

**BP RESPONSE TO THE
SECOND TANGGUH INDEPENDENT ADVISORY PANEL
FIRST REPORT
ON
TANGGUH LNG**

MARCH 2011

ACRONYMS AND INDONESIAN TERMS

ADB	Asian Development Bank
AMDAL	<i>Analisis Mengenai Dampak Lingkungan</i> – Integrated Environmental and Social Impact Assessment.
BHBEP	Bird’s Head Business Empowerment Programme
BPMIGAS	<i>Badan Pelaksana Kegiatan Usaha Hulu Minyak dan Gas</i> – the National Upstream Oil and Gas Implementing Agency, the Government of Indonesia partner in the Tangguh Project
<i>Bupati</i>	The head of a <i>kabupaten</i> , or Regency
CAP	Community Action Plan – the support program approach to facilitating community-driven development projects in Directly Affected Villages
DAV	Village originally identified as directly affected by the Tangguh Project
DPRD	Regional People’s Representative Office
EITI	Extractive Industry Transparency Initiatives
GOI	Government of Indonesia
ICBS	Integrated Community Based Security Program

ISP	Integrated Social Program – an implementation unit within the Tangguh Project and the social-economic development programs being managed by the unit.
JUKLAP/PAMBERS	Field Guidelines for Joint Security
<i>kabupaten</i>	District, or Regency
KADIN	Indonesian Chamber of Commerce
KAPOLDA	Papua Chief of Police
KODIM	Indonesian District Military Command
Kostrad	Indonesian Army Strategic Reserve Command
<i>kota</i>	City
KPK	Corruption Eradication Commission
LSHAM	Papuan Human Rights NGO
LNG	Liquefied Natural Gas
MCC	<i>Mediatama Cipta Citra</i> - Local NGO in Governance
NGO	Non-governmental organization
PANGDAM	Papua Military Commander
POLDA	Indonesian regional police command

POLRES	Indonesian District Police Station
PSKK UGM	Center for Population and Policy Studies at Gadjah Mada University
RAV	Resettlement Affected Village as originally identified by the Tangguh Project – Tanah Merah Baru, Saengga, and Onar
SPA	Sales Purchase Agreement
TIAP	Tangguh Independent Advisory Panel
TNI	Indonesian Armed Forces

INTRODUCTION

We are grateful to the second Tangguh Independent Advisory Panel (TIAP) for its first report and for the expert scrutiny, challenge and guidance that it has provided to BP. The first TIAP completed its tenure in 2009 (having functioned in an advisory capacity since 2002). The second TIAP focused its review process on security, human rights, governance and revenue management, whilst also maintaining an overview of other non-commercial issues. Its scope avoids duplication of independent external reviews carried out by the Tangguh Lenders Group.¹

The first TIAP's advice has been invaluable in supporting our efforts to make the Tangguh Project a positive example of how business can work with the local community and manage complex social, economic and environmental issues in collaboration with a range of partners. The new TIAP will play an equally important role in helping us to maintain and improve the positive impacts that Tangguh LNG has on its surroundings.

The Panel's counsel will continue to help Tangguh LNG maintain mutual advantage for all stakeholders, bringing benefits to the company, community, government, employees, customers and investors.

We are pleased that the new TIAP's visit has resulted in many positive observations, including its conclusion that: "Support for the Project and its potential to improve Papua is strong among government officials at all levels". We understand the Panel feels that the Tangguh social programs are running well and delivering good results to the surrounding community. The new panel also confirms the conclusion reached by the first TIAP that: "There is near unanimous support for the Integrated Community Based Security (ICBS) program, from national leaders to the *Kapolda* (Papua Chief of Police) and the *Pangdam* (Papua Military Commander) to local villagers".

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

About the Tangguh LNG project

Tangguh LNG produces and exports liquefied natural gas (LNG) from the Vorwata field, which is located in Bintuni Bay of Papua Barat, Indonesia, about 3000 kilometres east of Jakarta.

The gas below the bay area was discovered in 1994 and includes more than 14 trillion cubic feet of proven reserves. The gas is extracted via wells drilled from two normally unattended, remote controlled, six-legged platforms, namely Vorwata-A and Vorwata-B, and transported 22 kilometres through subsea pipelines to the liquefaction plant. The onshore processing and LNG production plant is located on the south side of the bay. The liquefaction plant consists of two 'trains', or sets of processing equipment, each designed to produce around 7.6 million tons (3.8 million tonnes) of liquefied gas per year, for 25 years. The liquid gas is stored in two 170,000 cubic meter tanks and piped to the end of a jetty for loading into tankers.

First LNG production was in June 2009 and the first cargo of LNG was dispatched from the plant in July 2009, bound for South Korea. In 2009, eight cargoes of LNG and four of condensate (the hydrocarbon liquids produced with natural gas) were delivered. In 2010, 90 LNG cargoes and 21 condensate cargoes were loaded. The trains are currently at high rates and ramping up production towards design capacity.

Tangguh has six Sales Purchase Agreements (SPA). These are to supply LNG to Posco and K-Power Co in South Korea; Sempra LNG in Mexico; CNOOC Fujian in China; and Tohoku Electric Power Company Incand Chubu Electric Power in Japan. BP continues to find opportunities to maximize the value of Tangguh LNG cargoes.

The short-term forward plan is to continue the process of reaching the maximum capacity of the two existing LNG trains. During the period 2009-2011 we have acquired exploration and appraisal seismic data within the Tangguh license blocks. Subject to favourable seismic interpretation, we anticipate drilling several exploration

and appraisal wells in the next few years, which if successful, will support Tangguh expansion.

TIAP Visit and Recommendations

The Panel conducted its visit between September 28 and October 5, 2010. During the trip, the Panel met with government officials and NGOs in Jakarta, Manokwari and Jayapura, the Papua TNI Commander (the “*Pangdam*”), the Papua Chief of Police (the “*Kapolda*”) and the U.S. and U.K. Ambassadors to Indonesia. TIAP travelled to Bintuni Bay for visits with local leaders, villagers on both the north and south shores, skilled Papuan workers employed by BP and the operations and security teams at the LNG site.

Although TIAP focuses primarily on Security & Human Rights and Governance & Revenue Management, it also addresses other topics – Employment, Livelihood, Immigration and Procurement – which also impact on Security.

In its report, the Panel provides several recommendations on the topics listed above. Most of these recommendations are aligned with Tangguh social investment strategy particularly on the Security and Governance programs. The Panel’s deep knowledge of local issues combined with international view has produced comprehensive recommendations for Tangguh to consider.

RESPONSES TO SPECIFIC TIAP RECOMMENDATIONS

Security and ICBS

- **If any financial or material support is requested by the Police or TNI, BP should make clear that it cannot provide funding or equipment to either the military or the police and that any support is pursuant to the procedures of the JUKLAP/PAMBERS agreement and the approval of BPMIGAS. BP should confirm with BPMIGAS its commitment to posting any payments to Papuan police on its website.**

Response:

We agree. We already operating in compliance with the JUKLAP/PAMBERS (Field Guidelines for Joint Security), which requires BPMIGAS' (the National Upstream Oil and Gas Implementing Agency) approval before any financial or material support is given to the Police or TNI (Indonesian Armed Forces). Prior to publishing details of any payments on our website, we engage BPMIGAS for their approval.

- **BP should work with the police and the TNI to ensure that any police or TNI units that could be deployed at Tangguh in an emergency receive periodic training in the human rights principles of the Voluntary Principles embodied in the JUKLAP/PAMBERS.**

Response:

Since 2006, we have conducted annual Emergency Response Training with both the Police and any TNI units that might be deployed to Tangguh in an emergency and will continue to do so in future, to ensure that the human right principles of the Voluntary Principles are understood by these police or TNI agencies. These training exercises have been incorporated into the Tangguh Security Annual Plan. However, we are fully aware that the Police and Military personnel rotations is beyond Tangguh's remit or monitoring. Therefore, we expect that by doing the training regularly we will be able to capture new officers.

- **BP should continue to organize the annual joint training exercise with the police required by the JUKLAP/PAMBERS and include the TNI and human rights NGOs as observers. BP should include these observers in its evaluation of the joint exercises. BP security should work with the *Kapolda* to develop crisis management simulation procedures and test these procedures during the annual exercise.**

Response:

We agree. We have conducted an annual joint exercise since 2006 and will continue to do so in future. The most recent exercise was completed in December 2010. It included around 200 people in total, including Police and TNI personnel as well as representatives of the media and human rights NGOs. The exercise included simulation scenarios arranged by Kapolda, to assess the team's readiness to manage

a conflict situation. The annual joint exercise has been included in the Tangguh Security Annual Plan and the next one is scheduled for Q4 2011.

- **BP should encourage BPMIGAS and the two Papuan Governors to require other oil and gas companies operating in Papua to implement security procedures similar to the ICBS.**

Response:

We agree. We regularly engage BPMIGAS, the two Papuan Governors and also Papua Kapolda in discussions about our ICBS activities. BPMIGAS has adopted the ICBS JUKLAP at a national level for all oil and gas activities. We will continue our communication with BPMIGAS, the Papuan Governors and Kapolda to actively promote a similar approach to security beyond the Tangguh LNG plant.

Security and Papuan Development

Employment, Advancement and Procurement:

- **BP should continue to discourage migration into the area by limiting recruitment to distant employment centers, other than recruitment of DAV (Directly Affected Village) residents in families from the original census. It should also seek to make sure that all Papuans who are recruited are indigenous Papuans.**

Response:

We have always been concerned about in-migration and its potential consequences, while the first TIAP identified it as a major risk. In order to mitigate this risk, we have taken active steps to educate local officials and members of the community as part of our efforts to implement migration control through our governance program.

With Tangguh now in an operational phase, we have adjusted our recruitment process (and our contractors' recruitment processes) to prioritize applications from DAV residents, particularly those listed in the 2002 census, whenever it is possible to do so without compromising the need to match required skill and experience criteria. We are also running 'up-skill' training for low-skilled Papuan employees to improve their technical expertise.

- **The Papuan Development Committee should focus, as one of its priorities, on the advancement of skilled Papuan technicians at Tangguh. Advanced training programs should be offered and/or efforts should be made to increase top-level and middle management attention to fulfilling the goals of the Personal Development Plans of Papuan technicians. An annual target for recruitment, training and advancement of Papuan technicians should be set to ensure that AMDAL (Integrated Environmental and Social Impact Assessment) commitments are met.**

Response:

We agree. We have now put in place a strategy and agreed an annual program and plan to meet our medium and long term recruitment targets for skilled, supervisory and managerial roles, which have proven to be the most difficult vacancies to fill from within the local talent pool. This strategy covers the development and progression of our existing workforce, the recruitment of new BP and contractor employees and investment in education and collaboration with other institutions to build our talent pipeline.

- **BP should work with its contractors to increase local recruitment and ensure it meets its AMDAL commitments for Papuan and DAV employment. Annual targets should be set for employment of Papuans. If targets for hiring Papuans by BP and/or its contractors are not met, BP should increase Papuan recruitment efforts. If the manpower office in Bintuni is insufficient to recruit local Papuans, BP should expand recruitment activities at other locations in Bintuni Bay.**

Response:

We agree. Our contractual agreements with all contractors at Tangguh already require contractors to meet specified local recruitment criteria. We are in ongoing dialogue with contractors to ensure that they meet these criteria and to date both BP and our contractors have met or exceeded any set targets. We also run an apprenticeship programme to support contractors in their efforts to recruit suitably qualified Papuans.

- **BP should include local procurement obligations, similar to those included in the Indocater contract, in all Tangguh procurements, as**

appropriate. If procurement of fish, prawns, produce or other products from local sellers is not feasible, contractors should be required to use products from the region, or justify why this is not possible.

Response:

We will endeavour to source more local food and fish products by including local procurement criteria in our catering contracts. At present, our catering contractor purchases beef from Sorong as this meat is not available from suppliers in Bintuni Bay. We are continuing our efforts to build local supplier and contractor capacity through our Bird's Head Business Empowerment Program.

Integrated Social Program:

- **Given the absence of effective media or civil society in the area, BP should more actively publicize and communicate the benefits of its programs for Papuan human resource development, livelihood enhancement, education and health, as well as the effectiveness of ICBS for the peaceful resolution of disputes.**

Response:

We agree. Tangguh already publishes a monthly newspaper, KADATE, which carries articles on our social activities and explains the benefits of our ISP programs. The publication is also posted on DAV and RAV (Resettlement Affected Village) bulletin boards and sent to other key stakeholders, including universities, NGOs and government offices in Papua and Jakarta.

- **The Bird's Head Business Empowerment Program ("BHBEP") should be continued for the long term, and adapted periodically to focus on those aspects of the program that most effectively bring new businesses into the Tangguh supply chain.**

Response:

We agree that efforts to empower local businesses in Bird's Head should continue as they have achieved tangible results, helping to empower and grow local businesses. We have appointed KADIN in Papua, the local Chambers of Commerce, to take the lead in implementing BHBEP.

- **Microenterprise and microfinance development in the Bay is essential for a sustainable and self reliant household and local economy. BP should augment ongoing programs with increased effort to develop a value chain structure to link potential buyers outside the Bay with local producers, particularly of fish and prawns.**

Response:

The Tangguh livelihood program includes elements intended to empower credit unions and cooperatives to grow their businesses and create value chains within local villages and potential buyers of their products and services outside the Bay.

Human Rights

- **Oil and gas law familiarization briefings and security forums in the DAVs and other local communities should be conducted on a regular basis. BP should fully socialize the community complaint process at each of the security forums held in the local communities.**

Response:

We agree. We remind local communities of the grievance procedures in place at all security forums and encourage them to use these channels to share any complaints they may have.

- **BP should review the relevant procedures in its community complaint process, consulting with local leaders and simplifying the process if necessary or useful. It may be necessary to institute an oral complaint process or publicize the procedure more broadly.**

Response:

We agree. We have now revised our grievance procedures, to enable villagers to make a verbal complaint via their village officer, who will record the complaint in writing, follow it up and subsequently report back to the individual who made the complaint.

- **BP should support the work of at least a part-time human rights advocate in Bintuni Bay. The advocate should participate in the community security forums conducted by BP.**

Response:

Together with LP3BH, a Papuan Human Rights NGO, we have provided support for 28 Law graduates to obtain lawyers certifications in Manokwari. At the moment we are focusing the effort to strengthen these activities to include Law graduates from Bintuni Bay. Thru this program we expect to have public lawyers available and to increase public awareness in Bintuni Bay with regards to their legal rights, including human rights. We will continue supporting LP3BH in their efforts to increase human rights awareness in the area.

Governance and Revenue Management

- **BP should maintain a sustained effort to increase capacities of government and civil society at the village, *kabupaten* and provincial levels. These programs should be revisited regularly for performance assessments and modified as needed.**

Response:

We agree. Our Governance program aims to increase capacities of government and civil society at the village, *kabupaten* and provincial levels. We evaluate the program's effectiveness every quarter and intervene to resolve any issues that are identified. At a strategic level, the Lenders' External Panel will conduct a mid-term review of all ISP programmes in 2013 to assess their effectiveness and at this point in time we will further modify our plans if necessary. With Tangguh now operational, we are also encouraging other external parties, including local government and donor agencies, to join us in our activities to foster ownership and ensure sustainability.

- **In the DAVs, BP should provide training and support for village decision-making in the use of the Community Action Plan (CAP) funding until it expires in 2015.**

Response:

We agree. Village planning and decision making on funds, whether for BP's Community Action Plan (CAPs) or other government funds, fall within in the scope of our Governance programmes.

- **BP should work with the *kabupaten* government to formulate a policy to integrate and coordinate the various development plans for each village, including under the Government of Indonesia ("GOI") village development planning (Musbangdes) program, the Governor's Village Empowerment Program ("RESPEK") and BP's CAP funding.**

Response:

We agree. Through the governance program, we aim to integrate the planning session for funds from Tangguh and funds from government. We have made concerted efforts to improve village community representatives' and officers' planning and decision capabilities with regards to CAPS funding. As a result of the CAPs planning process, Tofoy, Tomu and Ekam are now able to facilitate and run their own planning sessions (PBM). We plan to extend the process they use in CAPs to cover other funds from government.

- **For the *kabupaten* level, BP should consider working with another implementing partner that specializes in in-depth public administration training to provide such training for selected senior level local officials and leaders in civil society.**

Response:

We have new contracts in place for the Governance program with a study center affiliated to state-owned university of Gadjah Mada (PSKK UGM) and local NGOS of MCC to provide the public administration, following an open tender. Both PSKK UGM and MCC meet the technical requirements specified in this tender.

- **BP should make the provincial government at Manokwari the "secondary" focus of the governance program. It should regularly sponsor good government and anti-corruption activities, such as the 2008 seminar in Manokwari with the KPK. All of these activities should be**

coordinated with the provincial government and/or the DPRD (Regional People's Representative Office), as appropriate.

Response:

At the moment we would like to focus our capacity programs within the Bintuni Bay region as the immediate stakeholders of BP Operations. We believe that improving local officials' capabilities is critical in ensuring the benefit from Tangguh to the local community. We agree that Manokwari forms an important link in the Bintuni Bay administrative process and we are maintaining our efforts to increase Manokwari administrations' awareness of what constitutes good governance and transparency. For example, early in 2011 we completed a workshop on oil and gas revenue flow in Manokwari.

Revenue Flows and Transparency

- **BP should continue its Governance program and work closely with the *Kabupaten* administration to exercise transparency in their budgets and spending, particularly with regards to funds related to Tangguh.**

Response:

We agree. The Governance program will continue to be central to our efforts to ensure Tangguh's operational sustainability. Through this program, we are encouraging the Regency administration to exercise transparency in their budgets and spending. We are also exploring the possibility of working together with the recently government-sanctioned EITI (Extractive Industry Transparency Initiatives).

- **In recognition of the *adat* rights of all the tribes in the local area, and to sustain community development activities in the *kabupaten* beyond the DAVs, BP should encourage the *kabupaten* and provincial government to establish a community development trust fund for this purpose. Experience from the approach used by the Dimaga Foundation could be a model for this new entity.**

Response:

We are supporting the capacity building and management of Dimaga Foundation to ensure that all endowment funds create sustainable benefit for the three clans compensated by Tangguh for the use of their lands. Before we can encourage other

parties to implement similar approach, we still need to internally learn from the experience to make this program a success. Once we have a comprehensive understanding of the challenges and lessons learned than we can share this with the Papuan government.