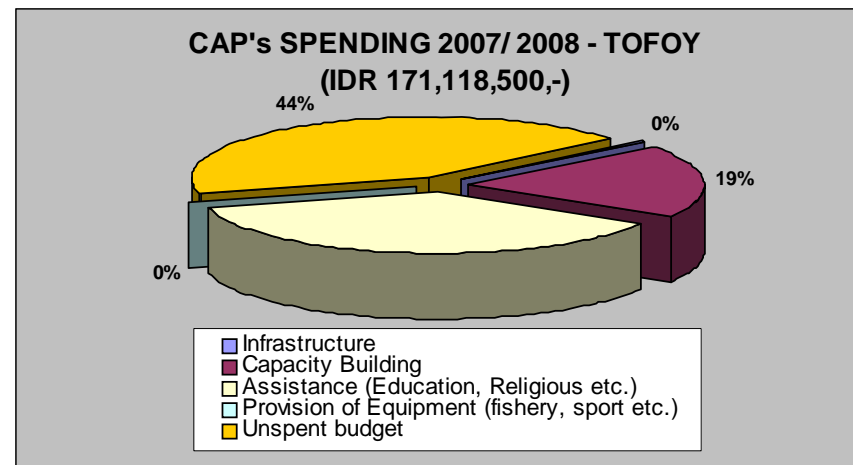
- 2008 allocation: IDR 300,000,000,-
- **Unspent : IDR 55,458,000,-**
- Walkway renovation was delayed due to community resolution of sustainability and maintenance issue

CAPs 2008 Spend for Taroy and Tofoy



Note:

- 2008 allocation: IDR 300,000,000,-
- Carryover of 2007 unspent funds: 379,025,800
- Total actual 2008 spend: 679,025,800
- In 2006-2007 Taroy community focused on Mosque renovation

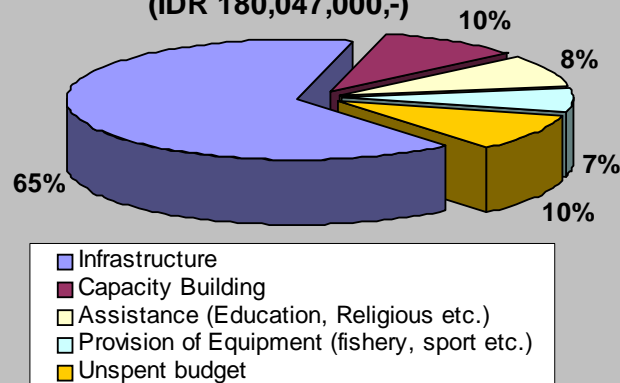


Note:

- 2008 allocation: IDR 300,000,000,-
- Unspent : IDR 128,881,500,-
- Community proposed a loan program for animal husbandry, but they failed to agree on a mechanism of repayment. The program is delayed.

CAPs 2008 Spend for Otoweri & Tomage

CAP's SPENDING 2007/ 2009 - OTOWERI
(IDR 180,047,000,-)



Note:

- 2008 allocation: IDR 200,000,000,-
- **Unspent : IDR 19,953,000,-**
- The community has identified an electricity program, but is in ongoing discussions with the Fak Fak government on a partnership structure.

CAP's SPENDING 2007/ 2008 - TOMAGE
(IDR 11,500,000,-)

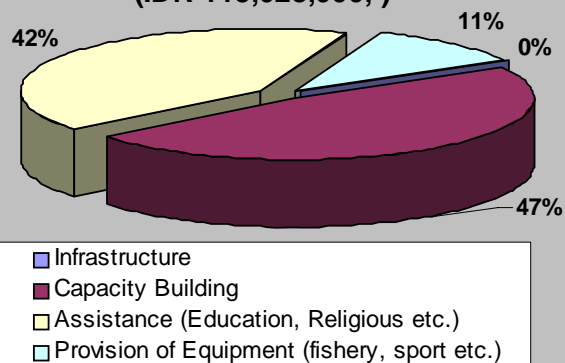


Note:

- 2008 allocation: IDR 100,000,000,-
- **Unspent : IDR 88,500,000,-**
- In 2007/ 2008 community identified Church renovation. But due to limited budget, the program was delayed to 2009

CAPs 2008 Spend for Non DAVs: Irarutu III & Sebyar Rejosari

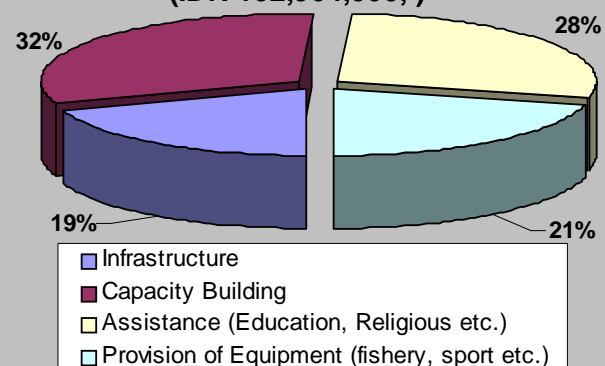
CAP's SPENDING 2007-2008 Irarutu III
(IDR 115,028,000,-)



Note:

- 2008 allocation: IDR 100,000,000,-
- Carryover of 2007 unspent funds: IDR 15,028,000,-

CAP's SPENDING 2007-2008 Sebyar Rejosari
(IDR 102,964,000,-)

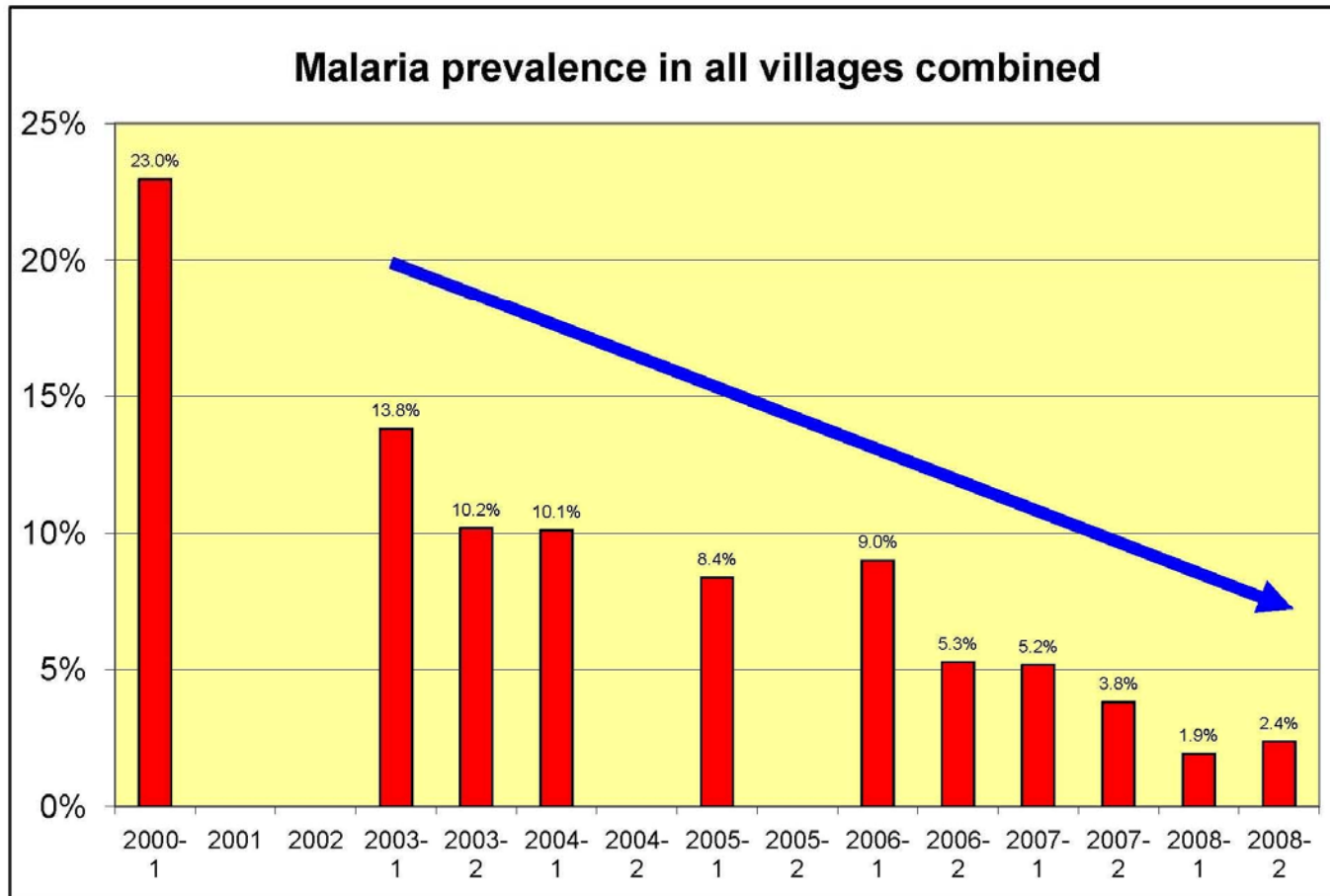


Note:

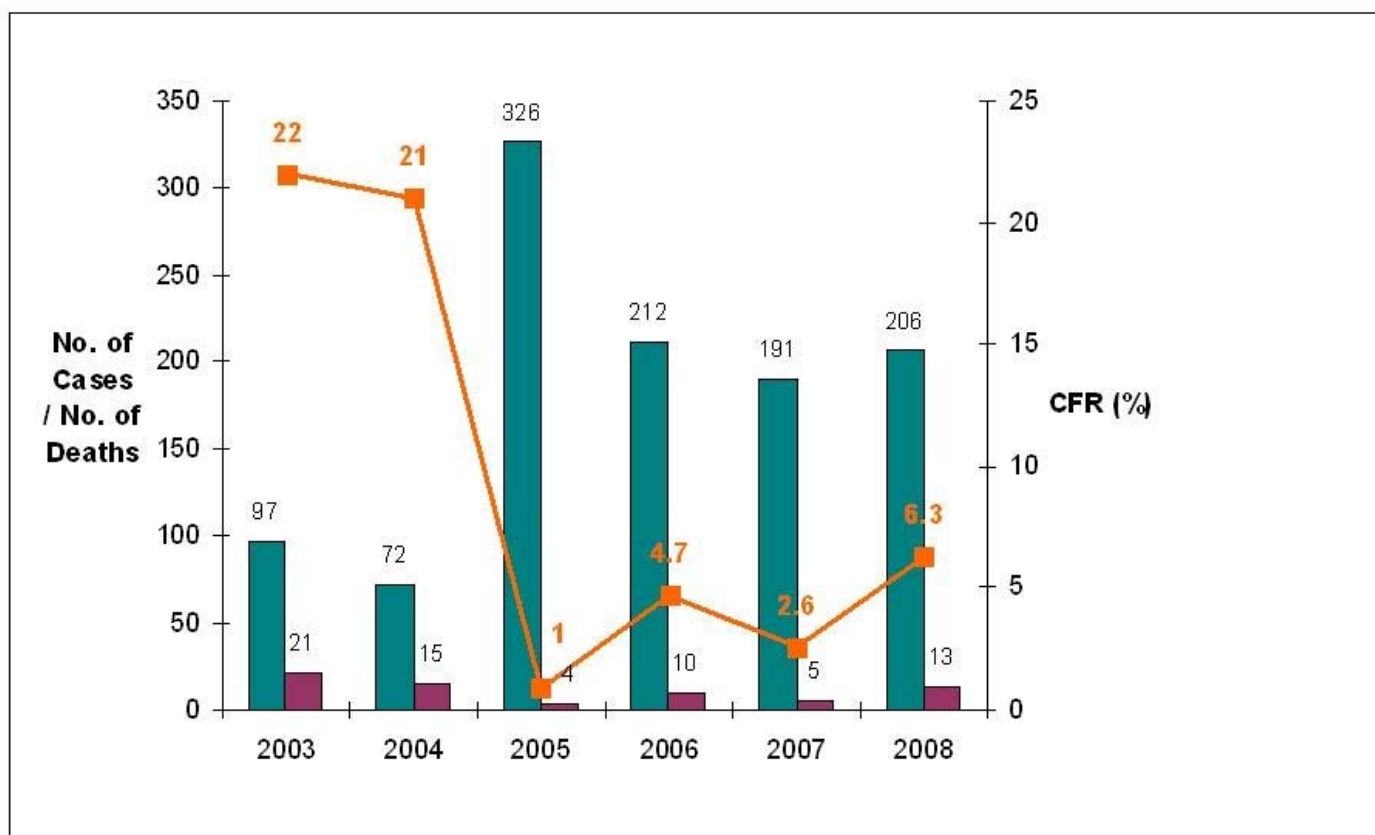
- 2008 allocation: IDR 100,000,000,-
- Carryover of 2007 unspent funds: IDR 2,964,000,-

APPENDIX 6

TCHU DAV HEALTH PROGRAM STATISTICS



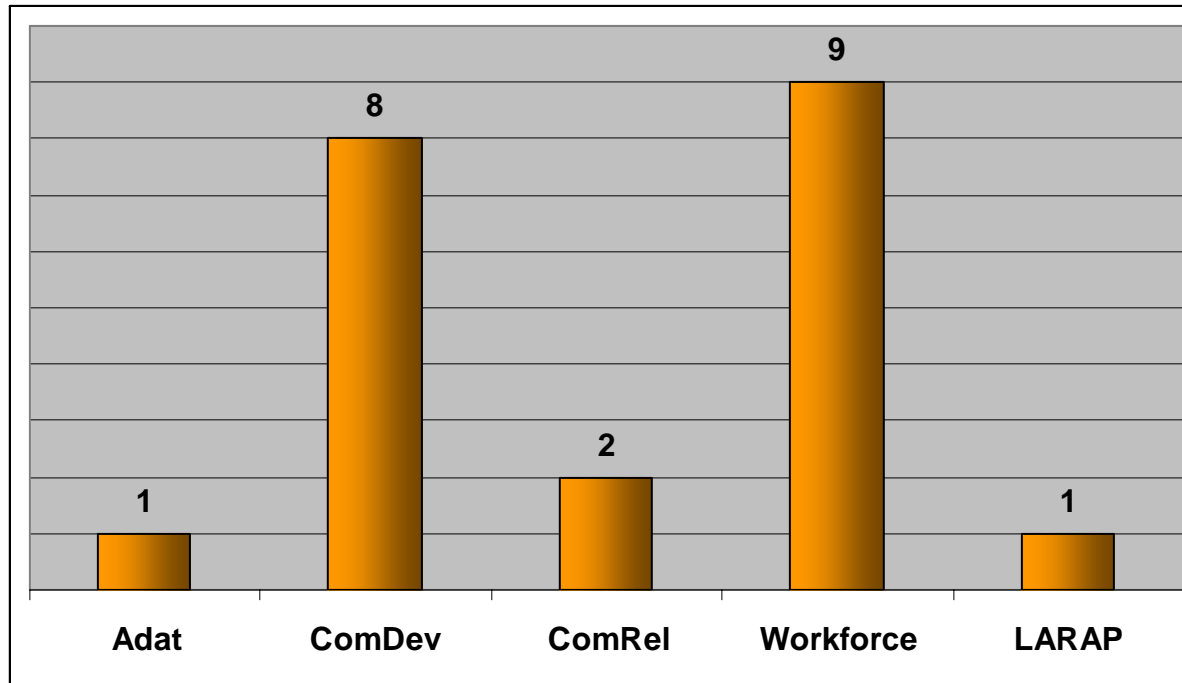
Under-5's Case-Fatality Rates - Acute Diarrhoea Tangguh DAV's 2003-2008



APPENDIX 7

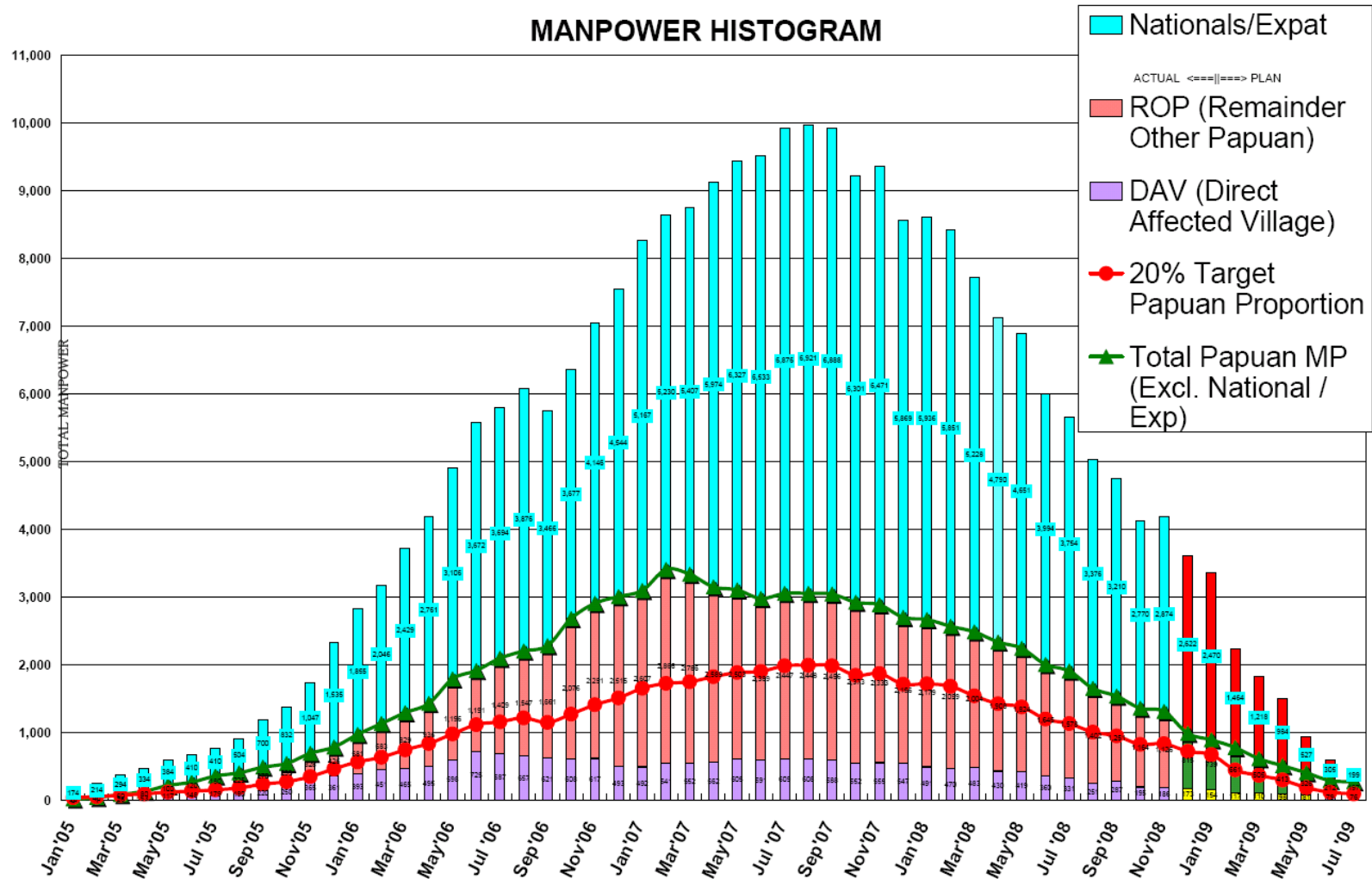
2008 COMMUNITY GRIEVANCES

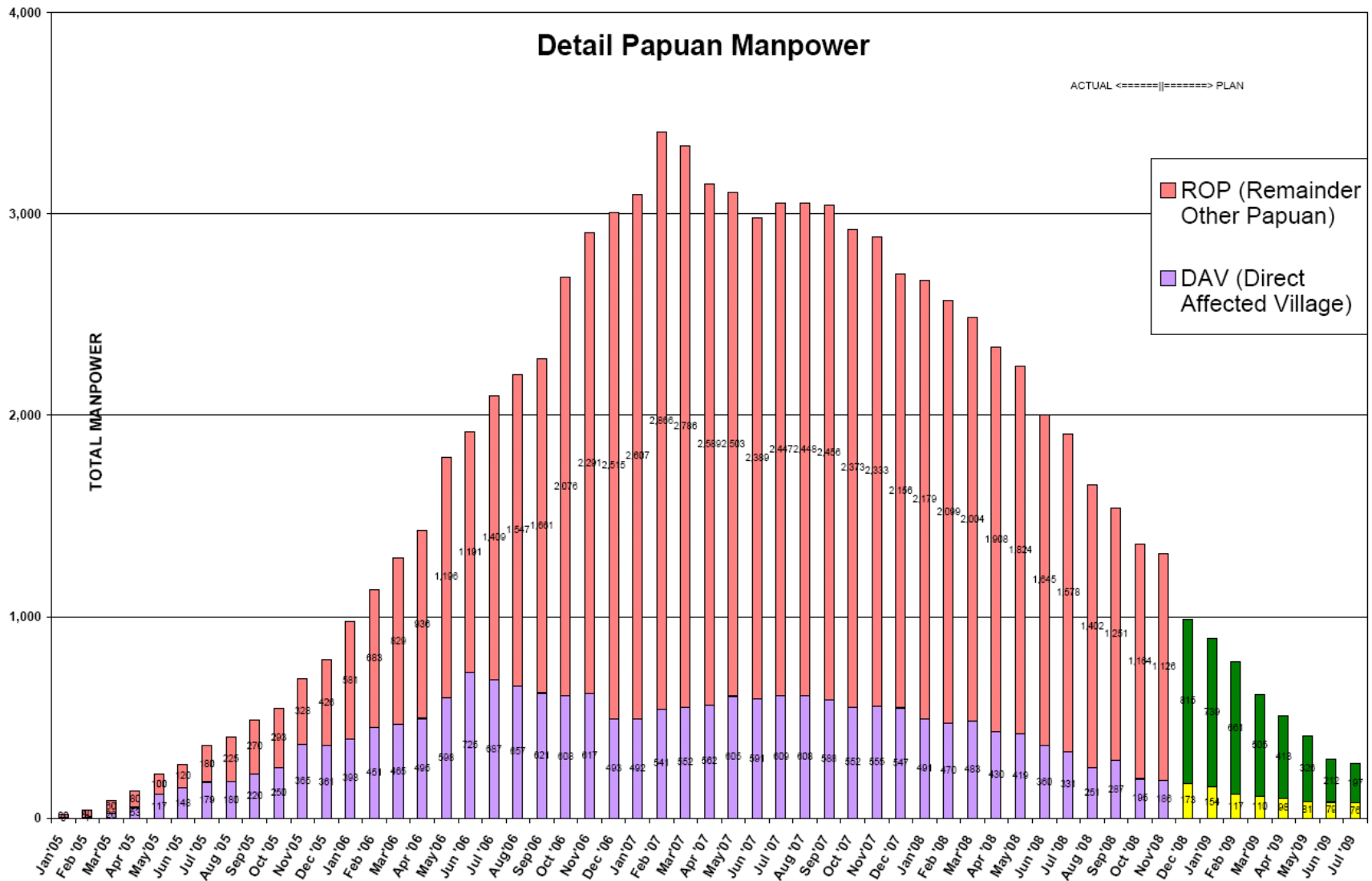
Number of Grievances by Issue January-December 2008



APPENDIX 8

CONSTRUCTION MANPOWER AT LNG SITE HISTORY AND PROJECTION

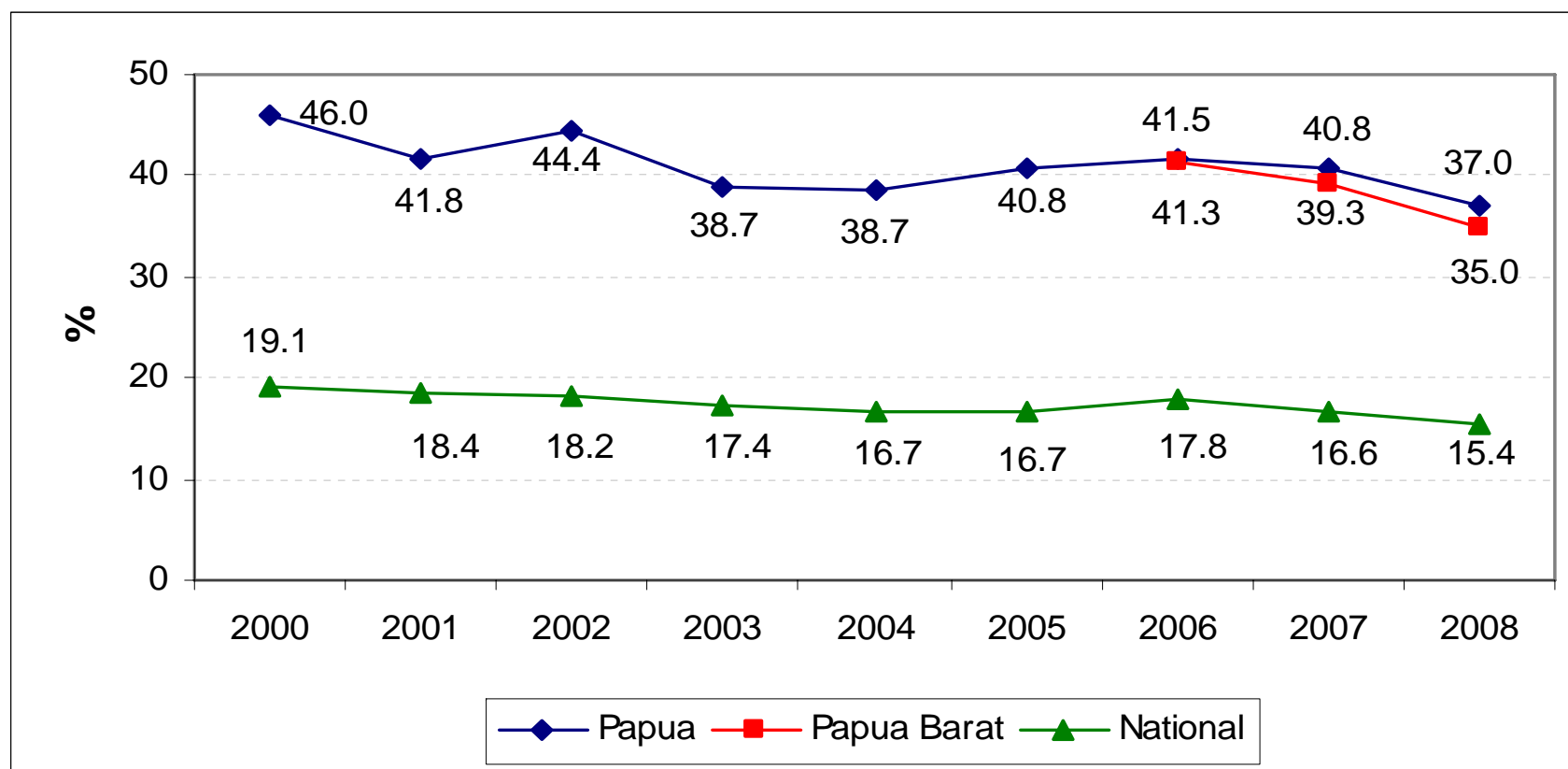




APPENDIX 9

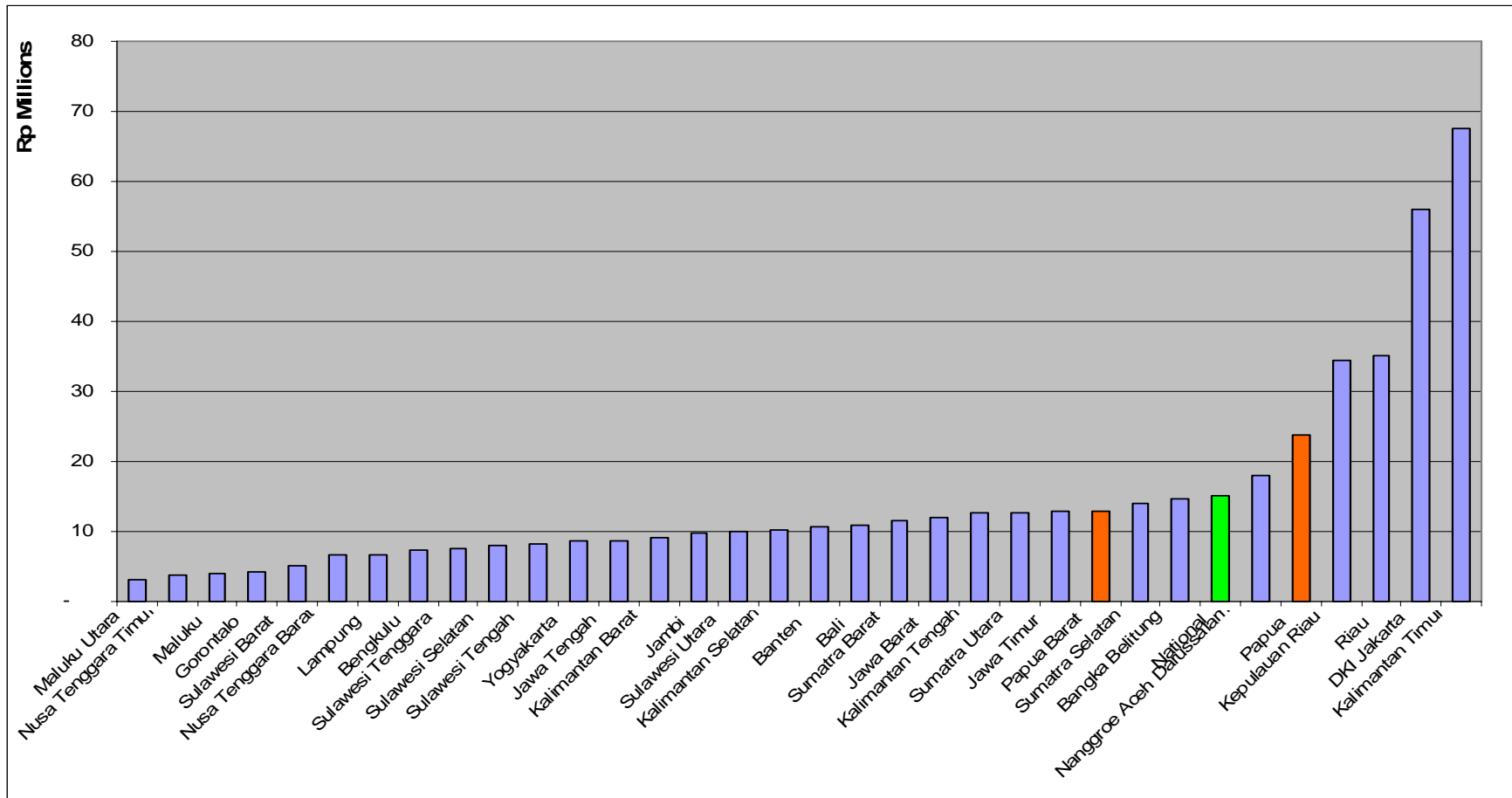
SELECTED STATISTICS FROM WORLD BANK REPORT

Since 2002, poverty declined from 46 percent to 37 percent but Papua remains Indonesia's poorest region.



Source: BPS, various publications.

Papua's regional GDP is high; Papua province is even 50% higher than the national average, mainly due to mining



Source: BPS

The district of Teluk Bintuni is lagging in most social and economic indicators, except for regional GDP and child immunization.

Teluk Bintuni	Value	Rank in Papua (out of 29)	Rank in Papua Barat (out of 9)
Human Development Index (BPS) 2006	60.1	21	8
Population (BPS) 2006	50,766	20	6
Gross Regional Domestic Product per capita (BPS) 2006	10,504,400	8	3
Net Enrollment Rate for Primary % (susenas) 2007	86.7	21	8
Net Enrollment Rate for Junior % (susenas) 2007	47.2	14	5
Net Enrollment Rate for Senior % (susenas) 2007	23.8	20	7
Children<5 yrs with immunization % (MoH Survey) 2008	48.4	6	2
Household with access to safewater % (MoH Survey) 2008	20.8	19	9
Household with access to electricity % (Susenas) 2007	47.6	16	7