

Esso Highlands Limited



Papua New Guinea LNG Project
Environmental and Social Management Plan
Appendix 21: Procurement and Supply
Management Plan

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ACRONYMS

Acronym	Definition
CP	Contractor Plan
ESMP	Environmental and Social Management Plan
IFC	International Finance Corporation
LBD	Local Business Development
LNG	Liquefied Natural Gas
OIMS	Operations Integrity Management System
PNG	Papua New Guinea

KEY DEFINITIONS

Contractor Plan: A Plan to be prepared by Contractor. To be used by Contractor to describe how the mitigation measures outlined in this Plan will be implemented.

Notification (refer Table 1): An action arising out of monitoring that is expected of Contractor when Company needs to be notified immediately of a specific event or situation.

Verification (refer Table 1): The primary method of monitoring expected of Contractor to a) confirm that relevant mitigation measures have been applied and b) that the measure has been effective. Contractor will be responsible for developing appropriate verification methods and systems.

1.0 OBJECTIVES

Esso Highlands Limited (Company) has developed this Procurement and Supply Management Plan as part of its Environmental and Social Management Plan (ESMP) outlining a range of mitigation measures designed to avoid or reduce undesired procurement and supply management impacts during construction. This document establishes a basis and template for use by the Contractor to develop their own plans outlining not only mitigation measures but to also incorporate the roles and responsibilities described in the ESMP.

The objectives of the Procurement and Supply Management Plan are:

- Maximise procurement from local suppliers and economic benefit for local businesses;
- Improve capacity and skills of local business to capture business opportunities associated with Project both locally and nationally; and
- Ensure that Project environmental and social standards and commitments are adequately communicated by the Contractor to its Sub-contractors and suppliers and included in their contractual arrangements.

This Plan should be read in conjunction with other environmental and social management plans (EMPs and SMPs). Figure 1 outlines the relationship between EMPs and SMPs.

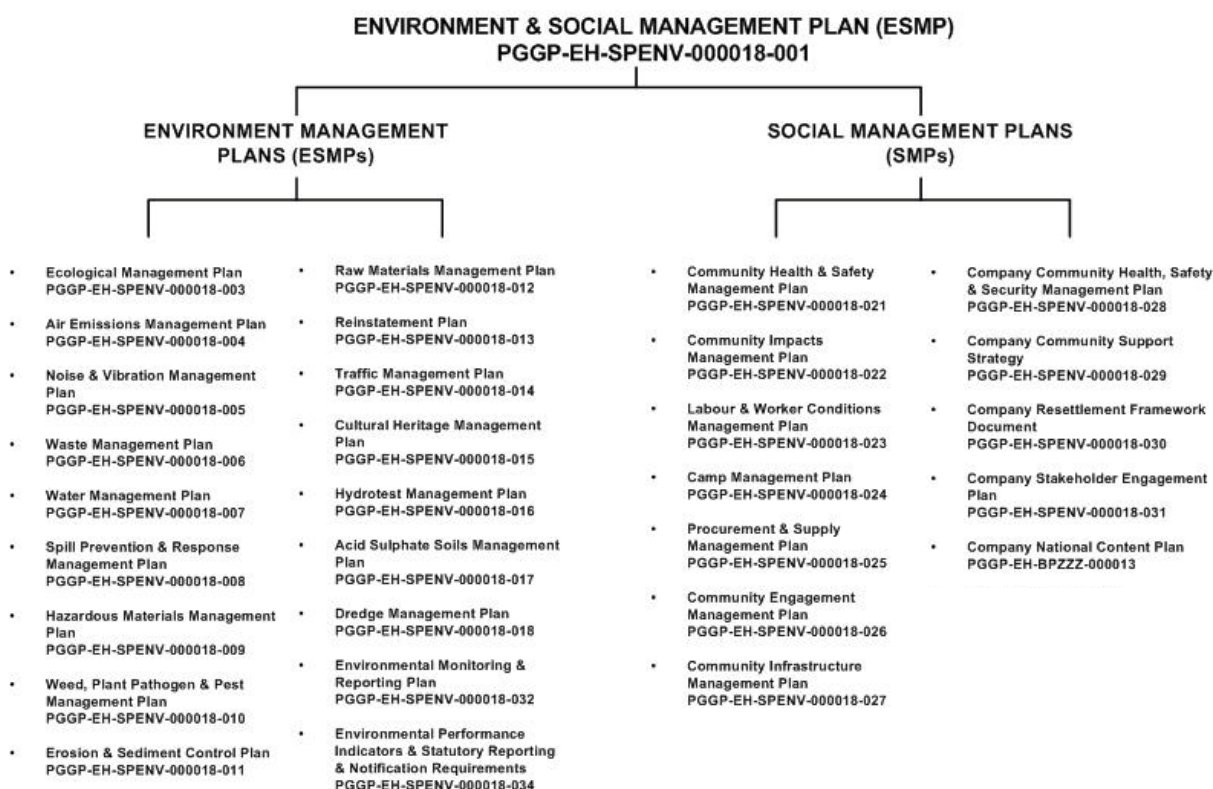


Figure 1: Environmental and Social Management Framework

This Plan should also be read in conjunction with the Contract Coordination Procedure, including but not limited to the sections on Procurement, Subcontracting, Logistics and National Content.

2.0 LEGAL AND OTHER REQUIREMENTS

Legal and other requirements applicable to this Plan are identified in Attachment 1.

3.0 SURVEYS

The Project shall undertake a local and national supplier/ business baseline survey. The survey shall be an assessment to determine the capability to supply the service/ products per the Project scope of supply.

The survey shall assess companies who have the capacity to supply the specified scope, their safety, health, environmental and social (in particular labour) records, their ability to respond to the Project schedule, their quality control and their historical compliance/ good standing with PNG business regulations.

As the Project progresses, Company may determine that it is necessary to update the survey data to capture supplier and business performance as a comparison to the new suppliers/business that arise because of the opportunities the Project provides.

4.0 MANAGEMENT AND MONITORING

Figure 2 presents a flow chart summarising key management steps associated with implementation and review of this Plan, including steps to allow for continual improvement.

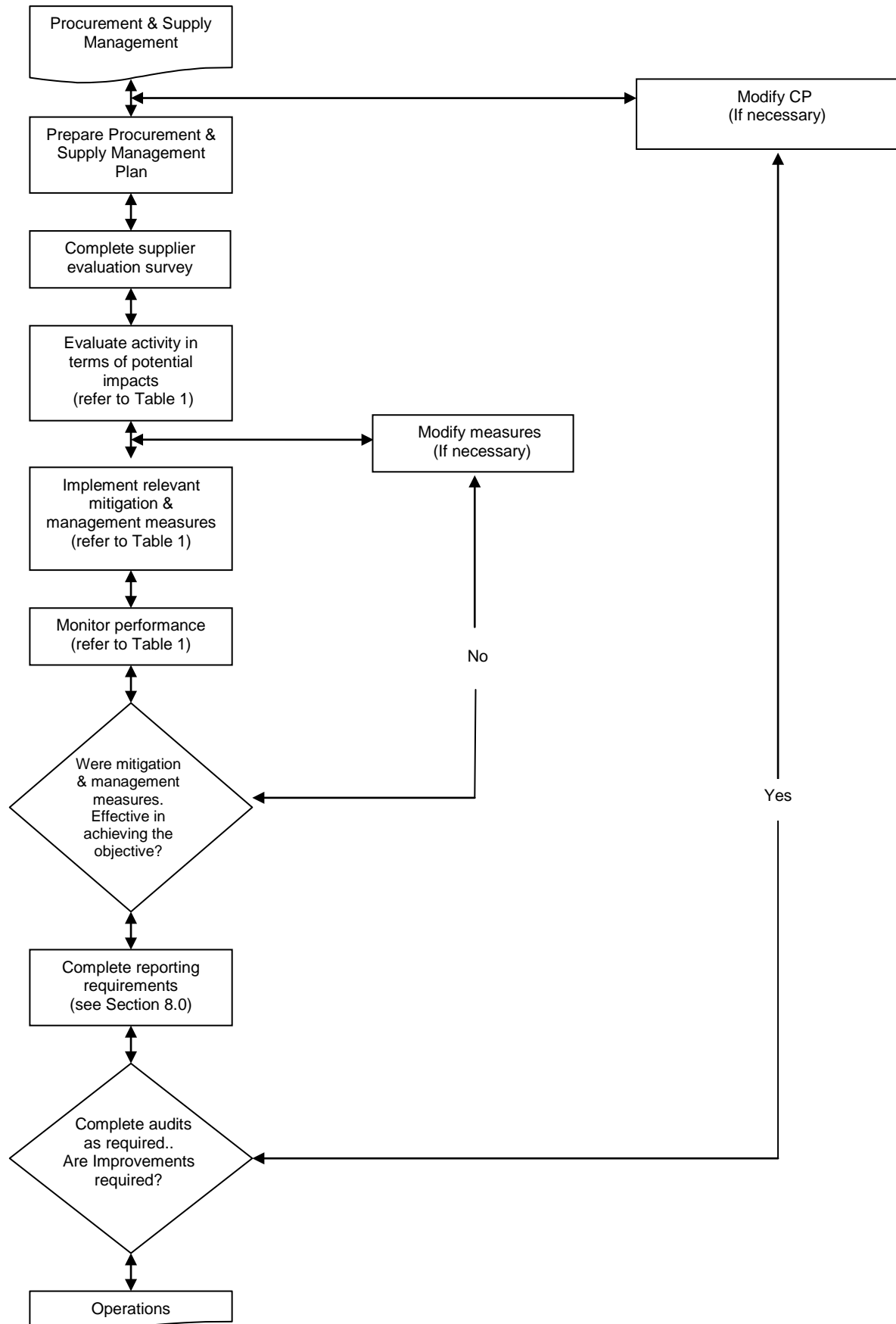


Figure 2: Procurement and Supply Process

Table 1 presents a summary of the potential impacts related to procurement and supply of goods and services, together with mitigation and management measures to avoid or reduce these impacts, and the monitoring required to determine the performance of these measures.

Contractor shall develop a Contractor Plan which shall, as a minimum, incorporate the procurement and supply measures described in Table 1. Contractor shall not be limited to these measures.

Monitoring to be undertaken as part of this Plan is described in Table 1. Contractor is responsible for developing area or site-specific procedures for the monitoring program (where necessary) based upon the final design details of the infrastructure.

Table 1: Management and Monitoring

Source of Impact	Potential Impact and Management Plan Objective†	Relevant Mitigation & Management (Design Feature / Specific Measure)	ID	Monitoring	Frequency	Responsibility
Corruption	Allegations of corruption/ favouritism may be raised for procurement decisions. (Objective 1)	The Project shall document procurement decisions and review procurement decisions on a regular basis to ensure the probity of the procurement process.	25.001	Verification	Ongoing	Contractor and/or Company
		Contractor shall prepare and submit for Company review and approval, Individual Subcontracting Plans for major sub-contracts in accordance with the Contract Coordination Procedure.	25.002	Notification as required for each major subcontract	Pre-procurement	Contractor
		The Project shall follow the United Nations Convention Against Corruption and the Foreign Corrupt Practices Act.	25.003	Verification	Ongoing	Contractor and/or Company
		The Project shall establish and make known, as appropriate, the process by which purchases are made in order to demonstrate the use of fair and controlled processes. This would include minimum standards such as: <ul style="list-style-type: none"> • Purchasing from suppliers that are legally established and in good standing with regulatory authorities; • Ensuring that a formal agreement between the customer and supplier is undertaken for all substantial purchases; and • Clearly outlined terms and conditions that are explained fully to the supplier, with acknowledgement from supplier of its understanding. 	25.004	Verification	Ongoing	Contractor and/or Company

Source of Impact	Potential Impact and Relevant Management Plan Objective ¹	Mitigation & Management (Design Feature / Specific Measure)	ID	Monitoring	Frequency	Responsibility
Local providers not meeting Project requirements/specifications	Local businesses may be negatively impacted if the quality and quantity of the goods or services provided does not meet the Project performance requirements/expectations. For example supply of imitation/ counterfeit goods. (Objective 2)	Subject to criticality and sub-contract value, the Project shall develop and make available to potential suppliers a set of requirements and expectations including: <ul style="list-style-type: none"> • Safe working requirements; • Quality specifications; • Quantity required (current and future); • Timeline for product or service delivery; • Potential environmental and social impacts; • Reliability of supplier and product or service; • Service after purchase; and • Minimum environmental and social (including labour) standards. 	25.005	Verification	Ongoing	Contractor and/or Company
		Contractor, as appropriate, shall publicize the scope of contracts, safety, health, environmental and social (including labour) standards, invoicing requirements and joint venture opportunities. These announcements may lead to holding supplier forums.	25.006	Verification	Ongoing	Contractor and/or Company
		Contractor shall be responsible for the subcontracting procedure, including the method used for the screening and selection of bidders.	25.007	Verification	Ongoing	Contractor
		Contractor shall develop and implement a public awareness program to communicate employment and training opportunities to local communities. Refer to the Labour and Worker Conditions Management Plan.	25.008	Verification	Ongoing	Contractor

Source of Impact	Potential Impact and Relevant Management Plan Objective [†]	Mitigation & Management (Design Feature / Specific Measure)	ID	Monitoring	Frequency	Responsibility
	Performance of the suppliers is not monitored resulting in potential underperformance and lack of improvement. (Objectives 1 & 3)	Under the Project Purchasing Plan outlined in the Contract Coordination Procedure, the Contractor shall develop a monitoring and verification programme that evaluates whether Sub-contractors are adhering to the procurement process. The programme shall incorporate regular feedback to Sub-contractors to meet performance requirements. Results of the programme shall also be provided to Company for review.	25.009	Verification	Pre-procurement	Contractor and or Company
Reduced economic opportunities and benefits	Not using PNG supplied goods and services will reduce the economic benefit to the local supply chain. (Objective 1)	In accordance with PNG law, Contractor shall use and purchase goods and services supplied, produced or manufactured in PNG wherever the same can be obtained at equivalent terms, including prices, conditions and delivery or performance dates and those goods and services are in all respects of a quality comparable with those available from outside PNG.	25.010	Verification	Ongoing	Contractor
		Contractor shall liaise with Company to develop a Local Business Development (LBD) plan in accordance with the Contract Coordination Procedure.	25.011	Verification	Ongoing	Contractor
		Contractor shall participate with Company in periodic meetings with the PNG Government and present the Contractor's LBD plans and results.	25.012	Notification	Ongoing	Contractor and/or Company
	In-migration due to the establishment of temporary/ informal businesses attracted to the project, resulting in greater pressure on existing businesses in terms of competing for procurement contracts. (Objective 1)	The Project shall make known, as appropriate, that goods needed will not be purchased informally at camp locations or work sites, but instead through formal contracts with approved suppliers.	25.013	Verification	Ongoing	Contractor and/or Company

Source of Impact	Potential Impact and Relevant Management Plan Objective [†]	Mitigation & Management (Design Feature / Specific Measure)	ID	Monitoring	Frequency	Responsibility
	Critical shortages or significant increases in cost for the local population. (Objective 1)	The Project shall undertake a local and national supplier/ business baseline survey to determine capacity and capability to supply products/ services	25.014	Verification	Pre-procurement	Contractor
	Local businesses take a short term view and are unable to plan for future procurement requirements. (Objectives 1 & 2)	Contractor shall provide local communities with information about the duration of construction activities in their vicinity and the estimated supply needs so that the suppliers can plan appropriately. Medium to longer term planning of procurement requirements will be communicated to local businesses to facilitate the development of business training and business development services to support the future supply of products and services.	25.015	Verification	Ongoing	Contractor
	When construction ends, demand for local employment and provision of local goods and services will be significantly reduced. (Objective 1)	The Project shall maintain a supplier's database of local goods and services suppliers.	24.016	Verification	Ongoing	Contractor
	Strained relations with PNG businesses. (Objective 1)	Contractor shall immediately report issues that may lead to strained relations with PNG businesses and shall develop plans to mitigate such issues throughout the Project. Contractor shall manage grievances using the Community Grievance Procedure outlined in the Stakeholder Engagement Plan.	25.017	Notification	Ongoing	Contractor

[†] See Section 1.0.

5.0 ROLES AND RESPONSIBILITIES

Contractor shall ensure sufficient resources are allocated on an ongoing basis to achieve effective implementation of this Plan.

The Contractor Plan shall describe the resources allocated to and responsibility for the execution of each task and requirement contained therein, and shall describe how roles and responsibilities are communicated to relevant personnel.

Company shall ensure sufficient resources are allocated on an ongoing basis to achieve effective implementation of Company's responsibilities in the Procurement and Supply Management Plan.

6.0 TRAINING, AWARENESS & COMPETENCY

Contractor shall ensure that all personnel responsible for the execution of the tasks and requirements contained within this Plan are competent on the basis of education, training and experience.

The Contractor Plan shall describe the training and awareness requirements necessary for its effective implementation.

Contractor's training activity associated with the Contractor Plan shall be appropriately documented by means of a training needs assessment, training matrix/plan and records of training undertaken.

Project shall ensure that personnel responsible for the execution of tasks and requirements in the Procurement and Supply Management Plan are competent on the basis of education, training and experience.

Project training activity associated with the Procurement and Supply Management Plan shall be appropriately documented by means of a training needs assessment, training matrix/plan and records of training undertaken.

7.0 PERFORMANCE INDICATORS

Table 2 outlines the indicators for measuring and verifying performance in relation to procurement and supply. However Contractor may, subject to agreement with Company, modify or add to these indicators to enhance the Contractor's Contractor Plan based on learnings from the performance indicators.

Table 2: Performance Indicators

ID #	Performance Indicator	Measurement	Internal Assessment Frequency*	Relevant Management Plan Objective†
1	Level of planned expenditure on PNG goods and services.	Expenditure on services and products procured locally against planned targets in LBD.	Quarterly	1
2	Level of Local business development.	Number and value of contracts awarded to local businesses against planned targets in LBD Plan.	Quarterly	1,2
3	Level of total expenditure on PNG goods and services.	Percentage of contracts / values of contracts for the local market versus international market.	Quarterly	1

† See Section 1.0.

*Frequency is determined by Company and may vary subject to Contractor's performance.

8.0 REPORTING AND NOTIFICATION

Contractor shall submit to Company a quarterly report addressing the performance indicators (see Table 2).

Other reporting or notifications required as part of the implementation of this Plan are summarised in Table 1.

ATTACHMENT 1

LEGAL AND OTHER REQUIREMENTS

Contractor shall comply with applicable Papua New Guinea (PNG) Laws and Regulations, applicable International Finance Institution requirements and applicable International Treaties and Conventions. In addition, Contractor shall comply with certain other requirements defined by Company.

The following requirements form the basis of this Plan, however Contractor should not rely upon them as an exhaustive list of legal and other requirements.

PNG Laws & Regulations

PNG laws relevant to procurement and supply include:

- The PNG Constitution; and
- Oil and Gas Act 1998.

International Treaties and Conventions¹

Typically, international conventions and treaties mandate actions that the signatory countries must undertake and they do not require direct action by private companies, however some treaties and conventions may require direct action by private companies.

The Project will follow:

- United Nations Convention Against Corruption.

International Finance Institution Requirements

International Finance Corporation (IFC) Performance Standard 1 covers Social and Environmental Assessment and Management Systems and a relevant objective is:

- To avoid, or where avoidance is not possible, minimize, mitigate or compensate for adverse impacts on workers, affected communities, and the environment.

In addition, IFC Performance Standard 2 covers Labour and Working Conditions and its objectives are to:

- Establish, maintain and improve the worker-management relationship;
- Promote the fair treatment, non-discrimination and equal opportunity of workers;
- Promote compliance with national labour and employment laws;
- Protect the workforce by addressing child labour and forced labour; and
- Promote safe and health working conditions and to protect and promote the health of worker.

Other Requirements

Company will follow Company's Operations Integrity Management System (OIMS). The following OIMS element applies to procurement and supply:

Element 8: Third Party Services.

- Third-party services are evaluated and selected using criteria that include an assessment of capabilities to perform work in a safe and environmentally sound manner;

¹ This list of International Treaties and Conventions is subject to legal review and may be amended following this legal review.

- Third-party performance requirements are defined and communicated. They include:
 - Responsibility for providing personnel appropriately screened, trained, qualified and able to perform specified duties; and
 - A process for self-monitoring and stewardship.
- Interfaces between organisations providing and receiving services are effectively managed; and
- Third-party performance is monitored and assessed, feedback is provided, and deficiencies are corrected.

International standards that will be followed by the Project, relevant to procurement and supply include:

- UN Global Compact;²
- Extractive Industry Transparency Initiative; and
- US Foreign Corrupt Practices Act 1997.

² Company supports the ideals of the United Nations Global Compact in the areas of human rights, labour standards, the environment, and anti-corruption. While Company is not a signatory of the Global Compact, those basic values are embedded in Standards of Business Conduct, which govern its operations around the world.