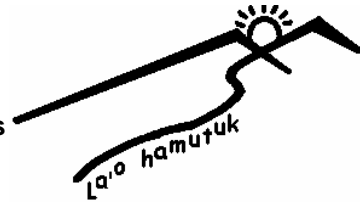


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13 September 2004

Mr. Geir K. Ytreland, Project Manager
Energy and Mineral resources
Fomento Building
Dili, Timor-Leste

Dear Geir,

Thank you for meeting with us last Monday and helping us to understand the situation regarding the first offshore seismic prospecting round in Timor-Leste territory, which will begin shortly. Following our meeting, La'o Hamutuk did some research and asked some knowledgeable friends about potential risks from this project, and we have two concerns.

If you have time to meet again, we would be happy to discuss these with you, but we thought it might help in negotiating the contract if we put them in writing, so here they are.

1. The Contract should specify what standards the companies are expected to follow in Health-Safety-Environment and other areas.

You told us that Australian environmental law will be applied, and we hope that the contract will incorporate that law by reference, as the Terms of Reference do not. Also, according to East Timor's Constitution and law, Indonesian laws and UNTAET regulations apply within East Timor's territory until East Timor adopts its own law on a given subject. Where these are more stringent than Australian law, the companies should be aware that they have to follow them.

We are concerned that the TOR statement that "All activities and operations will be conducted to the normal technical and HSE standards prevailing in the international petroleum industry" sets the bar too low. It would be better to call for best practice, or for as good as reasonably achievable. We also hope that this generality will be made more specific, by reference to one or more documents which define such practices. One which we have read is the International Association of Geophysical Contractors (*IAGC Marine Geophysical Safety Manual*), a copy of which is on the enclosed CD-ROM. There are undoubtedly others which are broader or better than the IAGC one, and additional regulations, conventions and manuals which could be referred to.

Woodside is currently conducting a 3D seismic survey off the Mauritanian coast in an area of similar size and depth to the Timor Sea survey. We realize that 3D is more intrusive than 2D, but believe that the same precautions to safeguard the environment should be taken. Woodside has prepared a 78-page *Environment Plan*, as well as a six-page public information sheet explaining what the study involves and what the company is doing to mitigate environmental effects. (Copies of both are on the CD-ROM.) Although Woodside is undoubtedly not the best company on

these issues, we hope that RDTL will require GGS-BGP to do at least as well. Mauritania is in a similar position to Timor-Leste in that some laws and regulations are not yet finalized, but Woodside explains its HSE practices and the many regulations and standards it adheres to.

Will GGS-BGP be required to prepare a similar plan? Will there also be plans on emergency response, a project plan, and other documents available to the public?

2. We are concerned about the size and history of Global Geo Services.

Since we have not been allowed to know the names of the other bidders, the contents of any of the bids, the revenue sharing specifics, or the reasons why GGS-BGP was chosen, our views below are based on incomplete information. From what we have been able to learn about GGS, primarily from the 2003 Annual Report posted on their website (and on the enclosed CD-ROM), we are concerned.

As we hope you know, GGS has only six employees. All of its directors are Norwegian except for one from China. The company's only experience since its founding in 1997 has been in Iranian waters in the Persian Gulf. Having suffered major financial losses in the last two years (they had revenues of USD \$42 million in 2002-2003, with expenses of \$88 million). The company is on the verge of bankruptcy; having been bailed out last December by BGP (Petro China), which converted a US \$20 million debt into future data sales rights, 4.9% of GGS' stock and a seat on the Board. GGS still has \$17 million short-term debt. Because of war in Iraq and possible war in Iran, GGS is desperate for new business elsewhere. In January 2003 they elected a new Board of Directors, bringing in a Chairman from outside the company, and early this year they chose a new CEO.

From our understanding, BGP has extensive experience with onshore seismic prospecting, but little offshore experience. You told us that Petro China's on-shore study in Timor-Leste made little use of prior work by others, and we hope that they will use data from the more than 85 seismic and other prospecting surveys done in the Timor Sea between 1960 and 1997 as part of their analysis. Like GGS, BGP is looking to expand their expertise and geographic scope. But can Timor Leste afford to support their learning curve?

We don't know about the other bidders for this contract, but it seems risky to work with a company like GGS that has no worldwide record and such a precarious position. Wouldn't it be better to use a more secure company with a wider range of experience?

Thank you very much for your consideration,

Thomas Freitas, Joao Sarmento, Joaozito Viana, Charles Scheiner
La'o Hamutuk Natural Resources Team

cc: Director of Energy and Mineral Resources Vicente Pinto
Secretary of State for Investment, Tourism and Environment Jose Teixeira
Director, Timor Sea Office, Kathryn Khamssi
Prime Minister Mari Alkatiri