

**ExxonMobil**

ExxonMobil PNG Limited



Papua New Guinea LNG Project

**Procurement and Supplier Management Plan -  
Production**

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## ACRONYMS

ACRONYM	DESCRIPTION
EMPNG	ExxonMobil PNG Limited
LNG	Liquefied Natural Gas
OIMS	Operations Integrity Management System
PNG	Papua New Guinea

### Corporate Separateness Notice

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PNG LNG is an integrated development that includes gas production and processing facilities, onshore and offshore pipelines and liquefaction facilities. Participating interests are affiliates of Exxon Mobil Corporation (including ExxonMobil PNG Limited as operator), Oil Search Limited, Kumul Petroleum Holdings Limited, Santos Limited, JX Nippon Oil and Gas Exploration, Mineral Resources Development Company and Petromin PNG Holdings Limited.

## **1.0 INTRODUCTION**

This Plan describes how ExxonMobil PNG Limited (EMPNG) and its contractors will manage procurement and suppliers during the production phase of the Papua New Guinea Liquefied Natural Gas (PNG LNG) Project. This Plan has been developed, and will be implemented, in accordance with Papua New Guinean legislation, EMPNG policy and International Finance Institution standards.

This Plan is one component of, and should be read in conjunction with, a series of documents that together comprise the Environmental and Social Management Plan.

### **1.1 Scope**

This Plan sets out the potential risks and impacts associated with procurement and suppliers, and describes how they will be mitigated and monitored.

It outlines the requirements and expectations for implementing the defined mitigation measures, assessing and verifying compliance, reporting, assuming roles and responsibilities, supervision and training.

This Plan will apply to all production activities associated with the Upstream facilities, pipelines, LNG Plant and the PNG LNG Port Moresby office.

The requirement for contractors and their subcontractors to comply with this Plan will be determined using a risk-based assessment of the nature of the contract.

This Plan should be read in conjunction with the Labour and Working Conditions Management Plan and the Training and Vocational Education Management Plan.

### **1.2 Objectives**

The objectives of this Plan are to:

- maximise procurement from local suppliers and economic benefit for local businesses
- improve capacity and skills of local business to capture business opportunities associated with PNG LNG, both locally and nationally
- ensure that EMPNG environmental and social standards and commitments are adequately communicated by the contractor to its subcontractors and suppliers and included in their contractual arrangements.

## 2.0 LEGAL AND OTHER REQUIREMENTS

With regard to procurement and supplier management, EMPNG will comply with applicable Papua New Guinean laws and regulations, treaties and conventions, International Finance Institution requirements, and company policies.

The following requirements form the basis of this Plan, however, they should not be assumed to be an exhaustive list of all legal and regulatory requirements.

### 2.1 Papua New Guinean law and regulations

Papua New Guinean laws relevant to procurement and supply include the:

- *Independent Consumer and Competition Commission Act 2002*
- *Oil and Gas Act 1998.*

The *Independent Consumer and Competition Commission Act 2002* sets out the competition law of Papua New Guinea. It defines offenses for anti-competitive conduct; including offences for price fixing, bid rigging and boycotts; and other offences for conduct that is likely to substantially lessen competition.

The *Oil and Gas Act 1998* provides a 'local purchase obligation' under Section 129, that "...a licensee shall:

- *use and purchase goods and services supplied, produced or manufactured in Papua New Guinea whenever the same can be obtained at equivalent terms, including prices, conditions and delivery or performance dates and are in all respects of a quality comparable with those available from outside Papua New Guinea*
- *encourage and assist citizens of Papua New Guinea who are desirous of establishing businesses providing goods and services for the project*
- *make maximum use of Papua New Guinean contractors and subcontractors where services of a standard comparable with those which the licensee would obtain but for the operation of this section are available from such Papua New Guinean contractors or subcontractors at equivalent prices, and on equivalent terms, conditions and delivery or performance dates."*

### 2.2 International treaties and conventions

The following international standards relevant to procurement and supply will be applied by EMPNG during the production phase:

#### 2.2.1 Foreign Corrupt Practices Act 1977

The *Foreign Corrupt Practices Act 1977* makes it unlawful for any individual or corporation that is listed in the United States of America, or files reports with the Securities and Exchange Commission, to bribe foreign government officials to obtain or retain business. EMPNG has adopted ExxonMobil's Standards of Business Conduct, which includes a policy that prohibits personnel from paying bribes to a government official.

#### 2.2.2 United Nations Global Compact

EMPNG supports the ideals of the *United Nations Global Compact* in the areas of human rights, labour standards, the environment, and anti-corruption. While ExxonMobil is not a formal signatory of the *United Nations Global Compact*, its values represent key elements of the ExxonMobil Standards of Business Conduct.

#### 2.2.3 Extractive Industries Transparency Initiative

The Extractive Industries Transparency Initiative involves a code or standard for financial transparency in the extractive industry. One of the key principles is to develop effective mechanisms to achieve transparency of payments and revenues in the extractive industries. This entails disclosure by oil, gas and mining companies of tax and non-tax payments to host-

country governments and government-linked entities, and transparency by governments over revenues from this sector.

#### 2.2.4 United Nations Convention Against Corruption

Papua New Guinea is a signatory to the *United Nations Convention Against Corruption*, and ratified their commitment to this Treaty in 2007. The Treaty focuses on the State's responsibility to prevent and criminalise corruption and to support international cooperation and asset recovery in the event that corruption occurs.

### 2.3 International Finance Institutions requirements

The International Finance Corporation's Performance Standards on Social and Environmental Sustainability (International Finance Corporation, 2006), referred to as the 'Performance Standards'; specifically Performance Standard 1: Social and Environmental Assessment and Management Systems, covers social and environmental assessment and management systems and a relevant objective is:

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

In addition, the objectives of Performance Standard 2: Labor and Working Conditions are to:

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

### 2.4 Company requirements

EMPNG operates in accordance with the Operations Integrity Management System (OIMS). OIMS System 8-1 Contractor Selection and Management is relevant to this Plan and requires:

- third party services to be evaluated and selected using criteria that include an assessment of capabilities to perform work in a safe and environmentally sound manner
- for each type of service provided by third parties, the unit maintains documented Operations Integrity qualification criteria commensurate with the risks of the services provided or the type of work to be performed
- for higher risk services these qualification criteria include:
  - a documented safety, health and environment program, including effective training program, and documented safety performance
  - personnel security screening
  - compliance with relevant regulations and operating organisation standards
  - an alcohol and drug policy consistent with operating organisation guidelines
- appropriate data available from the contractor, other company units, and other sources are compared to established criteria
- relative capability to perform work in a safe and environmentally sound manner is considered in addition to cost when selecting third parties
- records of qualified providers are maintained, along with the basis for qualification
- lists of qualified providers are regularly reviewed and updated.

#### 2.4.1 Human rights

ExxonMobil is committed to conducting business in a way that protects the security of its personnel, facilities and operations and respects human rights.

ExxonMobil's Standards of Business Conduct establishes its approach. Its practices and operations reflect the spirit and intent of the *Universal Declaration of Human Rights* as it applies to private companies and the spirit and intent of the *International Labour Organization Declaration on Fundamental Principles and Rights at Work*.

ExxonMobil statements support its commitment to human rights and include freedom of association, elimination of forced or compulsory labour, abolition of child labour, and equal employment opportunity. ExxonMobil condemns human rights violations in any form.

While recognising that host governments have the responsibility of maintaining law and order, security and respect for human rights, the private sector also has a responsibility to respect human rights within the legitimate role of business.

Therefore, ExxonMobil believes that:

- it has an important role to play in promoting respect for human rights
- its business presence can and should have a positive influence on the treatment of people in the communities in which it operates
- security and respect for human rights can and should be compatible
- human rights violations are not acceptable and should be condemned.

ExxonMobil formally documented its support of the *Voluntary Principles on Security and Human Rights*, referred to herein as the Voluntary Principles, in 2005 through its Statement of Principles on Security and Human Rights. Through this Statement, EMPNG is required to assess security requirements from a risk perspective, and consider available information regarding private security providers' past compliance with laws and respect for human rights.

ExxonMobil takes considerable effort to identify potential human rights risks during its periodic risk and impact assessments. These risk and impact assessments allow the company to put in place avoidance and/or mitigation measures prior to the risk or impact being realised.

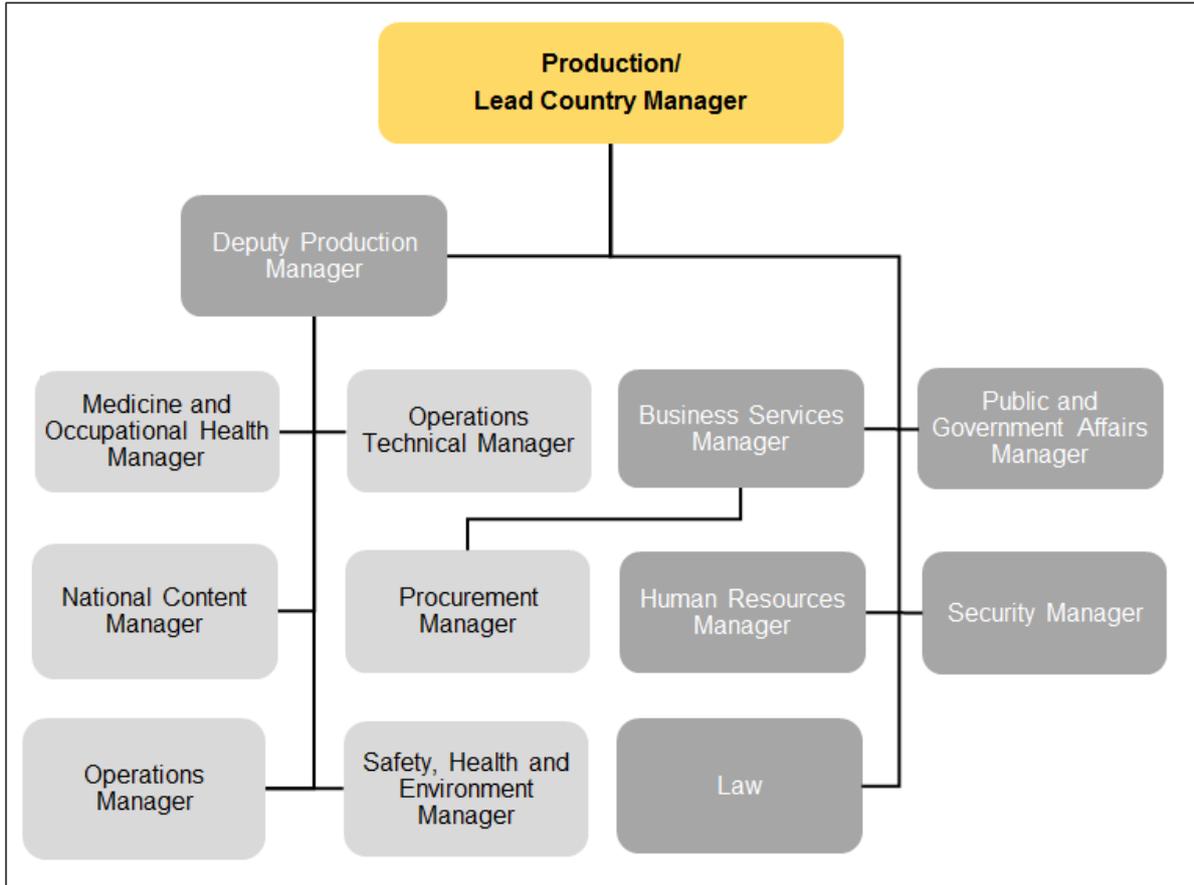
#### 2.4.2 National content

EMPNG is committed to a systematic, long-term approach to integrate national content into the production phase. EMPNG utilises ExxonMobil's National Content Guidelines, Strategies and Best Practices to develop a national content strategy along with plans, models and tools for the successful development of national content. EMPNG remains committed to a national content strategy with the following objectives:

- maximise the participation of local suppliers
- help build capacity and sustainability of local suppliers
- communicate business opportunities to local suppliers
- report annually to the Papua New Guinean Government on national content.

### 3.0 ORGANISATION

The requirements of this Plan will be implemented by the Procurement department. The Procurement Manager will own this Plan from an OIMS functional perspective. Close interaction with the National Content department will be required to ensure national content requirements of this Plan are implemented. The relationship between these different departments is highlighted in Figure 3-1.



**Figure 3-1: ExxonMobil PNG Limited organisation chart**

Some sample job descriptions are provided in Section 7.0 to demonstrate the type of roles that will apply within EMPNG during the production phase. As the needs of EMPNG change over time, some roles may be adjusted accordingly.

Contract Owners/Administrators are responsible for contractor management in relation to this Plan.

#### 4.0 IMPACTS AND MITIGATION

To meet the supplier development objectives, the following actions will be implemented and/or continued during the production phase:

- Prioritise maximum use of Papua New Guinean contractors and subcontractors where services in Papua New Guinea are of a comparable standard to those from overseas. A list of potential Papua New Guinean suppliers will be maintained by EMPNG during production
- help support landowner companies to build capacity through appropriate training and business development consultation. The level of support will reduce over time
- consider ongoing use of the Institute of Business and Banking Management Enterprise Centre with regard to supplier development. The scope of work of the Enterprise Centre could include:
  - business assessment services
  - training services
  - mentoring services
  - advisory and consulting services
  - finance advisory services
  - information centre facilities
  - Enterprise Centre management – staffing.

In addition to development of a national content strategy, EMPNG has developed exhibits for inclusion in appropriate contracts (based on a risk assessment) detailing contractors' requirements for:

- working conditions and working relationships
- grievance processes
- child and forced labour
- supply chain
- workplace harmony
- effective supervision
- cultural diversity management
- industrial action handling procedures.

Contractors will be required to select employees according to the following geographic priorities, in order of preference:

- Local – Papua New Guinean citizens of local origin (proximate to PNG LNG operations).
- Regional – Papua New Guinean citizens of regional origin (Southern Highlands, Hela, Western, Gulf, and Central Provinces and the National Capital District).
- National – Papua New Guinean citizens originating from elsewhere in Papua New Guinea.

Table 4-1 presents a summary of the potential impacts and risks associated with procurement and supply of goods and services, together with mitigation and management measures to avoid or reduce these impacts, and the monitoring required to determine the performance of these measures.

**Table 4-1: Risks and impact mitigation**

SUB-CATEGORY	RISK/IMPACT TO THE COMMUNITY	RISK/IMPACT TO EMPNG	MITIGATION MEASURES	REF #	MONITORING	MONITORING FREQUENCY	RESPONSIBILITY
Contracted workers - Third party agencies	Potential for human rights issues and/or discriminatory practices against community members if ExxonMobil policies are inadequately applied by third party agencies	Reputational impact due to contractual association with third parties not adhering to relevant labour laws and internationally recognised human rights, including acts and omissions	Contractual requirements for compliance with accepted environmental and social standards and business enterprise norms with respect to human rights Contractor complaints/grievance process in place All contractors to comply with the <i>Oil and Gas Act 1998</i> requirements for national content	1	Verification	Ongoing	Contract Owners/ Administrators
Supply chain - Child, bonded and forced labour		<ul style="list-style-type: none"> <li>• Employment of child, forced or bonded labour through third party agencies, and violation of human rights</li> <li>• Claims of complicity through the acts of third parties</li> <li>• Litigation risks</li> <li>• Reputation risks</li> </ul>	Adhere to ExxonMobil's Employment and Policies in Standards and Business Conduct and include exhibit V in appropriate contracts	2	Verification	Ongoing	Procurement
			Take commercially reasonable efforts to ascertain that the third parties that engage workers are reputable and legitimate enterprises	3	Verification Audit	Annual	Procurement
Supply chain - Health and safety		Reputation risk associated with third parties failing to apply the same standards as EMPNG	Apply EMPNG health and safety practices, procedures to third parties to the extent of the prevailing risk and commercial leverage, and where reasonable control can be exercised	4	Verification	Annual	Contract Owners/ Administrators

SUB-CATEGORY	RISK/IMPACT TO THE COMMUNITY	RISK/IMPACT TO EMPNG	MITIGATION MEASURES	REF #	MONITORING	MONITORING FREQUENCY	RESPONSIBILITY
Direct workers - Recruitment and procurement of suppliers	<ul style="list-style-type: none"> <li>Enhanced community jealousies, tensions and conflicts</li> <li>Increased crime in the area of operations</li> </ul>	<ul style="list-style-type: none"> <li>Allegations of corruption/ favouritism may be raised for procurement/ recruitment decisions</li> <li>Post construction status, viability and fate of landowner companies</li> <li>Local (or national) resistance to EMPNG through failure to meet employment expectations, or perception of preferential hiring of foreigners</li> </ul>	Clear communication of procurement policy, including tendering and bidding requirements	5	Verification	Annual	Procurement
			Conflict of interest declaration for any recruitment or procurement decisions and a hierarchy of review of decisions	6	Verification	Annual	Human Resources
			National content policies applied, skills and training programs for employees and procurement clauses in contracts for national/local hire	7	Verification	Annual	Procurement, National Content
	<ul style="list-style-type: none"> <li>EMPNG enters into a supply agreement that is in breach of the <i>Independent Consumer and Competition Commission Act 2002</i> potentially leading to a local supplier being denied a level playing field</li> <li>Increased tensions between tenderers and EMPNG</li> </ul>	<ul style="list-style-type: none"> <li>Prosecution under the <i>Independent Consumer and Competition Commission Act 2002</i></li> <li>Reputational harm</li> <li>Potential civil liability</li> </ul>	Procurement staff trained on competition law All professional personnel staff in sensitive commercial positions are trained on competition law Competition law training included in business practices reviews for all personnel every 4 years	8	Verification	Training is annual for key personnel, two-yearly for Procurement staff, and every four years for all EMPNG personnel	Procurement

## **5.0 MONITORING**

Monitoring is part of this Plan, as described in Table 4-1. Contractors will be required to verify their performance against these indicators, based on the risk profile of the contract being undertaken. Specific requirements will be detailed in contract agreements as necessary.

### **5.1 Assessment**

EMPNG will undertake periodic assessments to determine the degree to which the commitments outlined in this Plan are being met. This will include contractor compliance.

The assessments will be undertaken by suitably qualified personnel. Assessment findings will be prioritised and closed in a timely manner.

### **5.2 Audit**

EMPNG will audit their procurement decisions annually to ensure compliance with the principles and requirements outlined in this Plan.

### **5.3 Performance indicators**

EMPNG will assess its performance in procurement and supply using the following indicators:

- level of expenditure on services and products procured locally/regionally/nationally
- number and value of contracts awarded to local business
- number and value of contracts awarded to landowner companies
- percentage of contracts/values of contracts for the local market compared to the international market.

## **6.0 REPORTING**

Both internal and external reporting requirements apply to procurement and supplier management.

### **6.1 Internal**

Where contractors are required to implement this Plan, they will submit quarterly reports to EMPNG outlining their progress against the indicators defined in Section 5.3. Contractors will also notify the company of any breaches in procurement and supply regulations, as defined in Section 2.0.

The Procurement department will develop an annual progress report outlining performance against this Plan.

### **6.2 External**

EMPNG will report on national content performance to the Papua New Guinean Government annually. A selection of procurement and supplier indicators will also be reported in the annual PNG LNG Environmental and Social Report series, which is made available at [www.pnglng.com](http://www.pnglng.com).

## **7.0 ROLES AND RESPONSIBILITIES**

The main departments responsible for implementing this Plan are Procurement and National Content. Following are examples of the types of roles that will apply during the production phase. Some of these departments and roles may change over time to reflect the changing needs of EMPNG.

### **7.1 Procurement Manager**

The Procurement Manager reports to the Business Services Manager and will be responsible for:

- coordinating implementation of this Plan
- verifying implementation of this Plan including reporting of non-conformances and developing and implementing corrective actions as appropriate
- reviewing performance trends on a regular basis and stewarding performance against objectives and targets
- assessing EMPNG and contractors' compliance with the requirements of this Plan and developing and implementing corrective actions as appropriate
- periodically reviewing the effectiveness of this Plan and providing recommendations for improvements
- ensuring adequate resources and budget are available to meet the objectives of this Plan
- confirming that training programs meet the minimum requirements established in this Plan
- making the final decision in determining the applicability of the requirements of this Plan for contracts being let, based upon an internal risk assessment, and ensures relevant requirements are included in contract documents.

### **7.2 National Content Manager**

The National Content Manager will be responsible for:

- tracking performance against national content objectives/targets and reporting on progress both internally and to the Papua New Guinean Government
- collating and analysing combined EMPNG and contractor spend data in accordance with this Plan.

### **7.3 Contract Owners/Administrators**

Contract Owners/Administrators will be responsible for:

- managing assigned procurement and supply contract(s) and ensuring individual contractors are aware of their requirements under this Plan
- assessing the performance of contractor(s) (and their subcontractors) against the requirements of this Plan.

## **8.0 TRAINING AND AWARENESS**

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

Training activities associated with this Plan will include training for EMPNG employees who manage significant contracts on:

- human rights aspects of supplier chain management
- corruption and bribery training
- national content requirements.

## 9.0 REFERENCE LIST

International Finance Corporation. (2006). *International Finance Corporation's Performance Standards on Social and Environmental Sustainability*. Washington, D.C.: International Finance Corporation