

**TANGGUH INDEPENDENT ADVISORY PANEL
REPORT
ON
OPERATIONS
AND
TANGGUH EXPANSION PROJECT**

DECEMBER 2017

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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
AMDAL	<i>Analisis Mengenai Dampak Lingkungan</i> –Environmental and Social Impact Assessment
ADB	Asian Development Bank
Bappenas	National Development Planning Agency
BBDF	Bintuni Bay Development Foundation (<i>YPTB – Yayasan Pembangunan Teluk Bintuni</i>)
BDS	Business Development Service
BIN	National Intelligence Agency
BNPT	National Counterterrorism Coordinating Agency
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 (which was declared unconstitutional and disbanded in 2012)
BPK	<i>Badan Pengawasan Keuangan</i> – State Audit Agency
Brimob	Indonesian police mobile brigade corps
<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
CSTS	The consortium constructing TEP under the EPC contract
DAV	Directly affected village as originally identified by the Tangguh LNG project
DG Migas	Directorate General for Oil and Gas
<i>Dinas</i>	Agency
DPR	<i>Dewan Perwakilan Rakyat</i> – The House of Representatives
DPRD	<i>Dewan Perwakilan Rakyat Daerah</i> – Regional House of Representatives, a parliamentary body in provincial and regency level

EITI	Extractive Industries Transparency Initiative
ENR	Energy and Natural Resources
ESDM	Ministry of Energy and Mineral Resources
GOI	Government of Indonesia
Golkar	Functional Group Party, a major political party in Indonesia
ICBS	Integrated Community Based Security
ICITAP	U.S. Department of Justice’s International Criminal Investigative Training Assistance Program
IEDP	Indigenous Enterprise Development Program
IPB	<i>Institut Pertanian Bogor</i> , or Bogor Institute of Agriculture
ISP	Integrated Social Program – an implementation unit within the Tangguh Project and the social-economic development programs managed by that unit
JUKLAP	Joint Field Guidelines for Security
JUKLAP/PAMBERS	2009 update to and extension of the JUKLAP agreement
<i>kabupaten</i>	District or regency
<i>Kapolda</i>	Chief of Provincial Police
<i>Kapolres</i>	<i>Chief of kabupaten</i> (regency) police
<i>Kapolsek</i>	Chief of sub-district police
<i>Kodam</i>	TNI provincial command
<i>Kodim</i>	TNI regency/ district command
<i>Kota</i>	City
KPPIP	GOI Committee for the Acceleration of Priority Infrastructure
KPK	Corruption Eradication Commission (“KPK”)
LARAP	Land Acquisition and Resettlement Action Plan – the Tangguh Project action plan describing the involuntary resettlement impacts of the Project
LNG	Liquefied natural gas

MOE	Ministry of Environment
MOF	Ministry of Finance
MOU	Memorandum of Understanding
MRP	Papuan People’s Council – a representative body composed of religious, <i>adat</i> , and women’s leaders created by the Special Autonomy law
Nasdem	National Democratic Party, an Indonesian political party
NGO	Non-governmental organization
OECD	Organization for Economic Cooperation and Development
OPM	<i>Organisasi Papua Merdeka</i> , or Free Papua Movement – a separatist organization
<i>Otsus</i>	Special Autonomy
<i>Pangdam Papua</i>	Papua Military TNI Commander
PDI-P	Indonesian Democratic Party of Struggle, a major political party in Indonesia
<i>Perdasus</i>	Special Autonomy regional regulation to be passed by the DPRD and approved by MRP for allocating oil and gas revenues (DBH)
PLN	State Electricity Company, an Indonesia’s national electricity company
<i>Polsek</i>	Sector Chief of Police, a police office in sub-district level
<i>Proper</i> performance	Ministry of Environment audit for corporate environmental and social
<i>Puskesmas</i>	Public Health Center, - a local health clinic in district level
PKB	National Awakening Party
PSC	Production Sharing Contract
PPP	United Development Party
RAV	Resettlement Affected Village as originally identified by the Tangguh Project – Tanah Merah Baru, Saengga, and Onar
SBY	Former Indonesian President Susilo Bambang Yudhoyono
SKJ	Travel permit required that restricts access to Papua
SKKMIGAS	National Upstream Oil and Gas Implementing Agency, the Government of Indonesia partner in the Tangguh Project (which replaced BPMIGAS)

SOP	Standard operating procedure
TEP	Train 3 expansion project
TCHU	Tangguh community health Unit
TIAP	Tangguh Independent Advisory Panel
TNI	<i>Tentara Nasional Indonesia</i> – Indonesian military forces
TSDP	Tangguh Sustainable Development Program – Tangguh social program that will replace the previous ISP under the new AMDAL governing Tangguh’s expansion
UGM	University of Gadjah Mada
UNIPA	State University of Papua at Manokwari
UNCEN	State University of Cenderawasih at Jayapura
UP4B	Unit for Accelerated Development in Papua and West Papua
VAT	Value-added tax
YSA	Yayasan Social Augustinus – a local foundation

I. INTRODUCTION

The Tangguh Independent Advisory Panel (“TIAP” or “the Panel”) provides independent, external advice to senior BP decision-makers regarding non-commercial aspects of the Tangguh LNG Project (“the Project”). It specifically advises BP on how Tangguh can achieve its potential as a world-class model for development. The current Panel is chaired by former U.S. Senator Tom Daschle, who served as Majority Leader of the U.S. Senate, and includes Augustinus Rumansara, a Papuan who chaired the Asian Development Bank (“ADB”) Compliance Review Panel from 2003 to 2008, served as an advisor to the Governor of Papua from 2008 to 2010 and currently chairs the Papua Low Carbon Development Task Force.¹ The Panel utilized an independent counsel and secretariat headed by Gary Klein and the additional support and counsel of Caroline Selby of the Daschle Group.² The current Panel was established in 2011 and has been extended by BP through 2020. The conclusions and recommendations in this report are those of TIAP alone and reflect conditions and positions at the time of the TIAP visit.

This is the Panel’s fourth full report and it comes at a critical time. BP has begun a major expansion of Tangguh that would add 50% to its capacity and is bringing thousands of new workers to the site. The expansion, known as the Tangguh Expansion Project (“TEP”)³ will include a third train at the LNG site, an additional jetty, two new platforms and 16 new wells. In 2014, BP completed the social and environmental impact statement (the “TEP AMDAL”) that will govern its commitments during the construction of this expansion (scheduled from 2017-2020) and its operations thereafter.

This report will seek to bring TIAP’s experience and consultations to these subjects and to help guide BP in implementing its existing and new commitments as well as the special challenges associated with simultaneous operations and major construction. As with previous TIAP reports, this report will be published, along with BP’s responses, and will be presented to and discussed with interested parties in Jakarta, London and Washington, D.C.⁴

In addition to TIAP’s activities, Tangguh is monitored by the Tangguh Lenders Group, represented by the ADB, Japan Bank for International Cooperation and Mizuho Corporate Bank, which has established an external panel that is staffed by independent experts who visit Tangguh. Their annual review is limited to issues of safety, environment, resettlement, and social programs. In recognition of the work of the Tangguh Lenders Group, TIAP focuses on matters relating to security, human rights, governance, revenue management, the political

¹ For the purposes of this report, the term “Papua” refers to the region encompassing both Papua province and West Papua province (“Papua Barat”). The term “Papua province” refers to the province of Papua following its split with Papua Barat province. The term “Papua Barat” refers to the province of Papua Barat (previously known as Irian Jaya Barat) following its establishment in 2004. A map of Papua and Papua Barat showing key locations related to Tangguh is included as Appendix I.

² The previous Panel, which monitored the initial construction phase of the Project, was chaired by former U.S. Senate Majority Leader George Mitchell and included Lord Hannay of Chiswick, Ambassador Sabam Siagian and Reverend Herman Saud.

³ See TIAP’s May 2014 report at 10 for a more complete description of the proposed expansion.

⁴ It will be available, together with BP’s responses, on BP’s website. See <http://www.bp.com/sectiongenericarticle.do?categoryId=9004751&contentId=7008791>

environment and the broader issues relating to how Tangguh affects the people of Bintuni Bay and Papua and how it is perceived by them. These factors, broader than strict compliance, relate directly to whether BP can achieve its goal of making Tangguh a world-class model for development.

In September 2017, TIAP visited Papua (Manokwari, Sorong and Bintuni Bay) as well as Jakarta. The Panel met with national NGOs, Ministers, and other senior officials of the Government of Indonesia (“GOI”), including the office of the Coordinating Minister for Security and Political Affairs, the head of SKKMigas, officials of the National Counterterrorism Coordinating Agency (“BNPT”), the Deputy Minister of Finance and senior officials of the Committee for the Acceleration of Priority Infrastructure (“KPPIP”). The Panel also had the opportunity to discuss Tangguh with both the U.S. and U.K. Ambassadors. The Panel also met with BP’s implementing partners who are supporting and assessing BP’s social and economic development programs.

TIAP met with the Governor and Vice Governor of Papua Barat, the Bupati of Teluk Bintuni (“Bintuni Bay”), his Vice Bupati and his staff, the Papua Barat TNI Commander (the “Pangdam”), the Papua Barat Chief of Police (the “Kapolda”), the Bintuni Bay Chief of Police (the “Polres”) and the local TNI Commander. In Bintuni Bay, it also met with Papuan villagers from north shore and south shore villages. While at Tangguh, TIAP met with Papuan workers and BP personnel running the management, operations, Papuan development programs and security at the LNG site. It also met with senior officials of the EPC contractor consortium (“CSTS”) who are managing TEP construction, security and safety, and the BP managers who are coordinating these activities with CSTS. The Panel also met with Papuan NGOs, human rights advocates and scholars.⁵

The Panel recognizes that between the visit and the publishing of this report, that there have been developments relating to some of the key issues reviewed. Where possible, the report will discuss these changes, but unless otherwise noted, this report is based on information available to the Panel as of September 2017.

The Panel reviews BP’s programs and activities in relation to the most respected current global norms that establish best practices for projects in developing countries. These include the long established Universal Declaration of 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 and the U.S. – U.K. Voluntary Principles on Security and Human Rights (the “Voluntary Principles”). The Panel also consults the more recent global guidelines such as the United Nations Guiding Principles on Business and Human Rights (“the Guiding Principles”); the IFC Performance Standards on Environmental and Social Sustainability; and the Equator Principles (directly applicable to financial institutions).

The Panel does not audit BP’s compliance with Indonesian or local law, but does review BP’s compliance with its social and environmental obligations under the AMDAL. This now

⁵ See Appendix II for a full list of the stakeholders consulted by TIAP during its September 2017 visit.

includes obligations of the TEP AMDAL. The Panel was given complete access to all information it requested from BP and total independence in its inquiries and findings. The conclusions and recommendations in this report are those of TIAP alone, not BP. The Panel expects BP to issue responses to each of the Panel's recommendations and, as noted, anticipates conducting open meetings with interested parties to discuss this report and BP's responses.

II. HIGHLIGHTED ISSUES

With construction of the Tangguh Expansion Project underway, BP is facing some of the most difficult issues that TIAP has encountered. Many of the long continuing issues relating to relations with Papuans remain unresolved. These include claims by local tribes for adat compensation, jealousies between north and south shore villagers, delays in providing north shore housing and electricity, recruitment and promotion of Papuan workers, difficulties in establishing an agreed natural resource revenue sharing plan, effects of in-migration of non-Papuans and increasing activity in the area by other oil and gas contractors. While some progress has been made since TIAP's last report, satisfactory resolution of many of these issues is by no means fully within BP's control. However, now that construction of TEP has begun, these issues have taken on a heightened urgency.

There are notable areas in which performance is excellent -- including the project launch, the continued success of ICBS, environmental compliance, maintenance and facility appearance, Papuan workforce relations, the community health program and community relations generally. But TEP construction and its attendant AMDAL obligations has accelerated the timeframe for delivering results on stalled programs. In addition, the simultaneous operation of Tangguh and construction of TEP has introduced new challenges related to security and safety. In meeting these significant challenges, it is notable that the Tangguh workforce, at all levels, displays a high level of professionalism and a genuine team centered attitude.

A. Security and Safety

BP is facing new challenges that are perhaps as complicated as any presented since the commencement of the project. The threats to safety and security that were faced during construction of Trains 1 and 2 are increased materially by the simultaneous operations of the existing LNG facility; the large numbers of non-local workers; and the current reality of global terrorism, both physical and cyber.

Temporary workers onsite, who will be hired by CSTS and its subcontractors, may number 10,000 or more individuals over the next three years during the course of construction. Each may be an employee of one of the principals of the CSTS consortium, or an employee of a subcontractor or even a sub-subcontractor. It is possible that some of these entities may not have the focus on and standards for security and safety that BP would demand of its own employees and operations.

The recent scourge of global terrorism presents a significant long-term challenge that will need to be addressed currently and reassessed regularly. It is unquestionable that facilities such as Tangguh face a threat from terrorism, either internally or externally, physical and cyber. These acts are often carried out by a single individual or a small radicalized cell. It is difficult, some would say impossible, to predict where or when such an act could occur. This threat must be realistically assessed and mitigated. Tangguh's greatest security assets are its remote location and inaccessibility, and the trust and shared ownership it has built in the local community. Any mitigation actions taken, if possible, should not significantly threaten this trust and the generally positive feelings for Tangguh in nearby villages.

Great care needs to be taken to guarantee that the TEP construction workers from outside of Papua do not present a significant threat to the security or safety of the project or existing operations. Although many useful steps already have been taken, several specific further enhancements are recommended. Increasing the response capacities and training of BP private security and the contractor's security is essential. Hardening and monitoring perimeter security, and augmenting local intelligence is vital. Additionally, strict imposition of the safety and security contractual requirements on CSTS and its subcontractors, delivered by effective coordination, training, monitoring and enforcement of BP's standards, is also critical. If existing contracts or implementing plans do not provide adequate resources or meet required safety or security standards, they should be amended.

B. Social and Community Development Programs

Although the issues related to BP's interaction with and effects on the community are not novel, the TEP construction and the drilling of new wells brings with it new community development requirements under the TEP AMDAL. Further, both the Provincial and Regency governments are new, and may have different views than their predecessors about program delivery. Yet expectations within the community are that BP will deliver on long promised programs, including north shore housing, education and electricity for the entire community. To the credit of BP's community relations team, there is considerable understanding among the villagers that BP cannot deliver these programs alone, and that government, at all levels, bears at least some responsibility.

Examples include the north shore housing program, which has been discussed for many years,⁶ is required by the TEP AMDAL and is ready to commence. Yet it has been delayed by ongoing and unresolved discussions within the Provincial and Regency governments.⁷ The long-negotiated regional regulation for sharing of natural resource revenue under Special Autonomy (the special regional bylaw: *Perdadasus*), which would provide both short and long term funding for local adat communities, has also been stalled. And the provision of grid based reliable electricity to Babo and many of the local villages, with power made possible by the 8MW generation unit built and operating at Tangguh, has also been delayed by PLN.

⁶ See TIAP's December 2015 report.

⁷ This hiatus may be over. TIAP is informed that in early December, the Bupati agreed to end the suspension of the north shore housing program and begin the process leading to construction. See pp.31-32 *infra*.

Importantly, the government has accepted responsibility for long demanded adat compensation, which some sought to impose on BP, for the drilling of wells on tribal property. But disagreement by the GOI has stalled implementation. Some would like BP to participate in this payment, even though the payment of adat claims has always been considered a responsibility of the government, not the operator. BP must resist any request that it play a part in any scheme for transferring cash to adat leaders, even if requested by government.

BP does not control any of these governmental actions. However, the resolution of these issues very directly affects the operations and security of Tangguh, and could also affect the timing for completion of TEP. The hard-won trust and support of the local community is one of Tangguh's greatest assets. But because of continuing delays in these promised programs, the patience of some members of the community is wearing thin. Real progress on one or more of these key issues, as TEP construction proceeds, would tangibly and visibly demonstrate the reality of the AMDAL's promises.

C. Government Coordination and Advocacy

BP's community and government relations efforts have established good relations with officials at most levels of the government, particularly at the village, regency and provincial levels. Most local leaders are supportive of Tangguh and pleased with BP's attitudes and programs. This is particularly noteworthy given the turnover of so many of these officials since TIAP's last visit.

But despite good relations, many of these officeholders are focused on different issues and do not fully appreciate their key role in implementing previously sanctioned programs. Moreover, they and their appointed administrators are new to the government systems and planning requirements for implementing these programs. The need to operate Tangguh efficiently and to complete TEP on schedule are assumed to be BP jobs, and are often not among their priorities.

The GOI has declared TEP as one of the four new national strategic infrastructure projects, providing government support to expedite development.⁸ The governmental agencies with the most interest in timely completion of this vital project are the Ministry of Energy and Mineral Resources, the Ministry of Finance and SKKMigas. The President has also established the Committee for the Acceleration of Priority Infrastructure ("KPPIP"), a special coordinating agency designed to smooth roadblocks to timely completion. All of these national entities have responsibility for the greater public interest and the successful completion of TEP. BP has good relations with each of these entities, all of which understand the key social issues and challenges facing the project. But their efforts thus far to break the gridlocks of local and regional governments, and by PLN, have not been effective.

⁸ See, e.g., "Four oil, gas projects added to government priority list" petromindo.com, June 24, 2017.

Relatedly, there has been a long hiatus in BP's support for local governance.⁹ Because of recent elections, many of the officials now in the regency and provincial governments have limited experience and have never received any training from experts in governing. BP plans to restart its partnership with UGM for assistance to the regency in early 2018. The Bupati welcomes and needs this support. This program should not be delayed; it should be expanded. Similar assistance should be discussed with the Governor, to help the Provincial government and the DPRD implement programs related to Tangguh commitments.¹⁰

In addition, more active government relations efforts at higher levels of the GOI should be undertaken. Lines of communication should be increased between senior BP Indonesia management and the offices of the President and Vice President as well as the Coordinating Ministers with jurisdiction over Tangguh. The offices of these high officials should be kept informed of the importance of resolving local disputes and delays, and requested to intervene where possible.

Importantly, efforts should be renewed to reschedule the President's cancelled visit to Tangguh. In advance of a commitment to visit the LNG site, BP should seek to have key issues relating to Tangguh included in the agenda of any upcoming visits to Papua Barat by the President. Further, BP should encourage and facilitate regular meetings of key GOI officials with the Governor and the Bupati to address issues facing TEP.

It is also important that BP Group senior management participate in this effort. To encourage President Jokowi to visit Tangguh, together with local leaders, the Group CEO, on his next visit to Indonesia, should extend an invitation to the President to join him in visiting Tangguh. If the President could announce the start of or a milestone in a Tangguh related social program, preferably north shore housing or electricity, it would provide a further incentive for the President to visit Bintuni Bay and Tangguh. To help provide such an incentive, BP should work with the GOI to resolve one of these key issues. In that way, the President's visit would not only educate him regarding the importance of Tangguh and TEP to Indonesia and Papua, but could also allow the President to spotlight the connection between Tangguh and a major new social program for Papuans. Ideally, the President, together with the Governor and the Bupati, could inaugurate the north shore housing program, designed entirely for indigenous people, while also celebrating a milestone for TEP.

D. Papuan Workforce Development

BP's AMDAL obligations for Papuan workforce development have always been among the most important to the broader community and to its elected leaders. They are also the most readily quantifiable. Meeting these AMDAL requirements for a skilled Papuan workforce

⁹ BP has supported efforts to improve local governance almost since the creation of the regency in 2004. However, due to unrelated issues, this support with its partner UGM was terminated two years ago and has not been replaced. See TIAP May 2014 Report at 47; and December 2015 Report at 45.

¹⁰ It was recently reported that the province spent only 30% of its allocated funds during the first three quarters of 2017. Delayed tenders of goods and services procurement, which used the e-procurement (LPSE) system for the first time, was stated to be the main cause of the low absorption rate. See "Papua Barat Legislator: Local Budget Absorption Only 30%, Disadvantaging Local People," Cahayapapua.com, September 16, 2017.

by 2029 remains a serious challenge for BP. For more than a decade, BP has attempted various programs to recruit Papuans and develop their skills, but thus far none have achieved the results expected and needed. Overall Papuan workforce levels have stalled for several years at about 54%; even more significantly, indigenous Papuans fill very few of the higher skill and supervisory positions.¹¹

However, since TIAP's last visit, BP has devoted additional senior management attention to these requirements. The immediate results have the potential to produce long term gains. First, BP has initiated an impressive apprentice program, to train specially selected high school graduates from Papua Barat in technical skills, including electrical, mechanical and operations. Importantly, the three year program focuses first on English language immersion training. BP is accepting 40 top students per year in the program in an effort to provide 180 skilled employees. It is unrealistic to think that all these students will graduate, or that every graduate will have a career at Tangguh. Thus, entry levels should be adjusted upward to account for such attrition.

Second, BP has established a Papuan Employee Steering Committee to better inform Papuan employees and, more importantly, to listen to the concerns and ideas of the Papuan workforce.¹² Senior management has made a point of meeting with the group on most visits to Tangguh. Although there are some concerns related to recruitment of Papuans and promotion, these Papuan employees, and presumably others whom they represent, are pleased with the increased support they have received from senior management for the past two years. English language training at site seems to be much more accessible and utilized. In addition, the mentoring program is much improved.

TEP is an important part of Papuan workforce development with its own AMDAL requirements. BP has taken contractual steps that require CSTS contractors to meet these Papuan hiring goals. CSTS and its subcontractors are required to hire indigenous Papuans for all unskilled jobs, 93% of semi-skilled, and 12% of skilled positions.¹³ These commitments must be monitored closely by BP given their importance and the potential that failure would increase local tensions. Thus far, with the exception of recruiting problems in Bintuni town that is the result of local political issues, the contractor seems to be meeting its targets. It is early in the TEP hiring process; BP must be vigilant in its oversight, provide support if needed, and use its contractual leverage to see that these requirements are met throughout construction.

E. Environment and Maintenance

Environment and general maintenance is another area in which BP is no longer in full control of all activities and results. BP's environmental performance over the past several years has been first rate. The Ministry of Environment's annual audit of Tangguh operations ("PROPER") has conferred the top annual rating level blue for four straight years,

¹¹ See Appendix III.

¹² This was one of TIAP's priority recommendations in its 2015 report, see TIAP's December 2015 report at 14.

¹³ See Appendix III.

demonstrating full compliance with AMDAL and environmental regulatory requirements. At long last, this entitles Tangguh to qualify for the coveted green status. The Lenders Panel, which conducts a detailed environmental review, found only two level 1 issues of non-compliance.¹⁴ Gas flaring in 2015 was the lowest volume since operations began.¹⁵

It is apparent that all TEP activities must be fully compliant in order for these good results to continue. Although BP has certain supervisory and oversight authorities over its contractor, it is CSTS and its subcontractors who will conduct the day to day activities that must remain compliant. This includes the performance of the solid waste, hazardous waste, water and wastewater systems designed for the large construction workforce.¹⁶ There were issues of non-compliance regarding solid waste disposal during construction of Trains 1 and 2 in part because of the unexpected size of the workforce. Therefore, as the workforce grows, it is incumbent on BP to maintain strict and regular oversight and coordination with the contractor regarding environmental compliance. This should include weekly meetings to address all ongoing and planned activities as well as a mechanism for rapid response to any problems that arise unexpectedly.

Relatedly, the physical appearance and general maintenance of the operating facilities at Tangguh, with minor exceptions, have improved noticeably over the past two years. These gains may become more difficult to sustain in the midst of a major construction project. Nonetheless, BP should not tolerate any of the facilities over which it has responsibility, or the TEP construction site generally, to reflect diminished or poor maintenance during construction. BP should continue to recognize the importance of physical appearance as a daily reminder of the pride and standards every employee can aspire to in their individual responsibilities.

III. RECOMMENDATIONS

A. Governance and Advocacy

1. Resuming support for local governance should not be delayed; it should be expanded. Support should be discussed with the Governor to help the Governor and the DPRD implement programs related to Tangguh commitments.

2. More active government relations efforts at higher levels of the GOI should be undertaken. Lines of communication should be increased between senior BP Indonesia management and the offices of the President and Vice President as well as the Coordinating Ministers with jurisdiction over Tangguh. The offices of these high officials should be kept informed of the

¹⁴ The Lenders Panel, which conducts a detailed environmental review, in July 2017 found level 1 issues of non-compliance regarding the assessment and management plan and land clearing and drainage.

¹⁵ Flare volume in 2015 was 1808 mmscf compared to 1992 mmscf in 2014. Flare volume in 2016 was higher at 2226 mmscf as a result of a planned shutdown and turnaround.

¹⁶ See TIAP March 2009 report at 42-43.

importance of resolving local disputes and delays, and requested to intervene where possible.

3. Efforts should be renewed to reschedule the President's cancelled visit to Tangguh. In advance of a visit, BP should seek to have key issues relating to Tangguh included in the President's agenda on any upcoming visits to Papua Barat. Further, BP should encourage and facilitate regular meetings of key GOI officials with the Governor and the Bupati to address issues facing TEP.

4. The Group CEO, on his next visit to Indonesia, should extend an invitation to the President to join him in visiting Tangguh. To provide a further incentive for the President to visit Bintuni Bay and Tangguh, BP should work with the GOI and local leaders to resolve bottlenecks so the President could announce a milestone in a Tangguh related social program, such as north shore housing or electricity. This would allow the President to spotlight the connection between Tangguh and a major new social program for indigenous Papuans.

B. Papuan Workforce Development

1. Greater efforts must be taken and sustained to recruit, train and promote Papuans if the AMDAL commitments for a Papuan workforce in 2029 are to be met.

2. The Papuan apprentice program shows great promise for training skilled workers. BP should remain committed to it for as long as positions for such graduates remain available. Based on unavoidable rates of attrition, BP should also consider increasing the size of the entering class.

3. BP also must increase its recruitment of qualified, experienced Papuans to fill more senior positions. At the very least, BP should increase public notice of job openings at Papuan universities and other job marketplaces in Papua through advertising or on location recruiting. It should make known all job opportunities to its Papuan employees, to enlist them as recruiters and increase the network of potential applicants. Further, BP should hire an employment consultant, with experience in this area, to seek out talented, qualified Papuans.

4. BP senior management should continue to meet and exchange views regularly with the Papuan Employee Steering Committee. This group provides a useful and organized communications mechanism for Papuan employees to express problems and concerns or suggest ideas regarding their career development and Papuan workforce opportunities.

5. Senior management also should continue to encourage all managers at Tangguh to mentor any Papuan employee who requests them.

6. Qualified Papuan workers should be notified of any openings that arise in Jakarta. and be given equal opportunity to fill those positions.

7. For any Tangguh services or products that are contracted out, BP should include in the contracts the right to impose financial sanctions on the contractor if it does not meet pre-agreed Papuan hiring requirements, and it must enforce these requirements.

8. For TEP, BP has imposed contractual obligations on CSTS contractors to meet Papuan hiring goals. These requirements must be monitored closely by BP and enforced strictly, given their importance and the short tenure. If additional recruitment or training measures are needed, BP should insist that these be instituted promptly, because lead time will be essential in meeting these requirements and compliance will be far preferable to penalties.

C. Environment and Maintenance

1. BP's environmental performance for Tangguh operations has been excellent. To assure TEP's environmental compliance, BP must maintain strict and vigilant oversight and coordination with the contractor. This should include weekly meetings to address all ongoing and planned activities with potential environmental impact as well as a mechanism for rapid response to any problems that arise unexpectedly.

2. BP should continue to recognize the importance of appearance as a daily reminder of the pride and standards of every employee. It should not tolerate any of the facilities over which it has responsibility, or the TEP construction site generally, to reflect diminished or poor maintenance.

D. Security

1. Given the potential consequences of a successful cyber attack and the continuing evolution of global hacking, BP must continue to impose and enforce strict and sophisticated procedures, and should review them regularly. All employees with any possible access to Tangguh's operating system should be provided online security training on a regular basis.

2. Tangguh's operating and production systems must be completely disconnected from the internet, and access should be limited to authorized Tangguh personnel with multiple layers of security. TIAP also endorses strongly the biennial BP Group cybersecurity audit.

3. It is imperative that the CSTS Security Management Plan be implemented fully and properly, particularly as it is enforced among all subcontractors. BP must utilize the coordination and verification processes of the security plan to oversee all elements of TEP security and demand that every aspect of the security plan is working effectively. In addition, as worker

mobilization increases, BP must insist that any perceived deficiencies be corrected.

4. The advanced training for guards in Behavior Profiling and Surveillance Detection & Counter Measures should be made permanent. Guards trained in these skills should also be assigned regularly to duty in nearby villages where they are familiar. This training should be provided to guards during their on-duty hours, and be viewed as a part of their required, regular and important tasks. Additional guards should be hired if needed to accommodate this training requirement.

5. BP should review the training being provided thus far for TEP guards, and determine whether it provides the level of training and the competency that is required under ICBS and the JUKLAP. If it does not, modifications should be made.

6. BP must be assured that CSTS efforts are adequate to detect any possible security threat by employees of CSTS and all its subcontractors. BP should review all vetting processes that are being used to minimize the chance that disruptive individuals are hired. BP's Code of Conduct must be strictly enforced and BP must be notified promptly of any infractions or other behavior by any employees that could pose a threat. Employees should be made aware that their rooms and personal possessions will be subject to random searches by security personnel for contraband or radical materials. Any penalties imposed for violations of required behavior should be made jointly by CSTS and BP.

7. Increased intelligence gathering and sharing is critical for detection and early warning of any suspicious activities. Tangguh security should continue to encourage the local community to share information with BP about new arrivals and any unusual or secretive activities, including an awareness of activities at houses of worship, to detect any threatening behavior or incendiary language related to Tangguh.

8. Perimeter security should be enhanced. More effective measures can be utilized to better secure and monitor the fence line. BP should consider better fencing, and increased use of CCTV, drones and patrols to allow 24/7 monitoring.

9. Marine security should be enhanced further. During construction, CSTS security has primary responsibility for the protection and safety of all shoreline and marine construction areas. But because there will be so much traffic in and around the LNG site during construction, it is essential that BP be able to identify all vessels near the jetties or the platforms before they arrive. In coordination with CSTS, utilizing radio or other communication, as well as CCTV, radar, lidar, or other available technology, BP should facilitate early warning of any ill-intentioned marine activity. In addition, regular communication with the Naval base at Sorong should be instituted, through

proper channels, particularly to coordinate any emergency response. Further, BP should explore with the police the potential for increased capacity of the joint mobile patrol unit (JMP) to augment security and safety near traditional fishing areas.

10. Rapid response procedures on site for high level security threat scenarios should be clearly distinguishable from the procedures used for a fire, explosion or other safety emergency, and the recommended measures for personnel to take should reflect the different threat posed.

11. Hostile vehicle mitigation (HVM) counter measures should be enhanced. Secure storage of vehicles, keys, or other ignition devices, is imperative. BP should also consider the possibility and practicality of installing governors or other devices, on all but emergency vehicles, that limit their top speed to the low speed needed by vehicles on site.

12. The joint annual training exercise with police and TNI required under the JUKLAP should be held annually, and should validate BP's ability to mitigate a high level security threat. The exercise should practice a coordinated response, engaging both Tangguh and CSTS security, as well as the police and TNI. This should be in addition to the required annual exercise to be conducted without public security in the CSTS security plan.

13. BP should support continued regular conferences led by SKKMigas among oil and gas contractors and security professionals to compare security threats and response procedures and share best practices.

14. Tangguh private security capacity should be enhanced with more effective weapons to frustrate if not overcome an armed attack. Non-lethal weapons, such as pepper gel guns, pepper spray, rubber bullets, stun guns and possibly other devices should be available to an elite level of senior guards who have demonstrated their capacity and been thoroughly trained in their use. BP should work with the security contractor to establish an elite cadre of security guards, which could be a promotion for the best performing guards. If the existing contract does not permit this enhancement to the capacity or structure of the security force, it should be discussed with the security contractor as an amendment to the existing contract.

E. North Shore Housing

1. BP should actively engage with both local and national officials in an effort to help resolve this dispute. BP should engage with senior officials of the GOI, including if possible the Office of the President, seeking their help to mediate and negotiate a quick solution. BP could propose alternatives, such as implementing the program in phases, which could allow discussions on the precise scope of the program to continue while construction proceeds.

2. Since the new Governor and the new Bupati want to use the customary platform for conflict resolution called Gelar Tikar Adat (GTA) to resolve problems related to the construction of North shore housing, BP should learn more about the GTA process, and assess whether the GTA could also be used as a community based conflict resolution platform at the village level in the future.

3. If delays persist into 2018, BP should seek authority from SKKMigas to fund construction of some infrastructure improvement selected by each designated village, such as a new bridge, public building or walkway, as a demonstration of BP's good faith and as a form of compensation for the delays.

4. Whenever program implementation begins, BP should make every effort to accelerate the time line to complete at least the currently planned phases by 2020, to coincide with the opening of Train 3.

F. Electricity

1. BP should work with leaders at the national level, including SKKMigas, the Committee for the Acceleration of Priority Infrastructure ("KPPIP") and others to encourage PLN to make progress on this essential objective. BP should also seek to involve the President and his Papua advisors in this effort.

2. Until PLN extends grid based power from Tangguh to Babo and nearby villages, BP should request authority to increase the supply of diesel based power generation for Babo. It also should request authority to provide solar lamps for each household in the villages without power, so that Tangguh's neighbors can have reliable light.

G. Gas to Power

1. BP should work more actively with the Governor, the leaders of the DPRD, and officials in Jakarta to make sure they understand fully the need for prompt action to establish and implement a BUMD, which is a prerequisite to begin construction of the infrastructure needed for gas based power.

H. Social and Community Development

Health

1. BP should continue to support programs that reduce morbidity and mortality related to diarrhea, TB and HIV/AIDS. These efforts should continue to be supported actively with a goal to upgrade Bintuni Bay health care to Indonesia-wide standards.

Livelihood and Enterprise Development

2. BP must work with Indocater and the village coops to achieve its TEP AMDAL commitments to procure 10% of TEPs fresh food needs during construction and 65% post-construction. This increase in production by the coops may require expansion of stocking points and/or more frequent pick-ups.

3. BP should institute careful monitoring of local procurement by the contractor to ensure that its AMDAL commitments are being met and demand that any deficiencies be cured promptly. If they are not corrected, BP should seek penalties under the contract that could be invested in coop facilities and equipment.

4. BP's Procurement and Supply Chain Management group should explore opportunities for additional products or services that can be supplied by local trained, qualified indigenous enterprises. Thus far, the only contracts that have been awarded to participants are Mayri and Raja Barefal Cooperatives for stationary supplies and Subitu Kreasi Busana for uniforms.

5. The SUBITU indigenous businesses are an important element of Papuan development. Failure of either of these businesses would reflect badly on BP's entire enterprise development program. BP should continue to nurture these businesses as they strive to be profitable.

Adat Compensation

6. BP must continue to resist any proposal that it pay any governmentally recognized adat claim, and include the payment in its cost recovery. If the GOI demands that BP pay any such claim, it cannot do so in cash or any equivalent. If the payment must involve BP at all, it must be fully transparent, and take the form of funding for a specific program or programs that benefit the adat community.

Education

7. The flagship school is the single most important and visible element of BP's support for local education. It has been long delayed. BP should work with the local education agency and its education partner to make the timely establishment of one flagship school in Bintuni Bay a priority. The school should be fully functioning, at the latest, when Train 3 operations begin.

IV. POLITICAL AND SECURITY UPDATE

A. Nationally

President Joko Widodo (“President Jokowi”) enjoys an enviable approval rating in the third year of his five year term.¹⁷ Since beginning office with a small, unstable majority in the DPR, he has crafted an unprecedented broad majority coalition. This includes parties as diverse as PDI-P, still Chaired by former President Megawati; Golkar, the legacy party of Suharto; Hanura, headed by former General Wiranto; NasDem, a pro-business party founded by media magnate Surya Paloh; and the United Development Party (PPP) and the National Awakening Party (PKB), two small Islamic parties. While this coalition technically guarantees the President some measure of support from the DPR, it compels him to appoint political leaders from coalition parties to many of the most important positions in government. This political diversity does not adapt easily to coordinated and consistent policy.

The need for consistency is particularly important in heavily regulated areas such as foreign business investment or oil and gas regulation, because decisions in these areas often require the coordination or agreement of multiple agencies. Yet in part because many agencies are headed by a leader from one of the coalition partners, their agenda may not align perfectly with the President’s or with other Ministers. As a result, despite the President’s multi-pronged effort to improve Indonesia’s business climate and its competitiveness, little that has been done that encourages private oil and gas investment or accelerates the pace of decision-making.

The DPR is headed by the current Golkar leader Setya Novanto, who remained in place despite multiple scandals regarding kickbacks and financial improprieties.¹⁸ The DPR has been mired in an effort to defund or terminate the popular Anticorruption Commission (“KPK”), which has brought charges, generally involving bribery or kickbacks, against many members of the DPR (as well as many regional and local officeholders).

With regard to energy policy, the DPR has been deliberating a new oil and gas law for several years. This may further codify Pertamina’s pre-eminence in both upstream and downstream activities and could end the use of Production Sharing Contracts (“PSCs”) as a method to compensate developers of new oil and gas blocks and could change the role of SKKMigas. But it is not clear whether this new law will be finalized anytime soon. And it is not likely

¹⁷ Recent polls suggest his approval ratings are around 66%. La Batu, Safrin. “Jokowi’s Approval Rating Remains High.” The Jakarta Post, 12 Sept. 2017, www.thejakartapost.com/news/2017/09/12/jokowis-approval-rating-remains-high.html.

¹⁸ At the time of publication of this report, Golkar was taking steps to replace Novanto with Airlangga Hartarto, President Jokowi’s Industry Minister, as the party’s new chair. Setya Novanto was taped trying to bribe Freeport into selling its governmental divested shares to him, suggesting he was sent by the Coordinating Minister for Security on behalf of the President. In a questionable court decision, he managed to have the charges dismissed, and was reappointed as Speaker. He is now being investigated for separate corruption charges, related to kickbacks on the GOI’s national electronic identity card program. He was arrested by the KPK on November 20, 2017. See “Indonesia Parliament Speaker Taken into Custody by Anti-graft Agency, Reuters, Nov. 20, 2017.

that its new provisions would affect an existing project like TEP, but it surely could affect future operations or expansion at Tangguh. Even without any change in law, Pertamina is increasing its dominance in upstream activities and being encouraged to emulate other successful state owned oil monopolies, such as Statoil and Petronas.

Many of the specific decisions affecting Tangguh and TEP require approval of the Ministry of Energy and Mineral Resources (“ESDM”), the Ministry of Finance and the upstream regulator SKKMigas. ESDM has proposed to change the PSC system for future contracts and instead provide developers with a “gross revenue split”, whereby the developer gets a fixed percentage of revenues each year and must bear all the costs of development without any shared cost recovery. This change was proposed to limit the amount of costs recovered by the producer and provide greater certainty of revenues. However, unless changed, Tangguh’s terms of development are grandfathered by the Production Sharing Contracts that govern each party’s responsibilities and allocation of revenues. Thus, Tangguh should not be affected by the ESDM’s controversial new program. Even though the regulation has already been revised to address industry concerns, the ESDM is having difficulty attracting new foreign investment using this scheme.

The most significant political incident of the year, well publicized throughout the world, was the defeat for reelection of the popular Chinese Christian Governor of Jakarta, Basuki Tjahaja Purnama (“Ahok”) and his two year imprisonment on conviction of blasphemy.¹⁹ Ahok was Jokowi’s hand-picked Vice Governor. He became Governor when President Jokowi won the presidency. Immediately prior to his defeat, he enjoyed job approval ratings of 70%, but received only 42% of the vote. He was the target of a well-organized traditional and social media campaign against him by a broad combination of conservative Islamists and political opportunists. This included Prabowo, who lost to President Jokowi in 2014 and will likely be a presidential candidate in 2019. The political strength of this movement among the conservative Muslim community even caused President Jokowi to attend one of the largest anti-Ahok mass rallies.²⁰

Some analysts believe this episode was primarily political: a one-off opportunity for leaders of the opposition to topple an easy target, who was never elected on his own, and who was a close ally of President Jokowi. Others believe it is mainly sectarian, representing possibly the beginning of a longer term significant shift in the politics of Indonesia toward more conservative Islam and less tolerance for non-Sunni Muslims, particularly Chinese and Christians but also Shiites and other sects of Muslims. The episode clearly has significant political and sectarian elements. These tactics are likely to be reflected in the presidential campaigns against President Jokowi that have already begun. While Islamist political parties

¹⁹ The blasphemy charge was leveled after comments Ahok made early in the campaign indicating that he did not believe the Quran prohibited Muslims from voting for a non-Muslim leader. The court’s blasphemy decision, said to be contorted at best, was based on the view that a non-Muslim cannot interpret a provision of the Quran.

¹⁹ President Jokowi did not speak at the demonstration. It is estimated that at least 500,00 people participated in one of the anti-Ahok rallies outside the Presidential Palace.

²⁰ President Jokowi did not speak at the demonstration. It is estimated that at least 500,00 people participated in one of the anti-Ahok rallies outside the Presidential Palace.

continue to register only about 10% of the popular vote, the major political parties are now intensifying their appeal to religious conservatives.

President Jokowi is not seen as a devout Muslim, and already has been attacked on social media as not Muslim, pro- China, an atheist and a communist. He has responded by trying to broaden his appeal to conservative Muslims while rallying support for basic Indonesia principles of tolerance and diversity, as enshrined in the 1945 Constitution as Pancasila.²¹ However, it is already clear that unethical and untruthful political campaigns on social media, which is deeply engrained in the Indonesian culture, will play a significant role in coming elections. These factors will play out to some degree in 2018, when there are several significant Java governorships at stake. But they will be manifested more fully in President Jokowi's reelection campaign in 2019, particularly if his opponent again is Prabowo.

Home grown terrorism remains a serious problem, but the national police have been remarkably successful in interdicting potential terrorist attacks or limiting the casualties from the few that were implemented. The most serious attacks have taken place in Java, mostly in central Jakarta. Radical Islamist terrorists are primarily from home grown cells and from returning Indonesians radicalized in the war in Syria. Indonesia has a comprehensive de-radicalization program for these returnees, who are interviewed, monitored, and provided job opportunities in an attempt to integrate them into society. At this point, the National Counterterrorism Coordinating Agency ("BNPT") does not see any terrorist activity or threat in Papua, and does not believe any of the returnees have gone to Papua.

The BNPT also has conducted a review of the security of the nation's energy infrastructure, particularly the vital objects, in coordination with ESDM. As part of this review, its task force made an intensive field trip to Tangguh (and other facilities). They concluded that Tangguh has the best security of any facility in the country and that it was secure from radical attacks. This conclusion was in part because of Tangguh's unique characteristics, including its remoteness and inaccessibility; the success of ICBS; and the project's support among the local people. But it is also because BNPT sees very little terrorist threat in Papua Barat generally.

The BNPT review addressed physical security at entry points and access for people, vehicles and ships, fencing systems and other perimeter security, and personnel security issues that could result from lax recruitment or infiltration. The BNPT plans to issue SOP's for oil and gas producers in the near future to encourage effective measures that enhance counter terrorism security. BP should carefully review these SOP's to determine whether any additional improvements should be made, but it need not await the SOP's before adopting any of the Panel's recommendations detailed below to upgrade Tangguh security.

²¹ Saudi King Salman visited Indonesia in June, 2017, a first for a Saudi King in many decades. President Jokowi treated the visit with great respect and fanfare, expecting many investment announcements and business deals. Instead, it is believed the King focused largely on seeking permission for Saudi foundations to expand their network of universities. Wahabist foundations have funded elementary and secondary schools in Indonesia for many decades.

Separately, SKKMigas also expressed concern about security on the national level, including potential terrorism from ISIS returnees. Recently, it convened a conference among oil and gas contractors to discuss and share ideas regarding security practices. The Chairman is exploring the potential of conducting such a conference periodically, with security contractors, to assess threats, review new technologies and share practices. The Chairman also noted the particular vulnerability of offshore facilities, including Tangguh's platforms, and the special security requirements needed. He suggested more coordinated communication with the Navy.²²

B. Papua Barat

President Jokowi's Papua policy is based largely on economic development, together with increased attention and respect for its indigenous people. President Jokowi has visited Papua more than any previous President and has shown great interest in supporting Papuans and preserving their culture.²³ One focus is on building infrastructure, including airports, ports and roads to spur economic development. The changes already are dramatic. Both Manokwari and Sorong have modern, new airport terminals; and a paved road between Manokwari and Bintuni is almost complete. The increased commercial activity is evident.

A second economic objective is equalizing prices in Papua with the rest of the country. The price for all commodities has always been significantly higher in Papua because of greater transportation and distribution costs. Although the goal is to equalize prices for all commodities and goods, the reality is that the central government has little control over the price of rice, cement, asphalt or consumer products. The only commodity over which it has significant control is fuel, because it is marketed by state owned Pertamina. And even fuel prices are still not yet equalized in rural areas.²⁴ Thus, while well intentioned, this policy is not yet having its intended effect and will take considerably greater interventions to do so.

President Jokowi also sought to ease tensions over earlier human rights violations and arrests of Papuan demonstrators. He has not succeeded on early pronouncements regarding pardons and release of Papuan political prisoners; nor has he eliminated the requirement that foreigners register and receive government approval (the "SKJ") before travel to Papua.²⁵

There have been several clashes and shootings in Papua between villagers and security forces, including TNI and Brimob Police, during President Jokowi's tenure. These incidents, while serious, are isolated and fact specific to their location. None have taken place in Papua Barat and this tension is not evident in Bintuni Bay. There are also indications that the head of the national police, Gen. Tito Karnavian, previously a Papua Kapolda, considers abusive

²² The closest Indonesian Navy base is in Sorong. The Navy periodically patrols in Bintuni Bay.

²³ President Jokowi initially promised to visit Papua at least three times a year, and build a Presidential residence there.

²⁴ See Equality: One-Price Fuel in Papua is Constrained, Kompas. Sept 29, 2017.

²⁵ See TIAP Report, December 2015 at xx. On inquiry by TIAP, the purpose of the SKJ requirement was described as not to prevent or inhibit anyone from travelling to Papua, but only for the government to know who is there for their own protection.

treatment of Papuans unacceptable, and will firmly discipline police who commit human rights violations.²⁶

Papua Barat, for the first time, is host to an autonomous TNI Regional Command, headed by a Pangdam, who is currently an indigenous Papuan. Thus, it is now independent of the Cenderwasih TNI command in Papua, and its checkered history on human rights. This new TNI command is in addition to the recently established police command in Papua Barat, headed by a Kapolda (established 3 years ago). Both are in Manokwari. Therefore, for the first time since the province was established, Papua Barat is now treated separately from Papua province by the national security apparatus. This had been long planned and has the potential to alter the security dynamic in Papua Barat.

TIAP had some concern that a new Kapolda or Pangdam in Papua Barat might seek to insert the security forces more actively into Tangguh and Bintuni Bay security, particularly since TEP now has been designated a priority national project. The new Pangdam is significantly understaffed and underfunded. However, he noted TNI plans to establish a new Korem (company level TNI command) in Bintuni. Given the rapid growth of Bintuni and the distributed structure of the TNI, this is not surprising. By itself, it presents no immediate threat to ICBS or Tangguh security. He expressed greatest interest in soft power, such as getting TNI more involved in community and infrastructure development activities.

The Kapolda expressed specific concerns about the security threats inherent in thousands of non-Papuans coming to work on TEP. He suggested more thorough background checks, and improved intelligence. These are certainly areas that should be addressed by BP and its security contractors as has been recommended in this report. He also is concerned that the response time now required for the most local police garrison in Bintuni to arrive at Tangguh in an emergency situation is inadequate. He suggested that a small police unit or TNI garrison be stationed at or near Tangguh. This surely would allow for a more rapid response to a threat that requires immediate police intervention, but it would also change the balance between private and public security at Tangguh and could present a risk to ICBS.

The new Governor of Papua Barat, Dominggus Mandacan, and his Vice Governor took office in May. The Governor is also the Chief of one of the important tribes of Papua Barat, the Arfak, located just to the north of the tribes of Bintuni Bay. He is generally supportive of Tangguh, but may want to chart his own course on previously established policies. For example, the Governor requested that the north shore housing program be delayed, at least until an adat conference can be held to determine if there is agreement on the scope and size of the program. The Governor also has instituted further review of the years long and almost completed process of finalizing a special regional bylaw (Perdatus) under Special Autonomy, which would allocate the shared revenues from Tangguh and other oil and gas producers among the province, its regencies and its adat tribes.²⁷

²⁶ See, e.g., “Police Chief Tito Karnavian building a better culture”, Reformasi, April 23, 2017.)

²⁷ (Note: TIAP is informed that new members of the MRP were installed in late November, removing one barrier and possibly allowing the process for the finalization of the Perdatus to move forward.)

The Bupati, Petrus Kasihw, and his Vice Bupati are also new, installed in 2016. He is very supportive of Tangguh, and expects BP to deliver economic development, workforce preparation and jobs to Bintunians. He is focused on improving Bintuni's infrastructure, including its port, airport and transportation systems, all of which are in need of modernization. However, he agreed to the delay of the north shore housing program, pending an adat conference, noting that there are differences in the community regarding the number of houses in the program. The program, despite its ready to go status, cannot begin without his support, which he recently provided.²⁸ He also understands the limited experience of his administration and welcomes BP support for governmental capacity building, which has been in a hiatus for more than two years.²⁹

Papua's Special Autonomy status continues to provide substantial incremental revenue flows to Papua.³⁰ These are largely governed by the revenue sharing formulas of the Special Autonomy law passed in 2001.³¹ These provide additional general revenues and an additional fund dedicated to infrastructure in the Province (now two provinces) for 25 years.

Special Autonomy also provides the region with substantial additional revenues from natural resource production in either province. For natural gas, it reverses the 70% /30% revenue split applicable nationally between the GOI and other provinces, providing 70% of the after-tax revenues to the province. Revenue from Tangguh LNG represented almost 35% of Papua Barat's local revenue in 2017. But much of the revenues allocated to Papua Barat and to Bintuni Bay have not been transferred and realized. In 2016, only 30% of the allocated natural resource revenues were realized by the Province, and only 12% of the allocated revenues were realized by the Regency. The 70% provided to the province is split by a formula, under which 6% goes directly to the province, 12% to the producing regency and 12% to the other regencies. The remaining 40% is intended to be allocated by a special regional bylaw, the Perdasus, which the parties have been negotiating for more than a decade. Although agreement on this regulation seemed to have been reached two years ago, changes in the provincial DPRD, and now also the MRP, delayed its ratification.

The draft Perdasus directly addresses the need for adat compensation to Papuan tribes, which is a persistent demand made by north shore tribes. The draft provided that half of the allocated revenues, or 20% of the total, be dedicated to an adat trust fund to be split between funding current development and providing for future needs of the adat community.³² The

²⁸ In early December, the Bupati ended the suspension of the program. TIAP is hopeful that construction can begin promptly. Any delay in the housing program for north shore villages will likely also have the effect of delaying electrification of these villages, because PLN has postponed hooking up these villages to the already built grid until the housing construction program is completed.

²⁹ See TIAP 2015 Report at 45.

³⁰ Special Autonomy funds for Papua Barat in 2018 will be Rp 4 trillion, in addition to approximately Rp 23.85 trillion in other fiscal transfers from the GOI. See radarsorong.com, December 20, 2017. For a full description of the Special Autonomy funding provisions, see TIAP December 2015 Report at 22 and TIAP May 2014 Report at 50-51.).

³¹ Law 26-2001. See TIAP Report October 2012 at 39-42.

³² For a full description of the revenue allocations and the draft Perdasus See TIAP May 2014 Report at 50-51..

status and outlook for this regulation is unclear, given the new Governor and the new Bupati and, at some point, new members of the MRP, all of whom must agree.

Separate from adat issues of the Perdasus, the Sebyar tribe on the north shore has long claimed the right to be compensated under adat for the wells drilled on the community's property.³³ Under a formula that is not disputed, the claim is for 60 billion Rp, at the rate of 10 billion Rp per well. BP has always maintained that any payment or other resolution of these extra-legal claims must be the responsibility of the government, either directly or pursuant to the Perdasus, and cannot be paid by the operator. A portion of the claim, 6 billion Rp, was paid by the local government, in cash, in 2009. The remainder, 54 billion Rp, has now been accepted as required to be paid by the government, and has been allocated among the GOI, the province and the regency. The portions deemed the responsibility of the province and the regency, totaling 22 billion Rp, have been paid, in cash, to tribal leaders.

The portion considered the responsibility of the GOI, or 32 billion Rp, has not been paid. The GOI has accepted this as its responsibility, but it has not been implemented by either the ESDM, SKKMigas or the Ministry of Finance. Some officials in the GOI may request that BP, as PSC operator, pay the claim, and include the payment in its cost recovery. BP has resisted any such suggestion, and must continue to do so. If the GOI demands that BP pay this claim, it cannot do so in cash or any equivalent. If the payment must come through BP at all, it must be fully transparent, and take the form of funding for a specific program or programs that benefit the adat community.

C. Tangguh

Physical security for Tangguh operations is largely governed by the principles of ICBS and the terms of the JUKLAP/PAMBERS with the regional police command.³⁴ These structures have been working well since they were instituted during construction of Trains 1 and 2. Violent incidents or threatened obstructions are rare, and usually related to personal or workplace issues, such as worker compensation, hiring or firing. The police have only been called to assist a few times, primarily in situations relating to violations of the maritime exclusion zone surrounding the docks and jetties and demonstrations at Babo.

Physical security for TEP, both onshore and for all shoreline and marine activities within the off-shore exclusion zone, is primarily the responsibility of the contractor, and is governed by the terms of the EPC Contract.³⁵ The contract requires CSTS and its subcontractors to adhere to all BP security policies and procedures, to develop a security plan to secure the site,

³³ Wells have been drilled both onshore and offshore in areas considered to be Sebyar lands. More wells are likely to be drilled in this area in the future.

³⁴ The JUKLAP/PAMBERS is the agreement originally negotiated between BP and the regional police command that specifies the roles of private and public security forces in their response to an incident, their required training in human rights and the use of force, and the terms of an annual joint training exercise. Since Tangguh was declared a vital national asset, the JUKLAP/PAMBERS is now an agreement between SKKMigas and the regional police. However, the terms have not changed.

³⁵ Contract for onshore LNG engineering, procurement and construction (EPC) For Tangguh expansion project Contract No. 4420001030 Section IV Health, Safety, Security and Environment.

establish and maintain an appropriate level of coordination with BP and include a monitoring, audit and verification process to evaluate the plan.

Cybersecurity is a separate and critical part of Tangguh security. Current BP defenses against cybersecurity threats at Tangguh are thoughtful and multilayered. Given the potential consequences of a successful attack and the continuing evolution of global hacking, it is critical that BP maintain strict and sophisticated procedures, and that those requirements be reviewed regularly. Much of the specific standards are established by BP Group Security requirements, which also audits cyber threats every two years. It is essential that all employees with any possible access to Tangguh's operating system be provided online security training on a regular basis. It also remains critical that Tangguh's operating and production systems are completely disconnected from the internet, and cannot be accessed by anyone other than authorized Tangguh personnel with multiple layers of security. TIAP also endorses strongly the biennial BP Group cybersecurity audit.

Pursuant to BP's Onshore Security Scope Requirement, CSTS has prepared an extensive and comprehensive Security Management Plan. This plan details the roles and responsibilities of all project security managers, explains its security policy, its alignment with BP's Code of Ethics and its sustainability policy. The plan does not include any specific requirements or coordination regarding cybersecurity. It specifies all onshore and offshore security mitigating measures, including recruitment and training for the security guard force, perimeter security measures, access control, vehicle, boat and foot patrols, communications, intelligence, emergency and crisis management, system monitoring and auditing, and remedial actions to correct any deficiencies. It recognizes the principles of ICBS and the need for adherence to international human rights norms, including the U.N. Universal Declaration of Human Rights and the Voluntary Principles. The plan requires detailed regular coordination with BP, emergency communication of all incidents with BP security managers and an annual joint security exercise with BP.

By its comprehensive requirements and level of detail, the plan seeks to convey a very high priority for effective security in all parts of TEP. It is imperative that this plan continue to be implemented at that high level, fully and properly, particularly as it is enforced among all subcontractors. In addition, based on ongoing experience, as worker mobilization increases, modifications should be made to improve the plan, and any perceived deficiencies should be corrected.

Pursuant to its Security Plan, CSTS has contracted with Guardatama, the security provider used currently by BP at Tangguh. It has begun to hire its private security guards, and is expected to hire about 160 guards. Thus far, with about 1000-2000 TEP workers on board, it has mobilized approximately 134 security guards. The TEP guards will have a two week basic training in all aspects of security. They may have little or no experience in security, and no specialized training in the protection of human rights or the proper use of force. These guards will have responsibility to manage any disputes or disruptions that arise in worker camps housing thousands of contractor employees from across Indonesia.

BP has recognized the importance of more advanced training for its guards. During the past year, because of the potential severe consequences of violence from a single unstable or

radicalized individual, BP security has instituted additional and innovative training procedures for its security guards in “baselining” and “behavior profiling.” This is supplemental to the periodic supplemental training the guards receive related to the Voluntary Principles on Security and Human Rights, the use of force and crowd management, as required by the JUKLAP. The new training has provided the Tangguh guards with a basic understanding of when to report any witnessed behavior that is out of the ordinary. This training has only been authorized by SKKMigas for 18 months. Although required, it is being provided only during the guards’ off duty time, because all guards must be at their posts for their daily 12 hour shift. The training is not being provided or offered to TEP security guards.

Under ICBS, there is no public security personnel onsite. Police support will be called by BP security only when necessary. The closest police company is in Bintuni, and there are also small police and TNI detachments at Babo. As a result, if outside assistance is required in an emergency situation, it could be hours before any forces arrive on site. As noted, the Kapolda has expressed concern about the lack of any rapid response capability for police forces to respond to an emergency incident at Tangguh. There is a small maritime police outpost (the “Joint Marine Patrol”) near the LNG site in the village of Tenah Merah Baru. These maritime police, two per shift, are minimally armed, and generally are at this location to help enforce the maritime exclusion zone. They live in the village and also provide community policing, which the village seems to welcome.

As stated, TEP is estimated to bring up to 7,000- 10,000 workers at peak to the site. The total number of individuals who will spend time at site working on TEP will be significantly greater than the peak number, since some workers will be short term and others will choose not to return after one or more 28 day shifts. As with workers at Tangguh, alcohol, drugs and weapons are strictly prohibited at the construction camps. With very limited exceptions, none of these workers will have lawful access to the operations zone, although the camps are nearby and physical barriers are not impenetrable. While some workers will be Papuan, most will not. BP will have little control or oversight over the recruiting and vetting of these workers, or on their activities at the camps, which will be supervised and secured by CSTS.

Given the increase in threats posed by the influx of thousands of workers not vetted by BP, and the specific potential threat that one or a group of these workers could seek to stage a violent attack at Tangguh, it is clear to the Panel that enhanced capacities for both Tangguh and contractor security, through the period of construction, is essential and urgent. One upgrade that might be possible elsewhere would be to arm trained private guards with firearms or other lethal weapons. But that is not possible for BP at Tangguh because it is illegal in Indonesia for anyone other than public security forces to own or carry a firearm.

However, there are other steps that can be taken that would materially improve the capacity of Tangguh and TEP security to prevent, thwart, delay or defeat any violent action, even an armed attack, that threatens the personnel or the facilities at Tangguh.

The following are specific recommendations that should be considered by BP to enhance physical security at Tangguh:

- Given the potential consequences of a successful cyber attack and the continuing evolution of global hacking, BP must continue to impose and enforce strict and sophisticated procedures, and should review them regularly. All employees with any possible access to Tangguh's operating system should be provided online security training on a regular basis.
- Tangguh's operating and production systems must be completely disconnected from the internet, and access should be limited to authorized Tangguh personnel with multiple layers of security. TIAP also endorses strongly the biennial BP Group cybersecurity audit
- It is imperative that the CSTS Security Management Plan continue to be implemented fully and properly, particularly as it is enforced among all subcontractors. BP must utilize the coordination and verification processes of the security plan to oversee all elements of TEP security and demand that every aspect of the security plan is being implemented fully and is working effectively. In addition, based on experience, as worker mobilization increases, BP must insist that any perceived deficiencies be corrected.
- The advanced training in behavior profiling now being given to Tangguh security guards is highly valuable, and should be made permanent and mandatory. Guards trained in these skills should also be assigned regularly to duty in nearby villages where they are familiar. This training should be provided to guards during their on-duty hours, and be viewed as a part of their required, regular and important tasks. If additional guards must be hired to accommodate this training requirement, more guards should be hired.
- The training of CSTS security should be upgraded. Although these guards will not likely be as experienced as Tangguh guards, they should be trained to the same standards as required by ICBS of Tangguh security. The EPC contract gives BP the authority to approve the resourcing, training and competency requirements for all TEP security guards prior to mobilization.³⁶ BP should review the training being provided thus far for TEP guards, and determine whether it provides the level of training and the competency that is required under ICBS and the JUKLAP. If it does not, modifications should be made.
- BP must be assured that CSTS efforts are adequate to detect any possible security threat by employees of CSTS and all its subcontractors. BP cannot vet employees hired for TEP, but it should review all vetting processes that are being used to minimize the chance that disruptive individuals are hired. It must also be made aware promptly of any infractions or other unusual behavior by any of these employees that could pose a threat. BP's Code of Conduct must be strictly enforced. Employees' should be made aware that

³⁶ See EPC Contract, Appendix 6, section 3.1(b), Section IV: Health, Safety, Security and Environment.

their rooms and personal possessions will be subject to random searches by security personnel for contraband or radical materials. Any penalties imposed for violations of required behavior should be made jointly by CSTS and BP. Any serious violation should result in dismissal with no opportunity to return.

- Increased intelligence gathering and sharing is critical for detection and early warning of any suspect activity. Tangguh security should seek to increase coordination with local police and TNI. Equally important, it should encourage the local community to share any information with BP about new arrivals, and unusual or secretive activities, including an awareness of activities at houses of worship, to detect any threatening behavior or incendiary language related to Tangguh. Because BP enjoys the trust of so many in the community, this may be one of the most effective deterrents to any armed attack, or lesser form of violence.
- Perimeter security should be reviewed and enhanced where appropriate. It would be impractical to establish an impenetrable barrier on the very long outer perimeter of the site, but more effective measures can be utilized to better secure and monitor the inner perimeter, where all operations take place. BP should continue to improve fencing, and increase the use of CCTV, drones and patrols to allow better 24/7 remote monitoring.
- Marine security should be enhanced further. Under its plan, CSTS is required to deploy three Security Boats and onshore personnel tasked with the protection and safety of all shoreline and marine construction areas. But because there will be so much traffic in and around the LNG site during construction, it is also essential that BP be able to identify all vessels near the jetties or the platforms before they arrive. In coordination with CSTS, utilizing radio or other communication, as well as CCTV, radar, lidar, or other available technology, BP should facilitate early warning of any ill-intentioned marine activity. In addition, regular communication with the Naval base at Sorong should be instituted, through proper channels, particularly to coordinate any emergency response. The potential for increased capacity of the joint marine police unit (JMP) should also be considered.
- Rapid response procedures on site for a potential armed attack that are clearly distinguishable from the procedures used for a fire, explosion or other safety emergency should be reviewed, updated as appropriate, and exercised routinely. Different sirens should be used, and the recommended measures for personnel to take should reflect the different threat posed. Thus, hurrying to gathering points may be effective for some emergencies, but sheltering in place or other forms of lockdown may be more appropriate in others.
- Measures should be considered that impair the ability of any individual to use a car, truck or other vehicle to wreak havoc on personnel. Secure storage of vehicles, keys or other ignition devices, is imperative. BP should also

consider the possibility and practicality of installing governors or other devices, on all but emergency vehicles, that limit their top speed to the low speed needed by vehicles on site.

- The joint annual training exercise with police and TNI required under the JUKLAP should be held annually, and should include a realistic threat of an armed attack and a practice for a coordinated response that effectively counters that threat, engaging both Tangguh and CSTS security, as well as the police and TNI as needed. This should be in addition to the required annual exercise in the CSTS security plan.
- BP should encourage SKKMigas' supervision and support for establishing regular coordination conferences among oil and gas contractors and security professionals to compare security threats and response procedures and share best practices.
- Finally, while the likelihood of a coordinated armed attack at Tangguh that breaches its inner perimeter is extremely remote, particularly if the steps recommended are adopted, enhancing private security capacity with more effective weapons to frustrate if not overcome such an attack should be possible. Private security should lawfully be allowed to carry non-lethal weapons, such as pepper gel guns, pepper spray, rubber bullets, stun guns and possibly other devices. These weapons with increased lethality should not be carried by regular Tangguh security guards, but only by an elite level of senior guards who have demonstrated their capacity and been thoroughly trained in their use. BP could work with the security contractor to establish an elite cadre of security guard, with some distinguishing uniform, which could be a promotion for the best performing guards and a position for guards to strive for. If the existing contract does not permit this enhancement to the capacity or structure of the security force, it should be discussed with the security contractor as an amendment to the existing contract.

V. PAPUAN WORKFORCE DEVELOPMENT

One of BP's most fundamental and quantifiable commitments under the original AMDAL is to recruit, train and promote Papuans so that in 2029, 20 years after operations began, Papuans will comprise 85% of the workforce and will be running much of Tangguh. This requires that 78% of all skilled workers and 33% of supervisors be Papuan.³⁷

³⁷ Papuan is defined as a person of Papuan origin as defined by Law No.21/2001 regarding Special Autonomy (Otonomi Khusus), or: a. someone originates from the Melanesian race with tribal origins in Papua; b. his/her mother or father is Papuan origin; c. non-Papuan but married to someone of Papuan origin; d. non-Papuan origin, but has been living in Papua for at least ten (10) years.

The TEP AMDAL imposes additional requirements on BP regarding the hiring of local IP and other residents of Bintuni Bay and FakFak during construction.³⁸ To implement this commitment, the EPC contract requires CSTS to employ Papuan workers from the Bintuni Bay/ FakFak region for 45% of all unskilled workers, 30% of semi-skilled, 2% of skilled and 1% of managers working at the site.

These commitments have always been cited by Papuan leaders as one of Tangguh's lasting legacies for Papua. Over more than a decade, TIAP has reviewed BP's progress on these commitments, and offered recommendations for improving performance. In its effort to achieve the AMDAL commitment of 85% Papuans operating Tangguh, BP reached 54% of overall workforce by 2011. But, despite multiple efforts since then, it remains at about 54% today. It is undeniable that greater efforts must be taken to recruit, train and promote Papuans if this commitment is to be met.³⁹ BP seems to recognize this.

A. Papuan Apprentice Program

In response, a new apprentice training program began in 2016. BP established this specialized school to train young Papuans, primarily from the Bintuni Bay region, for skilled jobs in operations. Along with its partner Petro Tekno, it has carefully recruited 40 ambitious Papuan high school graduates, about 50/50 men and women, based on aptitude and motivation, to attend a three year immersion program in West Java that focuses first on English language skills and basic math and science, and then teaches each student a specific program in mechanical, electrical or maintenance that will provide a skill set tailored for technical operating jobs at Tangguh. Each year, 40 new students will be selected to begin this training. After completing three years, those who graduate will be offered employment at Tangguh (which they are not required to accept).⁴⁰

This program has great potential to provide a feeder pool for future technical, skilled employment at Tangguh. TIAP met with several of the second year students, who demonstrated a sophisticated understanding of what they have already learned, the challenges ahead, and enthusiasm about their potential careers at Tangguh.⁴¹ Although these young students will not immediately be managers at Tangguh, they will likely form the core of the skilled operations staff. TIAP is much encouraged by this program, and urges BP to remain committed to it for as long as positions for such graduates remain available. Based on

³⁸ For purposes of meeting these targets, the TEP AMDAL defines Papuans who are IP, as "The customary or tribal people residing in the coastal areas of the Bintuni Bay, comprising the original clans from the Sebyar, Irarutu, Simuri and Petuanan Arguni, Wertuar and SekarPikpik ethnic groups, who inhabit a defined custom owned area, as well as the other community members in that area who are acknowledged by the indigenous people as part of their tribal community, and have lived in the custom-owned areas since before the presence of Tangguh LNG in 2002".

³⁹ See appendix III.

⁴⁰ This program replaces the earlier three year Papuan apprentice training program originally conducted at Bontang LNG, which provided many of the initial technically skilled Papuans for jobs in operations, but has proved inadequate to produce the skills and performance levels needed. See TIAP October 2012 report at 33.

⁴¹ Pak Augustinus Rumansara toured the facility in Ciloto, West Java and met with its students and teachers. Bupati Petrus also recently visited the training facility, demonstrating his support and enthusiasm for the program. See Teluk Bintuni Regent, Petrus Kasihw Visits Petrotekno, InfoFakFak.com, October 23, 2017.

unavoidable rates of attrition, BP should also consider increasing the entering class to greater than 40 students so that closer to 40 students graduate each year.

B. Papuan Employee Steering Committee

Even with additional qualified entry level technical employees, BP needs to develop an effective program for supporting and promoting Papuans to more skilled, managerial and supervisory positions. Toward that goal, at the behest of Papuan employees, and the recommendations of TIAP,⁴² BP has dramatically increased its collaboration with the Papuan Employee Steering Committee, a group of Papuan employees, not selected by BP, who seem representative of the broader group. Many have worked at Tangguh for more than a decade. This committee provides a regular and organized communications mechanism for Papuan employees to express problems and concerns or suggest ideas regarding their employment and opportunities. During the past two years, BP senior management has met with available members of the committee on most site visits, and taken their suggestions into account. The members of the committee see a much greater commitment of management to address impediments to Papuan workforce development.

Better mentoring by managers is one specific area in which these interactions have produced results. All Papuan employees now have mentors, and most senior managers are serving as mentors to at least one Papuan employee. Although this program has not produced uniformly positive results, most believe that having a dedicated mentor helps to build confidence and to deal with the challenges of taking on greater responsibility. As long as employees are free to change their mentor without any adverse consequences, senior management should continue to encourage all managers at Tangguh to mentor any Papuan employee who requests them.

One area where Papuan advancement may be more constrained is in Jakarta, where a number of the Tangguh related supervisory opportunities are located. There are few Papuans in Procurement and Supply Chain Management, for example, and there has been limited visible effort to increase their representation. Without question, the advancement of Tangguh's Papuan workers should not be limited to opportunities at the LNG site. If openings arise in Jakarta, workers at the site should be notified, and qualified Papuans should be given the opportunity to fill these positions.

C. Contractor Workforce Management

BP has had difficulty enforcing Papuan workforce targets on contractors, both in operations and construction. In operations, this is in part because many contracts were for only one year, and there was insufficient time to enforce these requirements. BP now has authority to enter into contracts of five years duration, which should provide enough time for monitoring and enforcement of all workforce requirements. Many jobs related to operations are contracted out. BP must include in these contracts the right to impose financial sanctions on

⁴² See TIAP December 2015 report at 38-39.

any contractor that does not meet pre-agreed Papuan hiring requirements and it must enforce these sanctions.

For the next three years, most Papuan recruitment will be conducted by the CSTS consortium pursuant to the terms of the EPC contract.⁴³ This requires the hiring and training of Papuan workers for the construction workforce, including 100% of unskilled workers, 93% of semi-skilled workers, 12 % of skilled workers and 6% of managers. The contract specifically requires CSTS to develop an IP and Papuan Worker Development Plan, to report monthly on that plan's implementation, to identify any gaps and to devise plans to close any such gaps. It is important that these requirements be monitored closely and enforced promptly. Papuan employment targets were met during construction of Trains 1 and 2; they can and should be met during TEP. This will require BP to oversee this provision of the contract strictly, since this requirement may not be a priority of all contractor entities. If additional recruitment or training measures are needed, BP should insist that these be instituted promptly, because lead time will be essential in meeting these requirements and compliance will be far preferable to penalties.

D. Recruitment and Development of Higher Skilled Papuans

BP's apprentice program for entry level recruitment will train many of the Papuans who start their careers at Tangguh, but it will do little in the near term to develop managers and supervisors. For several years, BP also has operated a Papuan Emerging Leadership Development program, designed to identify and accelerate advancement for Papuans that exhibit skills that are needed for management. There are currently 40 Papuan employees in this program, many of whom may become supervisors or team leaders at Tangguh. This program is important and should continue, but it will not likely satisfy all demand for future managers.

To meet this demand, BP should increase its external recruitment of qualified, experienced Papuans to fill more senior positions. BP has not devoted adequate attention to this need from prospects outside of Tangguh, but must do so if it is to meet the requirements for skilled and managerial Papuans by 2029. At the very least, BP should increase public notice of job openings at Papuan universities and other job marketplaces in Papua through advertising or on location recruiting. It should also make known all job opportunities to its Papuan employees, to enlist them as recruiters and increase the network of potential applicants. Further, BP should hire an employment consultant, with experience in this area, to seek out talented, qualified Papuans employed by others in supervisory or managerial positions, for specific openings that cannot be filled currently by Papuans already working at Tangguh.

⁴³ Contract For Onshore LNG Engineering, Procurement and Contraction (EPC) For Tangguh expansion project Contract No. 4420001030, Section VIII.

VI. SOCIAL AND COMMUNITY DEVELOPMENT PROGRAMS

BP has delivered significant benefits to the local community during the 12 years its social programs have been ongoing. Its successes in health care, and its progress in livelihood and enterprise development, electrification and education have delivered material benefits to most of its neighbors. But serious challenges remain to achieve promised goals in north shore housing and infrastructure, electrification and education in the area and gas fired power for the province.

A. Health Care

Improvement in health care throughout Bintuni Bay must be considered the most successful social achievement. Although BP is not entirely responsible for all of the advances, health care in the region has benefitted dramatically since BP began its community health care program in 2005.⁴⁴ Notable successes include the dramatic reduction in malaria incidence, which has almost disappeared in the area (see Appendix IV); the establishment of 27 village clinics (posyandus), which has improved preventive care and treatment in each of the affected villages. Also, Bintuni hospital, the only hospital in the region, while not a Tangguh funded project, is a major advance in the region's health care. It has received continuing support from BP to improve its capacity and develop it as a referral hospital.⁴⁵ BP also continues to support better emergency referral services, particularly for high risk births in the Babo and Aranday district community health centers, and to facilitate mother and child health programs throughout the area, including increasing children's access to immunization, monitoring of children's nutritional status, and providing additional meals for children with malnutrition. There is a continuing need to support programs that reduce morbidity and mortality related to diarrhea, TB and HIV/AIDS. BP should continue to support these efforts actively with a goal to upgrade Bintuni Bay health care to Indonesia-wide standards.

B. Livelihood and Enterprise Development

Livelihood diversification and enterprise development have been a part of BP's AMDAL commitment since initial construction. Programs have included micro-enterprise, support for agriculture and fishing cooperatives that can supply Tangguh needs, women's enterprise development and capacity building among local and indigenous businesses to enable them to supply Tangguh and other markets. Each of these programs has to varying degrees enhanced the incomes of local people and improved the skills required to operate private enterprises. As a result, there have been dramatic increases in incomes for people in nearby villages since 2003, when income surveys began. However, these increases in income have either stalled or declined in the years since 2013, with the average income for all nearby

⁴⁴ See, e.g. TIAP March 2009 Report at 33-34.

⁴⁵ See TIAP December 2015 Report at 40.

districts declining from Rp. 6,907,000 in 2013 to Rp. 6,591,000 in 2016.⁴⁶ While some of this slowdown could be attributable to macroeconomic factors, including the lower price of oil and gas and other companies declines in activities in the area, the results demonstrate the continuing need for active, effective livelihood and enterprise development programs in the region. On this visit, TIAP toured two of the most promising ventures: the enhanced local agriculture cooperative at Tanah Merah Baru, and the new outlet in Sorong for the two indigenous businesses that have started in Bintuni.⁴⁷

The agriculture and fishing coops are a notable success. Total supply to Tangguh in 2016 was 303 tons, with a value of about \$800,000. TIAP inspected the fresh produce grown in TMB and enjoyed eating these fruits and vegetables, as well as fresh fish and prawns supplied by the local coops, that are served to all the workers and guests at Tangguh. There is no question that this program is valued by the participants, who believe that the program can and should expand during construction. BP is obligated by the TEP AMDAL to procure 10% of TEPs needs during construction and 65% post-construction. This will require a further ramp-up of production by the coops, possibly an expansion of stocking points and/or more frequent pick-ups. BP must work with Indocater and the coops to achieve these commitments without any degradation in quality.

This ramp up of coop capacity must also be coordinated with CSTS to guarantee maximum use of coop products during TEP construction. As noted, CSTS is required to use its best efforts to source, at a minimum, 10% of all purchases of fish, fruit, vegetables, legumes, starch and other agricultural crops directly from local IP producers.⁴⁸ All purchases must be reported to BP monthly. If these minimum purchases are not all achieved, CSTS is required to develop gap closure plans to address any deficiencies or nonconformances. BP should institute careful monitoring of procurement by the contractor of local fish, produce and other products and demand that any deficiencies be cured promptly. If they are not corrected, BP should seek penalties under the contract. Any financial penalties should be invested in coop facilities and equipment.

Separately, BP has continued its support for indigenous enterprise development. SKKMigas has authorized BP to enter into procurements of up to \$20,000 from locally qualified sources without competitive bids. BP again conducted mentoring of interested local entrepreneurs to familiarize them with BP's Code of Conduct and other requirements to be a supplier to Tangguh. Thus far, the only contract that has been awarded to participants in this program is for stationary supplies for Tangguh. This is notable, but very limited. BP should explore opportunities for other products or services that can be supplied by these local qualified enterprises.

One of the most visible elements of the enterprise development program is the establishment of new businesses run by IP, called the Business Development Service ("BDS"). This has

⁴⁶ See TIAP 2011 Report at 21 and TIAP Report March 2009 at 35-36 for a more complete description of the history of these programs. See TIAP March 2014 Report at Appendix III and TIAP October 2012 Report at Appendix III for historic comparative data on incomes of indigenous people and others in nearby villages.

⁴⁷ See TIAP Report December 2015 at 43.

⁴⁸ See EPC Contract, Section VIII Local Content.

led to the creation of a local company (“SUBITU”) that is operating two separate IP businesses: clothing manufacturing, primarily shirts and uniforms; and air conditioning sales and repair. The company and its original facilities were established in Bintuni in 2015.⁴⁹ The SUBITU now has a separate sales and service office in Sorong and is considering another in Manokwari. Both businesses seem promising, are staffed by enthusiastic and well-trained employees, and certainly have provided new opportunities for local IP. BP direct support for this enterprise is scheduled to end in 2019. This is an important element and symbol of Papuan development. Failure of either of these businesses would reflect badly on BP’s entire enterprise development program. BP should continue to nurture these businesses as they strive to be profitable.

C. North Shore Housing

The construction or restoration of north shore housing in the former DAVs has been an aspiration of north shore villagers since resettlement and construction of south shore villages began in 2005. Proposals for new or renovated housing in north shore villages have been discussed since that time,⁵⁰ even though there was no legal or AMDAL requirement for such a program. TIAP urged BP to move forward on such a program whether or not Train 3 was sanctioned.⁵¹ The immediate need for this program is apparent when visiting the affected north shore villages. In addition, lengthy delays could lead to actions that disrupt Tangguh operations or the TEP. It should be a priority.

Now that TEP has begun, the north shore housing program is also a requirement under the AMDAL. A detailed program to build 456 homes in Wiriagar and Tomu districts, based on a 2013 census, has been fully planned and is ready to begin. The villagers choose to remain in their current low lying locations, after being given an opportunity to rebuild the villages on higher ground. A cooperation agreement was signed in 2016 with the local government. However, because of some complaints regarding the number of homes and their design, as well as disputes over adat compensation to these same villagers, the new Governor and the new Bupati halted implementation of the program. They suggested that an adat conflict resolution process (Gelar Tikar Adat) be employed to resolve these disputes, before the construction of the houses begins. TIAP appreciates this initiative to use the GTA as a community based conflict resolution platform especially at the village level and urges BP to learn more about the details of the GTA and assesses whether Tangguh may use this adat mechanism to solve adat problems that might occur in the future.

Although the GTA platform has not yet been implemented, in early December, the Bupati announced that he would end the suspension and begin the tender process for homes in Weriagar, Tomu and Taroi districts. Hopefully, this will result in early resumption of the

⁴⁹ See TIAP Report December 2015 at 43.

⁵⁰ See TIAP May 2014 Report at 28-30 for a summary.

⁵¹ See TIAP Report December 2015 at 33-34.

program and timely construction. The delay in commencement of the program was not the result of any action by BP, and is not within BP's control. Nevertheless, the program is required of BP under the AMDAL, and is expected of BP by many north shore villagers, whose continued trust and support is critical to Tangguh's security, its further development and its success as a model.

Therefore, although BP cannot take the role of the local government, it also should not remain on the sidelines. BP should actively engage with both local and national officials in an effort to help resolve this dispute. If the program does not resume promptly, it will be impossible for BP to meet its AMDAL commitment on time.

If the Bupati's decision leads to a prompt commencement of the program, BP should make every effort to accelerate the time line to complete at least the currently planned phases by 2020, to coincide with the opening of Train 3. If the program remains stalled, BP should engage with senior officials of the GOI, including if possible the Office of the President, seeking their help to mediate and negotiate a quick solution. BP could propose alternatives, such as beginning the program implementation in phases, allowing discussions on the precise scope of the program to continue while some construction proceeds. If delays persist into 2018, BP should seek authority from SKKMigas to fund construction of some infrastructure improvement selected by each designated village, such as a new bridge, public building or walkway, as a demonstration of BP's good faith and as a form of compensation for the delays.

D. Electrification

Electrification of the towns and villages of Bintuni Bay has long been a priority for the people and the leaders of the region. It also has been a source of tension since the electrification of the three resettled villages on the south shore in 2005.⁵² To address this aspiration, BP in 2013 constructed an electrical substation connecting Tangguh to the electrical grid with up to 8MW of power to distribute to the region. Working with the Bupati and PLN, over the next two years this substation was connected by undersea cable to Bintuni town and by grid to several south shore villages. This allowed operation of the new hospital in Bintuni and spurred its economic development. PLN also constructed grid infrastructure to interconnect the remaining north shore villages. PLN has refused thus far to construct grid interconnections with the more distant villages on the south shore and Babo. The delivery and expectation of reliable electricity for the region is a principal reason for much of the local support of Tangguh. Unfortunately, there has been no real progress on this essential program since TIAP's last visit. No grid based electricity has been delivered to these north shore villages, or to Babo and nearby villages on the south shore. Recognizing the importance of reliable power in Babo, which is host to the airstrip and marine facilities critical to Tangguh operations, BP has "loaned" a diesel generator to Babo, which provides electricity to parts of the community.

⁵² See, e.g. TIAP March 2007 Report at 25.

This failure to deliver reliable electricity, as with north shore housing, cannot be attributed to BP, which has made the needed power available. PLN has failed to construct power lines on the south shore, noting cost and terrain difficulty, and it has delayed providing any power in north shore villages until new housing is constructed. This results in a glaring disparity in benefits between those in the region who have reliable 24/7 electricity and those with at most a few hours per day of expensive diesel generated power. According to the Energy and Mineral Resources Ministry, the electrification ratio in Papua Barat has increased from 82.7% to 91.76% over the past two years. If this is accurate, Bintuni Bay is less electrified than most of the province.

BP cannot take on the role of PLN. But it can work with leaders at the national level, including SKKMigas, KPPIP and others to encourage PLN to make progress on this essential objective. BP should also seek to involve the President and his Papua advisors in this effort. Electrification of rural areas and economic development in Papua Barat is a declared priority of the President.⁵³

Even with these efforts, it could take some time to accomplish this goal. Therefore, until PLN extends grid based power from Tangguh to Babo and these villages, BP should request SKKMigas to authorize temporary increased supply of diesel based power generation for Babo, so that all of Babo has 24/7 power. It should also seek support for providing solar lamps, which are inexpensive and short term, for each household in the villages without grid based power, so that Tangguh's neighbors can have light and refrigeration.

E. Gas to Power for the Province

Gas to Power for the region is one of the fundamental commitments required of BP for approval of TEP. BP is required by the AMDAL to allocate up to 20mmcf/day (0.16mtpa) for the power needs of the Papua region, so that Tangguh can become the principal supplier of fuel for Papua and Papua Barat's power by 2020.⁵⁴ Reliable and economic gas fueled power is one of President Jokowi's key infrastructure improvements intended to accelerate Papuan development. As part of TEP, BP is constructing the new offshore facilities needed to accommodate mini LNG vessels of 10,000-20,000m³. These mini tankers could supply receiving terminals in each of the cities of the region, including Sorong, FakFak, Manokwari and Jayapura. Because of its importance for Papuan economic development, this program is supported at the national level by the KPPIP and PLN.

⁵³ Recently, President Jokowi visited Papua and noted that power supply in Papua is still unstable. "The president himself experienced three power outages in one night. He urged PT PLN to improve its services and promised the people that the government will speed up electrification in Papua." See "[President: Power Supply in Papua Still Unstable](#)" Investor Daily, December 21, 2017 at 9. See also "Papua and Papua Barat to be Prioritized" Media Indonesia March 07, 2017 at 24.

⁵⁴ The GOI has a particular interest in completing this infrastructure development by 2020, the year the Indonesia National Olympics are scheduled to be held in Papua.

However, at this point, no mini-LNG tankers are being built or have been ordered, and no receiving terminals are being designed or constructed. Before any of that necessary infrastructure can be commenced, Indonesian law requires the provincial government to establish a regional owned company (known as a “BUMD”), which at the outset will require the agreement of the Governor and the regional DPRD. Despite the strong support of the previous Governor, Bram Atururi, and the support of the current Governor, the BUMD had not yet been established at the time of TIAP’s visit. However, in November, the Governor and the DPRD agreed to the formation of a BUMD and a Board of Directors was named on November 22, 2017. This is substantial progress. Hopefully, this will make possible the actions needed to allow Tangguh LNG to supply power to Papua and Papua Barat.

As with housing and electrification, BP is meeting all its obligations for this program. It has provided technical support by funding feasibility studies for the province. It is constructing all needed facilities at Tangguh to support this program. BP cannot build the receiving terminals (they will be owned by PLN) or the mini-tankers (they will be owned by the BUMD). Yet construction of this infrastructure will take several years. Thus, it is essential that the regional government act promptly if Tangguh power to the region is to coincide with completion of TEP in 2020. Although BP has been helpful to the regional government, it can and should continue to work more actively with the Governor and the leaders of the DPRD, to make sure they understand fully the need for prompt action. Even with the establishment of the BUMD, without efficient implementation, Papua Barat will not be able to showcase its new gas fired power plants when the nation turns its attention to Papua in 2020 for the National Olympics, and BP’s commitment to supply this gas will go unfulfilled.

F. Education

Improving primary and secondary education in Bintuni Bay has been a priority social program for BP since the construction of Trains 1 and 2.⁵⁵ It is also a priority of every level of government. Through its several education partners, BP has supported bringing qualified teachers to the villages and improving the capacity of the local education agency. These efforts have been beneficial, and attendance and test scores have improved. But supplies are inadequate, particularly for science and technical education, and students in the region remain well below national norms with few demonstrating the performance needed to move to higher levels.⁵⁶

To address this inadequacy at least in part, BP and the community have agreed to establish one or more “flagship” high schools in the region, where facilities and teachers would be superior, and the best students could board and prepare more effectively for higher education. Unfortunately, despite seeming agreement on the concept from all parties, there has been little progress towards implementation. Establishing a flagship school or schools will not only provide better education among Bintuni Bay’s many children with high aptitude and

⁵⁵ See TIAP March 2009 report at 30-31 and March 2007 report at 22-23.

⁵⁶ Separately, BP has continued to provide scholarships for Papuan students at senior high schools and universities, currently funding 215 students. See TIAP March 2009 Report at 31-32 for a detailed earlier review of the scholarship program.

determination, but it will also help BP meet its commitments to develop and hire skilled and educated Papuans to operate Tangguh.

There has been a long delay in implementing this commitment. It is in part the result of a hiatus in procuring a new education partner, disputes over where such a school should be located, and also because there are new officials in the new Bupati's education agency.⁵⁷ But the flagship school is the single most important and visible element of BP's current support for local education. Such a school has been specifically suggested by two Coordinating Ministers for Security and Political Affairs, and has long been encouraged by TIAP. BP should work with its education partner and the local education agency to make the timely establishment of one flagship school in Bintuni Bay a priority. Although the school should begin as soon as possible, the program should have the school fully functioning, at the latest, when Train 3 operations begin.

G. Community Relations

BP's Community Relations team very successfully has developed a trust with most members of the local community, from villagers who are involved in BP social programs, to village leaders to the Bupati. These relationships provide BP an added measure of security as well as greater patience and restraint in reacting to disputes or delays over social programs. While there are some verbal threats to operations from frustrated individuals, primarily in north shore villages, most villagers have come to understand that BP is not solely responsible for inaction and that BP is generally on their side. These relationships are apparent in every village TIAP visited. Relations with the community would not be as smooth and peaceful without the continued constant attention given by the community relations team.

⁵⁷ The physical facilities for a flagship school have been built in Tanah Merah Baru and are now unused.

Appendix I
A map of Papua and Papua Barat



Appendix II
**STAKEHOLDERS CONSULTED BY TIAP
2017 VISIT**

Government Officials: Indonesia

- Amien Sunaryadi, Head of SKKMIGAS
- Desta Djumena, Head of Acceleration Development of Tangguh Expansion (UPP)
- Two Secretaries of Mr Amien and Mr Desta
- M.G. Andri Soetarno, Deputy of Home Politics
- DR. Lutfi rauf, M.A., Deputy of Foreign Politics
- Rear Admiral Halomoan Sipohutar, Deputy of National Defends
- M.G. Wawan Rustiawan, Special Staff of Human Resources
- Montty Giriana Ph.D., Deputy of Coordinating Minister for Economy
- Triharyo Soesilo, Director of KPPIP –
- Andi Novianto, Deputy Assistant of Coordinating Minister for Economy
- Andhika Chrisnayudhanto, Director of Regional and Multilateral Cooperation of BNPT
- Ignasius Jonan, EMR Minister

Government Officials: United States

- Joseph R. Donovan, Jr., US Ambassador to Indonesia

Government Officials: United Kingdom

- Moazzam Malik, UK Ambassador to Indonesia

Government Officials: Papua and Papua Barat

- Dominggus Mandacan, Governor of Papua Barat (this meeting took place in Jakarta)
- Brigadier General Pol. Drs. Rudolf Alberth Rodja, Chief of Papua Barat Police
- Major General TNI Jopye Onesimus Wayangkau, Commander of Military Provincial Command XVIII Kasuari
- AKBP Dewa Made Sidan Sutrahna.SIK, Chief of Polres Teluk Bintuni
- Petrus Kasihw, Teluk Bintuni Bupati

Implementing Partners

- Sarwono Pratomo Satrio, President Director, Petrotekno
- Henda Pribadi, Director, Pretrotekno

Non-Government Organizations (NGOs)

NGOs in Jakarta

- Fery Marisan, Elsham
- Yan Cristian Warinusi, LP3BH Manokwari
- Robert Mandosir, International RM&D Institute
- Yance Defretes, Conservation International

Private Sector Analysts

- Douglas Ramage, Bower Asia Group
- Sidney Jones, Director, Institute for Policy Analysis of Conflict

Individuals

- Bambang Permadi Soemantri Brodonegoro, Head of Bappenas
- John McBeth, Journalist

Appendix III
Workforce Chart

Tanggung Ops. (as per July 2017)

Skilled level	Papuan	National/ Expatriate	Total employee	% Papuan by level	% Papuan population by Total
Unskilled	19	2	21	90%	1%
Low skilled	195	15	210	93%	13%
Semi skilled	278	64	342	81%	19%
Skilled	225	479	704	32%	15%
Managerial/supervisor	64	156	220	28%	4%
Total	781	716	1497	52.2%	52.2%

Tanggung Expansion Project (as per July 2017)

Skilled Level	IP			BF			Papuan			National / Expat			Overall H/C
	Actual		AMDAL	Actual		AMDAL	Actual		AMDAL	Actual		AMDAL	
	H/C	%	%	H/C	%	%	H/C	%	%	H/C	%	%	
Unskilled	69	91%	20%	7	9%	25%	0	0%	55%	0	0%	0%	76
Semi Skilled	93	32%	10%	34	12%	20%	87	30%	63%	75	26%	7%	289
Skilled	11	1%	0%	43	5%	2%	85	10%	10%	683	83%	88%	822
Managerial/ Supervisor	0	0%	0%	0	0%	1%	3	2%	5%	165	98%	94%	168
Total	173			84			175			923			1355

Appendix IV

