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Development, Power, and the Mining Industry in Papua: A Study of Freeport Indonesia

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ABSTRACT. This article seeks to determine whether PT Freeport Indonesia, an operating subsidiary of Freeport-McMoRan Copper and Gold Inc., has acted in environmentally and socially responsible ways in the context of its operations in Papua, Indonesia, and how well it has responded to the legacy left by its less responsible operations from 1973 until the mid-1990s. This objective is achieved by examining the company's impact on the resources and assets with which it comes into contact as part of its operations, as well as through a historical review of the province of Papua and its incorporation into Indonesia, Freeport's entry into Papua, and the company's engagement with international and Indonesian politics.

KEY WORDS: Freeport, Papua, Irian Jaya, development, environmental responsibility, social responsibility, Gold and Copper mining, NGO, the Indonesian New Order government, United Nations, tailing

Introduction

Freeport-McMoRan Copper and Gold, an American transnational mining company, has been operating the largest gold mine on Earth in West Papua, Indonesia since 1973.[1] In the initial years of its operation, the company showed little concern for environmental or social issues. During this time, the company was involved in human rights violations and gross environmental degradation within and around the concession associated with its operations. Freeport's operation of the mine had a disturbing effect on the life of indigenous people and aggravated inequalities in Papua. However, the mine had a special relationship with the New Order government, to which it paid a modest portion of its considerable earnings in the form of taxes, royalties, and stipends. Since the mid-1990s, increasingly well-organized protests by international groups, human rights organizations, national and local NGOs have forced Freeport to direct a new course by undertaking a number of social investment projects. This began with the Grasberg mine operation, where new mining and further exploration rights were granted to Freeport on stricter terms, especially as related to the mine's benefits to the local community, and the royalties and fixed payments. Moreover, after Indonesian democratic reforms in 1998, the company faced increased pressure to address growing demands for socially and environmentally responsible business practices similar to those undertaken by Shell, BP, Unilever, and The Body Shop.

This essay discusses the current social responsibilities of Freeport by examining the company's impact on the resources and assets with which it comes into contact as part of its operations. At the end of this essay, I will consider whether the company has acted in environmentally and socially responsible ways in the context of its operations in Papua and how well it has responded to the legacy left by its less responsible operations from 1973 until the mid-1990s.

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Freeport's entry into Papua

Soon after taking power in 1966, the army-dominated regime in Indonesia sought investment in the mining sector. It adopted a strategy, which allowed the first investors substantial leeway in setting up operations. In 1967, Freeport signed a contract with the new government in Jakarta to explore and mine copper in West Irian in highly favorable terms (Hill, 2000, p. 179; Leith, 2003, p. 13). This must be considered in the context of the Cold War. The army-dominated regime, with US support, had just crushed an Indonesian Communist Party attempt to eliminate the army's leadership and to suppress other political and social groups. Subsequently, the army seized power from the Nationalist-Leftist Sukarno regime.[2] The new regime concluded agreements with the US and other Western powers to provide an inflow of official Western aid and private Western investment into the country (Dickie and Layman, 1988, p. 91; Robison, 2001, pp. 107, 110–111).

The favorable terms granted to Freeport also reflected the economic risks the company assumed in undertaking the expensive, risky, and difficult task of extracting copper from the Ertsberg, a copper-rich mountain of the Carstensz range in West Irian.[3] However, about the time the Freeport project became operational in 1973, the government demanded that the contract be renegotiated on terms less favorable to Freeport (Dickie and Layman, 1988, pp. 91–92). On December 30, 1991, Freeport signed a new contract under a stricter foreign investment law. In accordance with the terms of the contract, the operating subsidiary, Freeport Indonesia, was incorporated in Indonesia and changed its name to PT Freeport Indonesia (PTFI). In 2006, with estimated reserves of 50.9 billion pounds of copper and 63.7 million pounds of gold, PTFI operates the largest gold mine and the most profitable copper mine on Earth, in the area surrounding the now-depleted Ertsberg and the newly discovered Grasberg gold and copper deposits (Leith, 2003, pp. 63–64, 67–68).

Historical review

The Indonesian provinces of Papua and Irian Jaya Barat (West Irian Jaya) constitute the western half of the island of New Guinea. Before it was divided into two provinces in November 2004, Papua was the largest province in Indonesia. Its 420,000 square kilometers represent 22% of the Republic's total land area. It differs markedly from the rest of Indonesia, and its flora, fauna, and geography resemble those of Papua New Guinea, the independent state on the eastern half of the island. Ethnically and culturally, the majority of the indigenous people of provinces of Papua and West Irian Jaya, who describe themselves as Papuans, are very different from the Asian populations of Indonesia, rather, their ethnic and cultural links lie with their neighbors of Papua New Guinea (Garnaut and Manning, 1974; Saltford, 2003).

Some coastal areas of Papua had a long history of contact with traders and other seafarers from the Malay Archipelago, even before the arrival of European colonialists. More fundamental and widespread change, however, was caused by interactions in modern times with the complex, literate societies of Europe and Asia. In 1660, the Dutch East India Company recognized the sovereignty of the Sultan of Tidore of Maluku islands (Moluccas) over "the Papuan islands in general." In 1828, the government of "Netherlands India" (Dutch East Indies) formally took possession of the north coast west of the 141st meridian, and a July 1848 proclamation laid claim to the whole of what is now Papua and West Irian Jaya. The Netherlands' claim was mainly because of its proximity to their East Indies possession. Since the Sultan was a "vassal" of the Dutch, that portion of the island was considered to belong to the Dutch East Indies. The Netherlands established trading posts in the area after Britain and Germany recognized the Dutch claims in treaties of 1885 and 1895. The eastern half of the island, which came to be known as Papua New Guinea, was further divided between Britain and Germany in 1885: Britain claimed southeast New Guinea, later known as the "Territory of Papua," and Germany claimed the northeast, later known as the "Territory of New Guinea." The southeastern part, British New Guinea, passed to Australia as "Papua" in 1906. The northeastern part and its offshore islands, formerly German, became an Australian-mandated territory after World War I, and the two were administered by Australia as the "Territory of Papua and New Guinea" after World War II (Garnaut and Manning, 1974, pp. 9–10; Saltford, 2003).

The 1949 agreement that recognized the Republic of Indonesia as a sovereign state also stated that the colony of West New Guinea was to remain under Dutch rule, and stipulated that within 1 year the Netherlands and Indonesia would conclude the issue of West New Guinea's future (Dick, 2002, pp. 170–171; Ricklefs, 1993, p. 146). However, the Dutch government attempted to keep possession of West New Guinea. This was challenged by Indonesia, on the basis of West New Guinea's association with the Netherlands East Indies. Following a Dutch refusal to cede the territory, it became a source of growing tension between the two countries throughout the 1950s and early 1960s. The United Nations General Assembly's refusal of Indonesia's appeal in late 1957 prompted the Indonesian government to nationalize Dutch firms in early 1958. Indonesia became increasingly annoyed when the Dutch began to prepare the colony for self-determination, proposed for 1970 (Chauvel, 2003, pp. 115, 119; Garnaut and Manning, 1974, p. 12; Saltford, 2003, pp. 2, 9–10).

After the Indonesian government decided to use force to prevent West Papua's gaining independence, the Netherlands under American pressure agreed to withdraw from the territory and hand it over to a temporary UN administration. The New York Agreement, signed by the Dutch and Indonesia on August 15, 1962, agreed that the UN would subsequently transfer administration of West Papua to Indonesia by May 1963. Indonesia also agreed to carry out an "Act of Self-determination" by May 1969 to determine whether the Papuans wished to become part of Indonesia or to choose independence. In 1969, the Indonesian government held the promised referendum, called the "Act of Free Choice"; it chose 1024 individuals who unanimously voted, on behalf of approximately 1 million Papuans, to incorporate West Papua into Indonesia. The new Indonesian province was named Irian Barat, and later Irian Jaya ("Victorious Irian"). Although many Papuans and their supporters contend that genuine self-determination did not take place in 1969, the official position of Indonesia, the UN, and almost all of the international community is that the Act met the requirements of the Agreement with regard to Papuan self-determination (Garnaut and Manning, 1974, pp. 13, 20–21; Kingsbury, 2005, p. 152; Leith, 2003, p. 12; Saltford, 2003, pp. 2–3).

The Cold War situation favored Indonesia's position on West Papua. Contrary to initial objections, Western countries, particularly the United States, eventually adopted Indonesia's position based on geo-ideological, political, and economic considerations. Eyeing Soviet and Chinese support for Indonesia over the issue, the United States seemed to maintain that Indonesian control of the territory was the only permanent solution to avoid Jakarta being "driven into the arms" of the Communist bloc. Britain and Australia also finally recognized the New York Agreement after it became clear that the US would not intervene militarily in case of war between Indonesia and the Dutch (Emmerson, 2005, p. 41; Penders, 2002, pp. 354–355; Saltford, 2003, pp. 6–7, 11–14).

The end of the West Papua dispute was seen as a valuable opportunity for improving US–Indonesian relations. In early November 1965, more than a month after the failure of a Communist-supported coup, when the army was gaining power over President Sukarno, Freeport officially opened negotiations with the generals in Jakarta. Five months earlier, in fact, Freeport had already reached a "preliminary arrangement" on the mining of Ertsberg. The company's decision to proceed with the risky project was understandable, given its then-impressive connections to the highest echelons of power in Washington, and the United States' expanding role in the region and its interest and influence in the events unfolding in Indonesia. In time, Washington directly supported Freeport's association with the new regime by guaranteeing $60 million worth of loans from US lending agencies, thus enabling Freeport to proceed (Leith, 2003, pp. 2, 58; Saltford, 2003, pp. 7, 15).[4] American policy in West Irian has resulted in a great many unintended consequences for US economic interests, as US President John F. Kennedy expected in 1962.[5]

In April 1967, with the support of Washington, Freeport signed a favorable contract with the new Indonesian government, which covered the mining of copper. The deal had benefits for three sides: the regime gained political support from the US government and prospective foreign investment and aid to promote stability, legitimacy, and development; the company got a favorable contract; and for the US government, it was a way of supporting an anti-Communist regime, which badly needed money. In terms of international law, however, the contract was controversial, since Indonesia did not then have sovereignty over the area. Freeport chose to go along with the situations for which the Indonesian and the United States governments were responsible. The two governments knew full well that the status of West Papua had yet to be decided in the UN-sponsored Free Act of Choice. However, the Indonesian government, Freeport, and the US government ignored this detail; the Freeport contract confirmed that Indonesia was open for business, and by 1969 $1.226 billion of foreign capital and aid had been poured into the country (Kingsbury, 2005, p. 156; Leith, 2003, pp. 58–61, 77; McDonald, 1981, p. 81; Saltford, 2003, pp. 108–109).

However, from the perspective of community rights, the contract was flawed. Freeport did not respect, or even consider, the dignity, political status, historical legacies, and cultural traditions of the Papuans in whose midst its operations were located (Guinness, 1994, p. 292; Whittaker, 1990, pp. 72–73). Furthermore, the traditional Papuan owners of the land, the Amungme and the Kamoro peoples, were excluded from the consultations (Leith, 2003, p. 61).

Construction of the mine facilities took 5 years to complete. The company built a fantastic company town called Tembagapura (Copper Town), a completely self-contained Western dormitory-style town, a port and airstrip in the Lowlands to service the mine, as well as an access road. For Bechtel, the American company building the project for Freeport, building access road through the inhospitable terrain was the most difficult project ever undertaken by the company, to the extent that the budget had been exceeded by approximately $80 million from the original amount of about $120 million. The company provided all goods, services, infrastructure, and utilities for Tembagapura and the mine (FM, 2004; Leith, 2003, pp. 61–62; McDonald, 1981, pp. 81–82; Petocz and Raspado, 1989, pp. 96–98; Whittaker, 1990, p. 72).[6]

Freeport's Ertsberg mine operated semi-secretly in West Papua after its official opening in March 1973. There were two interesting occasions toward the late 1980s. First, Ertsberg was largely depleted, "leaving behind an open pit more than 360 m deep and 2 km wide, filled with green, copper-impregnated water." For approximately 20 years, "Etsberg had produced approximately 32 million tons of copper, gold, and silver, generating an average of $300 million of revenue annually for the company" (Leith, 2003, p. 63–64). Second, adding to its semi-covert operation, Freeport did not sell the mine for $75 million, as had been offered. Instead, in 1988, Freeport announced that it had discovered the "giant" Grasberg not far from Ertsberg.[7] This brought the company to sign new contracts with Jakarta in 1991 and 1994.[8] Once again, Freeport was not subject to environmental laws or required to compensate the traditional landowners for loss of land. Because of that Freeport was accused of bribing government officials in exchange for an extension of its mining contract on such lenient terms. It was also accused of asking the Indonesian military to guard the main slurry pipeline, which was frequently attacked by the Papuan rebel group OPM (Elmslie, 2002, p. 153; Leith, 2003, p. 64; Schwarz, 2000, p. 414).

The Grasberg mining concession and further exploration rights were granted to Freeport on stricter terms: these included higher payments to the government, restrictive exploration conditions, incorporation in Indonesia, Indonesian equity in the company, and a commitment to build a smelter on Java. With the extension of the Contract of Work (CoW) on December 30, 1991, went a corporate make-over. The operating subsidiary, Freeport Indonesia, was incorporated in Indonesia and changed its name to PTFI. This new contract was clearly less favorable than the 1967 version, which required Freeport to pay royalties with an effective tax rate of 45% (Elmslie, 2002, p. 91; FM, 2004; Leith, 2003, pp. 66–67).

The new mining exploration demanded an expansion program, which would cover extending its mine and mill facilities to cope with the continual upgrading of throughput rates of the new Grasberg mine; and extending its established mill and work area from the dying Ertsberg site, a few kilometers away, to the new mine. This required the building of new access roads, tunnels, and vertical shafts to move ore from the new mine to the existing milling site near the Ertsberg hole; as well as expanding port facilities and the capacity for electrical power generation, and constructing a hundred helipads and four runways. Therefore, in 1992, Freeport began to an expansion program that would bring its total investment in West Papua to $4.5 billion (including

$3.5 billion invested since the discovery of Grasberg). Freeport also built the $500 million new town, Kuala Kencana (River of Gold) opened by President Suharto in late 1995. It is a tremendous Western-style township, in contrast with other Indonesian towns or West Papuan villages, and a powerful symbol of Freeport's long-term commitment to the area (Elmslie, 2002, p. 151; Leith, 2003, p. 67).[9]

Degradation of the environment

Despite economic benefits to Indonesia and Papua, Freeport mining operation for more than 30 years has undoubtedly caused environmental degradation. This is exactly the dilemma of development faced human being in the more environmentally conscious world.[10] Leith told us that the company's original 1967 contract failed to impose any environmental restrictions whatsoever on the company's operations. His research found out that Ertsberg, at the height of its operations, ''was discharging 25,000 tons per day (tpd) of tailings into the local river system, and dumping twice that amount of overburden into the alpine valleys'' (Leith, 2003, p. 163). In general, the situation resulted from various causes: the Indonesian government's lack of commitment to environmental protection, its reluctance to restrict capital producers by enforcing the nation's environmental regulations, the refusal of companies and the government to make environmental assessments public, and the difficulty of carrying out an independent assessment of the Freeport operation (Elmslie, 2002, p. 95; Leith, 2003, pp. 135, 155–56, 163; Petocz and Raspado, 1989, pp. 96–99).

The company's greatest environmental problem is tailings, the residue of the finely ground ore from which precious metals have been extracted; they are toxic, and damaging to the river system. They have been dumped into the river for decades causing the river silting up. They are responsible for widespread destruction in the Lowlands, the physical destruction to the land and flora and fauna of the area, and the decreased quality of the river water. According to Leith, at the Grasberg mill, 95–97% of the ore processed ends up as tailings. In the past, increases in tailings had been ignored by the relevant ministries and government utilities, or were done without consultation or any environmental assessment (Leith, 2003, pp. 166–167; cf. Elmslie, 2002, pp. 148–150).

Massive flooding in the lowlands in June 1990 prompted Freeport to begin consolidating a levee system to divert the water toward the Minajerwi to prevent the flooding of its access road and the town of Timika. However, by 1995, the company had failed to fully realize a levee system and this resulted in the destruction of at least 33 square kilometers of forest. The Aikwa River had broken its banks and merged with the neighborhood Minajerwi river system. In addition, Freeport tailings had already polluted 84,158 ha (336.6 square miles) off-shore and 35,820 ha (143.3 square miles) onshore, with such pollution spreading to the Lorentz National Park. The potential for an ecological disaster within the marine and estuary environment is huge. Mine tailings had an adverse effect on aquatic insects and mercury levels in the river, far exceeding levels safe for aquatic life or human consumption. Beside toxicity, the extraordinary physical destruction of the landscape has destroyed the river system, consumed local population gardening, fishing, and hunting areas and wildlife, and separated people from their resources and livelihood. Many dead trees could be seen from the road and the air (Elmslie, 2002, pp. 148–150; FM, 2005; Leith, 2003, pp. 168–171; Petocz and Raspado, 1989, p. 58).

Overburden is ''rock that is not processed but must be removed aside during the extraction process so that the mining company can reach the metal-bearing ore'' (Leith, 2003, p. 171). Freeport processes a huge amount of ore each day, wasting around 14% of the copper in the ore, which remains in tailings disposed of in the river, to get the most profit. For the same reason, a large amount of copper-bearing rock was excavated, then dumped instead of processed, because the joint venture chose to pursue higher-grade ore as quickly as possible. In October 1995, Freeport already dumped over 102,000 tpd. In 2001, the company was moving more than 750,000 tpd, of which approximately 230,000 tpd was processed into tailings and the remainder dumped as overburden, in order to move 5 tons of rock to extract 1.5 g of gold (Elmslie, 2002, p. 149; Leith, 2003, p. 171; WALHI, 2006).[11]

The frequently used highland trails have also become sources of major threats to wildlife and ecology. The glaciers and Cartensz Mountains are now major destinations for visitors, particularly alpinists. The mining concession includes an important segment of the park – about 20% of the actual ice field and Mount Jaya, Indonesia's highest peak (4884 m). There is considerable evidence of pollution and litter from the mine to the foot of the Meren glacier, and Freeport's mining operation has been blamed for damage to the ice fields (Leith, 2003, p. 165; Petocz and Raspado, 1989, pp. 6, 58).

In its defense, Freeport claimed that the Indonesian government confirmed that the company always operated in compliance with its contract and with Indonesian environmental regulations. However, Indonesia's environmental protection system is ineffectual and the government is hesitant about enforcing environmental law. For many developing countries, including Indonesia, high-quality environmental amenities are seen as a luxury they cannot afford, and the cost, including supervision, is high (Hardjono, 1994, p. 214; Hill, 2000, pp. 256–257; Leith, 2003, pp. 155–156). In 1989, Freeport publicly expressed a commitment to environmentally sustainable development. It also adopted the "Environmental Charter" of the International Council on Mining and Metals (FM, 2004; Leith, 2003, pp. 161 and 163; MacAndrews, 1994, pp. 377–378).

Economic and social development

Freeport's exploitation of copper and gold in West Papua should have benefited the province abundantly and generated economic and human development. In practice, however, during the Orde Baru period, the province benefited little from the taxes Freeport paid directly to Jakarta. Actually, Freeport dominates the economy of West Papua with its operations and offshoots, and has a tremendous impact on local economy. It is the largest purchaser and employer in Papua and Irian Jaya Barat. Yet the province of Papua is the poorest in Indonesia, and until 2003 only a fourth of all Freeport employees in Papua were ethnically Papuan (Emmerson, 2005, p. 41; FM, 2005; Leith, 2003, pp. 77–78; Wie, 2002, p. 229).[12] This condition and the fact that there were huge financial transfers of resources from West Papua led to the emergence of the separatist OPM.

Freeport also transformed West Papua from a remote and isolated backwater to modern neighborhood in some areas. By early 2001, the company's investment around \$4.5 billion into the area was by far the largest single American one in Indonesia. In 30 years, the company created extensive infrastructures built according to US standards. It committed large amounts to social and community services such as schools, scholarships, places of worship, health care, housing, hospitals, offices, recreational facilities, and small and medium businesses. The company also maintains its own water, electricity, sanitation, and garbage utilities and, in the later years, assisted the local government with these services in the project area. Most types of fixed infrastructure will revert to the Indonesian government at the end of contract term (Emmerson, 2005, p. 41; FM, 2004; Leith, 2003, pp. 78–79).

However, the investments that Freeport put in *before* 1992 were mostly disconnected from indigenous industries and enterprises. It was a fractured development. The mining company has created enormous wealth for itself, the government and local elites, and the US and Indonesian power brokers. It failed to promote overall economic growth, industrial and technical advancement, or viable local commercial markets. The Amungme and the Kamoro, who live around the mine site, have essentially remained disadvantaged, underprivileged, and disenchanted. It undermined the traditional culture, fracturing tribes along generational lines. Cultural differences led to misunderstandings, resentment, and inappropriate development programs.[13] Freeport also has to deal with difficulties in delivering development such as the need to identify primary stakeholders, the absence of strong government and indigenous institutions, fundamental cultural differences, and the payment of compensation in ways that have divided the community (Guinness, 1994, p. 292; Leith, 2003, pp. 85–87).

Although Freeport also has paid attention to community relations and social development, its efforts were viewed as ineffective, inappropriate, and paternalistic by the traditional landowners. The company's development projects only increased tensions in the concession. Nevertheless, what Freeport was doing was beyond what was legally required, both under Indonesian law and within the Freeport contract (FM, 2005; Leith, 2003, pp. 97–99).

The change of Freeport's environment policy and management

As a result of NGO efforts and the participation of the press, public awareness of environmental problems increased significantly. By 1994, Freeport had formulated its first waste-management and recycling program. It also built a $3 million environmental laboratory with the newly formed Environmental Department, which by 1995 had an annual operating budget of more than $17 million and an honest commitment to protect the unique flora and fauna of the area (FM, 2004; Leith, 2003, p. 164).

Because of wide media coverage and international attention, in 1995 the company reaffirmed its commitment to the levee plan. To this end, it allocated $23.4 million to construct two levees through which the lowland Ajkwa River could meander. By December 1997, the original plan had been revised to manage an increase in tailings of up to 300,000 tpd and a cumulative deposition of up to 3 billion tons. Freeport now uses a river system for transport tailings to a designated area in the Lowlands and coastal zone under this Modified Ajkwa Deposition Area (ADA) Plan. "It calls for the containment of the tailings within an expanded area of 230 square kilometers, with revised estimates showing the levee walls averaging 10 m, but rising as high as 25 m in some areas" (FM, 2004; Leith, 2003, pp. 167–168).

The company also traded 45% of its Ertsberg concession in Lorentz National Park for an area equal in size to the west of its concession.[14] Leith points out that as part of the company's environmental impact assessment requirement, in 1997 Freeport commissioned the area's first biodiversity study. A second study was completed by *Conservation International* in 1998. These studies found numerous species of flora and fauna previously unknown to science. "Like the Freeport concession, the park, which forms Freeport's eastern boundary, is an area of immense biological significance" (Leith, 2003, pp. 164–165).

In 1996, after the US Overseas Private Investment Corporation revoked Freeport's insurance policy for environmental violations of a sort that would not be allowed in the US, Freeport committed itself to providing a $150 million fund for the eventual rehabilitation of the mine site.[15] Freeport has also contributed significantly to the protection of Lorentz (both logistically and financially), and has been instrumental in facilitating valuable scientific research. The WWF and other institutions have praised the assistance they have received from the company. They also applaud the company's own conservation efforts, noting that Freeport's mining operations have had minimal impact on the park. Its mining and ore processing operations also received ISO 14001 certification in December, 2001 (FM, 2005; Leith, 2003, pp. 165–166).

Despite Freeport's effort to improve its environmental records, the problem of environmental damage continues to haunt the company. After receiving a report by a team of independent experts in March 2006, Indonesia's government threatened legal action against Freeport unless the company improved its environmental record.[16] Due to Freeport's pervasive financial and political influence, it is uncertain that the government will really take any legal action against the company. The destruction of Papua's natural resources is the biggest and most complex problem that Freeport's mining operations has to deal with (Leith, 2003, pp. 182–185).

Solution to local social and economic development problems

As a result of NGO criticisms and publication on human rights violations, pressure from the central government, heavy international criticisms, and the years of community protests, Freeport on April 13, 1996, announced its solution to the local people's concerns. The company also conceded in 1998 that traditional landowners are both victims and beneficiaries of the inevitable encroachment of modernization. The company issued two programs: first, a "Land Rights Trust Fund" to officially recognize lands rights and provide compensation, and second, a socioeconomic development fund called variously the "Integrated Timika Development Plan," the "PWT2," the "Freeport Fund for Irian Jaya Development (FFIJD)," the "Integrated Timika Development Plan (ITD)," or, most commonly, the "One Percent Fund." Under this program, Freeport committed 1% of its annual gross revenue, or approximately $15 million annually for the next 10 years, with the funds being deposited quarterly, in advance, into a bank account. Its partner, Rio Tinto, committed another $8.7 million. The amount in the fund in 2005 was $42 million, and the total contributions to the fund from both Freeport and Rio Tinto since inception are approximately $194 million. Although the One Percent Fund was, and remains, by far the largest such socioeconomic development program in West Papua, and one of the largest in Indonesia, it is a small fraction of the profits obtained by Freeport (Council on Foreign Relations, 2003, pp. 52–53; FM, 2005; Guinness, 1994, p. 293; Leith, 2003, pp. 90–92, 102–104; cf. Emmerson, 2005, p. 41).

This funding was intended principally to favor the tribes originally displaced by the company, although it would also benefits those living in and around the concession area. So far the Partnership Fund has built and expanded two modern hospitals and a system of community clinics, and sponsors comprehensive public health programs including Public Health and Malaria Control Department (PHMC). The Partnership Fund has built schools, community facilities, and housing and has provided scholarships, training, and business opportunities. Jakarta announced its intention of supporting the new development programs by playing a greater role in the area. Further to the 1% Fund and the Land Rights Trust Fund (LRTF), Freeport announced that affirmative action on behalf of the traditional landowners was to become corporate policy, with a commitment to raise the number of Melanesians employed at the mine while increasing their prospects for job training and promotion. The LRTF eventually was replaced by a ''Letter of Mutual Acknowledgment,'' which requires the company to pay about $500,000 per year into a trust fund for the Kamoro and the Amungme landowning villages. Freeport also announced that it had deposited $2.5 million into the trust to cover payments dating back to 1996 (Council on Foreign Relations, 2003, p. 53; FM, 2005; Leith, 2003, pp. 104, 111, 124–125, 136–137).

After democratic reform in 1998, Jakarta and Papua seemed to realize more the importance of the mining industry's revenue to economic development in the area. Unfortunately, many Papuans are trapped between their traditional isolation and the compelling forces of modernity. Freeport's support for education may have negative as well as positive impacts on the indigenous peoples. Education offers opportunities to many of the people living around the mine site, raises expectations about access to the amenities of modern life, but also aids in the destruction of the traditional culture. The education system can be considered a form of indoctrination that devalues traditional cultures, but *lack of access* to education and its outcomes is also criticized by traditional landowners. However, with the recent focus on development in the village, these problems may lessen. Freeport has begun an adult-education literacy program using Papuan teachers and materials, and most Papuans see education as the key to the future (Council on Foreign Relations, 2003, p. 74; Leith, 2003, pp. 127–129).

At the end of 2005, PTFI directly employed approximately 8000 workers; of these, more than 2000 were Papuans. Skilled positions are mostly taken by non-Papuan Indonesians. Another 10,700 workers are employed by contractors serving PTFI, for a total of approximately 18,700 workers employed at Freeport operations at the end of 2005. Through the Freeport Partnership Fund for Community Development (FPFCD), it supports training and small business development initiatives, human capital development through apprentice programs, technical training schools, and higher education assistance. By encouraging the application of appropriate technologies, providing business skills education and supplying access to working capital, it promotes sustained local economic growth and aids the viability of existing and future small and medium-sized enterprises. These are expected to promote increased productivity within local economies in ways that help foster the social and economic interconnections among households and businesses participating in those economies (FM, 2005).

The arrangement to use productively the One Percent Fund quickly fell apart, as leaders of the indigenous foundations gave into pressure from their constituents and handed out money for unplanned projects. The money was used carelessly and was improperly distributed. Beside, the presence and activism of certain NGOs makes things more difficult for the company as well. Some NGOs such as Catholic Migration Commission, Catholic Relief Services, and World Vision Australia provide emergency assistance, emphasizing humanitarian preparedness in the event of conflict escalation. Others, such as the US-based Papua Resource

Center, seek to promote social welfare and indigenous culture of Papua. However, Freeport perceives the action of some NGOs as making the delivering of development in its concession area more difficult. Controversially, the NGOs and indigenous landowners who have most demanded and received accountability have no legal claims over the company, but the NGOs have given an international voice and power to the indigenous groups and forced the company to seriously address the development issues within its area of operations. In response to various problems being faced, Freeport engaged the International Center for Corporate Accountability to audit the implementation of its social, employment, and human rights policy (Council on Foreign Relations, 2003, p. 53; FM, 2005; Leith, 2003, pp. 116, 129–131).

Freeport dealing with local economic development shows that there is nothing easy, clear, or certain about the process by an international business. Historically, development has always occasioned periods of social disruption and economic misery, at least in the beginning. Companies do not plan to aggravate social strife, but it is not always easy to envision alternative ways of operating so as to integrate international business operations more fully into a local economy. Freeport now seems more willing to take into account not only the policies of national development, but also local economic interests. In the long term, interconnected development used by Freeport can offer general prosperity.

Freeport and the New Order regime

The main reason why the New Order government gave favorable treatment of Freeport, despite its long-time negligence of environmental degradation and socio-economic problems of local people, was the company's significant political and economic importance for the regime. The New Order regime considered Freeport to be one of the nation's most treasured assets. The mine itself was valued at more than US$50 billion. The company is the principal developer and *de facto* administrator of the area around its mine in West Papua, and one of the most successful and outspoken Indonesian lobby groups in the United States. Furthermore, the discovery of Grasberg brought about enormous potential political and economic worth of the Freeport operation to the government. The Papuan Chapter/Branch of the Indonesian National Committee on Human Rights reports that Freeport had made contributions of US$1.2 billion in the form of tax, dividend, and royalty to the Indonesian government in 2005. According to that report, the company also paid the government US$3.8 billion in 1992–2004. Thus, Freeport made total contributions of US$4.4 billion between 1973 and 2005. Meanwhile their total donations for 2005 were US$736 million, including US$64 million for development program for the local people. Hence, the company gave indirect financial advantage of US$9.99 billion to the government between 1992 and 2005 (*Antara News*, April 19, 2006; Kingsbury, 2005, p. 156; Leith, 2003, pp. 76–77).

Security is another reason for Freeport to identify its interest with that of the regime. In the past, Freeport maintained a strong relationship with the Indonesian military to protect the mining operation. Besides, it is the obligation of the host country to provide such protection, without which no international company would be willing to invest capital and skill. Freeport acts as a surrogate government with practically no bureaucracy to interfere in its activities. According to Conflict Prevention Institute (CPI), Freeport had paid the military (TNI) at least US$18.5 million for protection. Other estimates claimed that the figure was as high as an initial US$35 million, plus US$11 million annually thereafter. In 2002, Freeport stopped payment to the Indonesian military as a result of US domestic requirements (Council on Foreign Relations, 2003, pp. 85, 93; Guinness, 1994, p. 292; Leith, 2003, p. 79; Kingsbury, 2005, p. 156).[17]

Since its inception, Freeport's operation in Indonesia has been entangled with an authoritarian and corrupt regime.[18] During the Suharto years, Freeport chose to work with Jakarta, and ignored human and labor rights.[19] Despite this complicity, Freeport served as means, however inadequately, for fostering economic development and increasing local wealth. In addition, unintentionally, it acted as a vehicle through which international and national NGOs could pressure the regime on human and labor rights as well as environment and social justice issues. On the negative side, by cooperating with the regime, despite American laws, Freeport benefitted from Indonesian corruption; moreover, the company and its board lobbied to ensure that US political and financial support to the regime was maintained and, by association, its own investments protected. The company argued that its interests and those of the host nation were identical to those of Washington (Clear, 2005, pp. 148–149; Leith, 2003, pp. 33, 81). For over 30 years from 1967 to 1998, Freeport was able to operate securely by adjusting to, and indeed flourishing in, a business environment that contradicted ethical values and norms, and even American anti-corruption statutes. With its close relationship with the New Order, Freeport secured for itself a powerful political and economic guarantee. However, with the fall of the Orde Baru regime in 1998 and the formation of democratic governments, Freeport has had to face a new reality and to follow new rules of doing business.

Democratic reform and its impacts on Freeport operation

After the fall of the New Order regime in 1998, issues around Freeport and Papua got new impetus, asserted themselves and came to the surface. The Organization for Free Papua (Organisasi Papua Merdeka, or OPM) increased its armed activities (Kingsbury, 2005, p. 154). A call by a parliamentary commission for renegotiation of the Freeport contract with a more equitable distribution to Indonesians ended with the company's offer to double the royalties it paid to the government. However, calls from members of parliament for Freeport operations in Papua either to be closed down for environmental reasons, or the contract to be renegotiated, failed to go through. It seems that Freeport has been able to sustain its influence within the new democratic Indonesia (Leith, 2003, pp. 82–83; Murphy, 2005, pp. 276–277).

In 2001, the Indonesian parliament passed a law on autonomy which many in Papua, Jakarta, and the international community believed would provide a new foundation for Papua's relationship with Indonesia. The legislation calls for Papua to receive 70% of its mineral wealth, and for certain key governmental posts to be occupied by native Papuans. Key Papuan leaders formed the Papua Presidium, which pledged to work with Jakarta to implement autonomy. The legislation is intended to provide for wider jurisdiction and greater authority for the province and Papuan society to manage its own affairs, including empowering its culture and economy within a unitary Republic of Indonesia (Chauvel, 2003, pp. 123–124; Council on Foreign Relations, 2003, pp. 22, 27–28, 84–85; Holtzappel, 2002, pp. 25–26; Murphy, 2005, pp. 276–277).

However, the controversy around Freeport and other mining companies' operations in Papua continues. One problem is now being raised with Freeport concerns royalty payment and fixed payments. The Supreme Audit Board (BPK) is recommending a government review of its contract with the company, as the current one does not maximize the revenue potential from its Papua copper and gold mine.[20] Another issue is that many groups such as the ProDemocracy network, the Papua People's Council and Papua's tribal council – (made up of tribal and religious leaders from all of Papua's ethnic groups) have urged the government either to reform the country's mining industry, to clamp down on officials who issued licenses for firms that pollute the environment; they have even demanded that the parliament "issue a letter calling for the closure of Freeport." However, the current President, Susilo Bambang Yudhoyono, reiterated in March 2006 that PTFI's mining operations would continue while a financial audit of the distribution of funds to the local community was conducted. The government may ask PTFI to renegotiate its contract as it studies whether the mine benefits the local community (*Jakarta Post*, March 1, 7, and 21, 2006).

Conclusion

Despite its potential to promote economic prosperity and development, Freeport's effects, in its early years, were largely damaging. Today the company finally has acted in more environmentally and socially responsible ways and has made a commitment to sustainable development. Freeport operations in Papua represent one of the examples of corporate capital and western government, in this case the US government, working collectively: first, to devise a change in political leadership, and then to direct both economic policy and the way ownership and control of a nation state's natural resources would be allowed to develop. Despite mistakes and missed opportunities, it appears that Freeport is committed to correct and refine its policy of its business operation.

In balance, it is fair to say that Freeport, especially after 1996, has contributed in investment to generate development and reduce poverty in Papua. So far, the investments have not yet generated higher incomes and prosperity in all sections of society. However, Freeport's direct and indirect contributions have produced a "multiplier effect" in the Papuan economy, spurring additional employment, wages, purchases, and economic activity. These are expected to reduce structural impediments that restricted the economic opportunities of impoverished households.

The Earth's natural resources are limited and therefore Freeport should use Papua's natural resources as efficiently as possible. It has to maintain its commitment to sustainable development, in which economic, social, and environmental issues are balanced to meet the needs of the present without impairing the ability of future generations to meet their own needs. In addition, Freeport must take a stand against corruption. The cost of corruption is high. It depletes public revenues and undermines social capital by eroding public trust, diverting attention from the pursuit and protection of common civic goods, and breeding widespread resentment in Papua and Indonesia alike. In the long term, corruption is detrimental to the international businesses that allow themselves willingly or inadvertently to engage in it. Initiatives by Freeport or other international businesses operating in Indonesia to reduce corruption should be joined by the government, mass media, and civil society; they must cooperate to curb bribery and extortion in business practices.

Freeport must protect the rights of the people involved in its operations. It has to strengthen the rule of law and politically neutral judicial systems. The government has to provide a minimally reliable independent tribunal to make legitimate claims about human rights. Civil society organizations can help by exposing human rights violations. The democratic reforms in 1998 provided great opportunities to the Indonesian government and Papuan leadership to make Freeport a profitable, socially and environmentally responsible, humane employer and globally good citizen.

Notes

[1] The Freeport group consists of Freeport-McMoRan (originally Freeport Sulfur), which is incorporated in the United States and was the parent company eclipsed by its subsidiary; Freeport-McMoRan Copper and Gold Inc., which is currently the main company in the group and the parent company of PTFI, the group's operating subsidiary in West Papua. Except where required in context, the company will be referred to as "Freeport" in this essay (Dickie and Layman, 1988, p. 22; Leith, 2003, p. xxiv).

[2] The overthrow of the authoritarian Sukarno regime was welcomed by Muslim and Christian parties and organizations as well as by intellectuals and secular groups. Unfortunately the New Order regime perpetuated similar authoritarian rule for the next years and more. Sukarno's overthrow provided opportunity for TNCs to operate (Fisher and Lovell, 2006, p. 474).

[3] The official name of the province since 1999 is Papua, in response to mounting pressure for independence and in an attempt to appease dissent from people of the very east end island of Indonesia (Papua). It was previously known by various names, including West New Guinea or Netherlands/Dutch New Guinea (until 1962), Irian Barat (West Irian) since 1962 after Indonesia's take over from the Dutch. During the opening of the Freeport mine in 1973, President Soeharto renamed the province as Irian Jaya (Victorious Irian); and the name remained until 1999 (Dickie and Layman, 1988, p. 22; Elmslie, 2002, p. 91; Leith, 2003, p. xxv).

[4] Freeport Sulfur, the predecessor of today's giant Freeport-McMoRan Copper and Gold, first became interested in Ertsberg in 1959. A Freeport geologist, Forbes Wilson, predicted correctly that Ertsberg would prove to be the largest above-ground copper deposit hitherto discovered, and Freeport analysts confirmed the geologist's forecast, estimating that the company would recover its costs within 3 years (Leith, 2003, p. 2).

[5] On August 15, 1962, the day the Agreement was signed, Robert Komer of the National Security Council staff advised President Kennedy to capitalize on the West New Guinea (Irian Barat) settlement. Komer reminded him of "future fruitful cooperation" of which Kennedy spoke to Sukarno before the agreement was signed. President Kennedy immediately called for "a plan of action to be ready within a month to assess what further measures could be taken to capitalize on

the US role in the settlement. Specifically he suggested the possibility of expanded civic action, military aid and economic stabilization and development programs, as well as diplomatic initiatives'' (Saltford, 2003, pp. 15, 68). President Richard Nixon would later declare: ''With its 100 million people, and its 300-mile arc of islands containing the region's richest hoard of natural resources, Indonesia is the greatest prize in southeast Asia'' (Fisher and Lovell, 2006, p. 473).

[6] According to Bechtel, the American company building the project for Freeport, building access road through the inhospitable terrain was the most difficult project ever undertaken by the company, to the extent that the budget had been exceeded by approximately $80 million from the original amount of about $120 million (FM, 2004; Leith, 2003, pp. 61–62; McDonald, 1981, pp. 81–82; Petocz and Raspado, 1989, pp. 96–98; Whittaker, 1990, p. 72).

[7] By 1999, Grasberg produced more than doubled the production of ore recovered from Ertsberg during its life. In addition, to being the world's largest known gold reserve (91.4 tons, in comparison to the second in running, Freegold in South Africa, at 60.44 tons), the Grasberg complex also holds the world's largest copper reserves (32 million tons) and 37 million ounces of silver. Current figures show that expected earnings of Freeport range from $40 billion to $80 billion from Grasberg over its projected life of more than 45 years (Leith, 2003, pp. 63–65, 67–68; cf. Elmslie, 2002, pp. 91–93).

[8] With these contracts, the company received exploration rights for approximately 9 million acres, and the right to mine any discoveries for a period of 50 years. In 1994, the PTFI subsidiary, PT IRJA Eastern Minerals Corporation, signed a second contract for another 2.6 million acres. Freeport was thus given exploration leases for a guaranteed operating period of 30 years, with an option of two 10-year extensions (Guinness, 1994, p. 292; Leith, 2003, pp. 63–64; cf. Elmslie, 2002, p. 61).

[9] After signing the contract, Freeport went into worsening financial problems. It was forced to sign on Rio Tinto as a minor partner and to outsource or privatize many of its non-mining activities. In May 1995, Freeport-McMoRan signed contracts with RTZ Corporation PLC (Rio Tinto), which endowed Rio Tinto with an interest of around 14% in PTFI. The Initial payment was worth approximately $1.7 billion. The arrangement also stated that Rio Tinto would receive 40% of any increase in the mine's production and 40% of any future mines discovered under the exploration program. By the end of the year, Freeport had secured a cash flow. It acquired influential partners, and was safe under a promising Indonesian insurance policy. All this seemed to guarantee a lucrative and stable future (Elmslie, 2002, p. 93; Leith, 2003, pp. 67–71, 76).

[10] One dilemma of development is the rapid depletion of the natural environment. Humans exploit the natural environment to elevate their living standards. Even the minimal use of renewable resources like trees and farm animals alters the ecology. It is impossible to *not* change the environment, because human beings need to meet their needs and improve their level of material comfort. In pre-industrial times, before the age of modern technology, the exploitation of natural resources did not normally pose a significant problem. It seems inevitable, however, that the extensive use of modern technology and the expansion of human civilization will destroy natural habitats and the species that depend upon them. This rapid depletion of natural resources and loss of biodiversity during the twentieth century has been the focus of a great deal of attention for many peoples and governments both in developed and developing countries. Among the causes of environmental destruction are the obsessive pursuit of growth in both production and consumption, or emphasis on economic growth, globalization, which is bringing the less-developed nations into the capitalist market place, and the explosion of technology (Berger, 1986, pp. 23–24; Isbister, 2001, p. 216; Rubinoff, 2000, p. 156).

[11] WALHI predicted that over 3 billion tons of tailings and up to 3 or 4 billion tons of waste rock will be generated throughout the period of PTFI operations, until closure around 2040. In total, Freeport–Rio Tinto wastes 53,000 tons of copper are released annually into the river as Acid Rock Drainage (ARD), leachate and tailings. This rate of heavy metal pollution is more than a million times worse than what is produced with standard mining industry pollution prevention practices. The wasted copper costs the Papuan provincial government substantial income from lost royalties and creates serious environmental damage in groundwater and in the rivers and estuary downstream (WALHI, 2006).

[12] Since October 2001, the province of Papua has enjoyed special autonomy, which confers greater authority to empower the culture and economy of Papuan society (Chauvel, 2003, p. 123).

[13] Today the disintegration of social life of the Papuans around the mine – unemployment, AIDS, lawlessness, spiritual, and economic dislocation – is evidence of the negative effects of the development activities of Freeport in the surrounding areas. In 1996, Freeport still steadfastly refused to take responsibility for the plight of those displaced by the mine (Council on Foreign Relations, 2003, pp. 76–77; FM, 2005; Guinness, 1994, p. 293; Leith, 2003, pp. 90–92).

[14] The Lorentz reserve stretches from equatorial glaciers of the highest mountains in Southeast Asia through a complete spectrum of Alpine, sub-alpine, montane, lowland, and swamp forests to the coastal of mangroves of the Arafura Sea (Petocz and Raspado, 1989, p. 58).

[15] However, based on the experience of other mines where mine closure costs and ongoing monitoring are predicted to run into billions of dollars, it is believed that the $150 million would have little impact in 2041, Freeport's estimate of the end of the current mine's life (FM, 2004; Leith, 2003, pp. 165–166, 175; MacAndrews, 1994, p. 89).

[16] Environment Minister Rachmat Witoelar said the mine had committed various violations, of which the tailing issues were the most pressing. The mine was required to improve its management of tailings to minimize the effect on the environment. Witoelar emphasized there were fears the tailings could pile up and trigger landslides or flooding, and stated that Freeport would be given 2 and 3 years to resolve the problem; otherwise his ministry would sue the mine (*Jakarta Post,* March 24, 2006; WALHI, 2006).

[17] Responding in December 2005 to allegations that Freeport gave the Indonesian Military (TNI) millions of dollars to protect its facilities in the remote province, TNI spokesman Maj. Gen. Kohirin Suganda acknowledged for the first time that its commanders in Papua had received "support" from the US gold-mining giant. At the same time, Suganda declared that the armed forces "as an institution" had never received donations from the New Orleans-based company. "But we have heard that Freeport provides support such as vehicles, fuel and meals directly to the units in the field," Suganda said. "That's the company's policy. It was not done because we requested it" (*Jakarta Post*, December 30, 2005).

[18] The need for the president and politico-bureaucrats to reward political supporters was a longstanding and strong factor contributing to official corruption (MacIntyre, 2001, pp. 43–44; Mackie and MacIntyre, 1994, pp. 21–22; Robison and Hadiz, 2004, p. 30).

[19] Protests against the mine and its operations have resulted in widespread killings and human right abuses. In 1995, two separate severely critical human rights reports were released by Monsignor H. F. M. Munninghoff, the bishop of Jayapura and (Indonesian) National Committee of Human Rights. Their investigations found that the military had committed human rights violations as parts of its operations aimed at eliminating the Free Papua Movement (OPM) and protecting the vital assets of Freeport. So the investigations confirmed the report of the Australian Council for Overseas Aid (ACFOA), which accused both the military and Freeport security of being involved in human rights abuses, including murder (Leith, 2003, pp. 79, 196–198; Robison and Hadiz, 2004, p. 30).

[20] The Government owns 9% of the company's shares, Freeport-McMoRan Copper and Gold Inc. (NYSE:FCX) owns 81.28%, and PT Indocopper Investama owns 9.36%. A BPK study covering 2004 and the first half of 2005 found that Freeport paid its royalty based on quarterly average prices, contrary to accounting principles, which require the use of prices per transaction. This cost the state US$2.23 million and a further US$369,490 in unpaid royalties for 2003 and 2004. BPK also found that Freeport's contract does not include sulfur as a by-product, causing a potential revenue loss of US$14.4 million. In addition, the audit agency found that Freeport has sold its copper concentrate to Glencore AG at below-market prices. This led to a potential tax revenue loss of US$5.9 million (Forbes, 2006).

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