

In support of concerns raised regarding support for the Tangguh LNG project by Walhi, Jatam, and KAU

Paul W. Speltz
United States Executive Director
Asian Development Bank

Dear Mr. Speltz,

I am writing regarding a potential \$350 million Asian Development Bank loan for the proposed Tangguh Liquefied Natural Gas project in West Papua, Indonesia, sponsored by British Petroleum, China National Offshore Oil Corporation, Nippon Oil Exploration Ltd, Japan Oil, Gas, and Metals National Corporation, and LNG Japan Corporation. Environmental Defense supports substantial concerns currently being raised by affected community members and prominent Indonesian environmental organizations, including WALHI, JATAM, and KAU – most recently articulated in a letter of December 13, 2005 (enclosed).

According to the ADB's November 2005 "Report and Recommendation of the President to the Board of Directors on a Proposed Loan for the Tangguh Liquefied Natural Gas Project in the Republic of Indonesia", an early November 2005 ADB appraisal mission concluded that "satisfactory" progress had been made regarding resettlement implementation, community access to "replacement forest and coastal resources" and "relations between clans following resources allocation." According to the Board report, however:

"The host communities will experience some intensification of use of their coastal resources as a result of the need to share with resettler households. All villagers will experience some loss of access to the fishing area as a result of restrictions around the LNG plant, subsea pipelines, and offshore platforms."

The Board Report claims that these losses, likely to inflame existing tensions, will be offset by an endowment trust of up to US\$2 million for affected peoples. The joint letter circulated on December 13, 2005, by the Indonesian Environmental Forum (WALHI), JATAM, and KAU, however, documents numerous current and significant problems at the project site regarding compensation (i.e indigenous landowners unsatisfied with compensation of IDR 15/sq.meter (USD\$0.0015/sq.meter), and potential environmental impacts to mangrove areas and fish nurseries which form the basis of traditional local sustainable livelihoods.

The November 2005 management report to the Board indicates that there were issues and concerns regarding resettlement "undertaken in accordance with a [Tangguh Project Land Acquisition and Resettlement Plan \(LARAP\)](#) which forms part of the Government approved AMDAL [EIA] for the Project. The AMDAL LARAP was prepared in accordance with the Government legislation and World Bank standards. Among other issues, national and international NGOs expressed some concerns about resettlement and compensation aspects of the Project during the AMDAL

process. A 'due diligence' of those resettlement activities completed prior to ADB's involvement was undertaken. Some gaps were identified. Subsequently, with guidance from ADB, the Project has prepared a second LARAP referred to as the "Implementation LARAP". This addresses gaps identified during the 'due diligence' and provides additional livelihood restoration for affected people. The "implementation LARAP" is in accordance with ADB policy and operation requirements."

An English-language copy of the 350 page "Implementation LARAP" prepared by British Petroleum was apparently posted on the ADB's website in early November. We could not find a Bahasa Indonesia version of this document on the ADB's site as of December 12, 2005.

The LARAP identifies, on page 32, the following important risks to the local communities arising from the project:

- High risk:
- Landlessness
- Homelessness
- Lost Access to Common Property
- Moderate Risk:
- Food Insecurity
- Increased Morbidity
- Marginalization
- Social Disarticulation

However, the Asian Development Bank President's report to the Board identifies the Project's "Main Risks and Safeguards" as follows:

- 1) LNG market risk
- 2) LNG price risk
- 3) Project completion risk (technical aspects only)
- 4) Operation Risk
- 5) LNG transportation risk
- 6) Foreign exchange exposure risk
- 7) Foreign exchange availability risk
- 8) Gas reserve risk
- 9) Guarantor risk

The ADB's core calculus of risk for this project and the focus for project evaluation do not appear to center on the impact on over 1000 people who are to be resettled for the project and 40,000 people in the surrounding district, despite substantial risks to lives and livelihoods of local communities documented by the project proponent. This is of significant concern, given that this project is being implemented in an area of Indonesia with high levels of military involvement, human rights abuses, and a history of massive corruption linked to central government activities.

Project proponents have proposed plans to address the risks to local communities. However, their effectiveness remains to be seen. It took a concerted campaign by community organizations and hundreds of civil society groups to draw attention to “gaps” in the initial resettlement plans drafted and implemented by the company. ADB’s current documentation indicates that “internal review” of the project will be conducted by the company every six months and “external review” by consultants hired by the company, once a year. It is not clear that there is a plan for routine independent monitoring of social and environmental impacts by the ADB as part of the Bank’s own due diligence and formal evaluation structure proposed for the project.

According to the President’s report, ADB project performance and effectiveness will be measured by “how successfully the Project attracts private sector capital (both debt and equity); how the Project secures fixed construction costs and contracting arrangements for on-time construction, within budget and within specifications; and how the Project secures suitable operational arrangements to enable optimal production of LNG for export. The Project will also be measured by financial profitability and sustainability through timely debt repayment and investor returns.” The body of the report indicates that the ADB measures of “development effectiveness” for this project appear to be the above-mentioned “project performance” measures, “economic sustainability” and “private sector development” measures.

One must turn to Appendix I to locate a chart indicating that one of the thirty-one measures of development effectiveness, under the “economic sustainability” category is the “implementation of an Integrated Social Program (ISP)/indigenous people’s development framework (IPDF).” The thirty other measures of “development effectiveness” appear focused on financial and construction aspects of the project. The proposed five-year ISP budget is US\$58.3 million, of which approximately US\$35 million is for programs (the rest is for staff costs). PT. Tangguh expects to achieve average profits of close to US\$1 billion per year for decades, potentially for up to 40 years.

Regarding pollution from the project, Appendix 9 (page 67) of the report to the Board indicates that the “discharge into the atmosphere of carbon dioxide and other pollutants (Sulfur Dioxide, Oxides of Nitrogen and particulates)” will contribute to local air pollution. “However, these environmental costs will be to some extent offset by any environmental benefits to be gained by replacing coal or oil with LNG.” Given that the LNG is intended for export (i.e. the benefits of pollution reduction will occur elsewhere) and the fact that it is the impoverished local communities who will bear the impacts of the pollution generated by the project, this argument is hardly one that bodes well for the health of project-impacted peoples or for the ADB’s “development mandate” requirements.

In conclusion, given the lack of attention to environmental and social impacts in the core risk assessment measures identified by ADB management for the Tangguh project and the potential substantial impacts on local communities and the environment, we urge you to respond to the concerns raised by Indonesian NGOs in their December 13, 2005, letter. WALHI, JATAM, and KAU express objections to the

proposed ADB loan, underscore the lack of Indonesian language materials from the ADB regarding the proposed loan, and request a postponement of a Board vote on the loan until full documentation has been provided in Bahasa Indonesia to local communities and Indonesian civil society organizations.

Sincerely,

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