

Freeport obtains Indonesian approval to expand world's largest gold mine

Mike Head**20 February 1999**

After a year-long saga, the Habibie government in Indonesia has given the US mining company Freeport McMoRan approval to almost double production at the Grassberg copper, silver and copper operation in West Papua (Irian Jaya). With reserves valued at \$40 billion, the Freeport project is the largest single gold deposit in the world and the third largest open-cut copper mine.

Mines and Energy Minister Kuntoro Mangkusubroto announced the decision, which is retrospective to the start of the year, on Monday. Some four weeks earlier, Freeport's chief executive James Moffett held a private meeting with President B. J. Habibie to discuss his difficulties in getting the expansion approved since ex-president Suharto personally endorsed it last year.

Both the announcement and the tense manoeuvres that preceded it provide an insight into the uneasy relations between the Habibie regime and the Western powers and multinationals, in the wake of Suharto's fall. Freeport is a classic Suharto-period development. The Louisiana-based company operates the mine in partnership with the British and Australian mining conglomerate Rio Tinto, which holds a 12 percent stake, and the Jakarta regime itself, which has 20 percent.

Freeport had a special place under the Suharto dictatorship. In April 1967 it became the first foreign company granted an operating permit following the 1965-66 US-backed coup that installed General Suharto. Former US Secretary of State Henry Kissinger is credited with having arranged Moffett's introduction to Suharto. Today Kissinger sits on Freeport's board, earning \$500,000 a year, and Freeport also retains his law firm, Kissinger and Associates, for a reputed \$200,000 a year.

Under the Contract of Work signed in 1967, Freeport was given rights over 100,000 hectares on the traditional land of the Amaungme and Komoro people in the southern part of West Papua. Despite strong protests, the rights of the local people were denied and their interests were trampled on. Since then, some 2,000 villagers have been forcibly removed to concentration camps to make way for mining, waste dumping and the construction of townships, roads, airfields and military posts.

In return for giving the Suharto family and its associates a

share in the considerable profits generated by the mine--\$208 million in 1997--Freeport obtained generous tax concessions and virtual free reign over the tracts of land it mined, occupied and polluted. Special units of the Indonesian military have guarded its operations.

When the mine first began in 1973, its output was limited. By 1978 it was 7,500 tonnes of ore a day. The latest decision will allow the company to lift production to 300,000 tonnes of ore a day from 160,000 tonnes, with further devastating consequences for the local people and the region's environment.

Suharto reportedly approved the expansion with a handwritten note on a letter during a private audience with Moffett in 1997. The company subsequently obtained all the necessary formal approvals but after Suharto's resignation had difficulty in getting a final sign-off from the key minister, Kuntoro, who faced objections within the Indonesian ruling elite over the corrupt concessions given to Freeport and the benefits afforded to Suharto and his associates.

Last September a report was presented to the Indonesian national assembly (DPR) by a Commission VIII, consisting of members of the government-controlled parliament. They urged approval of the expansion, while warning that an "explosive" situation existed in the mining area because of the poverty of the local people and the damage done by the mine to their hunting and farming lands. They admitted that the local peoples' welfare had not improved, despite the earmarking of 1 percent of Freeport's revenues (about \$2 billion in 1997) to a government fund for community and regional development, starting from 1996.

The report recommended even greater military security for the expanded mine and concluded: "Any disturbances and barriers experienced by PTFI (PT Freeport Indonesia) can be interpreted by the world that investment in the region is unsafe, preventing foreigners from investing in the region. This will not benefit the interests of both the nation nor the region. As such, the existence of the PFTI must be maintained and secured, and its benefits made use of to support the Regional Government in developing the region."

Still no go-ahead came from Kuntoro. Moffett tried to break through the seeming impasse last month by going back to his old style of dealings with Jakarta. He sought, and obtained, a

meeting with Habibie, who was apparently willing to oblige. Habibie signed a letter the very same day telling his ministers to help Freeport. The Indonesian President was not able to deliver the deal without further complication, however. Kuntoro observed sarcastically later that everybody could meet the President but "we of course have procedure and clear rules".

In the Freeport affair and other controversial cases, such as Caltex's bid to keep pumping oil from central Sumatra, Kuntoro has been attempting to balance between conflicting interests. First, he has endeavoured to appease international investors. They want secure super-profits without having to make deals with Jakarta cronies, yet also oppose the cancellation of previous Suharto-period contracts because of the precedents that might be set for the abrogation of contracts in the future.

At the same time, Kuntoro faces pressure from nationalist business elements who were excluded from the old crony relations, as well demands from regional and local power brokers in the resource-rich provinces for a greater share of the proceeds from mining operations. If these regional interests are not accommodated, the Indonesian capitalists fear the emergence of secessionist groups in resource-rich areas, like those in East Timor and Aceh, possibly seeking their own deals with transnationals.

In the end, Kuntoro declared that the Freeport expansion can proceed, but on two conditions. The first is a doubling of the royalties paid to the government. For copper, the new rate will be 3 - 7 percent, compared with the existing 1.5 - 3 percent, depending on the price. For gold and silver, the increase is slightly greater--to 3 - 9 percent from 1 - 3 percent. This forms part of a plan to allocate more royalty revenue--perhaps 80 percent--to provincial and local governments in mining areas.

The second condition is that Freeport meet certain environmental standards. This has nothing to do with any genuine bid to halt the company's pollution, which has ravaged the local land and rivers for 30 years. Throughout that period, the environmental requirements have been non-existent or token. Any new rules will remain a formality, except if they can be used as a pretext for future demands for changes to the financial carve-up of Freeport's profits.

It is obvious that Freeport's expansion will magnify the mine's environmental impact. Nearly all the 300,000 tonnes of ore to be crushed and processed each day will be dumped as waste tailings in the Ajkwa River. Of the ore mined at Grassberg only about 1 percent is removed as copper metal and 0.42 parts per million as gold. Over the past three decades, the waste residues have already choked the river, causing it to breach its banks and flood as much as 50 square kilometres of productive land. By Freeport's estimates, the future flooding will extend over 130 square kilometres.

The tailings have also rendered the river's water unfit to drink or use. Exposed to the weather, the tailings leach sulphuric acid, copper, mercury and arsenic into the river system.

In addition, the overburden from the expanded mine, the earth

lying above the mineral-bearing ore, is to be dumped into two neighbouring valleys. The ratio of overburden to ore at Grassberg is about 3 to 1. Over the next 40 years an estimated 3 billion tonnes will be blasted or bulldozed off Grassberg mountain, to form two giant, crumbling rockpiles, prone to a range of risks, from leaching acid to subsidence and landslides.

Even greater are the social and health problems created by the mine. It has led to an influx of people to work in and service the project, alongside 11,000 transmigrants from Java and Bali, resettled by the government in nearby areas. Combined with the forcible removal of mountain villagers to coastal areas, this has led to high rates of malaria, cholera, tetanus and sexually-transmitted diseases.

Despite the riches being extracted by Freeport, the infant mortality rate in West Papua is as high as 200 per 1,000; the maternal mortality rate is 4.5 per 1,000 in rural districts; over 20 percent of the people in the central highlands suffer malnutrition; and women have an average life expectancy of 50.3 years. Health Department records show that West Papua's central highlands, with a population of 400,000, has only one hospital with 70 beds, and 15 health centres with a doctor.

Of Freeport's workforce of 17,300, only about 100 are from the immediate vicinity, all unskilled. Their average wage is about 70 cents (\$A) an hour. The Amaungme and Komoro people have no access to the mine town of Tembagapura for shopping or medical care. Freeport has built wire fences around the town, segregating the local Papuans.

Resistance to the mine's operations, including protests and hostage-taking organised by the Free West Papua (OPM) separatist movement, have been met with mass arrests, torture, killings, and disappearances. More than 100 people were killed during 1994 and 1995. The military presence in the area includes an air force base, a naval base and 1,000 KOPASUS Red Beret commandos.

West Papua was effectively incorporated into Indonesia in 1962, when the Kennedy administration in the United States backed demands by former Indonesian president Sukarno for the Netherlands to quit its long-held colony. Indonesian rule was ratified by an undemocratic, UN-orchestrated "Act of Free Choice" in 1969. Today, the Indonesian capitalist class is desperately clinging to its control over the territory, with the Freeport mine its central preoccupation.



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