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Learning from AMEC's Oil and Gas Asset  
Support Operations in the Asia-Pacific  
Region, *with case-study on the Shell  
'Malampaya' Gas-to-Power Project.*  
An Interim Report

November 2004

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# Learning from AMEC's Oil and Gas Asset Support Operations in the Asia-Pacific Region, *with case-study on the Shell 'Malampaya' Gas-to-Power Project.* An Interim Report

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A complete version of this report will be published at a later date, when commercial sensitivities regarding aspects of the research are no longer evident.

*Cover photograph of Malampaya, Philippines, courtesy of AMEC.*

## ABBREVIATIONS

ADB	Asian Development Bank
BPD	Business Partners for Development
CPI	Caltex Pacific Indonesia
CSD	Commission for Sustainable Development
CMS	Competency Management System
CUSB	Common User Supply Base
DFID	Department for International Development
EAP	Engineers Against Poverty
EITI	Extractive Industries Transparency Initiative
EIR	Extractive Industries Review
EPC	Engineering, Procurement and construction
FDI	Foreign Direct Investment
GTL	Government of the Democratic Republic of Timor Leste
HIPC	Heavily Indebted Poor Countries
HSEQ	Health, Safety, Environment & Quality
IBRD	International Bank for Reconstruction and Development
IFC	International Finance Corporation
IFI	International Finance Institutions
ILO	International Labour Organisation
IMF	International Monetary Fund
IOC	International Oil Companies
JSA	Joint Staff Assessments
JV	Joint Venture
MDG	Millennium Developments Goals
MIGA	Multi-lateral Investment Guarantee Agency
MOA	Memorandum of Agreement
NGO	Non Government Organisation
NOC	National Oil Company
ODI	Overseas Development Institute
OGP	Onshore Gas Plant
O&M	Operations and Maintenance
PHC	Primary Healthcare Contract
PNOC-EC	Philippines Oil Company Exploration Corporation
PRSP	Poverty Reduction Strategy Papers
PSC	Production Sharing Contract
PSFI	Pilipinas Shell Foundation
PWYP	Publish What You Pay
SLG	Social License to Growth
SLO	Social License to Operate
SME	Small and Medium Enterprises
SPEX	Shell Petroleum Exploration
TSR	Tabangao Santa Rita
UN	United Nations
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
WBG	World Bank Group
WTO	World Trade Organisation

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## EXECUTIVE SUMMARY

*"We're totally dependent on these guys [Fluor-AMEC] for the success of the [Malampaya gas-to-power] project".*

SPEX (Shell Philippines) employee during the April 2004 study visit

### Overview

In April 2004, a research team comprising staff from Engineers Against Poverty and the Overseas Development Institute visited the operations of engineering services contractor, AMEC plc, in the Philippines and Australia. The purpose of the visit was to review AMEC's Oil and Gas South East Asia operations and look in depth at its joint venture with Fluor Corporation, the Fluor-AMEC asset support contract for the Philippines 'Malampaya' gas-to-power project operated by Shell Philippines. The research and visits learnt how AMEC is approaching issues of social performance across the region. Recommendations are offered to the Fluor-AMEC joint venture on ways to strengthen the social performance of the Malampaya project.

### Background

There is mounting pressure on the oil and gas sector to manage the social impacts of its operations as part of its core business activities. The social performance of the oil and gas sector is being measured against its ability to protect community welfare and increase the social benefits derived from operations and outputs. There are calls for corporate action from a range of stakeholders, including investors, shareholders, regulators, environmental and social organisations, and community groups. In response, major oil and gas companies are continuing to develop and refine operational strategies and their social management and community investment programs.

Engineering services contractors provide engineering, procurement, construction, operations and maintenance services to the oil and gas sector. Engineering services contractors have traditionally not been involved in managing the social performance of oil and gas project operations. This report argues that there is a great opportunity for contractors to become engaged in managing social impacts and improving social performance of projects and client-led operations. In most cases, it is contractors who are on the ground and in direct contact with communities throughout the lifecycle of oil and gas projects.

This report looks at the case for the AMEC-Fluor joint venture and the wider engineering services contractor sector – to become more involved in managing the social impacts and performance of oil and gas projects. The context, constraints, opportunities, methods, and benefits are explored. The report recognises potential benefits of improved corporate reputations, access to social license to operate, competitive advantage in contract bidding and extension, sustainable business assets,

cost-efficiency, a skilled local workforce, and efficient local suppliers. AMEC-Fluor's and other contractors' ability to draw on their existing business and management skills to contribute to managing social programs is reviewed. It is considered that AMEC-Fluor and other contractors have the ability to lead to many of the social performance benefits such as enhanced local workforce skills and capacity of local suppliers and sub-contractors. These achievements would not only boost a project's social performance, but ultimately would boost local economies and lead to improved local livelihoods.

## Research Approach

The research comprised a series of semi structured interviews and focus group discussions with staff working on the Fluor-AMEC asset support contract for the Shell operated Malampaya project. Discussions were also held with representatives of various sub-contractors, and with the Shell Philippines Exploration Company (SPEX), the Pilipinas Shell Foundation (PSFI), community groups, local government agencies, the Asian Development Bank (ADB) and the International Labour Organisation (ILO).

The research was undertaken by Engineers Against Poverty (EAP) and The Overseas Development Institute (ODI). EAP aims to enhance the social performance of engineering services contractors. Supported by the UK's Department for International Development (DFID) and leading professional engineering institutions, EAP's programme seeks to increase the poverty-reducing impact of the core business operations of major engineering contractors. This is achieved through identifying companies' unique competencies and combining them with those of their clients, the state and civil society organisations. The aim is to minimize adverse project impacts on communities and extend social and economic benefits to affected communities and society. A key proposition of the programme is that these social gains can be secured through mechanisms that also deliver business advantages to the contractors and their clients.

The Overseas Development Institute (ODI) manages a programme on Business and Development Performance. The programme works with the customers of energy service companies to identify the incentive systems required to realise the full potential of engineering contractors as delivery agents of social performance in the hydro-carbons sector. Under contract to EAP since its launch in 2002, ODI has provided conceptual and research inputs into EAP's studies on social performance in the areas of project risk and opportunities analysis, construction management and facilities maintenance.

## Conclusions

The following conclusions draw on the research of AMEC's operations and business development aspirations in South East Asia in relation to upstream oil and gas operations and maintenance



services<sup>1</sup>. Although focused on AMEC, the conclusions are applicable to other engineering service companies working in the upstream oil and gas sector in low and middle income countries. We also commend the conclusions to the regulators, transaction advisors, customers and project financing institutions associated with upstream oil and gas development projects. The social performance potential of large contractors will only be fully realised if tendering, external financing and transaction management processes incorporate the necessary incentives. Our conclusions:

#### *Contributing to Community Investment*

1. Within their quality submissions, although major contractors are increasingly required to demonstrate a track record in community dialogue, it is still rare for the terms of the contract to require their participation in community investment projects commonly managed by the project operator (i.e. the customer/client). This omission offers potential scope for market differentiation by contractors, in particular for asset support and maintenance contracts where the contractor may be the principal long-term representative of the project 'on-the-ground' interacting with affected communities.

#### *Local Content and Supplier Enhancement*

2. A global trend and one evident in the Asia Pacific region, is for transactions between the state and oil or gas development companies to incorporate more stringent 'local content' requirements. In some cases these requirements are close to, or even surpassing, technical limits. Asset support contractors with a proven capacity for rapid skills competency development and a network of known sub-contractors with the necessary technical capabilities should expect to increasingly secure a competitive advantage in this area at the tender stage.
3. This study shows that it is entirely plausible for the contractor to go beyond the current practice of developing the capabilities of sub-contractors and suppliers to meet the internal requirements of an asset support contract. Working alone, or in partnership with the client, government agency or non-government business support organisation, contractors may soon perceive commercial advantage in assisting sub-contractors to apply their newly acquired capabilities in quality control, reliability, cost and HSE, to access other – non project related - market opportunities, both within the oil and gas sector, and further afield. In short, both oil and gas operators and their principal contractors need to shift their perception of the immediate project as the main market for supplier enhancement programmes, to one that views the project as the 'spring-board' to other, far broader and more sustainable market opportunities.
4. The potential for linkage between the meeting of local content requirements and investment in community projects is not yet fully exploited. At present, efforts to assist community-based micro

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<sup>1</sup> Maintenance services do not include front-end engineering, procurement or construction management services.

enterprises through investments in skills training, working capital and business development tends to be managed by the project operator (or outsourced to a foundation or NGO). This means community initiatives are usually separate - as in the Malampaya example - from the efforts of the main asset support contractor to meet contract requirements for employee succession and the contracting of local suppliers. There may be competitive advantage therefore to contractors who adopt a more strategic approach that combines local content enhancement with community investment provision, for example, by targeting national firms who source raw materials locally and/or who have a portion of the workforce drawn from affected communities or from the municipalities that host project assets.

### *Social Performance as a Competitive Advantage*

5. A problem for contractors with stringent local 'employment-related' content requirements is that of reduced overhead income, i.e. where higher earning expatriate staff is replaced by lower earning nationals. For fixed price contracts these losses are to some extent compensated for by higher returns on the overall contract, i.e. due to the lowering of wage costs over time. For unit rate contracts, however, the losses are real, and may need to be compensated for through the negotiation of contract incentives that reward rapid staff succession.
6. Some oil and gas project operators are now actively looking for innovative ways to enhance their long-term commercial reputation with the host government by improving the project's overall positive socio-economic impact. Efforts towards achieving this 'social license to growth' include the integration of operational infrastructure with local authority public service plans and budgets, and routing transactions and deposits through national and local banks to build local financial capabilities. For the principal contractors, many of these areas of economic impact are not so much new territory, but simply activities not previously perceived as containing a business-case, i.e. delivering the social performance objectives of the client. In preparing future bids some contractors may benefit from simply repackaging their past contract performance in economic and socio-economic performance to match the language of their client's social performance objectives, the 'local content' terms contained in the relevant Production Sharing Contract, or related host government agreement, and the economic policies of the host government.
7. When bidding, contractors who are aware of the potential linkage between national and local government economic development policies and the core business of their clients - such as business linkages, public infrastructure service delivery, political decentralisation - will be able to identify how their own core competencies in engineering, project management, staff and supplier competency development might strategically contribute to the new types of collaboration emerging between oil companies and government aimed at addressing the challenges of sustainable development.

8. Contractors are advised to develop an understanding of the social loan requirements of International Finance Institutions (IFIs) and the extent to which these requirements are likely to influence, either directly or indirectly, the social performance objectives of their client. In particular, it will be important to closely watch developments in World Bank Group institutions (namely IBRD, IFC and MIGA), since there is considerable coherence, especially on social and environmental standards, between developments within this group, and other international IFIs and increasingly commercial banks who are signatories to the 'Equator Principles'.

### Recommendations – 'Malampaya' Fluor-AMEC Primary Healthcare (PHC) Contract

The following recommendations are made in respect of the Fluor-AMEC JV for the Malampaya PHC contract. Details for the implementation of these recommendations are given in *Table 6, Section 5*.

Recommendation
<p><b>1. Supply Chain Development</b></p> <p>Undertake short-term initiatives to develop the broader marketability of sub-contractors and suppliers with the aim of assisting SPEX to improve the overall economic performance of the Malampaya project and thus contribute to securing 2<sup>nd</sup> Round exploration licenses. In turn this may help AMEC secure an extension/renewal of the PHC contract, and improve the overall reputation of AMEC within the Shell Group in the areas of local content and economic benefits optimisation.</p> <p><b>1.1</b> Establish <b>key performance indicators</b> (KPIs) that generate evidence of the business development and economic multiplier effect of the support given by AMEC to its sub-contractors and main suppliers (<i>See Table 5, p46</i>).</p> <p><b>1.2</b> Extend <b>existing support to sub-contractors</b> from predominantly HSEQ and security into other areas of business development relevant to Fluor-AMEC's business competencies, such as systems for continuous improvements in cost-efficiency.</p> <p><b>1.3</b> Undertake a <b>HSEQ standards benchmarking survey</b> to identify how the current Fluor-AMEC support to sub-contractors and suppliers in the area of HSEQ and security can be modified to support achievement of marketable international standards such as ISO9002 and ISO140001 certification.</p> <p><b>1.4</b> Submit a proposal to SPEX describing how a Malampaya <b>local business finance and management support facility</b> might be developed, with Fluor-AMEC providing experience in competency and capability development support.</p>
<p><b>2. Targeted Community Investment</b></p> <p>Explore options for Fluor-AMEC, PSFI and SPEX to collaborate on community investment projects that target the high social risk <b>TSR pipeline section</b> – an asset recently transferred from power station to SPEX, with Fluor-AMEC responsible for integrity and security.</p>
<p><b>3. Institution Building</b></p> <p>Collaborate with SPEX, relevant government authorities, and international organisations to help build the institutional capacity of the provinces of Oriental Mindoro, Palawan and Batangas and to prepare them for public expenditure management of gas production revenues.</p>

## 1. INTRODUCTION

### 1.1 Background

Engineers Against Poverty (EAP) have developed a programme of action research aimed at enhancing the social performance of engineering services contractors. Supported by the Department for International Development (DFID) and the UK's leading professional engineering institutions, the programme seeks to increase the poverty-reducing impact of the core business operations of major contractors. This is achieved through identifying their unique competencies and combining them with those of their clients, the state and civil society organisations to minimize adverse social project impacts and extend social and economic benefits to affected communities and society. A key proposition of the programme is that social gains can be secured through mechanisms that also deliver business advantages to the contractors and their clients.

The Business and Development Performance programme operates within the Overseas Development Institute (ODI), London. Its aim is to design, and align, business management tools and public policy instruments to enhance the 'development performance' of corporations operating in developing countries. The programme builds in part on the conclusions of the World Bank's Business Partners for Development (BPD) programme, that the social performance of businesses in many sectors can be enhanced through a broader application of the principles of 'project partnering' between large engineering contractors and their clients<sup>2</sup>. The programme has worked under contract to EAP since its re-launch in 2001, providing conceptual and action research inputs to studies on construction impacts, project risk and opportunities analysis and, with this report, business linkages during facilities maintenance.

AMEC plc (hereafter 'AMEC' or 'the company') is amongst the first multi-national engineering services companies to recognise the potential of EAP's approach and to express a willingness to collaborate in the development of specific strategies. As part of this collaboration, a team from EAP and ODI conducted a six day 'scoping exercise' of AMEC's Oil and Gas South East Asia operations during April 2004. The purpose of this report is to summarise the main findings of the exercise and make a series of recommendations to AMEC to enhance its social performance in the region.

### 1.2 Report Structure

This report is structured in five sections. *Section one* provides an introduction to the study. *Section two* gives a summary of AMEC's operations in the South East Asia region, identifying the main business centres, joint venture partners and key operations. *Section three* looks at the global trends and issues in the oil and gas sector likely to influence the way in which AMEC pursues its social

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<sup>2</sup> Verschoyle, D. and Warner, M. (2001) Learning from Project Partnering in the Construction Industry, Working Paper No. 12, London: c/o Overseas Development Institute, Natural Resources Cluster, Business Partners for Development - <http://www.bpd-naturalresources.org/media/pdf/working/work12.pdf>

performance objectives in the region. These trends are illustrated with examples of specific policy initiatives emanating from governments, international financial institutions and bilateral and multilateral donors. *Section four* considers the principal drivers of social performance in the region from a range of stakeholder perspectives and begins to articulate a business case for multinational engineering services companies to improve social performance. *Section five* looks in detail at one of AMEC's projects, the Malampaya Deep Water Gas to Power Project in the Philippines, with a focus on the specific drivers for enhanced project social performance and tools and strategies available to AMEC. *Section six* sets out some general conclusions for engineering services contractors working in the upstream oil and gas sector in low and middle income countries, followed by a series of specific recommendations directed towards AMEC for the Malampaya project.

### 1.3 Aim of the Research

The stated aim of the April 2004 field visit was *'to scope AMEC Oil & Gas South East Asia operations, analyse this information and use what is learned to help plan and implement initiatives, including consideration of multi-sector partnerships, directed at enhancing AMEC's social performance in the region'*.

key research questions included:

- What is the scope of AMEC's operations in the South East Asia region?
- How is the public policy and business environment likely to create opportunities and/or inhibit attempts to enhance AMEC's social performance and contributions towards poverty reduction?
- What are the objectives for social performance articulated by AMEC's current (and potential) clients, and to what extent does the current range of strategies and tools used by both client and AMEC deliver these objectives?
- What are the lessons from AMEC's experience in the South East Asia region for the company to enhance its social performance in the future, and what role might be played in this by EAP and its associates?

### 1.4 Approach

The scoping exercise was conducted by a multi-disciplinary team drawn from EAP, ODI and AMEC. The team comprised expertise in corporate responsibility, engineering, business management, community development and social planning. A range of secondary information sources were used and are listed in *Appendix A*. In addition, key respondent interviews and facilitated focus group discussions were conducted with various groups both within and outside the company.

## 2. AMEC REGIONAL OPERATIONS

The main geographic foci and operational activities of AMEC are summarised below. Further detail is also provided on AMEC operations and interests in South East Asia.

### 2.1 Strategic Geographic Areas and Sectors of Operation

AMEC is an international engineering services company providing design, project delivery and maintenance support to clients in the oil and gas, transport, infrastructure, and industrial sectors. The company works with a diverse range of clients, government departments and market sector leaders across the public and private sectors in industry and commerce. Services offered by AMEC include: project management, environmental and technical consultancy, architectural and engineering design, funding and feasibility studies, planning, procurement, construction and multi-technical services, facilities management, maintenance and decommissioning.

With its purchase in March 2003 of SPIE S.A, a large European multinational engineering firm, AMEC achieved its strategic transformation from principally a regional UK construction company into one of the world's largest engineering services companies. Today AMEC employs 50,000 people in over 40 countries. The company's operations are grouped into seven strategic operational regions: North America, Europe, Russia and the former Soviet Union, Middle East, Africa, China and South East Asia. AMEC's operations generated a turnover of GBP 4.7 billion in 2003<sup>3</sup>

### 2.2 The South East Asia Region

In the South East Asia region the business division, AMEC Oil and Gas, operates in Singapore, Australia, Korea, Malaysia, Indonesia, the Philippines, Russia, and Timor Leste (see *Figure 1*). AMEC's operations in Singapore focus on the industrial market with activities covering pharmaceutical and high technology manufacturing, airport related works and facilities management. In Australia, AMEC has implemented a number of projects in the industrial commercial sector, including the design and construction of third generation electronics and telecoms infrastructure, and provides specialised engineering support to the mining and minerals sector.

In Australia and the rest of the Asia Pacific region, the Oil and Gas sector forms the main focus of AMEC's operations. The company (often via joint ventures) is contracted by both public and private sector clients to provide a range of services to fixed and floating oil and gas platforms, on-shore facilities and pipelines. Services include front-end engineering and design, deepwater production facilities, remote maintenance and support, and major pipeline design and construction. In South Korea, AMEC has established a joint venture with the Fluor Corporation to support production, operations, and maintenance of South Korea's first hydrocarbon development.

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<sup>3</sup> AMEC plc (2003) *Sustainability Report 2003*

In Indonesia, AMEC is working under contract to BP to manage their offshore Crane Maintenance and Operations Platforms in the Java Sea. AMEC also has a contract with Conoco Philips to provide engineering design for an offshore pipeline to Malaysia.

AMEC's Oil and Gas operations in the South East Asia Region are strategically linked through AMEC business units established in Korea, Indonesia, Malaysia, Australia, Singapore and the Philippines. These business units

act as centres of excellence in engineering design and asset management support services and draw on AMEC's experience of providing facility management, technical integrity maintenance, operations services, and sub-contract management to an offshore gas extraction project in the Philippines (discussed further in *Section 5*).



Figure 1. Map showing geographical locations of AMEC's operations in the South East Asia Region

### 2.3 Regional Growth Opportunities

AMEC Oil and Gas growth strategy for the South East Asia region is two-pronged, combining efforts to secure follow-on contracts, for example, the Primary Healthcare Contract in the Philippines, with new business opportunities. Notable amongst these opportunities is new business in Sakhalin, Russia. AMEC has secured a USD 230 million contract with a Shell joint venture to provide engineering design, project management and construction support to the Sakhalin II development

project. AMEC Oil and Gas in joint venture with Fluor are also delivering the engineering and procurement services to Woodside Energy Limited's Enfield Development project offshore of Western Australia.



### 3. GLOBAL AND REGIONAL TRENDS

Many of AMEC's South East Asia operations are located in countries characterised by poverty and relatively weak public institutions. In order to assess how AMEC might enhance its social performance and gain business advantages in these challenging environments, it is helpful to understand international development and corporate social responsibility (CSR) issues. This section identifies some key trends and illustrates them with examples of specific policy initiatives emanating from governments, international financial institutions, bilateral and multilateral donors.

#### 3.1 Revenue Transparency and Management

A recent World Bank task force on 'Low Income Countries Under Stress'<sup>4</sup> described a core group of countries endowed with oil and gas deposits as 'policy poor but resource rich'. The suggestion was made that the richness of resources may contribute to inadequate public policy. This can occur, for example, by reducing the pressure on governments to secure a popular mandate, increasing opportunities for corruption, undermining macroeconomic stability and inducing conflict. Christian Aid and Global Witness, two respected international NGOs, recently published reports highlighting similar issues<sup>5</sup>.

While there are examples of countries like Botswana, where natural resource wealth has contributed to considerable reductions in poverty, there are many more, such as Nigeria, Indonesia and the Philippines, where the fiscal management of natural resource wealth has been inadequate or corrupt and has led to civil unrest and political suppression. It is not uncommon in oil producing regions for the local population to harbour grievances towards foreign oil companies and their main contractors because of the adverse social and environmental impacts of oil and gas projects and/or inefficiencies in resource rent distribution. This has put pressure on companies to provide social programmes as a means to manage the operational risks stemming from the discontent within local communities.

In response to these problems, a number of governments and NGOs are focusing their efforts on improving revenue transparency and management. These initiatives recognise the positive role that the disclosure of oil and gas revenue payments can play in reducing corruption and promoting good governance. When supported by pro-poor expenditure priorities, these initiatives are helping to forge a positive link between oil and gas development and poverty reduction. Examples of such initiatives include the Extractive Industries Transparency Initiative (EITI), funded through DFID and Publish What Your Pay (PWYP), a coalition of campaign organisations.

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<sup>4</sup> World Bank [A] (2003) LICUS Initiative, *Implementation Overview*, Washington DC: World Bank, Operations Policy and Country Services

<sup>5</sup> Christian Aid (2003) *Fuelling Poverty: Oil, War and Corruption*, Christian Aid, London. Global Witness (2004) *Time for Transparency*, Global Witness, Washington.

The Government of Timor Leste has signed up to the EITI principles, whilst the Indonesian government has expressed support in principle. A group of NGOs has formed a PWYP Indonesia network and several international NGOs linked to PWYP are working in Timor Leste. In recognition of the potential commercial and reputational costs of being associated with financial mismanagement and poverty, leading oil companies have publicly expressed support for the EITI including Shell, BP, Chevron Texaco, Exxon Mobil, Woodside and Conoco Phillips.

The issue of revenue transparency is of particular relevance in AMEC regions of operation in Indonesia, Papua New Guinea, Vietnam and Timor Leste. These countries have suffered from conflict, high levels of corruption and tension over revenue flows between host communities and oil, gas and mining companies. As such, a watching brief needs to be maintained by AMEC and other oil and gas engineering and services contractors to follow the reaction of oil and gas companies in modifying their social performance policies and objectives in light of the transparency debate.

It is considered likely that oil and gas companies may be encouraged to realign their community investment programmes with public and provincial authorities' economic development plans and public expenditure budgets. Companies may also collaborate with development organisations to help build local institutional capacity in financial management and infrastructure service delivery. Contractors should monitor these developments and identify opportunities to propose (in bid documents) resources and competencies that add value to their clients' social objectives in areas of engineering design, project management, financial 'packaging' for public infrastructure projects, or business models for public service delivery.

### **3.2 The Policy Context for Social Performance/Poverty Reduction**

The section explores some key international poverty reduction policy instruments and looks at how the engineering services sector can feed into policy formation and reform. *Table 1* summarises the main instruments in relation to AMEC's business interests in countries across the Asia Pacific region.

#### **3.2.1 Summary of Policy Instruments**

A range of policy instruments have been developed to coordinate responses to the challenges of global poverty and sustainable development. Increasingly it is governments and global institutions, such as the United Nations (UN), the World Trade Organisation (WTO), the World Bank Group (WBG), and the International Monetary Fund (IMF) that are driving poverty reduction initiatives.

Table 1 Poverty Reduction Policy Instruments in the Asia Pacific Region relevant to AMEC's Business Interests

The main instruments can be summarised as follows:

Country	Initiative	PRSP	MDGs	Agenda 21	WTO membership
		World Bank/ IMF	UNDP	UN	WTO
Indonesia		✓		✓	✓
South Korea				✓	✓
Malaysia				✓	✓
Philippines			✓	✓	✓
PNG			✓	✓	✓
Russia				✓	
Timor Leste		✓		✓	✓
Vietnam		✓	✓	✓	
✓ Applicable					

- **Poverty Reduction Strategy Papers (PRSP)** are prepared by governments through collaboration with domestic stakeholders, the private sector, and development partners, including the WBG and IMF. PRSPs outline the coordination of a country's 3 year economic and social policies to promote broad-based growth and reduce poverty. PRSPs are made available on the WBG and IMF websites.
- **Millennium Development Goals (MDGs)**. At the UN's Millennium Summit in September 2000 world leaders placed development at the heart of the global agenda by adopting the MDGs. They constitute a set of targets for reducing poverty, hunger, disease, illiteracy, environmental degradation and discrimination against women by 2015. The United Nations Development Programme (UNDP), through its country offices, provides support to governments to integrate the MDGs into their national development plans and budgets<sup>6</sup>.
- **Agenda 21** grew out of the UN Earth Summit in Rio in 1992 and followed-up at the Johannesburg Summit in 2002. Agenda 21 is co-coordinated by the UN's Commission for Sustainable Development (CSD) and promotes a multi-stakeholder dialogue for global, national and local planning and sustainable development. The CSD has a series of 7 two-year thematic plans. The 2006/2007 programme focussing on 'Energy for Sustainable Development and Climate Change' is particularly relevant to AMEC's work<sup>7</sup>. AMEC launched its own 'AMEC Agenda 21' in 2003 as a vehicle for ensuring that individual businesses incorporate group sustainability principles into their core operations<sup>8</sup>.

<sup>6</sup> United Nations (Sep. 2004), <http://www.un.org/millenniumgoals>

<sup>7</sup> United Nations (Sep. 2004), <http://www.un.org/esa/sustdev/documents/agenda21>

<sup>8</sup> AMEC plc (2003) Annual Report and Accounts, AMEC, London.

- **The WTO** policies impact on poverty reduction across a range of areas by regulating foreign direct investment and banking, trade in services (including deregulation and marketisation of public services), and environmental and social safeguard mechanisms. The current WTO negotiations, the Doha Development round, aims to address global poverty.
- **The World Bank led HIPC debt initiative.** Aimed at heavily indebted poor countries (HIPCs) to bring their debt burden to sustainable levels, subject to satisfactory policy performance framed by an agreed poverty reduction strategy. In relation to AMEC regional operations, only Vietnam is identified as a potential HIPC beneficiary <sup>9</sup>.

In addition to these, there are a number of other initiatives which potentially impact upon AMEC's current and future social performance practices. These include the UN's Global Compact, WTO trade related agreements, UN Norms on Business and Human Rights, the Convention on Biological Diversity and the ILO's work with national governments, such as in the Philippines, on enhancing labour standards, health and safety, and small and medium sized enterprise development. The donor community and national governments often pursue opportunities to work with international companies such as AMEC and their clients to enhance social performance.

The opportunities for positive social impacts between such initiatives and AMEC's operations should be explored at a country/project level. Examples of such opportunities are discussed further in section 5 of this report. Having identified key international initiatives, it is now possible to examine some trends that cut across them.

### *3.2.2 Key Trends*

The need for wider participation in the process of developing poverty reduction policy is now widely recognised and the role of business in poverty reduction is becoming better understood. Subsequently, recommendations are evolving as to how market and legislative mechanisms can act to promote business contribution to poverty reduction. Forums such as the ADB and their national social and environment 'cells', and the Philippines Chamber of Commerce cooperate to promote private sector participation in policy development. The private sector may benefit in national forums if it is able to understand and frame its contribution to support the approach of social development.

In the past, the contribution of multinational companies such as AMEC and their clients to poverty reduction was seen largely as generating revenues for government, creating employment opportunities, and stimulating the local economy, whilst complying with local environmental and social regulations. The role of business is likely to expand. As public policy links more strongly to

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<sup>9</sup> World Bank (Sep. 2004) [www.worldbank.org/hipc/](http://www.worldbank.org/hipc/)

measurements of poverty reduction and the MDGs, subsequently business will need to monitor and enhance its operational impacts.

The influence of contractors is relatively small compared to their clients and host governments. It is also recognised that the business and public sector environment does not currently reward social performance efforts sufficiently. The challenge for AMEC is to demonstrate clear contributions to the social performance objectives of their clients and the host governments.

### **3.3 Conflict and Security Management**

Several countries that AMEC currently operates in are conflict-prone. This includes Timor Leste, Indonesia's Riau province, and Papua New Guinea. Conflict is a barrier to sustainable development and the brand and reputation of international companies can be severely damaged through association with the causes of conflict.

When working in conflict prone regions, engineering services companies and their sub-contractors are affected by and affect their client's local social license to operate (SLO). In conflict prone environments, a strong SLO promotes staff and asset security and a favourable business environment. Contractors who have regular contact with project affected communities are uniquely placed to strengthen or weaken a client's SLO. Contractors should help build an understanding amongst their clients, sub-contractors and employees of how their actions affect tensions in conflict prone regions. There are however major issues that lie outside a contractor's influence on strengthening SLOs.

The Tangguh project in West Papua, Indonesia (see Box 1) illustrates the extent to which oil and gas company, BP plc, is finding new ways to deal with security issues. BP is also exploring partnerships and dialogue with international development donors such as the United States Agency for International Development (USAID) and DFID and with the Indonesian and West Papua authorities and civil society. If BP's objective - that Tangguh achieve its potential as a world-class model for development - is met and the lessons learned and applied in similar environments, AMEC's business environment in Indonesia may shift. Contractors who are able to demonstrate capabilities to deliver on BP's and similar clients' broadened social performance agenda, may find that these capabilities become a competitive differentiator.

## Box 1      Tangguh, West Papua Case Study

The Tangguh Project in West Papua, Indonesia is an interesting example of where an oil company, BP, is considering a **community-based security management** strategy that is similar to strategies employed in the humanitarian sector. West Papua is conflict prone and BP is aware of the risks involved to operations and its reputation. While project construction is being planned, BP has introduced an independent panel to hear all stakeholder groups both locally and internationally. These hearings feed reports and recommendations for managing the social and environmental risks. A factor already clearly identified is that strong security and a strong SLO is linked to socially and environmentally responsible operations amongst West Papua and Indonesia communities and authorities.

It is also noteworthy how closely BP's approach and the Project's core values of consultation, empowerment, partnership, participation and sustainability, buttressed by respect for human rights and transparency have been borrowed from the approaches and values of international development.

BP's security strategy has identified issues of (1) revenue transparency and management, (2) macro-economic and poverty reduction policies and (3) conflict and security. The West Papua environment is extremely complex and there are no simple or risk free solutions to operational management and social development. The real test will be during implementation and whether BP and the other stakeholders can realise BP's vision that Tangguh "achieve its potential as a world-class model for development" over the full life span of the project and beyond. See full details at [www.bp.com](http://www.bp.com)

## 4. DRIVERS OF ENHANCED SOCIAL PERFORMANCE FOR AMEC

This section considers the main drivers of social performance for AMEC in the South East Asia region from a range of stakeholder perspectives, and begins to develop a business case for AMEC to enhance its social performance.

### 4.1 AMEC's Principal Clients

In the oil and gas sector, AMEC is contracted predominantly by private sector clients, either by facility operators or by a consortium of joint venture partners. *Table 2* lists the main client companies, the current contract under which AMEC is working, and the client's group-level social policies and practices. These are divided into four categories of performance in their ability to:

- minimise the negative impacts to society and their livelihoods;
- maximise and sustain the local social and economic benefits through social/community investment;
- meet and exceed requirements for local content in relation to employment, training and supply chain management; and
- contribute to broader sustainable economic benefits in the wider region of operations.

The first 2 of these social performance objectives are aimed at securing the client's SLO. These are measures taken at the community level by the company to comply with regulatory and recommended requirements to reduce adverse project impacts and risks to operations posed by the local community. The third and fourth objectives are aimed at securing a client's 'social license to growth' (SLG). These objectives aim to develop political and popular support for the client as a force for long-term economic growth on local, country, and regional levels.

The research conducted for this report included access to AMEC's clients' country and project offices in the Philippines. Elsewhere in the South East Asia region contact was limited by time and resource constraints. It has therefore been difficult to ascertain how the group-level social performance policies of AMEC's clients might have been modified at the country, business unit, or project level. Consequentially, *Table 2* is limited to the social performance policies and drivers of AMEC clients at group-level. The category of social performance, 'local content' is excluded from the table since it tends to be project-specific, either detailed in the transaction (e.g. production sharing contract) between the state and operating company, joint venture, and/or through other national and local regulations.

Table 2 Group-Level Social Performance Policies of Some of AMEC's Existing Clients in the Asia Pacific Region

Local Company	Group-level Company	Social Performance Categories			AMEC contract
		Minimise negative social impacts of local presence	Maximise local social benefits of presence through community investment	Contribute broader sustainable economic contributions to the wider region of operations, including 'local content'	
BP Crane Maintenance (Indonesia)	BP <sup>10</sup>	<ul style="list-style-type: none"> <li>"We aim to ensure that we act responsibly to protect the rights of employees and contractors, and we work with governments and other bodies to promote respect for human rights wherever we work".</li> </ul>	<ul style="list-style-type: none"> <li>"our social investment programmes around the world incorporate a wide range of initiatives appropriate to local circumstances"</li> <li>"they are designed to foster mutual advantage".</li> </ul>	<ul style="list-style-type: none"> <li>"We encourage the provision of cost-effective local supplies to provide goods, materials and services that meet international standards".</li> <li>"It is in our own interests, as a business, to encourage the long-term development of open and thriving economic markets in the places where we operate".</li> <li>"where we have influence but not control, we seek ...partnerships"</li> <li>"In the future...we intend to... support education as the key tool for delivering opportunity... develop local infrastructure where we operate, with an emphasis on long-term [government] integrated programmes... reduce the impact of corruption... and initiate studies to improve our understanding of the full economic impact and potential created by our investment and activity"</li> </ul>	Maintenance
Caltex Pacific Indonesia	Chevron Texaco <sup>11</sup>	<ul style="list-style-type: none"> <li>.."protecting the health and safety of people who work on our behalf or live in the communities where we operate"</li> <li>.."supporting and promoting universal human rights consistent with the legitimate role of business"</li> </ul>	<ul style="list-style-type: none"> <li>.."engaging with and contributing to the communities where we work"</li> <li>.."we support "business and community partnerships"</li> </ul>	<ul style="list-style-type: none"> <li>.."valuing and respecting employees, including supporting diversity, hiring local employees, and providing employees with training and development opportunities"</li> <li>.."participating constructively in shaping public policy on issues that directly affect our company"</li> </ul>	Asset Support
Shell Philippines Exploration (Philippines)	Shell <sup>12</sup>	<ul style="list-style-type: none"> <li>"We strive to protect people from harm from our products and operations"</li> <li>"We aim to respect and value personal and cultural differences and try to help people realise their potential"</li> </ul>	<p>"We will constantly look for appropriate ways to contribute to the general well-being of the community...that grant us our licence to operate".</p>	<ul style="list-style-type: none"> <li>"We will constantly look for appropriate ways to contribute to ... the broader societies that grant our licence to operate".</li> <li>"We affect – and are affected by – many different groups of people, our stakeholders. We aim to recognise their interest in our business and to listen and respond to them"</li> <li>"We strive to meet and exceed customer expectations by designing and delivering highly attractive and innovative products and services".</li> </ul>	Asset Support

<sup>10</sup> BP (2003) Sustainability Report 2003, BP, London.

<sup>11</sup> Chevron Texaco (Sep. 2002) Corporate Responsibility Report 2002: [http://www.chevrontexaco.com/cr\\_report/](http://www.chevrontexaco.com/cr_report/)

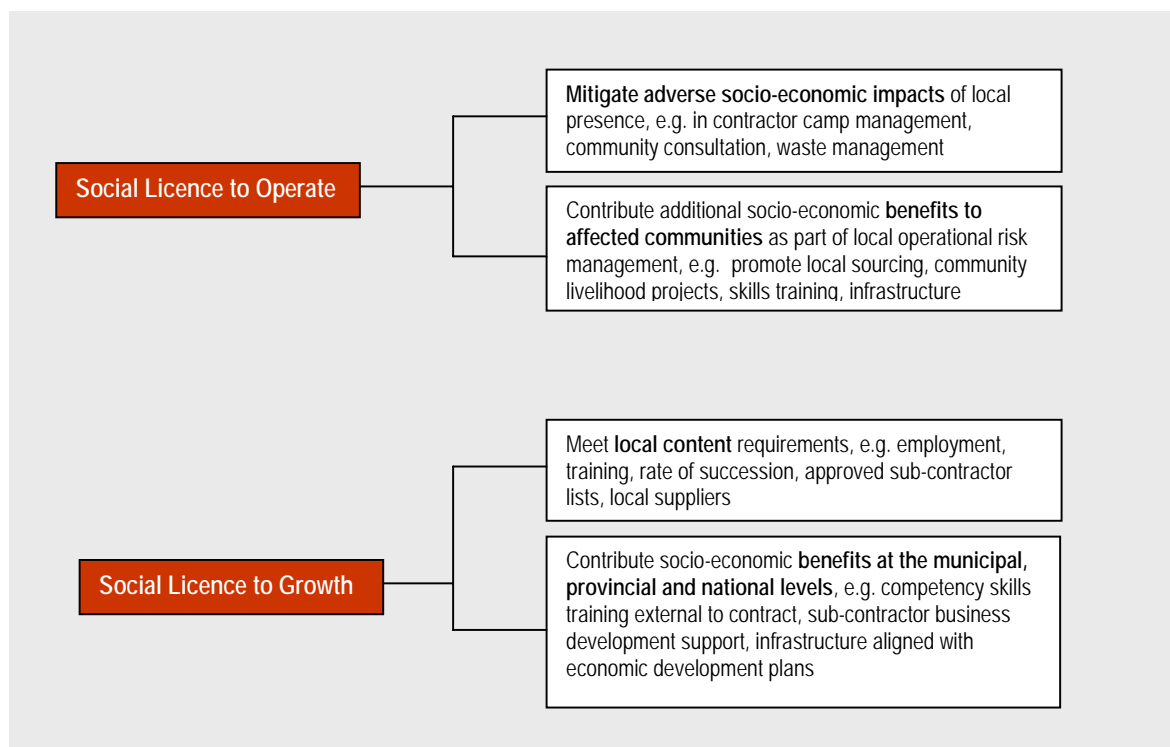
<sup>12</sup> Shell Social Performance: <http://www.shell.com/> Shell Report 2002



Table 2 indicates that, in terms of Group level policy, BP plc appears farthest advanced on social performance, with an emerging recognition that it is in their long-term business interests to develop 'thriving economic markets' in places where they operate. Shell International appears to remain focused on achieving a local and project-specific social license to operate, while Chevron Texaco emphasises employee issues such as health, safety and staff training.

Figure 2 summarises the four main categories of social performance in the upstream oil and gas sector from the client perspective, and thus the areas where contractors might gain competitive advantage when preparing bids and managing contracts.

Figure 2 Social Performance Drivers of Upstream Oil and Gas Project Operators



#### 4.1.1 Minimising Negative Impacts

Control of the negative effects of oil and gas projects on local communities is driven mostly by national regulations. These include occupational health and safety, environmental standards (e.g. for water effluent, air emissions and noise) and for larger projects, planning approvals with standards derived from environmental and social impact assessments. In many countries in the Asia Pacific region, the lack of effective enforcement of environmental, health and safety standards, along with a presumption in favour of approval within the project planning process, means that the regulatory system is frequently insufficient to protect local communities' environmental and social standards. Social risks to projects continue to exist in the region.

In response to social and environmental pressure groups highlighting control of social risks and impacts are needed, many large oil and gas companies have instituted their own social performance standards. BP, for example, promotes separate social impact assessment studies at the feasibility stage of capital projects and new operations. These studies are used to identify the potential social impacts, generate management recommendations, and open dialogue with stakeholders. The studies are often carried out alongside environmental impact assessment studies and conform to WBG and other international environmental and social guidelines<sup>13</sup>.

As part of their contractual obligations, contractors are increasingly asked to act as the executing agency for social impact management measures identified by the client, the project's investors or regulators. In these cases, competitive advantage lies with those contractors able to demonstrate a track record in effective social impact management. With the construction phase being a principal source of adverse social impacts, contractors at this phase may need to demonstrate capabilities to:

- investigate local livelihood practices, identify and manage potential impacts project to maintain livelihood standards;
- ensure participation of community representatives in project decisions that affect their well-being;
- manage worker camps and how workers interact with local communities;
- control storm water runoff and reclaim disturbed areas;
- minimise the draw-down on community infrastructure capacity, e.g. transport, water supplies, waste management etc;
- ensure safe transportation, treatment and disposal of hazardous and non-hazardous wastes;
- render occupational health and safety facilities available to off-site communities where affected by project; and
- meet or surpass minimum national environmental quality standards for noise, dust and air emissions.

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<sup>13</sup> BP [B] (2004) see - <http://www.bp.com/genericarticle.do?categoryId=2011586&contentId=2016984>

#### 4.1.2 Maximising Local Socio-Economic Benefits

Beyond paying compensation to communities for lost assets, or for disruption and displacement, most oil and gas majors now invest in communities in ways that are not easily integrated into their core business. Again, this is seen as part of operational risk management, but it is also driven by the need for a positive reputation with opinion formers in the country of the parent company, e.g. the media, campaign groups and socially responsible investors. Some operators have gone to quite extreme lengths in this regard, effectively behaving as community development charities, providing livelihood enhancement projects, community health and other local infrastructure. Some companies provide this assistance directly from within their organisation, others have established a local 'foundation' managed and resourced by the company, and others still chose to outsource the work to local community development NGOs. *Box 2* gives two examples of typical community investment projects, in this case managed by the Pilipinas Shell Foundation Incorporated (PSFI) on behalf of Shell Philippines Exploration Company.

Within their quality submissions, although contractors are increasingly required to demonstrate a track record in community dialogue, it is still rare for the final terms of a contract to require their participation in the types of community investment projects described above. This omission offers potential scope for market differentiation by contractors, in particular for asset support and maintenance contracts where the contractor may be the only representatives of the project 'on-the-ground' interacting with affected communities. The following steps are suggested as a route for contractors to identify how they might best assist their client enhance its community investment performance:

1. Within periodic project risks analysis processes identify the client's priority operational risks that relate to local community factors, i.e. which assets might be affected, in what way, where, and which stakeholders are involved<sup>14</sup>;

#### Box 2 Community Investment in the Shell Malampaya Gas-to-Power Project, Philippines

##### Example 1

Funded and managed by the Philipinas Shell Foundation (PSFI), a Social Development Program is being implemented for the five communities - Tabangao, Ambulong, Libjo, San Isidro, and Malitam - that surround the Shell Malampaya on-shore gas plant and the Tabangao refinery in Batangas. The programme helps the communities (Barangays) develop self-reliance through five program components, as follows:

- employment generation and skills training
- youth leadership training
- livelihood and micro enterprise training for co-community-based operatives
- health care
- environmental clean-up of the Tabangao river

##### Example 2

A Memorandum of Agreement (MOA) was signed in July 2000 between PSFI, SPEX (the operator), and the provincial government of Oriental Mindoro (the island province next to the off-shore pipeline). The MOA provide technical assistance to the island as follows:

- training to fishing cooperatives in coastal resource management
- training in fishing households to develop alternative sources of income, e.g. hog raising
- training to women and youth of Calapan City to develop garment livelihood projects

<sup>14</sup> ODI and EAP (2004) Enhancing Social Performance through Risk Analysis, *Briefing Note 1*. London, Overseas Development Institute.

2. Look internally and catalogue the range of core business competencies - skills development, technology transfer, performance management, logistics management, design and engineering, contract management, etc.
3. Assess the potential for deployment of these competencies to reduce the priority social risks of the client; and
4. To help promote the efficiency of social impact management, seek collaboration from relevant partners (e.g. clients, local NGOs, sub-contractors, local government).

Strategies for how contractors might support their client in community investment include supporting community skills development to enhance income earning opportunities and seconding design engineers to the local authority to assist in the development of community infrastructure. More strategies are described in *Section 5* in relation to AMEC's business interests in the Philippines.

#### *4.1.3 Meeting Local Content Requirements*

A global trend, and one evident in the South East Asia region, is for transactions between the state and joint venture partners of an oil or gas development to incorporate increasingly stringent 'local content' requirements. In some cases these requirements run close to, or even surpass the technical limits of the project; meaning that the in-country employee skills base and supply chain capabilities are insufficient to meet the technical needs of the project within the schedules laid down for employee succession and local sub-contracting. For large contractors, this means that those with an existing capacity for rapid staff competency development, along with networks of known sub-contractors with the necessary capabilities, should increasingly secure a competitive advantage when tendering.

In some situations, such as in Indonesia where the foreign operators are entering into what was previously a state monopoly in the oil and gas sector, there is some resistance to outsourcing longer-term asset support functions due to the fear of job losses. It is important for contractors to be able to alleviate these fears by demonstrating a capability in employee succession planning.

A further problem for contractors in working to more stringent local content requirements is that of reduced overhead income, i.e. where higher earning expatriate staff are replaced by lower earning nationals. For lump sum contracts these losses are compensated for to some extent by higher returns on the overall contract, i.e. due to the lowering of wage costs over time. For unit rate contracts, however, the losses are real, and may need to be compensated for through the negotiation of contract incentives that reward rapid staff succession. This potential dichotomy between commercial risk management and social performance needs to be addressed during contract negotiations.

There is also a potential for linkage between local content and community investment. At present, project investment to assist community-based enterprises with skills training, working capital and business development tends to be made by the operator. There may be competitive advantage gained by contractors who adopt a more strategic approach to meeting local content requirements, for example, by targeting national firms who source a portion of their raw materials locally and/or who have a portion of the workforce drawn from affected communities or from the municipalities that host the project's assets.

An advantage of this particular strategy is that the client's contract managers are likely to find it more rationale to build a '*community content*'<sup>15</sup> component directly into the terms of the main contract, rather than, for example, in corporate performance incentives that reward contractors for directing their own resources towards free-standing community investment projects that are unrelated to the core business of the contractor and the project. Another advantage is the sheer volume of resources available to engage contractors in community investment if such engagement is based on the existing system of supply chain management. Enhancing community investment through minor modifications to the process of supply chain management offers the potential to tap into the mainstream capital and operational expenditure budgets of a project. For instance, in the financial year 2003/4, expenditure by BP on contractors and suppliers totalled USD 33.80 billion compared with USD 0.07 on community investment, a ratio of 500:1<sup>16</sup>.

#### *4.1.4 Contributing to Sustainable Economic Development*

The practice of meeting local content requirements often translates into preference for contracting firms on 'approved lists' held by national oil companies or joint national-foreign ventures. There are technical limits around how much expenditure can practicably be routed through such national firms; and even tighter technical and quality constraints to modifying supply chain management to benefit people living in the region of operations. In overcoming these limitations, some oil and gas operators are now actively looking for innovative ways to enhance their overall social license to growth.

Some of the new target areas for enhancing the broader social and economic performance of oil and gas operations are given in *Box 3*<sup>17</sup>. Many of these are areas where the main Engineering, Procurement and Construction (EPC) or Operations and Maintenance (O&M) contractors can add significant value. Some of these areas of impact are not new territory for contractors, but simply activities not previously perceived as containing a business case in relation to delivering the social performance objectives of clients. For example, the transfer of health, safety, quality and environmental standards to sub-contractors is generally viewed as necessary to reduce the contractor's contract risks. It is rare for the contractor to try to capture the specific effects of such

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<sup>15</sup> Warner, M. (2004) Construction and Community Content in the Oil and Gas Sector, Project Proposal for CARE International, London: Overseas Development Institute

<sup>16</sup> BP (2004) *ibid*

<sup>17</sup> Warner, M. (2004) Bridging the Economics Benefits Gap, London: Overseas Development Institute

standards on the enhanced marketability of its sub-contractors, and then relate this aspect of contract performance to the client's own social performance objectives.

To illustrate this point, an example is given in *Box 4* of how AMEC has supported its main catering supplier to meet the health and safety needs of the Malampaya primary health care contract. In preparing future bids for socially responsible private sector clients, the role for some contractors may be to begin by repackaging their existing capabilities in sub-contractor support to include their indirect performance in enhancing sub-contractor marketability<sup>18</sup>.

It may also be possible for the contractor to go further. Either working alone or in partnership with government or non-government business support agencies, contractors could work with their sub-contractors to build capabilities and market opportunities. Contractors could for instance use their expertise in health, safety and environmental quality systems and support subcontractors gain international certification such as to ISO9000 and 14000 standards.

### **Box 3 New Areas for Enhancing Social and Economic Benefits in Oil and Gas Projects**

- products and services modified for national and local markets, e.g. gas;
- research and development relevant to development priorities, e.g. solar
- transparency in tax and revenue payments
- build institutional capacity to manage national revenues and public expenditure in oil producing areas
- assistance to promotion boards
- employee career development, i.e. post project
- assistance to sub-contractors and suppliers to improve their marketability beyond the project contracts
- operational infrastructure integrated with local authority public service plans and budgets, e.g. roads, power, health, education, telecommunications, water and sanitation
- routing of transactions and deposits in national and local banks to build local financial capabilities
- transfer of health, safety, quality and environmental standards to regulators, joint venture partners, contractors and suppliers
- transfer of eco-efficiency technology to joint venture partners and sub-contractors
- provision of financial support to suppliers and sub-contractors
- development assistance to region of operations in alignment with local economic development plans

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<sup>18</sup> This is in line with the conclusions of the scoping study for the Balfour Beatty Lot 3 Power Transmission Line Project, Indonesia, see: EAP and ODI (2004): [http://www.odi.org.uk/PPPG/activities/country\\_level/odpci/msp/sector2.html](http://www.odi.org.uk/PPPG/activities/country_level/odpci/msp/sector2.html)

#### **Box 4 Sub-Contractor Support: The Primary Healthcare Contract, Malampaya Gas to Power Project, Philippines**

One of the largest sub-contractor firms providing services to the Malampaya Primary Healthcare Contract (PHC) is Compass, a catering and hospitality company. Compass is a subsidiary of the Compass Group, the largest foodservice company in the world. Compass is responsible for delivering high quality foodstuffs to the Malampaya offshore platform as well as managing the on-shore rest and recreation facility for rig workers. The high monetary value of the AMEC – Compass PHC contract (approximately USD 1 million) combined with the high commercial risk associated with delivering quality foodstuffs to the off-shore platform, means the contract is considered by AMEC as 'high value & high risk' and as such, monitored closely.

In 2002 - 2003 AMEC's monitoring systems and audit identified a gap between existing company performance and the international quality standards required. This gap was in part explained by the nature of Compass' growth in the Philippines as its market share of the catering and hospitality industry increased through the acquisition of other local companies. The pace of Compass' growth was not matched by implementation of policies, systems and procedures to safeguard quality through all parts of the expanding business.

Working in partnership with Compass' management team, AMEC developed a remedial action plan designed to systematically improve performance as well as develop systems for continuous improvement. The steps detailed in the action plan closely mirrored the minimum standards for Health, Safety, Environment & Quality (HSEQ), as determined by the PHC client, Shell Petroleum Exploration (SPEX). With support from the AMEC sub-contractor focal point, Compass steadily worked through the HSEQ management checklists and in a one-year period moved from an 'on paper' commitment to HSEQ, to a more embedded understanding of HSEQ and thorough application across its activities. To compliment and reinforce Compass' progress in mainstreaming international standards for HSEQ, AMEC assisted Compass to develop a HSEQ manual, drawing heavily on AMEC's knowledge and experience of best practice in this area.

According to the Compass Vice President, Anil Maker, the AMEC – Compass PHC contract has not only been financially significant for Compass (representing over 50% of its total business in the Philippines) but has also delivered important longer-term benefits. Through the capacity building support provided by AMEC, Compass has been able to demonstrably enhance performance in all areas of operation and improve efficiency. The growth in its professionalism and maintenance of its long-term partnership with a leading engineering firm has enhanced its business credibility and contributed to its ability to successfully bid for foodservice contracts with other international and Philippine companies, including catering services to a leading mining company and to Philippine hospitals.

## **4.2 Public Sector Agencies**

In many cases the social performance objectives of the client are a reflection of wider government social, economic, environmental and development policy. For example, in Timor Leste, Conoco-Philips is beginning to look for ways to demonstrate how its future programme of oil and gas development is aligned with the country's National Economic Development plan.

The incentive for oil companies to align their social performance objectives with national economic policy partly depends on the extent to which these priorities are incorporated in the terms of the production sharing or concession agreement between the national oil company (NOC) and the consortium of international oil companies (IOCs). However, this linkage is not always explicit, and is often realised in the form of 'local content' clauses, compliance with environmental country regulations, and in some instances, requirements for a 'lump-sum' contribution to a social fund with broad categories of expenditure aligned with development policy. Contractors developing a strategy

for business development or contract extension/renewal, that include delivering their client's social performance objectives, should review the terms of NOC/IOC transactions and their social performance requirements that are driven by public social or development policy.

Oil companies may be required to align to social development policies within provincial or district economic development plans. For such companies, a key advantage of building closer alignment between their own social projects and national and local economic policies is that this move can improve prospects for leveraging in additional resources and/or sharing social investment costs and risks. Contractors aware of national or local development policies in areas that relate to the core business of their clients – SME development, local infrastructure development, decentralisation etc. - will be able to identify how their own core competencies might best contribute to the new trend for multi-stakeholder strategic alliances forming between business, government and civil society.

Increasingly, South East Asian countries are adopting a legal basis for the distribution of resources rents to regional government offices in oil and gas producing regions. These revenue flows provide an opportunity for oil companies to enhance their overall social performance. For example, companies can assist in the development of the institutional skills needed to transform these revenues flows into visible economic benefits for communities. Skills training may include economic planning, leadership, public expenditure and fiscal management. The recent collaboration of BP as the operator of the Tangguh LNG Project in Indonesia with the USAID is a case example. The revenue budget should support implementation of the public development policy.

Contractors need to understand which of their own in-house competencies might add the most value to either of these above areas of their client's social performance. Timing is important because support is likely to be most relevant in the context of asset support contracts active in the early operational phase of a development project, i.e. when oil or gas revenues begin to be distributed to the region of operations. An example of contractor support in this context is discussed in *Section 5* as AMEC's asset support to the Malampaya gas to power project.

### **4.3 Community Development Priorities**

In recent years many of the world's major oil and gas companies are shifting away from their community investment strategies in philanthropic projects - e.g. health, youth education, and charities. These initiatives are largely unrelated to core business activities and aim to raise the local and international reputation of the operator. Instead, investment is now encouraged to address the direct impacts of oil or gas operations experienced by local populations and nations. Impacts include environmental pollution, health and safety damage, threats to local livelihood and businesses, conflict with security measures, and financial transparency. The aim of community investment should be to protect community welfare, secure SLO and reduce project risks.



Some companies question this second strategy, noting rising demands from communities, an escalation of investment expenditures, and lack of an exit strategy for the company, due in part to the absence of government agencies or local capacity to sustain long-term investment. Some strategies are thus beginning to be closely aligned with the development priorities and budgets of local government.

As well as securing a SLO, the aim of this strategy is to depend more on the existing cost base of the company, develop a strong connection between a project's core business and a its community investment, and strengthen the longer-term expectation and role of public services to serve communities. Contractors are centrally placed to assist their clients shift to this new strategy. They undertake numerous core business activities in engineering design, procurement, skills development, construction management, and long-term asset support.

Clearly, incentives are needed for contractors to develop appropriate community strategies in conjunction with their partners. Contractors' efforts should be recognised and rewarded, either in the bidding process or through the compensation terms of contract. The ways in which contractors might assist their clients in appropriate forms of community investment are listed in *Box 5*.

To inform community strategies, it is recommended that contractors refer to community and public sector development policies and assessments.

Such documents include:

- Poverty assessments and national poverty reduction strategy papers (PRSPs)<sup>19</sup>;

**Box 5 Contractors Can Assist Clients Adopt A More Sustainable Strategy of Community Investment by -**

- Immediately post contract award, assign a stakeholder liaison officer to maintain continuous dialogue with communities and the social performance, HSEQ, and external affairs managers of the client/customer.
- Undertake a competency survey of communities and develop a development programme and employment strategy to enhance local employment opportunities. Undertake these actions with appropriate local development agencies and the client's social performance and human resources staff.
- Provide support to local small enterprise suppliers to enhance their competitiveness to gain contracts both on and off the project. Support services include: technology transfer, affordable finance, and bidding procedures, regulatory compliance and business management skills. Work in partnership with the client and other development agencies.
- Within legal limits, give preference for sourcing of raw materials (aggregates, produce etc.) to micro-enterprises resident in the project area.

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<sup>19</sup> East Timor Transitional Administration et al (2001) The Survey of Sucos in Timor Lorosae

- Local and national environmental and social impact assessments by public offices, local government agencies, and/or non-governmental organizations;
- local economic and land-use development plans.

#### 4.4 International Finance and Donor Community

The WBG and ADB have substantial influence on national standards via (i) the direct provision of risk finance to oil and gas investments and (ii) the indirect support of a country's oil sector through public sector loans. These IFIs also have influence on national environmental regulation and oil companies' social performance. For example, it is generally recognised that the WBG requirements for project-level environmental and social impact assessment are the international standards that others follow. As BP note in their 2003 Sustainability Report in relation to oil development in the Caspian region and China: *"During 2003, we finalised environmental and social assessments for the BTC pipeline and conducted social impact assessments in China.... Increasingly these assessments conform to World Bank guidelines"*.

Recent concerns raised about the contribution of oil and mining extraction to poverty, corruption and conflict, lead the WBG to review its support to international extractive industries. The resulting Extractive Industries Review (EIR) looked at the social, ethical and environmental issues and impacts that relate to oil and gas extraction. The EIR concluded that WBG projects have not contributed significantly to poverty alleviation, and urgently called for internalising environmental and social costs in the extractives industry sector and increased investment in renewable energy projects. The EIR stated that extractive industries can contribute to poverty alleviation through sustainable development, but only when the right conditions are in place. The three main enabling conditions are improved pro-poor public and corporate governance, social and environmental policies, and respect for human rights.

The WBG Board's response to the EIR will have far-reaching implications for the oil and gas sector. The WBG has agreed with the majority of the EIR recommendations and states its investments *"should benefit the poor first and foremost"* (James D. Wolfensohn, Chairman and President of the World Bank Group).<sup>20</sup> Critics have argued that despite this, the WBG makes few commitments to actually implementing the the recommendations.<sup>21</sup> Whilst the WBG decided to continue investing in oil, gas, and mining projects in developing nations and only gradually increase its portfolio for renewable-energy projects, commitment was made to provisions for poverty reduction and local participation in mining and energy-related projects. The WBG states committed action to increase the poverty focus in the extractives industry sector by:

- Ensure extractive industries projects meet high environmental, social, and governance standards, and that revenue from the projects is used transparently and effectively.
- Developing new indicators of project-specific poverty reduction impacts, identify such indicators prior to project approval, and track progress against those indicators over the lifetime of a project.

<sup>20</sup> World Bank Group News Release No:2005/50/IFC, "World Bank Group Board Agrees Way Forward on Extractive Industries Review" 3 August 2004

<sup>21</sup> <http://www.globalpolicy.org/soecon/bwi-wto/wbank/2004/0804mining.htm>

- Begin requiring disclosure of revenue figures for new major extractive industries projects immediately, and for all projects within two years.
- Strengthen its procedures for local community participation in projects. Only support projects where affected communities, including Indigenous Peoples, are engaged through free, prior, and informed consultation, leading to broad community support.
- Immediately put in place a process to ensure that the use of security forces to protect extractive industry project sites is in line with best practices.

With many social pressure groups arguing the WBG needs to make further commitments to poverty reduction, it is likely the WBG will be encouraged to increase its focus on poverty reduction and sustainable development in years to come. As this trend develops, oil companies and contractors will be under increasing pressure to demonstrate new levels of environmental and social compliance, requiring challenging practices of compliance delivery.

Given this context, contractors are advised to develop an understanding of the social and economic requirements of IFIs relevant to the oil and gas sector, and how these translate into social performance objectives for their clients. It will be important to watch developments in the WBG institutions as they set the trend of standards for international IFIs.

Four recent publications are referenced below as a source of useful information of WBG standards and social and environmental management standards and requirements of the oil and gas sector:

- **International Finance Corporation**, Good Practice Note on Addressing the Social Dimensions of Private Sector Projects - [http://ifcln1.ifc.org/ifcext/enviro.nsf/AttachmentsByTitle/p\\_socialGPN/\\$FILE/SocialGPN.pdf](http://ifcln1.ifc.org/ifcext/enviro.nsf/AttachmentsByTitle/p_socialGPN/$FILE/SocialGPN.pdf)
- **International Finance Corporation**, IFC (2003) Measuring Sustainability: a Framework for Private Sector Investments - [http://www2.ifc.org/sustainability/docs/measuring\\_sustainability.pdf](http://www2.ifc.org/sustainability/docs/measuring_sustainability.pdf)
- **World Bank** (2003) Results on the Ground: Assessing Development Impact - [http://ifcln1.ifc.org/ifcext/economics.nsf/AttachmentsByTitle/rog4/\\$FILE/rog4.pdf](http://ifcln1.ifc.org/ifcext/economics.nsf/AttachmentsByTitle/rog4/$FILE/rog4.pdf)
- **World Bank** (2004) CSR-Public Sector Diagnostic and Appraisal Tool - [http://www.worldbank.org/privatesector/csr/diag\\_tool.htm](http://www.worldbank.org/privatesector/csr/diag_tool.htm)

The WBG's influence on social performance has recently targeted the cooperation of other IFIs to set minimum standards. In June 2003, a group of leading banks announced the creation of the 'Equator Principles' (EPs). The EPs commit signatory banks, when financing development projects, to follow the environmental and social guidelines of the WBG and its International Finance Corporation (IFC). The EPs are a framework of safeguard policies and standards for assessing and managing risk in

project financing. *Box 6* lists the institutions that are currently signatories to the principles. The principles are given in full in *Box 7*.

The EPs can be used to exclude financing of projects which fail to meet minimum environmental and social standards, to identify improvements needed in projects' design and performance, and to hold operators accountable for meeting performance standards. There has been concern expressed by pressure groups that many banks are not upholding or are violating the EP standards, and for a lack of transparency about implementation of the EPs.<sup>22</sup> Subsequently financial institutions met with NGOs to review progress and to address concerns.

Contractors, especially when preparing bids for projects that are likely to involve IFI finance or finance from signatories to the EPs, might benefit from identifying how, as contractors, they can assist their clients meet these requirements. With regards to social performance, for projects in low and low-middle income countries<sup>23</sup>, this will include satisfaction of the WBG's specific policies on indigenous peoples, cultural property and child and forced labour<sup>24</sup>.

A key role for contractors will also be to incorporate in their quality submissions reassurance to the clients that they have the necessary capabilities to implement the conditions laid out in the related project environmental or social management plans. Particular attention needs to be paid to the actions required in these plans to mitigate adverse impacts and enhance local social and economic benefits. It is worth noting that, other than on indigenous peoples, cultural property and child and forced labour, there are no specific standards under the EPs for social and economic benefits. However, a strong indication of what is in store for contractors can be gained from reference to the IFC publication: 'Good Practice Note on Addressing the Social Dimensions of Private Sector Projects'. It is also worth noting that, at the time of writing, Shell International are preparing a guidance note to assist operations meet the social conditions likely to be imposed by project financing institutions, including those arising from application of the EPs and WBG social performance standards.

**Box 6 Signatories to the World Bank's Equator Principles**

- ABN AMRO Bank, N.V.
- Bank of America
- Barclays plc
- BBVA
- Calyon
- CIBC
- Citigroup Inc.
- Credit Suisse Group
- Dexia Group
- Dresdner Bank
- EKF
- HSBC Group
- HVB Group
- ING Group
- KBC
- MCC
- Mizuho Corporate Bank
- Rabobank Group
- Royal Bank of Canada
- Standard Chartered Bank
- The Royal Bank of Scotland
- WestLB AG
- Westpac Banking Corporation

<sup>22</sup>BankTrack report 'Principles, Profits, or Just PR? Triple P investments under the Equator Principles' [http://www.banktrack.org/fileadmin/user\\_upload/documents/0\\_BT\\_own\\_publications/PPP\\_report\\_0406\\_final.pdf](http://www.banktrack.org/fileadmin/user_upload/documents/0_BT_own_publications/PPP_report_0406_final.pdf)

<sup>23</sup> The World Bank Development Indicators Database - <http://www.worldbank.org/data/countryclass/classgroups.htm>

<sup>24</sup> See specific policies and standards at: <http://www.equator-principles.com/exhibit2.shtml>

**Box 7 The "Equator Principles" : An Industry Approach for Financial Institutions in Determining, Assessing and Managing Environmental & Social Risk in Project Financing**

**STATEMENT OF PRINCIPLES** referenced from <http://www.equator-principles.com/principles.shtml>

*We will only provide loans directly to projects in the following circumstances:*

1. We have categorised the risk of a project in accordance with internal guidelines based upon the environmental and social screening criteria of the IFC as described in the attachment to these Principles (Exhibit 1 - <http://www.equator-principles.com/exhibit1.shtml>).
  2. For all Category A and Category B projects, the borrower has completed an Environmental Assessment (EA), the preparation of which is consistent with the outcome of our categorisation process and addresses to our satisfaction key environmental and social issues identified during the categorisation process.
  3. In the context of the business of the project, as applicable, the EA report has addressed:
    - a) assessment of the baseline environmental and social conditions
    - b) requirements under host country laws and regulations, applicable international treaties and agreements
    - c) sustainable development and use of renewable natural resources
    - d) protection of human health, cultural properties, and biodiversity, including endangered species and sensitive ecosystems
    - e) use of dangerous substances
    - f) major hazards
    - g) occupational health and safety
    - h) fire prevention and life safety
    - i) socio-economic impacts
    - j) land acquisition and land use
    - k) involuntary resettlement
    - l) impacts on indigenous peoples and communities
    - m) cumulative impacts of existing projects, the proposed project, and anticipated future projects
    - n) participation of affected parties in the design, review and implementation of the project
    - o) consideration of feasible environmentally and socially preferable alternatives
    - p) efficient production, delivery and use of energy
    - q) pollution prevention (liquid effluents and air emissions) and waste minimization and solid and chemical waste management
- Note: In each case, the EA will have addressed compliance with applicable host country laws, regulations and permits required by the project. Also, reference will have been made to the minimum standards applicable under the World Bank and IFC Pollution Prevention and Abatement Guidelines .....and, for projects located in low and middle income countries as defined by the World Bank Development Indicators Database, the EA will have further taken into account the then applicable IFC Safeguard Policies (Exhibit II - <http://www.equator-principles.com/exhibit2.shtml>). In each case, the EA will have addressed, to our satisfaction, the project's overall compliance with (or justified deviations from) the respective above-referenced Guidelines and Safeguard Policies.
4. For all Category A projects, and as considered appropriate for Category B projects, the borrower or third party expert has prepared an Environmental Management Plan (EMP) which draws on the conclusions of the EA. The EMP has addressed mitigation, action plans, monitoring, management of risk and schedules.
  5. For all Category A projects and, as considered appropriate for Category B projects, we are satisfied that the borrower or third party expert has consulted, in a structured and culturally appropriate way, with project affected groups, including indigenous peoples and local NGOs. The EA, or a summary thereof, has been made available to the public for a reasonable minimum period in local language and in a culturally appropriate manner. The EA and the EMP will take account of such consultations, and for Category A Projects, will be subject to independent expert review.
  6. The borrower has covenanted to: a) comply with the EMP in the construction and operation of the project; b) provide regular reports, prepared by in-house staff or third party experts, on compliance with the EMP and c) where applicable, decommission the facilities in accordance with an agreed Decommissioning Plan"
  7. As necessary, lenders have appointed an independent environmental expert to provide additional monitoring and reporting services.
  8. In circumstances where a borrower is not in compliance with its environmental and social covenants, such that any debt financing would be in default, we will engage the borrower in its efforts to seek solutions to bring it back into compliance with its covenants.
  9. These principles apply to projects with a total capital cost of \$50 million or more.

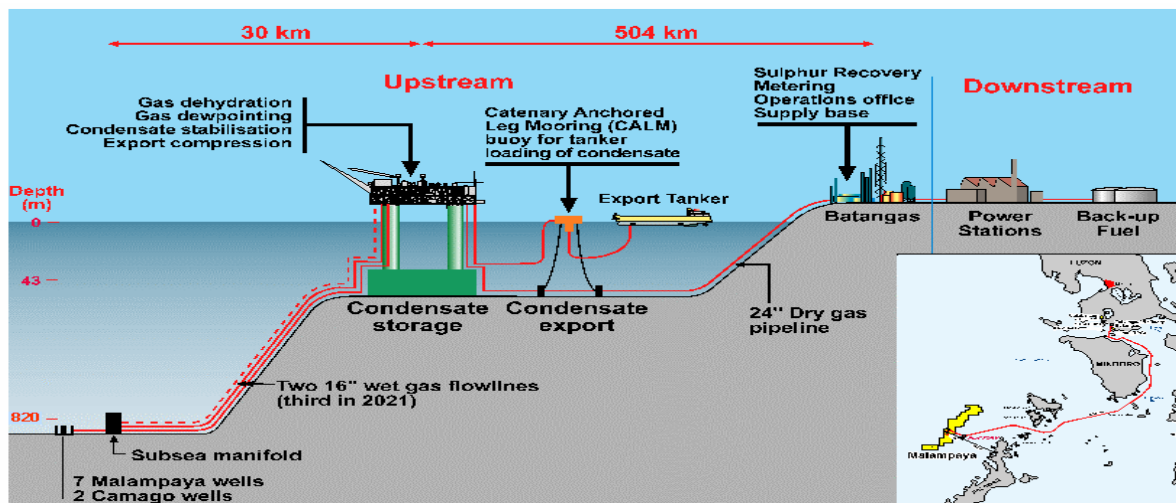
## 5. MALAMPAYA PHC CONTRACT

### 5.1 Background

Once a leading economy in South Asia, the Philippines is now saddled with huge national debt, widespread poverty, and decline in foreign investment.<sup>25</sup> The Philippines also has the highest birth rate in Asia, with population forecast to double within three decades. The economy is partly dependent on foreign exchange and remittances from the millions of Filipinos working abroad. In January 2001 President Arroyo came to power after the former president stepped down following allegations of corruption and civil protests. Elections in May 2004 reinstated Arroyo as president. Civil unrest continues however, including the decade old separatist conflict on island of Mindanao, southern Philippines, that has claimed more than 120,000 lives as ceasefire and talks have faltered.

In the Philippines, Fluor-AMEC has a contract with and Shell Philippines Exploration B.V. (SPEX). SPEX, in a joint venture with Chevron Texaco Malampaya and the Philippines Oil Company Exploration Corporation (PNOC-EC), is the operator of the Malampaya Deep Water Gas to Power project (see Fig 3). This is the largest industrial investment in the history of the Philippines. Its purpose is to provide natural gas to generate power to the Luzon province (includes the capital Manila) as well as to generate foreign exchange.<sup>26</sup> The project is now in its operational phase, and a 6 year Primary Health Care (PHC) contract is active between SPEX and Fluor-AMEC to provide integrated asset support, comprising: asset maintenance, inspection, procurement, materials management, hotel and building modification and engineering services. The contract commenced in June 2000 and runs to December 2006.

Fig 3. Malampaya Gas-to-Power Project, Schematic and Location Map: SPEX



<sup>25</sup> Asian Tribune, 11<sup>th</sup> May 2004.

<sup>26</sup> 4.9% of the current 10% equity held by the government of the Philippines in the Malampaya project (via PNOC-EC) has recently been offered for sale in an effort to reduce the budget deficit (Upstream newspaper, 28<sup>th</sup> May 2004, p30)

## 5.2 Drivers of Social Performance

As the Malampaya PHC progresses, Fluor-AMEC will look to maximise its returns by seeking a contract extension or renewal and/or positioning itself to bid for new EPC and O&M work in the Philippines. There are a range of different social performance drivers that influence these processes. The central proposition of this report is that these drivers provide an opportunity for business benefits if Fluor-AMEC can demonstrate a capability in social performance closely aligned with the needs of the client. *Table 3* summarises the main social drivers acting on the Fluor-AMEC joint venture. These are discussed in more detail in the following sections.

**Table 3 Summary of Current and Near-Term Social Performance Drivers Relevant to the AMEC-Fluor JV.**

	Government	SPEX (internal)	AMEC plc
<b>Impact Mitigation</b> Reduce negative social impacts of operations	Probable regulatory change to Philippines 1995 Mining Act increases stakeholder involvement in social and environmental 'tripartite' impact monitoring panels, may include contractor.	LSO and operational risk management.  Regulatory compliance with environmental and social standards via local authority ordinances.	'Duty of Care' responsibilities during site-based asset support.  Good community relations to avoid site access problems.
<b>Local content</b> Employment, training, succession rate, approved sub-contractor lists, local suppliers	Probable strengthening of local content (employment and supply chain) requirements in 2 <sup>nd</sup> Round PSCs.	Local content requirements in PSC for current Malampaya project.  Local content requirements required due to local government unit ordinances (75% employment).	Compliance with local content requirements in current PHC contract for TALIM employment (75%) and staff succession/career development, <i>e.g. Fluor-AMEC staff Competency Management System and staff career development.</i>  Rapid expatriate-to-local employee succession used to improve overall contract return.
<b>Community investment</b> local operational risk management includes contributing social and economic benefits to host communities	Probable modifications to the 1995 Mining Act implementing rules to enhance community economic benefits.	Social risks to security of TSR onshore pipeline – an asset recently transferred from power station to SPEX, with Fluor-AMEC responsible for integrity and security.	Staff moral and regional/global reputation, <i>e.g. AMEC support to 'SKIL' youth training, charitable livelihood grants, support to orphanage.</i>
<b>Economic Benefits</b> Contribute social benefits at the municipal, provincial and national levels	Probable strengthening of local content terms in 2 <sup>nd</sup> Round PSCs.  In the Malampaya project area, weak resource revenue distribution and institutional capacity exists in management of revenue, public expenditure, and service delivery.	Continuous improvements in HSEQ and cost-efficiency, leading to improved marketability of sub-contractors and suppliers, and thus reputational gains for SPEX in relation to 2 <sup>nd</sup> Round exploration licenses in the Philippines and economic impact of Shell Group.	Local content requirements in current PHC contract, <i>e.g. Fluor-AMEC support to sub-contractors in HSEQ management.</i>  PHC contract acknowledged within regional business unit as demonstrating AMEC capability and competitive advantage in key areas of social performance: local content compliance, community investment and broader economic benefits.

### 5.2.1 Government

In January 2004, following a petition brought by civil society groups that included farmers and residents, the Supreme Court of the Philippines declared null and void certain provisions of the Republic Act 7942, also known as the Philippine Mining Act of 1995. This included certain implementing rules and regulations. The court found that the Constitution limits foreign companies to providing only technical and financial assistance to government in the large-scale exploration, development, and utilisation of the country's mineral, petroleum, and mineral oils, and does not provide for beneficial ownership of natural resources. As a result of this ruling, concerns have been raised by foreign oil and gas companies as to the safety of the Production Sharing Contracts (PSCs) that will apply to the next gas exploration licensing round, which are in the geographic region near to the Shell operated Malampaya gas-to-power project.<sup>27</sup>

The significance of this ruling is its foundation in local grievances over asset compensation, environmental damage, indigenous people's rights, and adherence to social and economic benefits associated with mining projects<sup>28</sup>. It is suspected that the government will make further concessions. For example, it is possible that the local content terms of future PSCs for the current (i.e. the 2<sup>nd</sup>) exploration licensing round will be strengthened. It is also likely that amendments to the Mining Act, implementing rules and regulations will see greater emphasis on the need for local economic benefits to accrue to those communities affected by on-shore operations. This may include stronger rules for local preference of employees and suppliers, manpower training and succession, and their enforcement through earlier use of tripartite environmental and social impact monitoring in relation to project-specific social management plans.

The 1995 Mining Act requires that a proportion of resource revenues be distributed to the regions of production. For the Malampaya gas-to-power project this includes the provinces of Oriental Mindoro, Palawan and Batangas, the municipality of Batangas City (the location of the on-shore desulphurisation gas plant) and the Barangay (elected community council) for the five 'T.A.L.I.M.' communities in the vicinity of the on-shore gas plant (OGP). Commercial gas production commenced in 2001 and under a production sharing arrangement, revenue will have accrued to central government. Allowing for capital cost recovery by the project's joint venture partners, a proportion of these revenues should, in theory, already be redistributed to the above areas. Yet it is not clear whether this is taking place. Experience from similar regions suggests that delays in revenue distribution carry risk for projects. One example is the case of Caltex Pacific Indonesia (CPI) in relation to oil production in the Sumatra's Riau Province, Indonesia. Here, *"...more than 40% of its [the province's] 4.3 million people live below the official poverty line....The provincial government estimates it sent USD 8.4 billion in revenues [profit oil] to Jakarta last year, but only got back 2% of that in its provincial budget. A new law will allow provinces to keep up to ...30% of revenues from*

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<sup>27</sup> Upstream, 13<sup>th</sup> February 2004

<sup>28</sup> See for example World Rainforest Movement Bulletin No 77 - <http://www.wrm.org.uy/bulletin/77/Philippines.html>



*gas and 15% from oil. Locals remain sceptical that the law will be observed since the necessary financing, staff and infrastructure is not likely to be place [in time] which should only lend momentum to the growing independence movement<sup>29</sup>*

This example illustrates two documented features of resource revenue distribution, both of which are likely to be applicable to the Malampaya situation<sup>30</sup>. First, the possible failure of the state to re-distribute revenues to the region of operations. Second, a lack of institutional capacity at the provincial, municipal and community level in revenue management, economic planning, public expenditure management and service delivery. Delays in revenue distribution may also occur due to operational technical problems and slow national economic growth.

### *5.2.2 Shell Philippines Exploration (SPEX)*

The Fluor-AMEC PHC contract is based on a fully reimbursable 'open book' commercial structure, with a performance reward/penalty system of plus or minus 20%. Apart from an agreed overhead (a function of manpower) and return (fixed % profit) all cost elements in the contract are paid on actual cost. The areas of the contract that act to incentives enhanced social performance by Fluor-AMEC include the following:

- Fixed monthly management fee.
- A local content which incorporates a local government unit (LGU) ordinance requirements for 75% of direct employees applicable to Fluor-AMEC. The majority of these employees travel from the project area to the Fluor-AMEC office in Manila on a daily basis. This condition has incentivised Fluor-AMEC to implement a staff competency and career development training programme to improve skills.
- Requirements for the use of local sub-contractors, which stimulates the investment of Fluor-AMEC management time in building the competencies and internal business management systems of sub-contractors and suppliers (in particular in health, safety, environment and service reliability and quality) in order to reduce risks to the project. In addition, the greater the success of Fluor-AMEC in building these capabilities, the lower their own internal commercial and reputational risks.

The conditions in the contract for 'exceptional returns' has yet to be tested by Fluor-AMEC in relation to innovation and social performance. It could be asked whether AMEC is incurring recoverable costs from its support to sub-contractors? Similarly, would AMEC recover additional costs if the joint venture was more pro-active in supporting the marketability of sub-contractors 'off-the-project' or

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<sup>29</sup> J. Tedjasukmana, 2000, Time Magazine (Asia)

<sup>30</sup> Daniel, P. (2004) Petroleum Revenue Management: An Overview, World Bank, ESMAF Programme, draft.

directing employee competency development towards communities regarded as 'high risk' to SPEX? One such 'high risk' location listed by SPEX to this report's research team was the 18 kilometre on-shore stretch of the 'TSR' gas pipeline, between the gas plant at Batangas and the power station; an asset only recently to come under the control of SPEX and where on the ground it is Fluor-AMEC staff who are responsible for asset integrity and security.

The Shell Group has recently experienced difficulties in estimating and reporting its stated reserves and production costs.<sup>31</sup> The issue has been linked to issues of corporate governance. There is a clear link between cost-efficiency performance and social performance. This is because, as targets for continuous cost-efficiency are passed by SPEX on to Fluor-AMEC, there may be an advantage to AMEC (e.g. in securing extension or renewal to the PHC) if it can show a capability in working with its sub-contractors and suppliers to improve their cost-efficiency. In terms of social performance, the immediate benefit of such improvements in sub-contractor cost-efficiency is not so much the cost savings to the Malampaya project, but the enhanced marketability of the sub-contractors. Combined with continued support by Fluor-AMEC in building the HSEQ control systems in its supply chain<sup>32</sup>, these improvements in cost-efficiency could lead to a significant overall economic contribution by the Fluor-AMEC JV that also serves to fulfil the commercial needs of its client.

It is not yet clear how social performance will figure in the criteria to be used by SPEX to grant an extension to (or renewal of) the PHC contract in 2007-9. Given the close working relationship between Fluor-AMEC and SPEX, the development of these criteria presents an opportunity to ensure both that the recent efforts of Fluor-AMEC in social performance are rewarded, and that in the future use is made of Fluor-AMEC's full range of competencies in enhancing the overall social and economic performance of the Malampaya project.

### 5.2.3 TALIM Communities

Batangas City whose population is over a quarter of a million, is one of the top revenue earning cities in the Philippines.<sup>33</sup> It is also the site of the Malampaya OGP. The population is divided into 105 'Barangays' or localities, each with its own elected authority. The five Barangays in closest proximity to the OGP have formed an organization - the TALIM - to manage relationships with SPEX and with Fluor-AMEC.

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<sup>31</sup> Harris C. and Felsted, A. (2004) Shell Restates Reserves of Oil and Gas for the Forth Time This Year; Financial Times, May 25, 2004, front page

<sup>32</sup> Fluor-AMEC PHC sub-contractor forum, 19<sup>th</sup> February, 2004, Manila: When invited to volunteer whether AMEC's support to them in HSEQ had materially helped in securing new contracts outside the PHC contact, five sub-contractor firms answered in the affirmative. One firm, OSA Industries Philippines Inc, an instrument calibration company, noted that the firm's recent transition to ISO 9000 certified is attributable to the support given by Fluor-AMEC. The certification has enabled two new contracts unrelated to the PHC to be progressed, one with Liquid Gas Philippines, the other with SBI Philippines.

<sup>33</sup> Average household income in the city in 2000 was USD 3,205.94. This is more than double the national average although anecdotal evidence suggests that it is probably very unevenly distributed.

The TALIM has played a pivotal role in the project by representing the views of the community, organising labour recruitment and helping to resolve disputes. The creation of job opportunities and the acquisition of skills by local people remain its key priorities.<sup>34</sup> TALIM representatives have complained that the high proportion of local people employed during the construction phase was not maintained during the operations and maintenance phase. To help address this issue Fluor-AMEC, in association with the Shell Foundation, has sponsored a number of students, drawn from low-income families, to undergo an instrument technician's course at a local training centre.

Working through credible organisations such as the TALIM is the common point of intervention for any company. In contributing to the social performance objectives of SPEX, Fluor-AMEC should actively select and maintain relationships with community leaders that represent positive commitment to community welfare and development.

Ongoing regional trends in urbanisation and investment in the gas sector mean that the development needs of local communities in Batangas are likely to remain focused on job creation and skills development. It is significant from Fluor-AMEC's perspective that these development needs have strong synergies with its own business competencies. Fluor-AMEC has already built up a track record of creating jobs, providing training and indigenising its supply chain on the Malampaya project. Thinking creatively about how it continues to apply these core competencies in the future may help build the case for an extension or renewal of the PHC contract.

### 5.3 Tools and Strategies

The site visit by the research team facilitated a rapid review of the existing social performance measures undertaken through the Fluor-AMEC joint venture and the extent of their influence on client SPEX's social performance. The main current social performance activities of Fluor-AMEC are summarised (*in italics*) in *Table 3*. *Table 4* below lists other tools and strategies available to widen the support of the joint venture to SPEX.

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<sup>34</sup> Focus group discussion with TALIM representatives during EAP visit.

Table 4 Summary of Tools and Strategies for Fluor-AMEC to Enhance Social Performance on the Malampaya Project

Category of Social Performance	Supply Chain Development	Targeted Community Investment	KPIs	Lobbying
<p><b>Local content</b></p> <p>Employment, training, succession rate, approved sub-contractor lists, local suppliers</p>	<p>PHC extension/renewal proposals emphasising Fluor-AMEC capability in supporting sub-contractors to achieve continuous improvements in cost-efficiency</p>			
<p><b>Community investment</b></p> <p>local operational risk management includes contributing social and economic benefits to host communities</p>		<p>AMEC/PSFI/SPEX community investment partnership directed at high risk TSR pipeline section</p>	<p>Formulate PHC-specific KPIs on Social Performance, e.g. number of new contracts won by sub-contractors to Fluor-AMEC, as a consequence of business support (competency, HSE systems, and others)</p>	<p>Contact 'Contract Management Teams' and 'Social Performance/Issue Management Teams' in Shell SE Asia regional centre and Shell London to explain the 'proposition'</p>
<p><b>Economic Benefits</b></p> <p>Contribute social benefits at the municipal, provincial and national levels</p>	<p>International benchmarking of HSEQ standards: report on 'gap analysis' of Fluor-AMEC HSEQS standards and international Social Performance standards in context of enhancing marketability of sub-contractors</p> <p>Partnerships (e.g. around ILO Country Programme on Local Development), focused on enhancing marketability of sub-contractors</p>	<p>AMEC/ILO/CIDA partnership directed at provincial economic planners (utilising ILO's economic planners Handbook, and AMEC's Competency (transition) Management System).</p>		

### 5.3.1 Supply Chain Development

The Shell Group estimates an annual cost of USD 25 billion spent on national “locally-owned” contractors, sub-contractors and suppliers<sup>35</sup>. This compares to just USD 0.1 billion on community investment. The importance, therefore, of third-party capital and operational expenditure as a potential area for enhanced social performance cannot be exaggerated.

With strategies for meeting local content requirements in the PHC already in place, the main incentive for Fluor-AMEC JV to further develop its efforts with sub-contractors and suppliers lies predominantly in gaining an enhanced reputation with SPEX as a vehicle for improving the overall national economic performance of the Malampaya project. The value of this to SPEX potentially lies in efforts to secure 2<sup>nd</sup> round exploration licenses.

With only a few years left in the life of the PHC contract, and the main sub-contracts and supplier contracts already awarded, the strategies open Fluor-AMEC are somewhat limited. A series of options are summarised below. An indication of the cost and risk involved from the Fluor-AMEC JV perspective is given.

- **Key Performance Indicators (KPIs)** (*cost – low; risk – low*) – by setting and monitoring KPIs it is possible to build evidence of the economic impact from the support given by Fluor-AMEC to its sub-contractors and main suppliers. This should be of interest to SPEX as well as provide information for AMEC to use in future bids and sustainability reporting. *Table 5* gives some suggested KPIs.
- **Extending Existing Support** from predominantly HSEQ and security, into other areas such as cost-efficiency (*cost – moderate; risks – moderate*). It is likely that within the period of any PHC contract extension or renewal, SPEX will be looking for continuous cost-efficiency gains, and will expect this to be passed down the supply chain. To fully realise cost-efficiency gains, rigorous and systems-based support will be needed similar to that applied in the areas of HSEQ and security. In other words, it is not simply be a matter of driving prices down in the process of awarding sub-contracts. Rather ‘hands-on’ support is needed to sustain cost reductions in the supply chain through, for example in helping to establish cost tracking systems that enable productivity gains to be made on a continuous basis.

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<sup>35</sup> The Shell Report 2002 (web-based)

Table 5 Suggested KPIs for Measuring and Reporting the Economic Performance of PHC in Relation to Sub-Contractors and Main Suppliers

Topic	Desegregation	KPI Unit
National ownership of sub-contractor and supplier firms		<ul style="list-style-type: none"> <li>• % equity (shares) of sub-contractor and main supplier firms owned by nationals</li> </ul>
Sub-contractor/supplier local economic multiplier effect	<ul style="list-style-type: none"> <li>• Community - TALIM</li> <li>• Municipality – Batangas</li> <li>• Provinces - Oriental Mindoro, Palawan and Batangas</li> </ul>	<ul style="list-style-type: none"> <li>• Invoice address</li> <li>• Annual Value of Invoice</li> </ul>
Source of employees	<ul style="list-style-type: none"> <li>• Community - TALIM</li> <li>• Municipality – Batangas</li> <li>• Provinces - Oriental Mindoro, Palawan and Batangas</li> </ul>	<ul style="list-style-type: none"> <li>• Residency address of employees working on contract</li> </ul>
New contracts won by sub-contractors/suppliers unrelated to the PHC contract	<p>Level of confidence that contract win was direct result of Fluor-AMEC support:</p> <ul style="list-style-type: none"> <li>• High</li> <li>• Moderate</li> <li>• Low</li> </ul> <p>Market penetration</p> <ul style="list-style-type: none"> <li>• Same client</li> <li>• Different client, same market (e.g. in oil sector)</li> <li>• Different market (e.g. in power generation sector)</li> </ul>	<ul style="list-style-type: none"> <li>• Number of new contracts or contract extensions</li> <li>• Value of new contacts or contract extensions</li> <li>• Reason cited for marketability success e.g. <i>HSE systems, cost efficiency, AMEC association/reputation</i></li> </ul>

- **International Benchmarking of HSEQ Standards** (cost – moderate; risks - low). It was noted during the site visit that the link between the support of Fluor-AMEC to their sub-contractors and the increased marketability of sub-contractors was related to the ease with which the firms could achieve ISO9002 and ISO14001 certification. This was not intentional on the part of Fluor-AMEC, but the result of the rigour and systems-based approach taken. Given the increasing importance to international companies of their supply chains of being certified to ISO and other quality standards there is an opportunity for Fluor-AMEC to strengthen its support to sub-contractors about the potential value of gaining ISO9002 and ISO140001 certification.

A rapid survey of firms involved in the PHC contract could establish which international standards are considered relevant to their future marketability. Fluor-AMEC could then identify how best to link their support in the area of HSEQ and security to the most relevant of these international

standards. In practice, this may involve little more than an extended briefing at the end of the monthly sub-contractors forum, open to those firms interested in progressing to specific international standards. If it is the case that Fluor-AMEC does not have the right expertise, then other organisations could be invited to the event to provide an additional input, for example, the Philippines provincial business councils or the Bureau of Product Standards within the Department of Trade and Industry<sup>36</sup>.

- **Comprehensive Business Development** (cost – high; risk – moderate). Sub-contractors and suppliers may also need business finance assistance. For example, in the Niger Delta, Nigeria, a new special purpose subsidiary of Shell International recently joined forces with the WBG's IFC and a local bank to provide a finance and business management support to local suppliers and sub-contractors. The result was a financial credit scheme– the Oil Services Local Contractor Revolving Credit Scheme that targets oil field service SMEs with over 30% locally ownership and/or 30% employment of residents from the province. The aim of the scheme is to help local firms move up the 'value chain and technology ladder'<sup>37</sup>. The main international service contractors to Shell Petroleum Development Company (SPDC) in Nigeria are not yet involved in the scheme, although it is not inconceivable that long-term service contractors might contribute to the fund.

There is some evidence of contractors providing training and business support to local suppliers and sub-contractors in conjunction with such financial support schemes. For instance large contractors in the Enterprise Centre for BP's operations in Azerbaijan undertake business support activities<sup>38</sup>.

In the Malampaya project, the importance of the PHC contract for all asset-based procurement<sup>39</sup>, combined with the precedence for local sub-contractor support set in other oil and gas producing regions, presents an opportunity for Fluor-AMEC to propose a similar finance and business supply chain management support facility to SPEX. Fluor-AMEC's experience in providing competency and systems-development support to the majority of the Malampaya supply chain makes it well positioned to make a credible proposal to SPEX. The proposal should preferably be directed at sub-contractors and suppliers based in or employees drawn from the provinces of Oriental Mindoro, Palawan and Batangas. The proposal should also seek the cooperation of other parties to provide some of the risk finance and business support services. Such groups include the provincial business councils, provincial governments of Oriental Mindoro, Palawan

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<sup>36</sup> contact point for ISO in the Philippines: Bureau of Product Standards, Department of Trade and Industry in Manila, 3rd Floor Trade and Industry Building, 361 Sen. Gil J. Puyat Avenue, PH-Metro Manila 1200 - <http://www.bps.dti.gov.ph>

<sup>37</sup> International Finance Corporation (2003) IFC's Board Approves Support for Credit Facility in Nigeria's Niger Delta –Press Release, June 29<sup>th</sup>, 2001.

<sup>38</sup> Enterprise Centre: <http://www.ecbaku.com/>

<sup>39</sup> as voiced by one SPEX employee during the April 2004 visit: "We're totally dependent on these guys [Fluor-AMEC] for the success of the [Malampaya] project".

and Batangas, Department of Trade and Industry, IFC, and ILO (Philippines Country Programme).

### 5.3.2 Targeted Community Investment

As noted, the SPEX internal 'Issue Management' system has highlighted the TSR pipeline section of the Malampaya assets as of high social risk.<sup>40</sup> Fluor-AMEC is the main visible force on the ground and responsible for asset integrity. There is thus an opportunity for the joint venture to draw on its competencies and contribute to risk management through community projects for the TALIM area. Given that SPEX has already encouraged the Shell Philippines Foundation (PSFI) to direct resources towards the TALIM communities, there is potential to develop a partnership to combine the resources of all three organisations: SPEX, PSFI and Fluor-AMEC.

The starting point for Fluor-AMEC should be to explore the following:

- the population most likely to pose a social risk to the TSR pipeline;
- the livelihood needs of this population, focusing on needs that if satisfied could bring tangible wide range benefits, and which would create an interdependency between the efficient management of the asset and the livelihood benefits (i.e. strategy (c) in *Section 4.3*);
- the experience of PSFI in implementing on-going self-reliance programmes with the TALIM;
- the Fluor-AMEC scheme for making charitable livelihood grants, and whether this could be directed towards the populations proximate to the onshore TSR pipeline; and
- initiatives directed at the relevant TSR communities carried out independently by SPEX;

With the basic objectives of a partnership sketched out, the main parties should meet to develop the detail and investigate how the parties might pool their core competencies for best effect. For example, the Competency Management System of Fluor-AMEC could, within its 300 or so competency standards, provide opportunities for skills enhancement, which could then be linked to employment generation and skills training services currently being provided by PSFI.

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<sup>40</sup> C. Acosta, Environmental Manager, SPEX, pers comm., April 2004



### 5.3.3 Institutional Support for Revenue Management

Some multi-national oil companies are beginning to value the importance of collaborating with official international development organisations to help build the institutional capacity of oil and gas producing regions to prepare them for the return of resource revenues (as noted in *Section 3.1*). This includes capacity in economic and land use planning, revenue management, public expenditure management, infrastructure design, and service delivery. With the 1995 Mining Act supporting the distribution of revenues from the Malampaya project to the provinces of Oriental Mindoro, Palawan and Batangas, there is at present a 'window of opportunity' for an institutional strengthening project.

It is not usual for the contractor to become involved in such an endeavour. However, the Fluor-AMEC joint venture is well placed as the key supply chain manager, and as such has one particular competency that would add considerably to the efforts of others in this area. This is its Competency Management System. This computer-based system enables close and cost-efficient tracking of individuals as they acquire new skills; taking them from 'below standard', to 'standard' and then on into mentoring roles. Although some of the 300 standards used in the system for the Malampaya PHC contract might themselves be relevant to institutional strengthening for revenue management at the municipal and provincial levels, other organisations are probably better placed to provide this. Where Fluor-AMEC can add the most value is in adapting the computerized tracking and performance management system itself, whilst letting others design the relevant standard. Potential partners working in these areas who Fluor-AMEC should partner with include SPEX, the WBG (Local Government Finance and Development Project<sup>41</sup>), GTZ (Public Expenditure Management support)<sup>42</sup>, ILO (Handbook for Municipal Economic Planners).<sup>43</sup>

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<sup>41</sup> World Bank - <http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:20011240~menuPK:34465~pagePK:64003015~piPK:64003012~theSitePK:4607,00.html>

<sup>42</sup> GTZ - <http://www.gtz.de/philippines/projects/heda.html>

<sup>43</sup> A. Ghosh, International Labour Organisation, Philippines, pers comm, April 2004

## 6. CONCLUSIONS AND RECOMMENDATIONS

### 6.1 Conclusions

A series of conclusions are presented as points below. These conclusions draw on learning from AMEC's operations and business development aspirations in South East Asia in relation to upstream oil and gas operations and maintenance services.<sup>44</sup> Although focused on AMEC, the conclusions are applicable to other major engineering service companies working in the upstream oil and gas sector in low to middle income countries. We also commend the conclusions to the financiers of oil and gas development projects, since the social performance potential of large contractors will only be fully realised if tendering and contract management processes incorporate the necessary incentives.

#### *Contributing to Community Investment*

6.1.1 Within their quality submissions, although major contractors are increasingly required to demonstrate a track record in community dialogue, it is still rare for the terms of the contract to require their participation in community investment projects commonly managed by the project operator (i.e. the customer/client). This omission offers potential scope for market differentiation by contractors, in particular for asset support and maintenance contracts where the contractor may be the principal long-term representative of the project 'on-the-ground' interacting with affected communities.

#### *Local Content and Supplier Enhancement*

6.1.2 A global trend, and one evident in the Asia Pacific region, is for transactions between the state and oil or gas development companies to incorporate more stringent 'local content' requirements. In some cases these requirements are close to, or even surpassing, technical limits. Asset support contractors with a proven capacity for rapid skills competency development and a network of known sub-contractors with the necessary technical capabilities should expect to increasingly secure a competitive advantage in this area at the tender stage.

6.1.3 This study shows that it is entirely plausible for the contractor to go beyond the current practice of developing the capabilities of sub-contractors and suppliers to meet the internal requirements of an asset support contract. Working alone, or in partnership with the client, government agency or non-government business support organisation, contractors may soon perceive commercial advantage in assisting sub-contractors to apply their newly acquired capabilities in quality control, reliability, cost, health, and safety to access other – non project related - market opportunities, both within the oil and gas sector, and further a field. In short, both oil and gas operators and their principal contractors need to shift their perception of the

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<sup>44</sup> i.e. not engineering, procurement or construction management services.

immediate project as the main market for supplier enhancement programmes, to one that views the project as the 'spring-board' to other, far broader and more sustainable market opportunities.

6.1.4 The potential for linkage between the meeting of local content requirements and investment in community projects is not yet fully exploited. At present, efforts to assist community-based micro enterprises through investments in skills training, working capital and business development tends to be managed by the project operator (or outsourced to a foundation or NGO). This means community initiatives are usually separate - as in the Malampaya example - from the efforts of the main asset support contractor to meet contract requirements for employee succession and the contracting of local suppliers. There may be competitive advantage therefore to contractors who adopt a more strategic approach that combines local content enhancement with community investment provision, for example, by targeting national firms who source raw materials locally and/or who have a portion of the workforce drawn from affected communities or from the municipalities that host project assets.

#### *Social Performance as a Competitive Advantage*

6.1.5 A problem for contractors with stringent local 'employment-related' content requirements is that of reduced overhead income, i.e. where higher earning expatriate staff are replaced by lower earning nationals. For fixed price contracts these losses are to some extent compensated for by higher returns on the overall contract, i.e. due to the lowering of wage costs over time. For unit rate contracts, however, the losses are real, and may need to be compensated for through the negotiation of contract incentives that reward rapid staff succession.

6.1.6 Some oil and gas project operators are now actively looking for innovative ways to enhance their long-term commercial reputation with the host government by improving the project's overall positive economic and socio-economic impact. Efforts towards achieving this 'social license to growth' include the integration of operational infrastructure with local authority public service plans and budgets, and routing transactions and deposits through national and local banks to build local financial capabilities. For the principal contractors, many of these areas of economic impact are not so much new territory, but simply activities not previously perceived as containing a business-case, i.e. delivering the social performance objectives of the client. In preparing future bids some contractors may benefit from simply repackaging their past contract performance in economic and socio-economic performance to match the language of their client's social performance objectives, the 'local content' terms contained in the relevant Production Sharing Contract, or related host government agreement, and the economic policies of the host government.

6.1.7 When bidding, contractors who are aware of the potential linkage between national and local government economic development policies and the core business of their clients - such as business linkages, public infrastructure service delivery, political decentralisation - will be able to identify how their own core competencies in engineering, project management, staff and supplier competency development might strategically contribute to the new types of collaboration emerging between oil companies and government aimed at addressing the challenges of sustainable development.

6.1.8 Contractors are advised to develop an understanding of the social loan requirements of IFIs and the extent to which these requirements are likely to influence, either directly or indirectly, the social performance objectives of their client. In particular, it will be important to closely watch developments in WBG institutions since there is considerable coherence, especially on social and environmental standards, between developments within this group, and other international IFIs and increasingly commercial banks who are signatories to the EPS.

6.1.9 Further, when preparing bids for EPC contracts and where the project in question is likely to involve either IFI finance or finance from signatories to the EPs, contractors would be well advised to identify how they might assist their clients meet these requirements. With regard to social performance during construction work, for all projects in low and low-middle income countries, this will include satisfaction of the WBG's policies relating to indigenous peoples, cultural property and child and forced labour. Given that the environmental and social impact studies required by the EPs are likely to have already been completed by the time the main EPC contracts are awarded, a key role for contractors will also be to incorporate in their quality submissions reassurance to the clients that they have the necessary capabilities to meet the conditions laid out in the related environmental or social management plans, i.e. the main product of these studies.

## **6.2 Recommendations for Malampaya - Fluor-AMEC**

The following recommendations are made in respect of the Fluor-AMEC joint venture for the Malampaya PHC contract. These recommendations are derived largely from the information gathered and discussed during the research visit to the Philippines and Australia in April 2004. The visit was brief and AMEC should take this limitation into account in deciding what action to embark upon. There are a number of ways in which Engineers Against Poverty and their associates such as the Overseas Development Institute, might be able to assist the Fluor-AMEC joint venture enhance its social performance on the Malampaya project. These roles are identified in the *Table 6*.

Table 6 Recommendations to Fluor-AMEC to Enhance Social Performance in Respect of the Malampaya PHC Contract

Recommendation	Potential Roles	
	Fluor AMEC	EAP/ODI
<p><b>1. Supply Chain Development</b></p> <p>Undertake short-term initiatives to develop the broader marketability of sub-contractors and suppliers aimed at assisting SPEX to improve the economic performance of the Malampaya project and also to help secure 2<sup>nd</sup> Round exploration licenses. These outcomes to support AMEC secure an extension/ renewal of the PHC contract, and improve the overall reputation of AMEC within the Shell Group.</p>		
<p>1.1 Establish <b>key performance indicators</b> (KPIs) that generate evidence of business development and economic multiplier effect from the support given by AMEC to its sub-contractors and main suppliers</p>	<p>Review and adapt suggested KPIs in <i>Table 5</i></p> <p>Incorporate KPIs in internal audit systems and monitor</p>	<p>Support adaptation of appropriate KPIs in AMEC auditing</p>
<p>1.2 Extend <b>existing support to sub-contractors</b> from predominantly HSEQ and security, into other areas of business development relevant to Fluor-AMEC's business competencies, such as systems for continuous improvements in cost-efficiency.</p>	<p>Determine from SPEX whether providing additional support to sub-contractor in cost-efficiency systems management will generate commercial or reputational returns under the PHC</p>	
<p>1.3 Undertake a <b>HSEQ standards benchmarking survey</b> to identify how current Fluor-AMEC support to sub-contractors and suppliers in HSEQ and security can be modified to support achievement of international standards such as ISO9002 and ISO14001 certifications.</p>	<p>Gather and analyse information from sub-contractors</p>	<p>Develop questionnaire for Fluor-AMEC to undertake international HSEQ standards benchmarking with their sub-contractors and suppliers</p>
<p>1.4 Submit a proposal to SPEX outlining development opportunities for a Malampaya <b>local business finance and management support facility</b>. Outline Fluor-AMEC relevant experience and skills in competency and capability development support.</p>	<p>Develop proposal and submit to SPEX</p>	<p>Draft a concept note, covering principles, potential partner, and provide international cases examples.</p> <p>Facilitate AMEC/SPEX meetings with potential partners (e.g. IFC SME unit, ILO Country Programme on Local Development).</p> <p>Offer brokering services to develop a formal Partnering Agreement, and facilitate periodic review of partnership effectiveness over time.</p>

Recommendation	Potential Roles	
	Fluor AMEC	EAP/ODI
<p><b>2. Targeted Community Investment</b></p> <p>Explore options for Fluor-AMEC, PSFI and SPEX to collaborate on community investment projects that target the high social risk <b>TSR pipeline section</b>, with Fluor-AMEC responsible for integrity and security.</p>	<p>Assess the role and capacity of the AMEC Competency Management System to build skills of the TSR population, and to link to PSFI's services in employment generation and skills training.</p>	<p>Prepare a ToR for a local consultant to identify options for a partnership arrangement between SPEX, PSFI and Fluor-AMEC.</p> <p>Offer facilitation and/or brokering services to develop a formal Partnering Agreement</p>
<p><b>3. Institution Building</b></p> <p>Collaborate with SPEX and relevant government authorities and international organisations to help <b>build the institutional capacity of the provinces of Oriental Mindoro, Palawan and Batangas</b> to prepare them for public expenditure management of gas production revenues.</p>	<p>Discuss with SPEX and the World Bank (Local Government Finance and Development Project) and determine the potential value added by deploying the AMEC Competency Management System. Discuss internally within the Group how to exploit deployment of the CMS on the Malampaya project to enhance future O &amp; M bids.</p>	<p>Identify a range of potential local and international partners for AMEC and SPEX to work with.</p>