

Freeport Mc Mo Ran: A Pit Of Trouble

Can the miners make peace with critics of its West Papua operation?

Michael Shari

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Gabrielle K. McDonald is the first African American woman to serve as a U.S. District Court judge. For six years, she served on the Bosnia war-crimes tribunal at The Hague. She's the last person you would expect to meet on a jungle airstrip in West Papua--Indonesia's half of the island of New Guinea. But on a steamy June day, here is McDonald, in one of the remotest spots on earth. And she's here on official business. In November, McDonald was named special counsel on human rights by Freeport-McMoRan Copper & Gold Inc., the New Orleans company mining the world's largest deposits of recoverable gold in this mountainous region. She has landed in West Papua to figure out how Freeport can make its peace with the 150,000 Papuans who live and work around the mine, Freeport's most valuable asset.

McDonald's presence speaks volumes about all the changes that have come to Indonesia--and to Freeport itself. James R. "Jim Bob" Moffett, Freeport's combative chairman and CEO, knew how to protect the lucrative Freeport concession during the long years when Suharto ruled Indonesia. But Suharto no longer rules Indonesia: He's a disgraced old man fighting a government investigation into allegations that he pilfered billions from the country. An unstable democracy clings to power in Jakarta, while much of the rest of the archipelago is being rocked by secessionist movements and ethnic unrest. Suddenly, foreign companies that had negotiated cozy contracts decades ago are finding themselves subject to new financial demands, public scrutiny, and calls for drastic change.

The shifting climate is threatening Freeport's \$4 billion investment in West Papua, formerly Irian Jaya. Freeport has 15 years left in its contract to recover gold from its mammoth Grasberg mine. But it stands accused by tribal leaders and Western activists of polluting the environment, of not sharing enough wealth with the indigenous people, and of abetting the Indonesian military's suppression of a campaign for Papuan independence. Foreign investors are watching to see how Freeport will fare as it negotiates its future in Indonesia. "Freeport is definitely considered a bellwether for foreign investment prospects," says James Castle, president of the American Chamber of Commerce in Indonesia.

No wonder Freeport is campaigning hard to improve its image. The energetic Moffett has staked his reputation on it. Freeport's strategy is to convince local residents and Western activists that it is addressing their concerns. Moffett even vows to cut the Papuans a bigger piece of Freeport's \$1.9 billion in annual revenues. "It's our responsibility to ensure that the local people benefit from our presence," said Moffett, who agreed only to provide written answers to questions. "Our aspirations are to develop relationships based on honesty, equality, and justice."

But many Papuans say Freeport's attempts so far to rectify past wrongs are too little, too late. Tribal leaders say they want more financial compensation, more protection of their rights, and more environmental guarantees. Leaders of the Papuan separatist movement even want Freeport's backing for their attempt to create an independent nation. These leaders accuse Freeport of merely making policy without implementing it. "What's going on in conversations and what's happening in the field are two different things," said Janes Natkime, one of four recognized leaders of the locally dominant Amungme tribe, during a recent BUSINESS WEEK visit to Papua at the invitation of Freeport. The Amungme have rights to the land where Freeport operates. Natkime says the company should split 50-50 with "the people of Papua" the 3 million ounces of gold it produces annually. Freeport, however, just reported a second-quarter loss of \$18.6 million on lower gold and copper shipments.

By the end of this year, local leaders will get more say than ever. That's when a new law giving greater power to regional governments is to go into effect. It's unclear how Freeport's old agreement with Jakarta will be affected. Freeport never had a contract with the government in the provincial capital Jayapura, located 450 mountainous kilometers away from the mine. Also unclear is the status of Freeport's 1974 pact with the Amungme, which granted the company rights to mine on its land in exchange for community-development programs. According to Moffett, Freeport is not considering any renegotiation of its contract. But ahead of that date, Freeport is discussing with local leaders "an agreement for significant additional compensation," says Moffett.

TRUST FUND. Papuans say Freeport's development efforts so far have been insufficient. After Papuans rioted against a military crackdown in 1996, Freeport increased its spending on such projects to 1% of annual net revenues--\$16 million last year. So far, it has built a hospital, extended an existing school, built a relocation camp for tribespeople displaced in a local conflict, and constructed houses to replace those destroyed in a May accident that also killed four Freeport contractors. Freeport also set aside an equity stake in its local subsidiary, Freeport Indonesia. The dividends from those shares are supposed to go into a trust fund for Amungme elders. But so far, the dividends have not been invested, admits Leroy Hollenbeck, Freeport's community-development manager in West Papua.

In addition, the Free Papua Movement, known by its Indonesian acronym OPM, wants Freeport's support. "We lost the gold from our land," says OPM Major General Viktus Wangmang, who goes by "Semal," his *nom de guerre*. "To repay the debt, Freeport and America should support our struggle for independence." In an interview at a secret location outside Timika, he admitted that the OPM was responsible for the murder of a Papuan Freeport employee by a sniper in 1994--and defended it on grounds that the victim was "a spy of Indonesia."

With so many years of fractiousness, Freeport has a lot of animosity to overcome. In February, 1999, it instituted a human rights policy requiring Freeport's 6,000 employees in Papua to refrain from participating in human rights abuses and to report any violations they might witness. Then in November, Moffett appointed McDonald, a seven-year member of Freeport's board of directors, to be his human rights troubleshooter in Indonesia. Moffett said he told her: "Gaby, you have full rein. You make recommendations, and I'll take them."

Seven months later, McDonald flew to Indonesia for a two-week visit. She met with human rights groups in Jakarta, and held nearly a dozen meetings with local leaders in West Papua. She also met with Freeport's local managers, to impress upon them that the company's 15-month-old human rights policy wasn't just a piece of paper issued from headquarters. "They are told that they must not violate a person's human rights and to report any violation," says McDonald.

DEPORTED. But the human rights violations that taint Freeport involve the Indonesian military's suppression of the Amungme-led secessionist campaign, not Freeport's employees. Freeport's contract with Jakarta requires it to "provide infrastructure" for Indonesian government officials, including the military. So Freeport has provided the Indonesian army with helicopters and vehicles to transport troops and with funds to construct barracks and office buildings. "The concern has been the relationship between the company and the military," says Abigail Abrush, a visiting fellow at Harvard Law School who was asked by Freeport's board in 1998 to make an independent human rights assessment, in conjunction with the Robert F. Kennedy Memorial Center for Human Rights. Her first attempt to investigate was thwarted by local police, who ordered her deported soon after she arrived. Freeport says it is cooperating fully with the center to complete the audit.

Interviews with Freeport employees also indicate that the human rights policy is being only partially implemented. Freeport's designated Papuan-born compliance officer, Daniel C. Ajamiseba, says that he doesn't have enough time even to count the bundles of forms that pour into his office, much less study them, because he has more important duties. "This is 10% of my time," says Ajamiseba. "All of us are stretched so thin." Two Papuan employees, one a truck driver at the Grasberg mine who says he is illiterate and the other a civil engineer educated at the University of New Orleans by the company, say they are unaware that Freeport had a human rights policy. The truck driver, Masmus Tipagau, 19, says he once witnessed Freeport security guards beat a man severely for playing cards in the street of the high-altitude mining town of Tembagapura. But he says he did not report it because he wasn't aware he was supposed to. Moffett responds that "those employees most directly in contact with local people have had human rights training." All employees also have been given publications explaining the policy, he adds.

The policy has resulted in at least one concrete action, following an incident in which Indonesian security forces opened fire on civilians within Freeport's project area. Sixteen were injured by gunshots, and a further 80 were beaten on Dec. 2 when secessionists tried to raise their flag of independence, according to a Human Rights Watch report. After a Papuan employee was beaten by soldiers for attempting to assist the victims of the attack, Freeport filed a complaint with Indonesia's National Commission on Human Rights. It's the first time Freeport has complained about abuses on behalf of the people who populate its area of operations. "It's the beginning of Freeport trying to do the right thing," says Arvind Ganesan, a program director at Human Rights Watch. "But it's only a first step," he adds. "It's way too early to say Freeport has turned over a new leaf."

GRAY, GRAY. Another obstacle Freeport faces in mending fences is environmental degradation. Five years ago, the Grasberg mine was a 4,100-meter mountain with the top shaved off and a corkscrew-like road wrapped around it. Today, Grasberg is the opposite: a deep hole in the ground with a spiral road down the inside. The mine produces 220,000 tons of ore per day--97% of which is the gray silt, or "tailings," dumped into the nearby river system. The tailings have turned a 230-square-kilometer lowland delta into a gray desert of dead trees. The company is replanting only 75 hectares--less than 1 square kilometer--per year. Freeport says it will turn the remaining treeless area into "the most productive agricultural land" in West Papua, producing up to \$100 million worth of crops a year.

Freeport also has tried to address Amungme concerns that its people have no voice in the company and that only 3% of employees come from the tribe. This year, Freeport put an Amungme chief, Tom Beanal, on the board of Freeport Indonesia, the subsidiary operating the mine. Beanal had earlier brought an unsuccessful \$6 billion class action against Freeport on behalf of the Amungme in a U.S. court. Now, other Amungme tribal leaders complain they no longer trust Beanal. Beanal declined to be interviewed for this story.

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If Freeport does negotiate a new deal in West Papua, it would have difficulty deciding who the parties to any agreement would be. It's unclear whether the local government consists of the bureaucrats in far away Jayapura or the fractious tribal councils where Freeport operates. "There is no cohesive local elite to negotiate with," says Bruce Gale, a Singapore political-risk consultant who recently conducted a survey in the province for a multinational client. "You could easily get into a situation where you have a deal with the elders of a tribe, only to find that other tribes don't respect it or the next generation won't respect it." Indeed, local tribes honor deals only as long as the person who made them is alive.

Even after Indonesia's new local autonomy rules go into effect, the quarrels between the tribes and Freeport are likely to go on. The wounds run too deep to heal soon. And multinationals operating in Indonesia will experience more such tumult as the archipelago lurches through its painful transition.

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