



RISKY BUSINESS

The Grasberg Gold Mine

**An Independent Annual Report
on P.T. Freeport Indonesia, 1998**

THE BEGINNING

“When the earth was first created, it is believed that the Amungme people occupied land which was still swamp. The story goes that there was a mother with four children, two boys and two girls. They lived in the middle of the swamp where there was dry land.

One day the dry season came. There was famine and many people died. This also affected the mother and her four children. They began to suffer from hunger, when the food they had stored was used up.

The mother said to her children, “Instead of all of us dying, it is better if just I die.” She ordered her children to kill her. She asked them to cut off her head and throw it to the north. She asked for her body to be cut into two, with the right side being thrown to the east and the left side to the west. Her feet were to be thrown towards the river so that they would be brought south by the current. Her children carried out this task with heavy hearts.

After they had done what their mother had asked, the four children fell asleep. When they awoke, they were surprised to see a mountain in the north, where they had thrown their mother’s head. In the east and west there grew a great garden with all kinds of things to eat. In the south as well, there was a broad expanse of land.

This story tells us that if the mountains and nature are harmed, our mother is hurt as well. The mountain we see as our mother is sacred. It is where the souls of men go when they die. We keep this place holy and worship it in our traditional ceremonies.

The Amungme live on the land thought to reach from the mother’s neck to her navel. This is the place closest to her. It is near her milk, and is where the people can lean on and be protected by her shoulder. It is where children can sleep in her lap.

We also consider the area of the mother’s feet, meaning the coastal plain, a sacred place. We can look for food here and hunt but we must then return to our home. This is the feeling of the Amungme, that the land is our mother.”¹

INTRODUCTION

PT Freeport Indonesia likes to portray the Grasberg mine as the greatest asset that a company could wish for and that it is safe as a bank. Unfortunately for investors and other stakeholders there is much evidence to the contrary. This report explains what the problems surrounding Grasberg are, and some of the steps that might be taken to improve the

"I guarantee you this sombitch is glad we found a copper and gold mine . . ."¹

CEO James Moffett, showing a slide of a smiling Irianese youth in a bellhop uniform.

situation at this, the world's largest open-cut gold and copper mine in the easternmost province of Indonesia.

Grasberg is known to different audiences as different things. For some it is Indonesia's largest source of tax revenue², for others it is a symbol of that nation's corruption and cronyism. For the engineers it is a technological marvel³; for activists it is the locus of human rights abuse and destruction of the important

local ecosystem in Irian Jaya. For the traditional owners it was the sacred head of their mother; for shareholders it is simply a bad investment⁴.

Wherever you stand, important facts about the mine are not disclosed by the company pertaining to future risks facing the operation. This report changes that by exposing some of the liabilities facing PT Freeport Indonesia (hereafter simply referred to as PT Freeport), and its parent companies Freeport McMoRan Copper & Gold and RioTinto. In particular:

- a pattern of human rights violations around Grasberg that has resulted in ongoing litigation against the parent company, Freeport McMoRan (page 9)
- the involvement of PT Freeport Indonesia staff in the death of local people, as recently as September 1997 (page 4)
- the destruction of local water quality, and pollution of the environment, as assessed by an independent consultant (page 15)
- the long-term environmental threats posed by the mining activity (page 17)

- the potentially illegal exploration inside the neighboring National Park (page 19)
- the poor track record that the partners in PT Freeport Indonesia bring to the operation (page 22)
- Freeport McMoRan's corporate culture, established by the men at the top, which obstructs real solutions to these problems (page 20)

The tone for the corporate tragedy is set by PT Freeport's complicity in the murder of hundreds of the local indigenous peoples, and the destruction of hundreds of hectares of rain-forest. It is our conclusion that the risks stem from two decades of arrogance towards the local community, a lack of due care in environmental management, and a closeness to the dictatorship of Indonesia which, while once a business advantage, can now only serve to weaken the company's standing.

Take the current political instability in the country. This massive nation is so close to political breakdown and economic collapse that the United States Embassy has contingency plans for a full withdrawal of its personnel and foreign citizens⁵. PT Freeport Indonesia—the Suharto family and regime's biggest pet piggy bank—is in the midst of this crisis.

An array of threats face it in the scenarios for a post-Suharto Indonesia not least the fact that a very influential figure on the opposition, Amien Rais, has said that the government should "stop Freeport mining" and received much support for this stance. This leader of Muhammadiyah, the largest Muslim organisation in the country, feels Grasberg breaches Article 33 of the Constitution which stipulates that

"These companies have taken over and occupied our land. Even the sacred mountains we think of as our mother have been arbitrarily torn up by them and they have not felt the least bit guilty . . ."¹

Tom Beanal

the earth, water and other natural resources shall be used for the greatest welfare of the people of Indonesia. He says the contract with PT Freeport Indonesia only benefits foreign investors⁶.

Yet PT Freeport Indonesia has no political risk insurance⁷ against risks such as nationalization. How could this be? Unfortunately for shareholders two good policies with the World Bank's Multilateral Investment Guarantee Agency (MIGA) and the US Government's Overseas Private Investment Corporation (OPIC) were canceled by the parent company in the last two years.

This was for one of two reasons. Freeport McMoRan Copper & Gold's version is that it no longer requires insurance "against political risks such as civil wars or nationalization"⁸ as the staff told MIGA. The unofficial version is that the insurance was canceled to avert the scrutiny and conditions that the Bank and US Government had required in return for their guarantee⁹. It is no secret that the company terminated its contract on the eve of an investigation into the mine by the Multilateral Investment Guarantee Agency¹⁰.

In either case the cancellation of these guarantees appears to be a major problem now with Indonesia on the brink of chaos. And they both stem from regrettable and avoidable management decisions about this resource development project. Such has been the pattern.

Take another example concerning the better known threat of civil unrest around the mine.

At last year's Freeport McMoRan Copper & Gold shareholders' meeting a compensation fund was proffered by management as the way to resolve the social problems at Grasberg which Vice President Paul Murphy admits keep him up at night¹¹. The proposed solution was known as the 1% Trust Fund because it put a paltry one percent of future profits to local development. Just this March a review¹² for the company of its silver bullet to the crisis, found it to be a failure:

"The large sums of money which were intended as an effort to resolve existing social problems have on the contrary become

a new source of difficulties and conflict. The general aim of giving these funds has not been attained."¹³ This kind of exercise can only hurt the investor—not simply in terms of money wasted but in the reputation the company has built locally and globally.

Despite the lack of careful management and positive community relations by PT Freeport, people around the mine remain committed to upholding their rights and working out solutions with the company. That this has resulted in them going to the courts in the United States to seek redress for historical abuses is as much a measure of the company's intransigence as it is a symbol of their resistance to being taken for granted and having their culture and homeland destroyed.

At base the parent companies controlling PT Freeport Indonesia need to work with the Amungme, represented by LEMASA (the Amungme Tribal Council), and other community groups to develop a plan for equitable benefit sharing from Grasberg. Prior, informed consultation and consent is a necessary condition for any future development at Grasberg, including the proposed expansion to triple production.

The way in which the company seeks community input is important in judging the validity of the process. As long as PT Freeport continues to attempt to buy community support with trinkets and beads, the Amungme and other communities are not being consulted—they are being bought. Only by establishing a process which recognizes that mine expansion is only an option, not a given, and that the local communities have the right to say NO to such development can there be true dialogue. Hiding behind the barrel of a gun held by soldiers won't help either.

These questions speak to a larger struggle of communities in resistance to abusive gold mining operations around the world. Grasberg is emblematic for at least two reasons: the epic battle of indigenous people against this, the largest open-cut mine is mostly over gold—a non-essential product which has a declining social value since 80% of it goes to jewelry. And this case involves two companies—Freeport McMoRan and RioTinto—whose names are synonymous with an abuse of social, labor, environmental and human rights wherever they operate.

HISTORICAL HORROR

It is well-documented that the Ertsberg and Grasberg mines have been the site of human rights abuses ranging from arbitrary detention to extra-judicial killing¹⁴. A 1995 study published by the Australian Council for Overseas Aid (ACFOA) describes a six-month reign of terror around PT-Freeport's operations in which 37 Irianese civilians had been killed by Indonesian military personnel operating in the area of the mine.

The ACFOA report showed that PT Freeport's security were "engaged in acts of intimidation, extracted forced confessions, shot three civilians, disappeared five Dani villagers and tortured 13 people."¹⁵ While some of these atrocities are from outside the mining concession area there is no doubt they occur as a result of the intense security approach of PT Freeport and the Indonesian government in securing the mine (SEE *Human Rights Issues at PT Freeport Indonesia*, page 7).

The reputation the ACFOA report gave the company has dogged it ever since with the Far Eastern Economic Review reporting in December 1997 that Freeport McMoRan Copper & Gold is known "as the most maverick American multinational in the world today"¹⁶. Such bad press isn't assuaged by the effort Freeport-McMoRan has made to improve conditions on the ground, such as their proposed and now abandoned 1% Trust Fund.

The sub-district of Timika, the location of PT-Freeport's mining concession has been the site of a major military build-up since 1995 and is the most militarized area of all Indonesia, including East Timor (SEE *Men with Guns*, page 6). PT-Freeport continues to provide for the military, and the company is now even allegedly building new bases for both naval and land forces to operate more easily in Irian Jaya (SEE *map*, page 5).

As one 11-year veteran expatriate worker explained it to mountain climber Mark Bowen, when he visited the mine before scaling the adjacent Carstensz Pyramid peak in the mid 1990s¹⁷:

"This place is a war zone. Used to be whenever (there was a fight with local people, the soldiers) would fly over some village in a helicopter gunship and wipe it out with napalm. The soldiers would shoot tribals for sport and get pictures of themselves resting a foot on the chest or head of the kill, like trophy hunters."

CORPORATE CULTURE VULTURES

Much of the trouble PT-Freeport's investors and executives find themselves in is a result of an unwillingness to

acknowledge the legitimate complaints of the traditional owners of the land around the Grasberg mine, the Amungme, as well as the community on whom they dump the mine's waste, the Komoro. The facts of social (page 7-8) and environmental (page 14-18) damage speak for themselves, what is questionable is the corporate response.

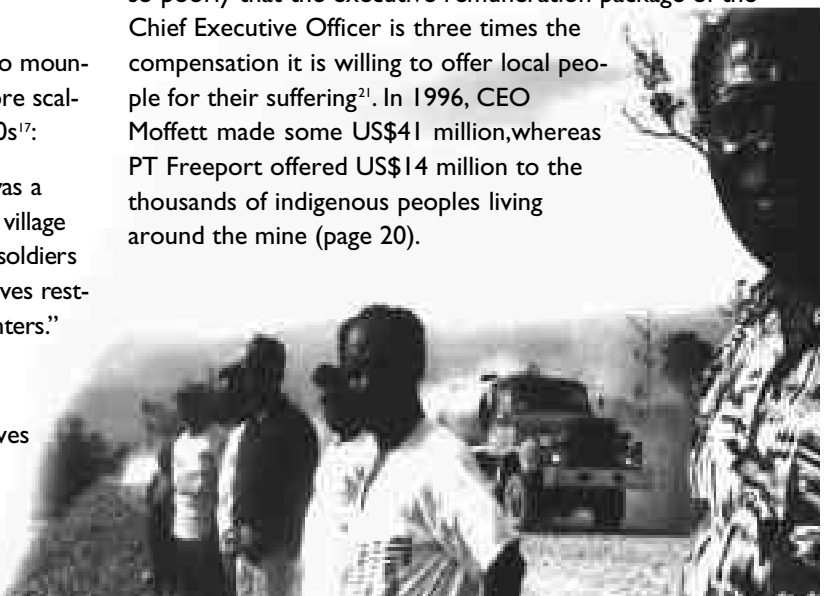
For example, if Freeport-McMoRan had caused its subsidiary to implement standard environmental management procedures and use practices required in the United States it would not have suffered the slew of adverse publicity it has seen in the last several years. Likewise had community relations staff been empowered by their bosses to acknowledge land rights and the need to compensate the affected communities in a way which they agreed upon, much of the social unrest and concerns of the Amungme and Komoro, the downstream community, would be allayed.

The Vice President of Community Relations of PT Freeport has said¹⁸ that they know the company has made mistakes and that, even for him, there was a line of abuse towards the local people that he would not tolerate. If and when that line is crossed, "I'll leave", he said. Our only question is when is enough, enough?

Hundreds of Amungme people out of a population of about 8000 have died in a pattern of political violence that has developed around the mining since it started 25 years ago¹⁹. PT Freeport has already begun to fulfill its ambitions to dig up an area the size of Vermont²⁰ and so desecrate the sacred land of these people.

And in the face of all this, the company has allocated resources so poorly that the executive remuneration package of the Chief Executive Officer is three times the compensation it is willing to offer local people for their suffering²¹. In 1996, CEO Moffett made some US\$41 million, whereas PT Freeport offered US\$14 million to the thousands of indigenous peoples living around the mine (page 20).

Members of LEMASA surveying the devastation of the Ajkwa Deposition Area



DEATH OF A DANI MAN

A recent, but previously unpublished, incident at the mine town of Tembagapura demonstrates who is suffering from the bad business practices at Grasberg.

On 13th September 1997 Yapenes Rony Magai, a Dani man, made it home after having apparently suffered a severe beating at the hands of PT Freeport security and police. It was probably a punishment for eating without permission at the company's mess in Tembagapura, while visiting friends from his home down in Kwamki Lama²².

Rony Magai's hands were cuffed and he had bruises to his head and body. While still conscious he recounted the treatment from the company staff people to three witnesses. Photos were taken of his body. He was taken to the hospital where a doctor confirmed that the marks were consistent with blows from a beating.

Rony Magai fell into a coma at the hospital and died the next day²³.

PT Freeport will try to say that was an isolated event, but the record stands as a testament to the fact that it is not²⁴. Taken in the context of the deaths over the last twenty years this is a symptom of the systematic human rights abuses stemming from the PT Freeport's operations (SEE also page 7). It is the company's responsibility to stop them.

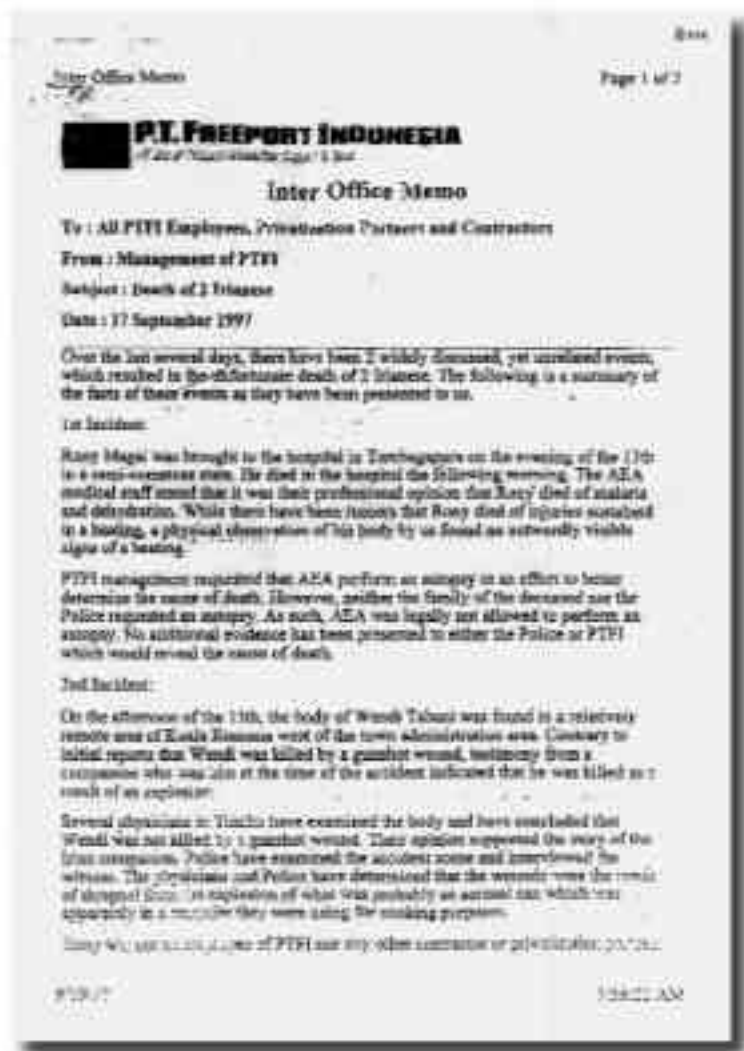
Instead, in this case the company tried to cover up its responsibility in the form of an "Inter Office Memo" (see inset) on the 17th September 1997. As you can see, in response to the rumors of physical abuse the management assures their staff that "a physical observation of his body by us found no outwardly visible signs of a beating" (our emphasis).

In claiming that the medical professionals stated that Rony died of malaria they directly contradict the account of Rony Magai's father and brother (a PT Freeport employee). They were told by the doctor present when Rony was brought to the hospital that the deceased had been beaten. A common cause of death for someone suffering malaria, and who is kicked and punched as Rony Magai was, is a ruptured spleen—a painful way to die.

As for the question of an autopsy certainly one should have been carried out. However the family were not even allowed by police to see the body.

And though it was in PT Freeport's best interest—if they had nothing to hide—to tell the family that they had the right to insist on an autopsy the management did not. Such inaction seems to contradict the claim that management wanted one performed.

In a letter responding to the Inter Office Memo²⁵, Isak Magai and Yapanus Magai (the deceased's father and brother) expressed their regret and anger over PT Freeport's actions during and after the death of their loved one. They demanded that PT Freeport take responsibility for the actions of their staff—instead in the usual cold-blooded way the management continues to wash their hands of the death of this Dani man. Isak and Yapanus Magai have yet to even receive a reply from the management.

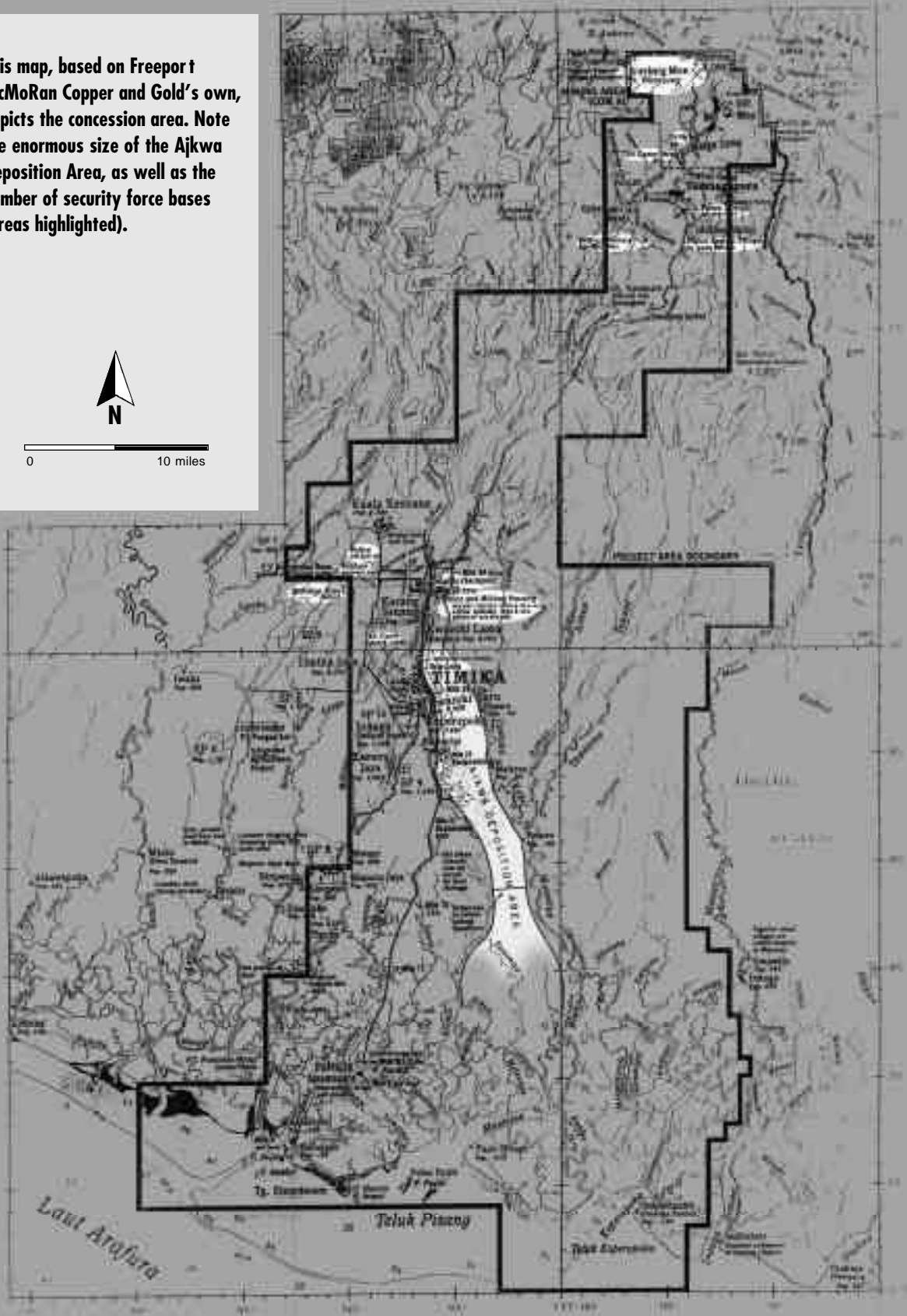


MAP 1: PT FREEPORT CONCESSION AREA

This map, based on Freeport t
McMoRan Copper and Gold's own,
depicts the concession area. Note
the enormous size of the Aikwa
Deposition Area, as well as the
number of security force bases
(areas highlighted).



0 10 miles



MEN WITH GUNS

PT Freeport Indonesia's relations with the military is the greatest impediment to any improvement in their relations with the Amungme and other people of Irian Jaya. PT Freeport provides support for the military (sometimes known as the ABRI) in an amazing variety of ways—amazing not just because it is shareholders money they pour into this effort but because of the lengths they'll go to appease the military even when human rights abuses continue to occur.

The company denies that it assists any "military personnel involved in combat operations," but admits that it provides "food, transportation and shelter to military personnel"²⁶ within the concession area. As well PT Freeport is reportedly providing support to troops throughout the region²⁷. At Amamapare, down by the port site that it uses for export, PT Freeport are helping construct a base for a Navy Unit Force in the area²⁸.

Barracks and bases for armed forces have been built throughout the company²⁹ concession, as evidenced by the map on Page 6 which shows all the different security installations as of late 1997. The Commander of Armed Forces, recently boasted that the Timika Military District Command (KODIM) would contain the greatest concentration of troops in the country³⁰.

In September of 1997, the month of Yapanes death, this mass of soldiers was reinforced and six Panzer V-150 armored cars were brought into the area³¹. Timika is the staging post for at least 1200 soldiers and certainly they have been on active duty since hostages were taken by the OPM (Organisasi Papua Merdeka) in 1996.

Dozens of killings are being reported since the hostages were released, in the village at the center of the crisis Mapnduma, an Amungme village about 120 km from the Grasberg³². The sweep through the area by Indonesian troops including Kopassus, the elite special forces under command of Suharto's son-in-law, is seen as a reprisal by the military for the embarrassment of failed rescue operations of the hostages.

Freeport McMoRan, probably knows that such close proximity to the military of a dictatorship like Indonesia can get a com-

PT Freeport management deny that their own security carry guns, but this photograph – taken in 1995 and published in CLIMBING magazine clearly shows the opposite. The man in the yellow helmet introduced himself to the photographer as a Freeport security employee and is carrying an AK47. Since this time and the ACFOA human rights report hitting the international stage PT Freeport has been much more careful with public displays of their own arms.

pany in trouble. As a result it tries to maintain a line of plausible deniability with the atrocities they facilitate. The company's management fallback³³ on an absolution by the Bishop of Jayapura and the National Commission on Human Rights (KOMNAS HAM).

Both these authorities said there was no direct staff involvement with the limited sample of documented cases of human rights abuses that they examined. However PT Freeport has failed to facilitate independent human rights monitoring into this area, where it is the de facto administrator³⁴, and refuses to recognize the systemic violation of rights which result from its operation.

"Jobsite personnel and their families or guests should not under any circumstances to handle weapons, including being in souvenir photographs, however apparently innocent the situation."³⁵

memo to employees on 12 December 1996



Photo: Mark Bowen

HUMAN RIGHTS ISSUES AT PT FREEPORT INDONESIA

In the Indonesian context, laws established by the New Order government guarantee the investor safety in their activities and make operating companies privy to a number of special rights which are designed to facilitate profitable outcomes (Mining Law no 11/1967 and its regulations, supported by the Foreign Investment Law no 1/1967 and Domestic Investment Law no 6/1968 and its implementing regulations)³⁶.

These special rights, combined with the full support of the state and its security apparatus, have meant that the potential for human rights violations perpetrated by the company or state increase in relation to the communities living around their operations. For the communities living around PT Freeport's Grasberg mine this cooperative arrangement has been a truly risky business. Human rights violations there have included*:

Violation of the Right to Self-Determination

Traditional land rights held by individuals, families or a tribe (suku) are not recognised as these are extinguished by the mining company's title, and as a result the basis of the indigenous people's social organization is denied (this despite the January Agreement of 1974 between PT Freeport and the Amungme).

Violation of the Right to Life

The extension of conflict over limited land and resources infringes this right in the exacerbated warring between tribes competing for land, now that the mine has acquired so much territory. People die as a result of this fighting³⁷, as a result of security forces' abuse³⁸ and may potentially die as a result of the environmental health impacts of mining.

Disappearances and Arbitrary Arrest

This has occurred within PT Freeport's concession and sphere of influence with disturbing frequency by the state apparatus³⁹. Other action by security forces has involved violation of the rights to a presumption of innocence and fair trial, and at times the right to peaceful assembly and freedom of expression.

Violation of the Right to be Free from Fear

Stigmatization with political labels such as OPM directed towards community members living around the Grasberg mine has created an atmosphere of fear and anxiety. Even alleged association with these organizations can lead to persecution.

Violation of the Right to Freedom from Torture and Cruel, Inhuman Treatment

A number of arrests followed by torture and degrading treatment causing physical and mental harm have taken place at Grasberg. While these are said to be for reasons of maintaining social stability it is clear that this violent approach is used to secure the asset—Grasberg—and this does not justify the means.

Violation of the Right to Subsistence

At Grasberg violation of this right is systematically implemented, for example for the downstream subsistence agriculturists whose land is now flooded with tailings.

Violation of the Right to an Adequate Standard of Living and Health

Forced removal, eviction and appropriation of land has taken place for PT Freeport. This has affected the fulfillment of their previously adequate standard of living, by depriving people of their land. The environmental pollution and destruction has impacted the right to health.

Violation of Children's Right to Protection

The conduct of security personnel implementing forced removal or "penertiban" (restoration of order) at Grasberg demonstrate an abuse of this right. Great trauma is visited upon children growing up in these conditions.

**Many of these violations were clearly established by the National Human Rights Commission in September 1995, including cases of indiscriminate killings, torture and inhuman/ degrading treatment, unlawful arrests and arbitrary detention, disappearance, and destruction of property (SEE Reports by ACFOA, US State Department 1995 - 97, Catholic Church of Jayapura as well as several articles cited in the footnotes).*



CURRENT CRISIS

This month May 1998, as shareholders in PT-Freeport's parent companies meet in New Orleans and London, the communities of Utekini and Pindah Baru in sight of the Grasberg mine faces the threat of Indonesian military action to oust them from their homes. It has happened before to other Amungme villages which were forcibly relocated to make room for the mine⁴⁰. The litany of violent acts around Grasberg, of which this is merely a current possibility, have had a commonality of purpose which was well-described by the United States' State Department in 1995: "Where indigenous people clash with development projects, the developers almost always win..."

Tensions with indigenous people in Irian Jaya, including the vicinity of the Freeport McMoRan mining concession near Timila, led to a crack-down by government security forces, resulting in the deaths of civilians and other violent human rights abuses."⁴¹

The current threat of relocation is very real⁴². In 1988, PT Freeport moved the lower-Waa village of 1,000 people to the coastal lowlands in order to expand their facilities. In one month alone, 38 people died from malaria⁴³.

Demonstrating callous disrespect for the indigenous people, PT Freeport employees made room for their town expansion by unearthing and moving about 50 corpses from the lower-Waa

cemetery. The same thing happened at upper-Waa, but some indigenous people from that village returned and rebuilt their homes, prompting the company's Government Relations Office to call in security forces.

As you can see the local people have to struggle with the historic reality that the state security apparatus is there to serve the company and not to protect the people from abuse (SEE *Human rights violations* page 7). Certainly in relation to the possible relocation of Utekini the past portends a frightening future for several groups and leaves them with little hope.

On other issues the Amungme's reasonable requests for intervention from the government and company are similarly thwarted (SEE Box this page). As a result these people have been forced to forge an international campaign for redress against the abuses of PT Freeport Indonesia. Non-governmental human rights and environmental organizations as well as churches and con-

cerned shareholders have rallied to support them. But perhaps their boldest move has been to take it to Louisiana courts, home of the parent company. For Freeport McMoRan this has created a crisis.

In September of 1997 LEMASA (the Amungme Tribal Council) released a statement, "concerning the human rights situation and prolonged conflict in the area of operation of PT Freeport Indonesia, Mimika, Indonesia".

It was submitted to the National Commission on Human Rights (known as KOMNAS HAM) and called for this body to investigate fully the circumstances surrounding the deaths of several individuals in the last two years.

They demanded that PT Freeport be open to this investigation, and that KOMNAS HAM routinely monitor the situation in Timika. Amongst the ten cases of alleged abuse that LEMASA demanded be investigated were:

- Neles Amisim and Beny Waker who died in a civil war in March 1997, while security forces and police allegedly stood by and refused to intervene.
- Charles Ijje, who died as a result of an assault by police forces (BRIMOB) in June, 1997.
- Mathias Timang who disappeared in June 1997.
- Stevanus Takage and Timotius Koga who were shot by troops of the infantry battalion 733 on the 22nd August, while protesting the deaths of Nella Pakage and Akulian Kotouki.
- Nella and Akulian were riding in a white pickup truck on the 20 August 1997 along the main road maintained by PT Freeport when they mysteriously died. This led to an outbreak of demonstrations with allegations that the two were murdered.

These and others of LEMASA's well-founded concerns have not been addressed. It is little wonder the Amungme have resorted to taking their case to the international arena and United States court system.

THE PAINMAKER

PT Freeport's parent company, Freeport McMoRan Copper & Gold (hereafter Freeport McMoRan) is facing two major lawsuits in Louisiana State and the Federal Courts about the human rights issues surrounding Grasberg⁴⁴. Tom Beanal, an Amungme leader and principal litigant in one case, explained his need to make a claim in the Federal court at a preliminary hearing, "Justice is something to be struggled for in Indonesia"⁴⁵. The company has tried to argue that US courts have no jurisdiction, but they have been unsuccessful in the State of Louisiana. A Federal court decision against the class action is on appeal.

On April 15th 1998 the appellate court in the State reaffirmed earlier decisions⁴⁶ that determined these questions could be judged in Louisiana⁴⁷. As a result of that finding things are proceeding fast. A sheriff attempted to serve CEO Moffett with a court order to make a deposition on the 25th of April but he could not be found at the Freeport McMoRan offices. Strangely his staff did not know where he was either⁴⁸.

This fact alone—that there will be a protracted court trial or an expensive out-of-court settlement—represents a major and unnecessary expense for shareholders. Freeport McMoRan, in New Orleans, has to defeat a class action claiming that it has been involved in negligent and/or intentional corporate decisions relevant to the poor conduct of security personnel at Grasberg, in Irian Jaya as well as various other human rights abuses.

Through the process of discovery this company is now on the brink of an unprecedented disclosure of confidential information regarding its operations in Indonesia. At worst the exposure of internal documents may lead to the clarification of Freeport

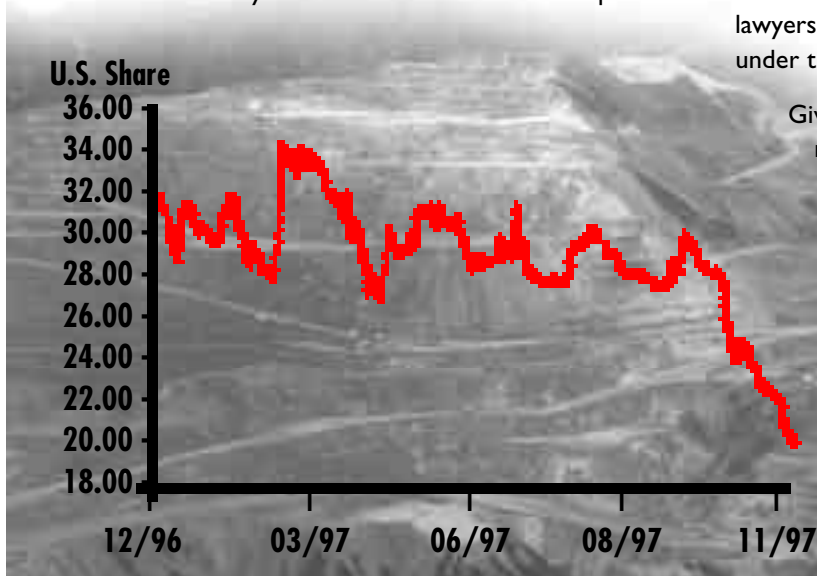
McMoRan's role in the human rights abuses at Grasberg. The jury could decide in favor of the plaintiffs to award compensation payments as well as punitive damages. Regardless of the decision they have already suffered adverse publicity⁴⁹.

Shareholders are paying for this. The legal costs of defending the claims, lodging counterclaims and appeals are mounting. This case, and that lodged in the Federal Court system, has been a subject of concern for the company for two years. Although CEO Moffett tried to dismiss it as inconsequential at the 1997 annual meeting, it has clearly become a thorn in the side of the company. Given the recent court order to make a deposition it may become his crown of thorns.

The only likely alternative to the embarrassment and potential public relations debacle of a jury trial is to seek an out-of-court settlement with the community members pressing the suit. Precedents show this to be nearly as costly an exercise as prolonging the battle in the courts. When BHP was sued in Australian courts by the indigenous landowners downstream of the Ok Tedi mine that the company operated in Papua New Guinea (about 300 miles east of Grasberg) the company first tried to deny the seriousness of the suit.

After a while they realized that the claims would stick and were even starting to appeal to the Australian public's sense of justice. Following several legal efforts to beat the case on technicalities, similar to those Freeport McMoRan has tried, BHP were forced to negotiate an out-of-court settlement in 1996 with the community. This included individual compensation and clean-up of the environmental damage from the mine. Apart from its own legal fees, and the millions it paid to the plaintiffs' lawyers, BHP had to fork out approximately \$100 million under the agreement with the Ok Tedi landowners.

Given the likelihood that US law may uphold alien tort rights more than Australian law the BHP/ Ok Tedi case outcome does not bode as a positive comparison for Freeport McMoRan. Furthermore, US Federal Court judges in Los Angeles recently found that if a US corporation could be found to be involved in human rights abuses then it may be held liable, while considering a case concerning Unocal, a US-based oil company, in Burma. In the case involving Freeport McMoRan the human rights violations are already known and the benefit accruing to PT Freeport from the security approach is relatively clear.



THE ODD COUPLE

The dissonance between the worldview of the Amungme and PT Freeport is another obstacle to progress in relations around the Grasberg mine. That the indigenous people cherish this land is self-evident. That the mining of such vast volumes of the earth desecrates the place for them is also. The nub of the environmental impacts of this scale of mining is as much a spiritual issue for the Amungme as it is a technical managerial one.

Mining is a dirty game in Indonesia because it supersedes any notion of indigenous land rights in the national hierarchy of priorities, as in much of the world. Under Indonesian law no compensation need be paid to traditional owners of mined land; only “recognition” for assets lost, in the shape of roads and other social facilities⁵⁰. Landholders are not entitled to royalties, while environmental regulations have little effect⁵¹ and as a result foreign companies often practice double-standards regarding management of impacts from mining.

But PT Freeport brings a kind of zeal to the task of mining. Once, after describing Grasberg as the world’s greatest mine because of its size, Jim Bob Moffett claimed “this is not a job for us, it’s a religion”⁵². No wonder the company is at such odds with the Amungme who have a deep spiritual link to the land.

The Amungme regard the top of the mountain, which PT Freeport has it as their mission to remove, as the head of their mother (SEE *Inside Cover*). According to their oral traditions the Amungme will always remember the mother just as the mother will always remember them. When an Amungme dies, s/he goes back to the lap of the Mother, wherever s/he may be at the time of death. S/he will go back to the mountain.

Out of the mountain flows water. To the Amungme, the water symbolizes the tears of the Mother, who is eternally crying out of her love for her children. The tears are shed so that her offspring

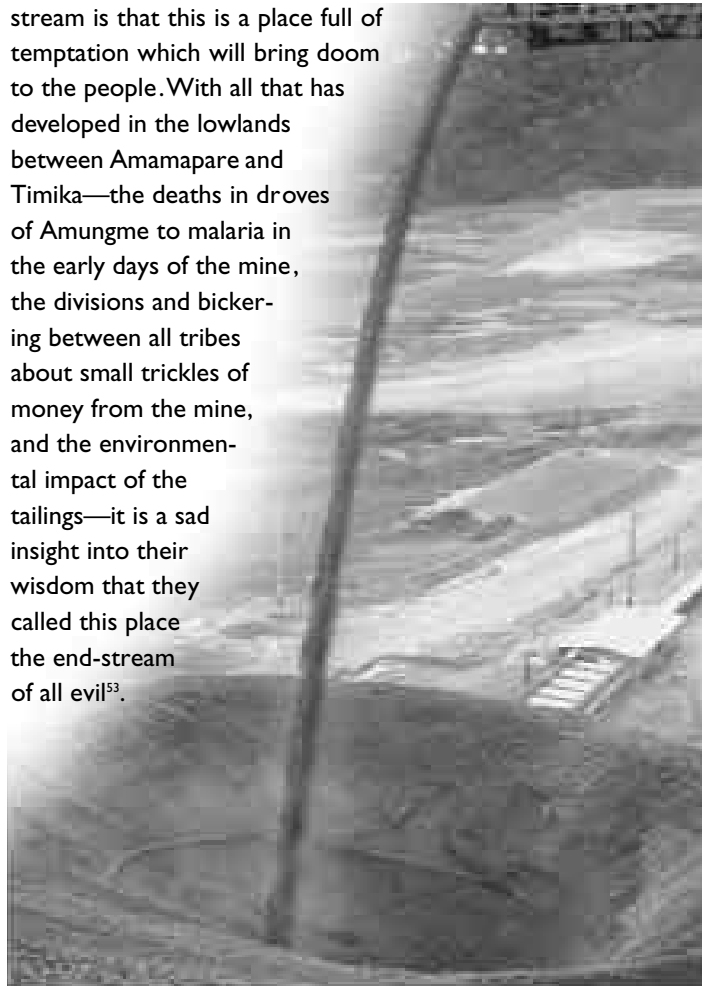


can use it to sustain their lives. The changes to the water quality flowing from the mountains in the Amungme valleys along the Aghawagong and Ajkwa Rivers has clearly detracted from their Mothers’ ability to provide for them.

These smaller valleys where the Amungme live are the very place their Mother chose for them. They regard this land as fertile and safe, as it is close to the breast, heart and shoulder of the Mother. It is in this spot that the Amungme are supposed to live peacefully and be safe, in the land of their dreams, but it is from these valleys that they are being displaced by the nightmare of PT Freeport’s activities.

The coastal areas are considered a nice place to look at but not a good area to live as they are full of dangers. The Amungme might want to spend their leisure time or do some hunting there, but they believe that if they spend too much time in the coastal area they may become sick or even die.

Ironically, the Amungme’s cosmological view of the area downstream is that this is a place full of temptation which will bring doom to the people. With all that has developed in the lowlands between Amamapare and Timika—the deaths in droves of Amungme to malaria in the early days of the mine, the divisions and bickering between all tribes about small trickles of money from the mine, and the environmental impact of the tailings—it is a sad insight into their wisdom that they called this place the end-stream of all evil⁵³.



A WEeping WOUND

Grasberg has already left an open wound on the land of the Amungme that is incomparable to any other gold mine site in the world. The company continues to excavate, at an ever faster rate. In the following pages we describe what this looks like as Grasberg weeps heavy metal and other toxic substances into the life blood of the alpine environment and rainforest

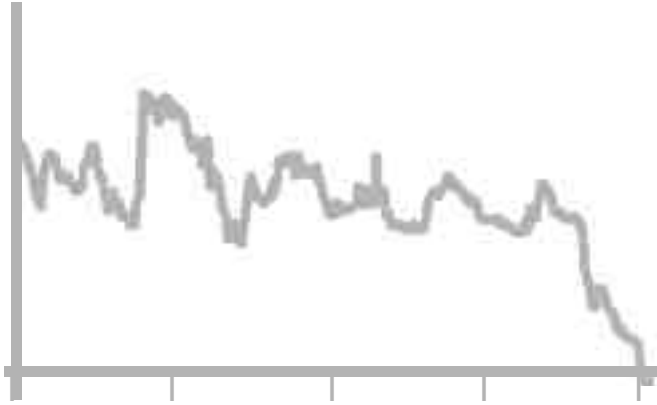
ecosystem below. We also consider the sheer scale of management problems that the company needs to take care of, if it is to protect itself and its investors in the future. And finally, we expose the fact that PT Freeport is operating inside the Lorentz National Park, a crucially important National Park, following what may already be a trail of illegal exploration activities.



Photo: Pat Morrow

Taken from a neighboring peak, this photo shows how PT Freeport has literally flattened a mountain (in the background is the Grasberg mine). “In a country of mountains why shouldn’t one be sacrificed in the name of progress?”⁴⁰, says PT Freeport’s spokesperson. This is not an adequate response to people who see this mountain as sacred.

TOP TEN RISKS FOR INVESTORS IN PT FREEPORT INDONESIA



Financial Risks

1. Worst performing stock in 1997.

Business Week placed Freeport McMoRan Copper and Gold, Grasberg's grand-daddy, lowest in the Standard & Poor's 500 index for 1997 with a 53.9 percent decline in share price. USA Today ranked Freeport McMoRan's stock the fifth worst for 1997 because stock was worth 49.6 percent less than a year before. By comparison the Standard & Poor's 500 index as a whole rose by 27.8 percent⁵⁴. The company has lost something in the region of three billion dollars in market capitalisation in the midst of this bull market.

2. Copper and Gold Prices Plunge

PT Freeport's future is completely dependent on the price of copper and gold. Gold prices plunged heavily from close to US\$400 a troy ounce in 1996 following market jitters over central bank gold sales. The price fell below US\$300 an ounce last November, a 12.5-year low, while copper prices hit a three year low from US\$1.25 a pound in 1995 to 93 cents in late 1997. The Asian economic crisis is expected to significantly curtail demand for copper, keeping the price low for the foreseeable future.

3. CEO Compensation

Executive compensation at Freeport McMoRan is indicative of the misguided priorities in the corporation. Moffett's pay was more than 33 times greater than his nearest competitor in the gold industry, Ronald Cambre of Newmont, whose company raked up a 42 percent sales increase last year versus Freeport's five percent. Moffett has consistently been ranked as overpaid since 1990 by Graef Crystal, the corporate compensation expert⁵⁵. Meanwhile his company consistently underperforms—from the bottomline to the higher moral ground.

Security Risks

4. Local Riots

In both 1996 and 1997, riots in Timika were sparked off by confrontations between Freeport and military personnel and local people. A number of people were killed in each incident, and Freeport's vehicles, equipment and laboratories were smashed by angry crowds. Not only do these threats cost money and cause work to be stopped or slowed they illuminate the bigger risk of the Indonesian military enforcing a protection racket on the company.

5. Security: Response or Racket?

Observers have speculated that much of the violence in the Timika area is military-induced and enacted⁵⁶. This is perceived as a warning to PT Freeport not to try to reduce their dependence on the military or withhold payments made to them. Lesser stories of a standover abound—like the unloading of PT Freeport's warehouse supplies by soldiers in Tembagapura or the commandeering of company helicopters to which the company turns a blind eye⁵⁷. The risk that this entails is obvious—ranges from the company losing complete control at the mine to getting bad publicity due to the ongoing violent actions by security.

6. Indonesian Instability

Indonesia is undergoing its greatest political and economic crisis since Suharto took power in 1965⁵⁸. Many observers believe Suharto will have to leave office very soon, if he does not die before he is forced out. PT Freeport's future is tied to that of the dictator. Potential leaders of a post-Suharto Indonesia, including Amien Rias, have already spoken out about the favoritism this company has received due to its links to the Suharto's companies.



TOP TEN RISKS FOR INVESTORS IN PT FREEPORT INDONESIA (cont.)

Environmental Risks

7. Mining Waste

Freeport expects to dump three billion tons of waste rock in local alpine valleys, and as much as 285,000 tons of potentially toxic mining waste into local rivers every day³⁹. The conservative estimate of the impact of this disposal is the destruction of 130 square kilometers of lowland rainforest and a 1500 feet deep crater. The longer the company fails to implement standard environmental management procedures the greater the liability they create for themselves and the downstream communities. The proposed expansion of Grasberg will only exacerbate these impacts, as will any new mines in the Lorentz National Park (SEE *Son of Grasberg*, page 19).

8. Acid Mine Drainage (AMD)

The potential health and environmental effects of the acid drainage from the three billion tons of waste rock and tailings are unprecedented anywhere on the planet. According to the company's audit, AMD has already been detected feeding into streams around the mine site. Once the neutralization potential of surrounding limestone is used up the mine will leach thousands of tons of highly toxic heavy metals into local water systems. The longer the company mines the area the more likely it will see the effects of AMD and be held responsible. PT Freeport's bonding and post-mine closure plans are inadequate to deal with this problem.



Legal Risks

9. Freedom of Information

Under the Freedom of Information Act (FOIA) two journalists petitioned the US Federal Government to release the data used by OPIC to determine that the Grasberg mine was destroying tropical forests. Freeport McMoRan and an unwilling OPIC have waged a two year, \$100,000 lawsuit against them to keep this material from seeing the light of day. If it gets out, which most precedents under FOIA suggest it should, the public will have access to environmental studies, photographs and files showing just how badly managed Grasberg really is. This is sure to provide more ammunition for more lawsuits.

10. Litigation

On April 15th the state of Louisiana Court of Appeals re-affirmed Yosefa Alomang's right to sue the company in this jurisdiction for human rights abuses. There are no more hurdles to the plaintiffs' lawyers now bringing Freeport McMoRan into a full disclosure process, in which any past mismanagement may be revealed. This could include the environmental data the company has suppressed (above). CEO Moffett and other officers will be required to make depositions under oath in response to the claims against Freeport McMoRan and the legal discovery process will unearth company correspondence as this class action lawsuit goes to a jury trial.

THE KNOWN IMPACTS

PT Freeport's gold-mining operations in Irian Jaya are at elevations of more than 13,500 feet above sea-level in the central highlands of the island where the company has ground 400 feet off the top of one of the mountains. Within 40 years all that will be left is a 1,500 foot crater surrounded by new, corporate-made mountains of crumbling, acid-leaching rockwaste and a wasteland downstream stretching to the coast.

The Amungme's cosmology depicts this mountain as the sacred head of their mother and Freeport is digging out her heart. In a disturbing echo of this analogy, at last year's shareholders meeting, CEO Moffett described the company's activities as taking "a volcano that's been decapitated by nature, and we're mining the esophagus, if you will".

The first mine at the site, known as Erstberg, did relatively little environmental damage during the 16 years it was in operation. But through the discovery of new ore reserves in 1989, that would later be called Grasberg, the operation is now undergoing an expansion which makes it greater in size and impact than any existing gold mine. Now that a fourth mill is being built daily throughput will exceed 200,000 tonnes of ore (it is likely to expand to 230,000 tonnes) this year, and 300,000 tonnes a day within the next eight years⁶¹.

Much of that rock is being dumped into the Aghawaghon river, which merges into the Otomona and Ajkwa rivers⁶², as waste known as tailings. In the near future PT Freeport plans to increase its dumping of untreated tailings to 285,000 tonnes daily; the equivalent of a ten tonne dump truck tipping a full load into the river system every 3 seconds⁶³.

Tailings⁶⁴ are a slurry of finely ground ore from which the economic minerals have been removed. The term "tailings" is used to describe a combination of mine wastes including fine clays, flotation tailings, chemical precipitates and slimes. They are potentially the biggest source of heavy metal pollution resulting from gold mining activity and are the most difficult by-product to contain.

To place this quantity of discharge in a regional context, the controversial Ok Tedi Copper mine in Papua New Guinea disposes of approximately 80,000 tonnes of tailings per day into the Fly River system. Before it was closed, the Panguna mine on Bougainville dumped approximately 130,000 tonnes of tailings per day into the Jaba River⁶⁵.

Ok Tedi was the subject of a lawsuit by indigenous people downstream which ended in 1996 when the company acknowledged the mistakes it had made and paid \$150 million in compensation⁶⁶ and clean-up costs. Bougainville has been the home of a civil war which cost as many as ten thousand lives since 1989. The civil unrest on Bougainville stems in large part from the impacts of tailings dumping from Panguna on downstream communities.

In comparison, PT Freeport continues to dispose all of its tailings directly into the Ajkwa River System. This causes it to also impact the Minajerwi River, the next river in the east. This is because the Ajkwa has breached its banks in the lowlands due to sedimentation below the mine and spilled across the floodplain. PT Freeport has built levees to contain the tailings in this watershed, and given it the disingenuous name of the Ajkwa Deposition Area—rendering a 130-square kilometer sacrifice zone.

The practice of riverine tailings dumping has drawn considerable condemnation from the international community and was cited as the primary reason for the cancellation of Freeport's political risk insurance by the Overseas Private Investment Corporation (OPIC) in October 1995. It is illegal in the United States and all developed countries with significant mining sectors for the very reason that it has been known to destroy important ecosystems for the long term.

Even before extracting metal-bearing ores and the production of tailings, all mining operations remove overburden—a term that covers everything over the ore such as trees and the earth's crust. Overburden exists in a ratio of about three to one of the ore at Grasberg⁶⁷. PT Freeport has begun piling this overburden in two alpine valleys adjacent to Grasberg and expects to move three billion tonnes of this waste rock in the next 40 years.

This is a quantity equal to twice the amount of earth extracted to build the Panama Canal. To the west 114 hectares, of a meadow known as Carstenzweide will be covered over 800 feet deep, and on the other side of the mine 769 hectares of the Wanagong valley will be filled 1,500 feet deep. All of this loose, crumbling rockpile will be prone to a range of risks from leaching acid to subsidence and landslides. These phenomena have occurred at other mine sites around the world but in the case of Grasberg they will take place on a much larger scale.

THE LESS WELL-KNOWN IMPACTS

SOIL

Due to international concern about contaminants in the tailings, PT Freeport finally agreed to implement an environmental monitoring program at Grasberg. However, PT Freeport's sample data is not available to the public, and the company refuses to permit independent institutions to undertake monitoring activities within the mining area. Consequently, credible information about the environmental impact of the mine is scarce.

Based on samples collected at Timika in mid-1995 by an American citizen⁷⁰, Project Underground has developed a revealing analysis of the pollution problems from the mine⁷¹. Samples were taken approximately 100 km south of Grasberg

along the Ajkwa river (NB impacts are likely to be much worse closer to the mine). Despite recent increases in mine output it is unlikely that the concentration of metals found at this location have changed significantly in the intervening period. While the sediments on the Ajkwa river contain relatively low levels of zinc and lead, they contain extremely significant quantities of copper. This finding is no surprise since CEO Moffett, at the 1997 annual meeting of Freeport McMoRan Copper & Gold, admitted the company loses 200 tonnes of copper a day in its tailings dumping. Not only is this bad business—literally throwing away the product the company is there to produce—it is clearly dangerous.

Copper concentrations in these sediments were found to be 38 times the level at which the Australia and New Zealand National Health and Medical Research Council (NHMRC) recommends a site be declared “contaminated” and subject to an investigation to assess the health risk posed to neighboring communities. These are comparable to World Health Organization and US EPA standards.

WATER

Tailings disposal has also had a dramatic and detrimental effect on water quality in the Ajkwa River System. This is evident from a photographic view of the river. In June 1992, Freeport's Environmental Manager told local people to stop eating sago

Fig. 1

	Copper	Zinc	Lead
Ajkwa River Sediment (n=3)	2290	53.3	1.35
World Shale Standard ⁷²	45	95	20
NHMRC*	60	200	300

All concentrations in parts per million (ppm)

* National Health and Medical Research Council Guidelines for the Assessment of Contaminated sites⁷³



The sediment load of rivers downstream of Grasberg makes them nonpotable, according to local government officials.

palm because of the contamination. Five years later an official of the Irian Jaya regional government warned against drinking river water—giving it a “D” public health rating.

The sheer sediment load is enough to make the Ajkwa River water nonpotable—but it is worth keeping away from for far more insidious reasons. Figure 2 displays recorded concentrations of selected contaminants against recognized drinking water contamination limits and against guidelines for the protection of aquatic ecosystems. These samples were taken at Timika, the main population center in the area.

Fig.2

	Copper	Iron	Zinc	Lead	Mercury
Ajkwa River Water (n=3)	2160	20,900	260	34.2	4*
Drinking water limits ⁷⁵	1000	300	NA	50	1
Freshwater life ⁷⁶	5.0	1,000	50	5.0	0.1

All concentrations in ppb. NA-Not applicable

* Recorded by PT Sucofindo 1997 (SEE MERCURY below).

The water samples from the Ajkwa River contained five species of heavy metal at concentrations significantly in excess of ANZECC guidelines for the protection of freshwater life. In addition, four of the five assayed metals were recorded at concentrations significantly in excess of standard limits for human use and consumption.

The overburden generated at Grasberg has a “moderate to high acid generating potential” according to the company’s own studies⁷⁷. It is likely that the tailings dumped into the downstream valleys also contain substantial sulfide minerals. This, in turn, is likely to result in even higher quantities of metals being released into the riverine environment as they are dissolved in this acidic solution. Dissolved metals like this are particularly toxic due to the ease with which they are assimilated by aquatic organisms.

COPPER

Copper, for example, is highly toxic to most freshwater and marine invertebrates and is more toxic to fish than any other heavy metal except mercury. Exposure to chronic levels of copper in the range 0.02-200 parts

per billion (ppb) have been found to reduce survival, growth, and the rate of reproduction in many species, while it may also cause gill secretions causing death by suffocation⁷⁸.

The Ajkwa is more than ten times that limit because of PT Freeport’s dumping. As a result it is not surprising that locals regularly report fishkills and other symptoms of major contamination of water supplies in the region.

“Today it is hard to find the yuaro, lifao, mufao, irao and ufurao—the traditional fish that we used to catch. The fish that we find tastes bitter like malaria medicine. The only fish that thrives is the mujahir, a fish from Java. We have to walk 20 kilometres from here to find food,” says Agapitus Maerimau, a Komoro person who lives in Nuaripi, a small community of 160 people along the Ajkwa⁷⁹.

MERCURY

In May 1997 PT Sucofindo, an Indonesian environmental consulting firm, found mercury concentrations in the Ajkwa River forty times the ANZECC level for the protection of freshwater life, and four times the level recommended as safe for human consumption by the Indonesian government⁸⁰. Two months later PT Sucofindo released an “improved” report which showed mercury levels actually right on the legal limit.

Subsequent findings to those initially reported may indeed be different because it is possible that the Grasberg ore body can have different concentrations of mercury in different places. Nonetheless, even periodic discharges of this metal are of concern because of the extreme toxicity of mercury and its potential for accumulating in both freshwater and marine environments⁸¹. Only independent monitoring will satisfactorily resolve the questions concerning mercury contamination from PT Freeport’s mine.



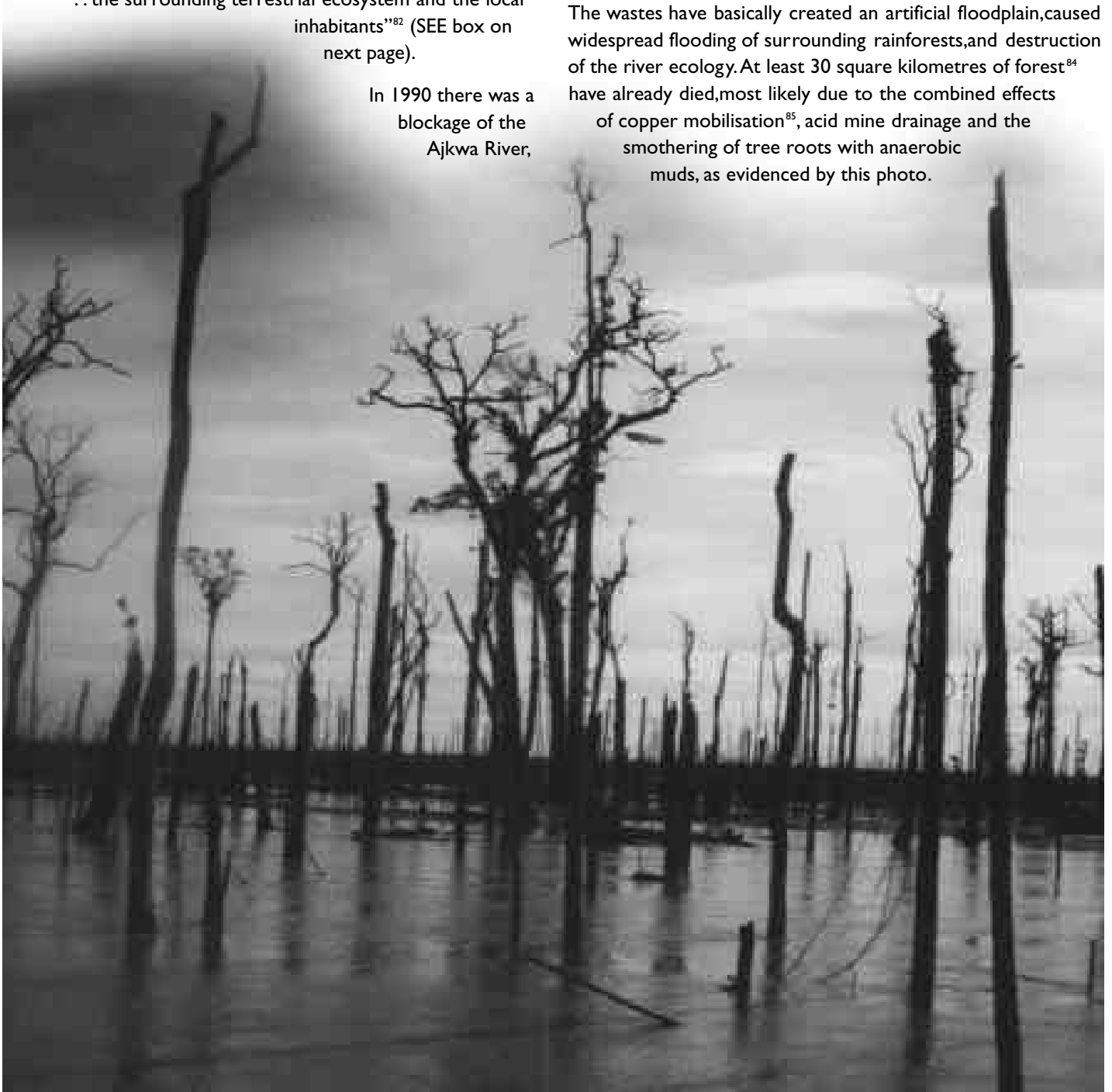
DEATH OF A RAINFOREST

US Federal Government consultants, after detailed assessments, stated that PT Freeport's "tailings management and disposal practices have severely degraded the rainforests surrounding the Ajkwa and Minajerwi Rivers" and in addition "the Project . . . continues to pose unreasonable or major environmental, health, or safety hazards" for "the rivers, . . . the surrounding terrestrial ecosystem and the local inhabitants"⁸² (SEE box on next page).

In 1990 there was a blockage of the Ajkwa River,

caused by the sediment being dumped at Grasberg, which changed its course and caused it to sheet over into the neighboring Minajerwi River⁸³. PT Freeport has built "levees" on either side of the Aikwa River to prevent lateral transport of tailings (see map page 5), but damage to the riverine rainforest ecosystem is intense as a result of Grasberg.

The wastes have basically created an artificial floodplain, caused widespread flooding of surrounding rainforests, and destruction of the river ecology. At least 30 square kilometres of forest⁸⁴ have already died, most likely due to the combined effects of copper mobilisation⁸⁵, acid mine drainage and the smothering of tree roots with anaerobic muds, as evidenced by this photo.



OPIC DECISION

In response to OPIC's cancellation in October 1995 of PT Freeport's political risk insurance on environmental grounds the parent company, Freeport McMoran launched an expensive lobbying and legal campaign against OPIC's decision. They enlisted former US Secretary of State Henry Kissinger (a director of Freeport McMoran) and former CIA director, James Woolsey, as formidable apologists. Kissinger (SEE page 21) and others sought to intimidate other OPIC customers, threatened to lobby the US Congress to cut OPIC funding, and even tried (unsuccessfully) to pressure the US government to cut its funding to the environmental organization, WALHI, which had been the first Indonesian NGO to raise public concern about the environmental impact of the mine. Louisiana politicians Democrat Senator John Breaux and Republican Representative Billy Tauzin—who had each received major campaign contributions were amongst the most vocal critics of OPIC⁸⁹. With the cost to OPIC of the dispute estimated at between \$US100,000 and \$US200,000 a month in legal fees⁹⁰ the agency subsequently reinstated the insurance for a limited period of 6 months, in exchange for a commitment by the company to set up a \$US100 million trust fund to remediate the site when the mine closed⁹¹. Nevertheless, in February 1997 Indonesia's Environment, Minister Sarwono Kusumaatmaja, accused PT Freeport of carelessness and negligence in their management of tailings, declaring that the company's mistakes made it difficult for the company to repair its reputation⁹².



Tom Beanal standing in front of mine wastes that have changed the course of several rivers, created an artificial flood plain which will destroy more than 130 square kilometers of forest.

Apart from the tailings deposition and exaggerated braiding of the Ajkwa river other river courses changed by the mine include the Pika, Uamiau and Aimua, according to an expert from the Indonesian Ministry for the Population and Environment⁸⁶. Comparing the conditions below Grasberg with an analogous situation on the Ok Tedi River in Papua New Guinea, it seems unlikely that these forest areas will recover for decades.

THE FUTURE IMPACTS

Through a chemical weathering process by which sulphites in the tailings are exposed to air and water, the so-called Ajkwa Deposition Area could become a perpetual pollution machine, slowly leaching sulphuric acid into the ecosystem. Acid mine drainage has already been recorded within the main waste-rock dump, and is likely to accelerate⁸⁷.

As a result of this time-bomb of acid mine drainage the worst impact of PT Freeport's operations is yet to be felt. Right now this process has been slowed down by the presence of natural limestone deposits, but their capacity to neutralize the acid will soon run out due to the finite chemical reaction between them.

The potential effects of acid mine drainage are devastating. They include destroying the ecology of entire river systems both by raising acidity to dangerous levels and by releasing dissolved heavy metals into the river system. The altered pH levels in the Ajkwa river have already restricted the growth of microbial benthic organisms—a prime food source at the bottom of the food chain⁸⁸.

This acidic environment will cause associated metals such as copper, mercury and arsenic to come out of the rock in the leachate and enter the water table and surrounding environment. Once acid mine generation begins around the Ajkwa Deposition Area the accumulated toxic substances could spread through the watertable and cause the biological death of much of the region, including the Lorentz Nature Reserve, located just a few miles eastward.

Planned expansion of mining by PT Freeport, which Rio Tinto is funding, ensures that Grasberg's deleterious impacts on the environment will worsen. The site for further tailings disposal has not yet been finally identified but options include damming a local river valley for tailings storage, piping tailings to the Arafura sea or to the north for submarine disposal offshore in Cenderawasih Bay. All of this threatens to compound the environmental toll PT Freeport has already exacted on the region.

SON OF GRASBERG

In 1997, a World Wildlife Fund-Indonesia report⁹³, revealed for the first time that Freeport's Contract of Work 'B' as well as two mining leases shown as being owned by the companies PT Montague Mimika and PT Nabire Bakti Mining, fall wholly or partially within the Lorentz National Park (see Map 2, this page). This is arguably one of Indonesia's most important protected areas and PT Freeport is operating in the middle of it in pursuit of a deposit known as "Son of Grasberg". Ironically part of the justification for establishing Lorentz was to preserve biomes being destroyed in the concession adjacent to it by PT Freeport's mines.

PT Freeport's public documents such as the 1997 map outlining its operations (see map 1, page 5), show the contract of work area abruptly stopping exactly at the Lorentz Reserve Boundary. This may be an effort to conceal the overlap of PT Freeport's exploration with this National Park (SEE Map 2).

Following the discovery of the overlaps between the three mining concessions and the Lorentz National park, World

Wildlife Fund Indonesia commissioned a report from the Indonesian Center for Environmental Law on the status of the mining concessions and the possible illegality. Their report states:

"The Joint Decree by the Ministry for Mining and Energy and the Ministry for Forestry, No. 969/1989 . . . rules that within certain areas it is forbidden to undertake mining and energy activities. These certain areas are National Parks, Tourist Forests and Forests with Special Purposes."⁹⁴

The report goes on to state that it appears that the original leases were issued in breach of proper procedures. Furthermore, because the status of the Lorentz area was changed from Nature Reserve to National Park the original concessions which would have been legal while the area was a nature reserve would now be illegal unless the mining exploration concessions were excised from the National Park.

There's a long and complicated history of exploration leases and acquisition⁹⁵ within Lorentz National Park, and it is unclear who owns the other two exploration concessions. WWF-I found that the main concession, that held by PT Montague Mimika (PT MM), expired on June 19, 1995⁹⁶. Thus a new application for a concession would be needed which would now apparently be illegal because it is in a National Park.

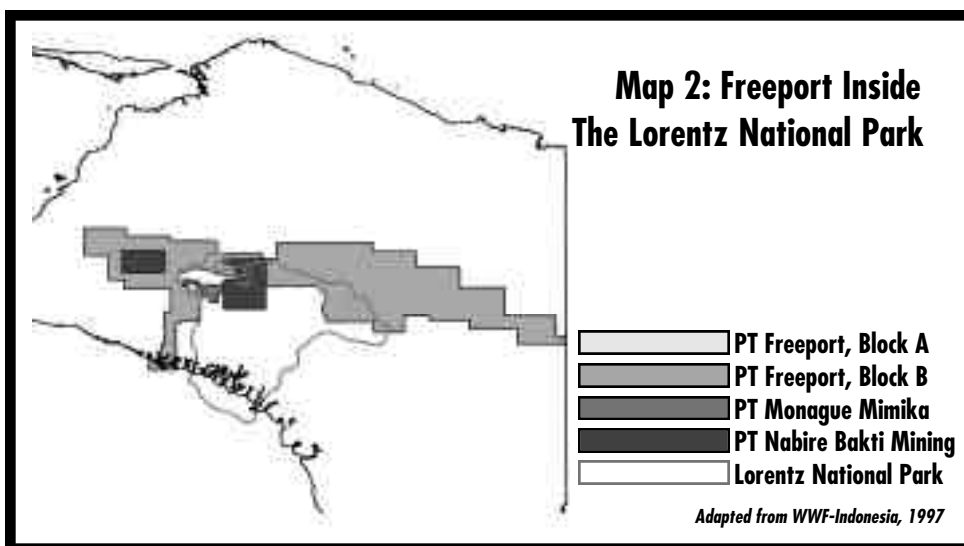
Apart from the environmental risks there are also social problems for communities affected by new mining activities within Lorentz. Residents around Tsinga, the nearest major community, report regular helicopter flights including some carrying military, into the area in a wave of new activity coming from Timika⁹⁷.

The early exploration operations which led to the discovery of the Son of Grasberg deposit, were opposed by Amungme who staked out the area in a way to try to prevent further exploration⁹⁸. PT Freeport did not then and, until recently, has never made any claim to a legal concession within the area of the Mamo deposit however. The area containing the Mamo deposit was apparently included in a Contract of Work issued to a company controlled by American-Canadian mining magnate Robert Friedland, called PT Montague Minika, on December 21, 1987.

Confirmation given within Freeport Contract of Work

Suspicion that PT Freeport is operating in Lorentz has recently been confirmed through an extract from the Freeport Contract of Work (CoW). This previously unreleased document clearly confirms the conflicts between the mining concessions and the National Park. The CoW states on the extract provided:

"Within (Freeport) Contract Area B, the only existing Nature Reserves are Lorentz Nature Reserve (IE the National Park) and the Memberamo Nature Reserve".⁹⁹



ABOUT THE COMPANY

THE PLAYERS

Standard annual reports say something about the various players in a company, but not a lot about their social or environmental track record. We do. We also point out the fact that the CEO is grossly overpaid while underperforming—this poses bigger questions for investors (SEE *Executive Excess*). As well we scrutinize the Board members of Freeport McMoRan Copper & Gold who bring problems to the company in their own way (SEE *Boys on the Board*, next page). And finally, we present an alternative appraisal of the parent companies of PT Freeport Indonesia which have their own disturbing pedigree (SEE *Partners in Crime*, page 22).



EXECUTIVE EXCESS

James Robert ("Jim Bob") Moffett, member of the Board of Directors and CEO, has been closely tied to Freeport McMoRan's work in Irian Jaya for two decades. Born in Houma, Louisiana, the son of an itinerant oil-worker, he helped fashion the modern company through

the merger of an oil drilling company named McMoRan Exploration (a company he founded after finishing his masters degree in geology through night classes at Tulane University in 1963) with Freeport, a New York company, in the 1980s¹⁰⁰.

Today, Jim Bob is easily the most overpaid chief executive officer in the mining industry. Last year, *Business Week* ranked Jim Bob the 10th highest paid executive in corporate America¹⁰¹ while *Forbes* magazine ranked him 11th among the 800 other executives in the magazine's 1997 survey¹⁰². Both magazines agreed that he was the highest paid executive in the metals industry. *Business Week* reported that Jim Bob personally collected US\$33.811 million dollars in compensation from Freeport. But the *Austin Chronicle* points out that if you throw in income from other Freeport companies, Jim Bob made some US\$41 million, which is roughly three times the 35 billion rupiah (US\$14 million) that Freeport offered the indigenous peoples in compensation in 1996 for this wealth as part of the failed, so-called 1% Trust Fund¹⁰³ (SEE *Introduction*, page 2).

A quick calculation shows that he is paid the equivalent of 1,368 times the average worker in the United States¹⁰⁴. "If you believe Moffett never stops working, and is thus paid round the clock, he earned about US\$1.30 per second in 1996. The federal minimum wage is US\$4.75 per hour," wrote the *Chronicle*¹⁰⁵.

Even within the upper echelons of his industry Jim Bob's salary is outrageous. The average among chief executives of the *Business Week's* 500 most valuable companies in the US was US\$5.781 million in 1996, about a sixth of what Jim Bob earned. And it is clear to see that Jim Bob easily took more money from the company than the CEO of any other similarly ranked company. Alcoa, an aluminium producer, had revenues of US\$13.06 billion in 1996, seven times as much as Freeport McMoRan, yet Paul O'Neill, the chairman and chief-executive of Alcoa, was paid a relatively modest US\$7.674 million in salary, bonuses and longterm compensation in 1996. This is less than one-fourth of what Moffett was paid. Third-ranked Orrin Smith of Engelhard made one-eighth of Jim Bob's salary.

Restrict the comparison to the gold industry and the contrast is more stark: the second highest paid chief executive in the business is Ronald Cambre of Newmont (a former Freeport employee, incidentally) who made US\$970,000 a year in total compensation, according to *Forbes*, less than three percent of Jim Bob's salary. But Newmont shareholders obviously get a much better value for their money: the 1998 *Business Week* Top 500 shows that Newmont had sales that were in the same league as Freeport (US\$1.527 billion for Newmont versus US\$2 billion for Freeport). Sales at Newmont, under Cambre, increased by 42 percent compared to five percent at Freeport, under Moffett, in 1997¹⁰⁶. Newmont's share did lose 37.5 percent on the S&P but Freeport lost 53.9 percent in 1997¹⁰⁷.

It is not just Mr. Moffett's remuneration that is questionable. He has also made the company the object of ridicule because of his rude manner. The *Australian Financial Review* quoted Jim Bob as saying that the pollution coming from his company's mining operation in Irian Jaya was "equivalent to me pissing in the Arafura Sea."¹⁰⁸ He took out full-page advertisements in the *New York Times* to attack environmentalists and has stormed into newsrooms in New Orleans to demand that reporters change their coverage of the company¹⁰⁹. Why Moffett's performance is tolerated by the Board may be answered by looking at who supervises him.

BOYS ON THE BOARD

CEO Moffett is joined on the Board of Freeport McMoRan and is supported there by two heavy-weight lobbyists: **Dr Henry Kissinger**, former United States Secretary of State under Richard Nixon, and **Bennett Johnston**, former United States Senator. As members of the Board they have been closely involved in pushing the company through difficult times created by mismanagement at Grasberg. It also helped that Moffett sits on the board of the United States-Indonesia Society—a key policy outfit on Capitol Hill—and in 1996 Freeport sponsored a major reception for US Ambassador to Indonesia Stapleton Roy¹¹⁰.

Kissinger, who was once named "The Walking, Talking Conflict of Interest"¹¹¹ has made a fortune peddling favors for dictatorships on Capitol Hill. High up on his list is General Suharto, who is currently milking Indonesia for as much money as he and his family can possibly make. Kissinger has been a director of the parent company Freeport McMoRan Inc since the late 1980s, and is also a shareholder in the companies. Kissinger Associates is also on the payroll of Freeport McMoRan Copper & Gold receiving a \$200,000 yearly retainer fee from Freeport¹¹².

Suharto and big business in Indonesia is not the only subject of Kissinger support. In 1989, even the Wall Street Journal pointed out Kissinger had a conflict of interest as head of China Ventures, a company engaged in joint ventures with China's state bank, when also promoting trade with China over all other national policy priorities¹¹³. About a month later, soon after the Tiananmen Square massacres, Kissinger had the nerve to argue in a column that ran in the *Washington Post* against a strong US policy on China:

"China remains too important for America's national security to risk the relationship on the emotions of the moment . . . No government in the world would have tolerated having the main square of its capital occupied for eight weeks by tens of thousands of demonstrators."¹¹⁴

His work with China continues today. The Disney Company hired Kissinger Associates in 1997, allegedly to guide Disney through the Chinese flak over a movie called *Kundun*, that dramatizes the communists' assault on the Tibet of the Dalai Lama¹¹⁴.

J. Bennett Johnston, a conservative Democrat from Louisiana, was consistently evaluated as one of the least environmentally-progressive members of the United States' Senate by the League of Conservation Voters while he was in office. In 1996, his final year on Capitol Hill, he ranked third lowest among Democratic senators from across the country with a score of 37 percent. He voted for nuclear power and logging in national forests while voting against protection of endangered species¹¹⁶. He has consistently taken the lead on bills that would jeopardise environmental or human rights.

For example Johnston brought a bill to the Senate, crafted by a conservative industry coalition led by companies that financed his election bids, that would have effectively stripped environmental protection for 71 percent of the remaining wetlands in the contiguous United States, according to a report by the Environmental Working Group. Government evaluations showed that this bill would lead to substantial increases in water pollution and degradation of water quality¹¹⁷. He also worked hard, but unsuccessfully, to defeat US Environmental Protection Agency (EPA) regulations requiring the oil and gas, utilities, mining, and waste management companies to report toxics emission to the Toxics Releases Inventory program¹¹⁸.

Perhaps most notably, Johnston opposed legislation that would ban military aid to Indonesia in view of its human rights record. The interference these high-level lobbyists created for Freeport McMoRan over the OPIC debacle was noticed by several press outlets (SEE OPIC box, page 18)—and it is rumored that Bennett Johnston's position on the Board was a payback for his involvement in this issue.

Freeport's political influence does not end with Kissinger and Bennett Johnston. In fact, according to Federal Election Commission documents, Freeport McMoran gave the Democratic National Committee \$40,000 on August 26 of 1996. On September 6, the wives of Freeport's top executives, Chief Financial Officer Richard Adkerson, vice chairman Rene Latiolais, and chief investment officer Charles Goodyear, wrote checks to the DNC totaling \$35,000. Four days later, Jim-Bob Moffett's wife Louise wrote a check to the DNC for \$2,500, for a total of \$77,500 in donations from sources related to Freeport McMoRan¹²⁰.

PARTNERS IN CRIME

PT Freeport Indonesia's shareholders include the Indonesian Government (10%). In March 1997, an Indonesian company called PT Nusamba acquired about 4.5% of PT-Freeport Indonesia, in a bizarre business deal by which the \$254 million commercial loans for the purchase were guaranteed by Freeport McMoRan Copper & Gold itself¹²¹. PT-Nusamba is controlled by prominent businessman Mohamad "Bob" Hasan, a friend and associate of President Suharto, who was this year appointed to the Cabinet. Nusamba is a subsidiary of the Nusamba Group, majority owned by foundations chaired by Suharto¹²².

In 1996 a joint venture between Mitsubishi (75%) and Freeport McMoRan Copper & Gold (25%) was announced to construct the Gresik smelter to process copper in Romokalisari Village, in Manyar sub-district on Java. The initiation of the project came when the Indonesian Government told Freeport that it had to build a smelter if it wished to extend its mining contract. Due to be finished in 1998, the \$710 million smelter plant will produce copper cathode, anode slimes and sulfuric acid¹²³. While this may help value added economic development in Indonesia, the choice of partners in Mitsubishi—a conglomerate with a questionable environmental and social track record—is simply more bad company for PT Freeport.

RIOTINTO: FRIENDLY WITH THE DICTATORSHIP

In October 1996, PT Freeport and The RTZ-CRA Group (RTZ-CRA) concluded exploration and expansion agreements worth \$100 million¹²⁴. As a result of this joint-venture and their 12% shareholding, in Freeport McMoRan Copper & Gold, Rio Tinto (as they are now known) are seen to be in a major strategic alliance and fully involved in the imbroglio at Grasberg. Rio Tinto is the world's largest mining company and has been the focus of protest for decades by labor, indigenous and human rights and environment groups¹²⁵.

Rio Tinto has a very close relationship with the Suharto regime. Suharto himself opened the company's Kelian gold mine in East Kalimantan (Indonesian Borneo) in 1992, and—in a rare show of solidarity—later officially hosted a delegation from the company at his "palace" in Jakarta. They also operate the single biggest coal mine in Indonesia. With its 12% share of the vast PT Freeport operations in Irian Jaya and its aggressive searches for new areas to exploit, this is possibly the only company with a closer relationship with the General than Freeport McMoRan.

Rio Tinto recognized the Indonesian archipelago's potential long ago. Then known as Rio Tinto Zinc the company negotiated a ground-breaking contract with the Suharto regime in 1967. They have since secured further contracts elsewhere. One of these is in the province of Aceh where a longstanding independence movement is being ruthlessly crushed by the regime, making it the most militarised of all regions in the country with the exception of Irian Jaya¹²⁶.

Grasberg in Indonesian Irian Jaya is Rio Tinto's new "jewel in the crown"—its first, ironically, was the Panguna mine on Bougainville¹²⁷ which was the subject of popular dispute resulting in the recently ended civil war that cost ten thousand lives. It is also a huge asset for Indonesia because it provides the regime with taxes and royalties on the order of US\$250 million per year¹²⁸ and in some years has contributed a fifth of the Government's tax base¹²⁹.

Rio Tinto did not buy into Grasberg until 1995: the US parent, Freeport McMoRan Copper and Gold, approached the British mining giant, apparently because it needed recapitalizing in order to expand its operations. Rio Tinto gained about 13% in the US company, giving it an 11.8% share of the Indonesian operations. It has the option of purchasing another 6.5% equity in Freeport McMoRan in future, and is rumored to be considering a hostile takeover of Freeport McMoRan.

The British company has more than a 40% interest in any expansion of the Grasberg mine and in any production from future mines established in new areas under the company's second contract of work. Rio Tinto's interest in Grasberg will increase further during the next few years as they get nearly half (47%) of all output beyond 118,000 tonnes a day¹³⁰. With the mine's rapidly growing throughput to 300,000 tonnes, Rio Tinto executives must think they have hit the "honeyhole" (a mining term for the proverbial jackpot).

Rio Tinto claims it is trying to influence the Suharto oligarchy to improve conditions for indigenous communities. These claims are similar to those it made for years in South Africa where it operated while profiting from apartheid¹³¹. Similarly—in a dishonest bit of greenwash—Rio Tinto has globally promoted the export from Kalimantan of its Kaltim Prima coal as "Envirocoal": a term which conceals the considerable damage caused by this mine locally.

FREEPORT ELSEWHERE

Controversy over Freeport's polluting business practices are not limited to Indonesia. Freeport-McMoRan Inc., the parent of Freeport McMoRan Copper & Gold, has many interests in addition to copper and gold mining, and they show about the same level of corporate care as in Indonesia. These include a partnership in IMC-Agrico Company which has traditionally mined for phosphate rock in Florida and shipped this material to Louisiana to be converted into fertilizer. Investments in Texas and Sri Lanka are also on the radar screen of social and environmental justice activists as this annual report goes to print.

FLORIDA

In Florida, the impact of phosphate mining by companies including IMC-Agrico (a joint venture between Freeport-McMoRan Resource Partners and IMC Global which has recently been spun off into a separate company) have been devastating. More than 200,000 acres of the southern state have been strip-mined, leaving behind land that looks like a car race track after heavy rains, filled with pits and gullies, mini-mountains of dirt and thousand-hectare slime pits. Some 20 stacks of phosphogypsum, a waste material from phosphate mining, that tower ten stories high occupy 400 acres of the Florida landscape¹³².

One of the worst mining disasters in the state occurred in June 1994 when a 15-story sinkhole opened at the IMC-Agrico New Wales plant which was estimated to dump between four to six million cubic feet of toxic waste into the Florida aquifer which supplies 90 percent of the state's drinking water. This waste contained 17 heavy metals and toxic substances including arsenic, cadmium, chromium, lead and mercury¹³³. Nor was that the only incident. In November 1995, a brand-new IMC-Agrico dam broke, causing 482 million gallons of waste water to be dumped into Florida streams¹³⁴.

Studies by Post, Buckley, Schuh & Jernigan Incorporated for the Florida Institute for Phosphate Research (FIPR) indicate that radioactivity concentrations measured in foods grown on mined phosphate lands were found to be statistically higher than in foods grown on other lands. Other studies in 27 Florida counties have shown that cancer rates in phosphate mining areas are three times higher than those in unmined areas while people who live in houses built on previously mined areas have a higher risk of getting cancer¹³⁵.

LOUISIANA

The phosphate rock mined in Florida is shipped to Louisiana to be converted into fertilizer. This manufacturing process produces gypsum waste which contains trace amounts of radioactivity. Until 1972, the company sim-

ply dumped the waste into the Mississippi River. When the newly created United States Environmental Protection Agency (EPA) banned this practice, the company began to stockpile the waste. In 1986 it asked for permission to resume dumping the 100 million tons of waste that had accumulated. The proposal resulted in a massive public outcry which was successfully opposed by the people of New Orleans¹³⁶.

The EPA eventually allowed Freeport to discharge rainwater run-off from the pile into the river. The massive quantities of radioactive run-off from this 100 million-ton stockpile became the major reason that Freeport was named the fourth-worst polluter in the United States in the 1990 federal Toxics Releases Inventory for over 100 million pounds of toxic releases. The adverse publicity generated by the major toxic run-off from three Freeport-IMC sites—Hahnville, Saint James and Uncle Sam—in Freeport's home state has been enormous¹³⁷.

The company has since convinced the federal authorities to take it off the list by covering and revegetating the waste piles so that theoretically the rain water would not directly come into contact with the radioactive waste. However local activists are skeptical of Freeport's solutions. Steve Cochran of the Lake Ponchartrain Basin Foundation, says that the company believes that "with sufficient engineering and science, you can make nature do whatever you want to. I don't think it works. That is why we have the environmental problems we have today."¹³⁸

TEXAS

Another community affected by Freeport's heavy-handed ways is Culberson County, one of the poorest counties in Texas, where the average per capita income is US\$10,619 a year. Freeport McMoRan, which pays the biggest share of property taxes in the county for operating a sulphur mine in the north-eastern part of the county, sued the local government in 1996 in a successful attempt to reduce its tax bill. Freeport was allowed to withhold a total of US\$727,638 from the

school, county government, and hospital, roughly equivalent to about one day's profit for the two Freeport companies or just over a week's salary for Moffett.

Apart from the property tax the county benefits little from Freeport. The mine workers live over the border in Pecos or Carlsbad, New Mexico. As a result of this financial crisis the Culberson County Hospital in Van Horn—the only hospital within a 120-mile radius of the town—was teetering on the brink of insolvency. "They know those dollars mean a lot to us and we can't afford a long drawn-out fight. They know we will settle. They hold the handle and we hold the blade," said Richard Lee, the administrator and CEO of the hospital. Eventually the county agreed to lower taxes by US\$3 million which it cut from its budget by firing a number of workers who made less than ten dollars an hour, a mere 0.05 percent of what Moffett earns¹³⁹.

SRI LANKA

Freeport and IMC now plan to export these practices to Sri Lanka where the two companies have proposed a \$425-million new mine, which will be situated near the town of Eppawala and will relocate some 12,000 villagers from 26 villages¹⁴⁰. Buddhist temples, schools and a large number of government buildings also face destruction (SEE Box). A coalition of Buddhist priests, farmers, former politicians and ex-soldiers have told President Chandrika Bandaranaike Kumaratunga that they oppose the deal. "We will not leave; the government will have to use soldiers to remove us from our homes," Mahamanna-kadawata Piyarathana, a Buddhist monk and president of the Committee for the Protection of Phosphate Deposits, told journalists¹⁴¹.

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