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Thu, March 28, 2013

Political, Shareholder Woes Trip Up Mining Giant in Indonesia

John Mcbeth - Straits Times | January 15, 2013

An aerial view shows the site of the Grasberg mine, operated by the US-based Freeport McMoRan Copper & Gold in Indonesia's Papua province in this Nov. 4, 2010 file photo. (Reuters Photo/Muhammad Yamin).

Freeport-McMoRan Copper & Gold has been scrambling to reassure investors that its controversial diversification into oil and gas does not mean it is facing problems extending its four-decade-long control over Papua province's hugely profitable Grasberg copper and gold mine.

"Resource nationalism is always a concern when we operate in the countries we do," chief executive and president Richard Adkerson said in a conference call last month.

"But there is no development in Indonesia or Africa that is driving us to do this."

The world's fifth biggest mining company is battling political headwinds ahead of Indonesia's 2014 elections in efforts to negotiate a 20-year extension to its contract of work, which expires in 2021.

Freeport claims it is entitled to two 10-year extensions under wording in the existing 1991 contract. But the Indonesian government is insisting that it conforms with the 2009 Mining Law by converting the contract to a business license, which does not carry the same degree of certainty.

Adding to that uncertainty, the constitutional court is hearing a challenge to the mining law by the same nationalist lobby which recently won a decision forcing Jakarta to restructure how it regulates the oil and gas industry.

Freeport has to get things settled before it dives much deeper into a US$16 billion program which will convert the Grasberg from a vast open pit into the world's biggest underground operation, with electric rail and 900 km of tunnel.

The company is already in negotiations with the government, but given the political atmosphere, it is unlikely to reach any deal until after the 2014 elections — and then with an entirely different set of ministers.

Adkerson has sought to sweeten the pot by offering to list subsidiary Freeport Indonesia on the Indonesia Stock Exchange, correctly noting that it might help to put the company in a more positive light.

The contract extension aside, the Grasberg mine has other problems. Freeport was forced to halt operations for the last three months of 2011 in the face of an unprecedented strike involving 8,000 of its workers.

With the labor agreement coming up for its biennial review in March, Freeport is now bracing itself for another round of union demands that could cause further disruptions in production.

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A steady stream of foreign security experts have been advising on the best way to guard the mine, especially the 100 km road linking Grasberg to the lowland town of Timika which has been the target of frequent sniper attacks.

Because of its past association with the Suharto regime and environmental and human rights infractions, real, imagined and invented, Freeport has become the foreign company most Indonesians love to hate.

Now it is in trouble with its big shareholders as well. "This is one of the worst tele-conferences I've ever heard," snapped Evy Hambro, managing director of investment firm BlackRock, as executives sought to justify the planned acquisition of two oil exploration firms.

The uproar stems from an apparent conflict of interest in a $20 billion deal to buy McMoRan Exploration and Plains Exploration and Development, which will cost the Arizona-based mining giant about two-thirds of its market cap.

Because of the way it is structured, the deal did not need shareholder approval, an issue that infuriated BlackRock and other investors given management's financial interest in McMoRan Exploration and a 17 percent drop in the value of Freeport's stock.

McMoRan's shares plunged 35 percent last November because of problematic flow tests at its deepwater Davy Jones site in the Gulf of Mexico, which it claims has the potential of being the biggest oil discovery in a decade.

Adkerson, who is also co-chairman of McMoRan, talked about the "complexities" resulting from overlapping management, with six directors holding dual board membership in the two companies.

In essence, Freeport is going back to its roots. Co-founded by geologist James "Jim Bob" Moffett in 1969, McMoRan Oil merged with Freeport Minerals in 1981 and later sold off its oil and gas assets to help fund the development of the Grasberg mine.

New Orleans-based McMoRan was spun off in 1994, but the company continued to be run by the hard-charging Moffett, the concurrent chairman at Freeport and the guiding force behind the latest move.

Recounting the company's history of risk-taking in remote Papua, which stretches back to the late 1960s, Moffett basically asked shareholders to trust him. "We know how to swing for the fences," he rasped.

"We're home-run hitters."

Described by Adkerson as the firm's "cornerstone asset", and by Moffett as "the best mine in the world", the high-altitude Grasberg mine contributes to 31 percent of Freeport's revenues — even if the strike did make 2012 an exceptionally bad year.

But that dependency is expected to drop to 23 percent as a result of a deal that Adkerson calls an "add-on and not a diversion", with 74 percent of future revenues expected to come from mining and 26 percent from what he says will be self-funding oil and gas operations.

The acquisitions create a resource conglomerate worth $60 billion, inclusive of debt, and mark a major shift in strategy for a company which used its Grasberg riches to gobble up Phelps Dodge, a firm much bigger than itself, in 2007.

With 10 operating mines in North and South America

and Africa, the world's biggest copper producer and fifth biggest miner has been looking for opportunities outside its core business, worried about the lack of new world-class copper deposits.

Their eye firmly on the short term, many shareholders are clearly not convinced that getting back into oil and gas is the way to go.

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opinion

Seeking Alpha α

Freeport-McMoRan: Indonesia Mess May Sink Stock

Sep 25 2012, 16:17
by: Cris Frangold

| about: FCX, includes: ABX, BHP, GG, NEM, RIO

Disclosure: I have no positions in any stocks mentioned, and no plans to initiate any positions within the next 72 hours. **(More...)**

Freeport-McMoRan (FCX) is one miner that is hard to categorize. It is not a gold specialist like **Newmont Mining (NEM)** and **Goldcorp (GG)**, but it is not a big diversified miner like **BHP Billiton (BHP)** and **Rio Tinto (RIO)** either. Like Newmont and **Barrick Gold (ABX)**, Freeport depends heavily on one metal, namely copper, but it has some gold and molybdenum production as well. Yet, like Billiton and Rio Tinto, Freeport is heavily dependent on China.

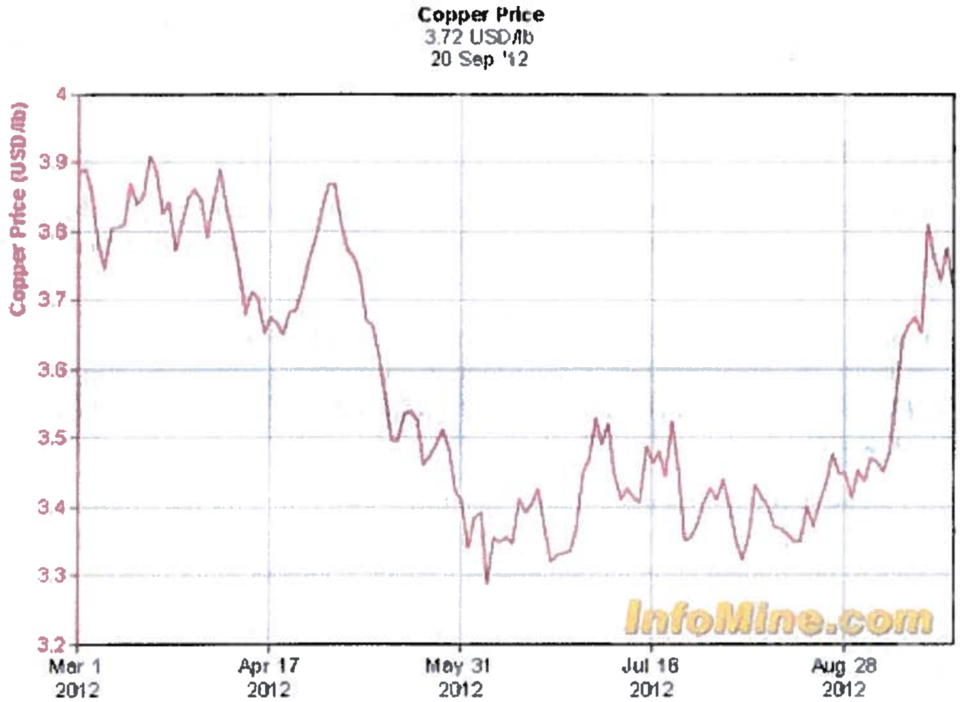
The dependence on China has not helped Freeport's share value that much this year as you can see from the chart. Freeport is still not doing as well as comparable companies such as Barrick and Newmont. Freeport closed at $40.65 per share on September 21st, while Barrick closed at $42.86 per share and Newmont at $56.31 per share. Goldcorp closed at $46.93 per share.

These charts indicate that gold specialists are benefiting from the higher gold prices over the summer. Gold actually hit a high price of [$1,790 an ounce] on September 21st because of rumors that Spain will be soon be begging for a bailout. The interesting thing is that all commodities seem to be benefiting from the increase in gold prices; copper prices were reportedly up by 3%. Yet Freeport's share prices were not helped by the higher commodity prices.

Indonesian Government wants a Bigger Cut of Freeport's Revenue

The reason Freeport is not benefiting from higher metals lies not in the commodities market, but in Indonesia, where its largest mine, the Grasberg, is located. The Indonesian government has decided to increase the royalties that Freeport and Vale SA (VALE) pay to 10%. The companies are currently only paying mineral royalties of 1% on gold and 3.5% in copper in that country.

That means Freeport's expenses on gold mined at Grasberg will increase by 9%, and expenses on copper mined there will increase by 6.5% if and when the new royalty goes into effect. The Indonesia government is currently reviewing the royalties, but the review won't be concluded until December 2013. Freeport's revenues could take a big hit from the royalties increase because the Grasberg accounted for 19% of the company's revenues in 2011.



Freeport will be in even more trouble if copper prices take another tumble like the one they took this spring. As you can see, copper dropped by over 60¢ a pound between March and May and didn't rebound until August. If the same thing happens and the higher Indonesian royalties kick in, Freeport will be facing a big revenue loss.

This will reverse the trends at Freeport, because unlike Billiton and Rio Tinto, its percentage of income growth has actually been increasing. Freeport's income grew by 6.7% in the past year while its sales increased by 10%. At the same time, Billiton's income growth fell by 34.8% and Rio Tinto's income growth fell by 59.3%. That translated into a net profit margin of 21.98%. In other words, Freeport has actually been doing well despite an across-the-board downward trend among diversified miners. It boasts some other good figures, including a debt-to-equity ratio of .21% and an earnings per share ratio of $3.32.

Molybdenum Prices Low

So it is easy to see why so many value investors like Freeport. It has some very good numbers in a depressed mining industry, and part of the reason for this is that Freeport is not exposed to iron in the way that Billiton, Vale, and Rio Tinto are. Freeport is exposed to molybdenum, which is vital to steel production. Molybdenum prices have been falling for the past few years despite increased steel production in China and elsewhere.

This calls Freeport's decision to restart its Climax Molybdenum mine near Leadville, Colorado into question. The Climax had been mothballed for several years, but Freeport restarted it this summer. Yet it does not look like the moly prices seem to justify its reopening.

Indonesia Risk Undermines Freeport's Value

So is Freeport a value buy or not? Most likely, and not because its shares seem to be accurately priced. Despite the rise in copper prices, Freeport is heavily exposed to the situation in Indonesia where the company has to worry about violence as well as increasing royalties.

Interestingly enough, Freeport's man in Indonesia is now claiming that the media is unfairly reporting on violence around the Grasberg mine. Rozik B. Soetipto, the president director of Freeport Indonesia, complained about news reports about gunmen firing on Freeport and Indonesian military vehicles near Grasberg. Mr. Soetipto griped that his company is being unfairly targeted by reporters.

A cynic will have to ask why is Mr. Soetipto so worried about bad publicity if the violence reports are overblown? A more likely scenario is that security at the Grasberg might be breaking down and Freeport executives don't want to admit it. Obviously, Freeport won't be able to get mining done if gunmen start taking potshots at its people.

This means Freeport is not a good value buy because of the risks it faces. The situation in Indonesia makes this stock just too unstable to be a classic value buy.

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Freeport-McMoran Faces Indonesian Government's Efforts To Extract Higher Royalty Fees

September 20th, 2012 by Trefis Team

FREEPORT-McMoRAN COPPER & GOLD

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Indonesia has asked metal mining companies, including the local unit of Freeport McMoRan Copper's (NYSE:FCX), to raise royalties to 10%. This demand has been made as a part of ongoing broad-based negotiations with the mining companies operating in Indonesia. These negotiations are focused on six main issues: increase in royalty payments, the obligation to process mineral ores in Indonesia, use of local goods and services, divestment, contract extensions, and the size of mining areas. [1]

Freeport has not commented on this latest demand as yet. We think that these companies would much rather prefer to discuss these things with negotiators behind closed doors, than indulge in a public d... believe that doing the latter would attract attention of the public at large, which is likely to si... government. This would reduce flexibility and maneuvering space for government negotiators. The h... stands by both sides might reduce scope for amicable resolution. [2]

Freeport is a global miner with mines in the U.S., South America, Indonesia and Africa, and has... portfolio spanning basic metals like copper, gold and molybdenum. Its primary asset in Indon... Grasberg mine, which is the largest gold mine and the third largest copper mine in the world... accounted for 19% of the Freeport's revenues in 2011. In the first half of 2012, Grasberg produced 290 million pounds of copper (against 545 million pounds in the first half of 2011) and 459,000 ounces of gold (against 766,000 ounces in the first half of 2011). [3]

See our full analysis for Freeport McMoran here

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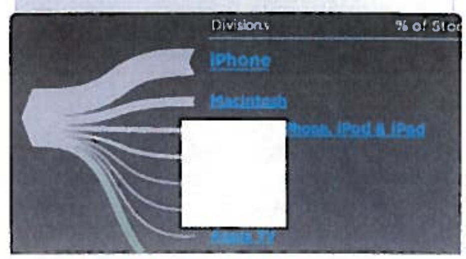

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Freeport McMoran Copper Interactive Slideshow — Slide 1 of 8

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Net Debt
15.2%

DIVISION	% of STOCK PRICE
Copper	8_.5%
Gold	15.0%
Refining and Other Revenue	3.0%
Molybdenum	0.5%
TOTAL	100%

Trefis Analysts estimate a price of $41.93 for Freeport McMoran Copper's stock, about 27% higher than the current market price. Copper (North American Mines, South American Mines ... More

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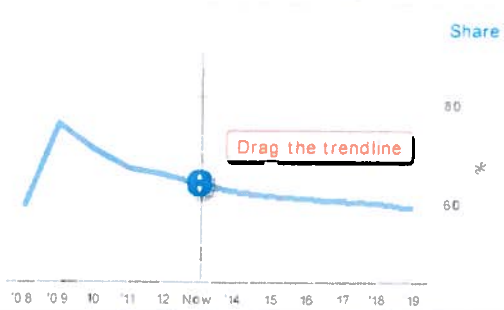
The Indonesian government formed its negotiation team early in January this year, appointing Coordinating Economic Minister Hatta Rajasa as the team's Chairman. The group has been given time until December 2013 to conclude negotiations, according to a decree signed by President Susilo Bambang Yudhoyono on January 10, 2012. Coal mining companies in Indonesia pay 13.5% of revenues as royalty. The government is seeking to bring royalties paid by mineral miners like Freeport McMoran to a similar level. PT Freeport Indonesia, the subsidiary through which Freeport McMoran owns Grasberg, currently pays 1% as royalty for mining gold and 3.5% for mining copper.

Freeport's Grasberg project has been dogged by controversies for years over various contentious issues such as royalties, workers' pay, and pollution. This has often resulted in strikes by workers which has had direct bearing on Freeport's production figures and profits. However, the potential of the Grasberg mine is so huge that Freeport has persisted against all odds. [4]

If the government succeeds in having its way, increased royalty will have a direct bearing on margins, and by extension, on profits. Copper prices have been drastically decreasing across the world for quite some time now, due to a twin combination of rising supply and declining demand. The copper price outlook for the future, in our opinion, hinges largely on a Chinese economic recovery. You can use our interactive chart below to get an idea of the impact which a decrease in Freeport's Indonesian copper business EBITDA margins might have on its valuation:

FAQ

Freeport's Indonesian EBITDA Margin



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Full FCX Model

Although Grasberg also produces gold, its price has been climbing steeply for quite sometime now and this trend is expected to continue in the near future. This should mitigate any adverse impact on margins and profits in Freeport's gold business. While copper business constitutes 81% of the Trefis price estimate for Freeport McMoran, gold constitutes only 15%.

We have a Trefis price estimate for Freeport McMoran Copper of $44 which is nearly 7% above its market

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DEALS & DEAL MAKERS | July 23, 2012, 1:34 p.m. ET

Indonesia Presses Freeport on Royalties, Stake Sale

By FARIDA HUSNA And BEN OTTO

JAKARTA—The Indonesian government has asked Freeport-McMoRan Copper & Gold Inc. to reduce its stake in its Indonesian unit through an initial public offering on the local stock market, and to pay higher royalties on its enormous Grasberg mine.

The government is seeking to renegotiate what President Susilo Bambang Yudhoyono last year called "unfair" mining contracts signed before passage of a 2009 mining law. Foreign investors will be closely monitoring the talks with Freeport for clues to how the government plans to increase its revenue from the industry without making the investment climate unattractive.

Coordinating Minister for the Economy Hatta Rajasa, who heads the government team negotiating with big miners such as Freeport and Newmont Mining Corp.'s unit PT Newmont Nusa Tenggara, said Monday that Freeport had been asked to reduce its stake in subsidiary PT Freeport Indonesia to 49%. He said Freeport had agreed to an IPO but hadn't agreed to the size of the stake, and that he hopes negotiations could be completed this year.

A Freeport spokesman said a public offering was only one possibility. "Freeport is of the view that an IPO is one of the options and Freeport is still reviewing it," spokesman Ramdani Sirait said.

Dozens of Indonesia's largest mining companies operate under contracts negotiated before 2009 mining law, in some cases decades ago, and the government has been urging them to renegotiate. The new law aims to add value to the domestic mining industry and changes contracts in a number of ways, including by obliging companies to establish downstream facilities.

A presidential decree issued this year under the mining called for companies to reduce their stakes to 49% within 10 years of the start of production. It applies only to companies operating under new work permits, but companies such as Freeport need to renegotiate if they wish to make new investments and extend their operations in the country.

Nickel miner PT Vale Indonesia, a 58.73%-owned unit of Brazilian mining giant Vale SA, said earlier this month that it hoped to become the first international company operating in Indonesia to fully renegotiate its contract. Vale Indonesia has mined nickel on the island of Sulawesi for decades under a contract that runs through 2025, the company says on its website.

Freeport, the world's largest publicly traded copper company, is one of the Indonesian government's biggest revenue sources, paying hundreds of millions of dollars in taxes each year. It owns 90.64% of Freeport Indonesia—a direct 81.28% stake and another 9.36% held by Freeport-owned PT Indocopper Investama. The central government holds the remaining 9.36%.

Freeport said as recently as April that it would voluntarily divest itself of another 9.36% stake at fair market value—an offer it has made in the past to both the central and provincial governments—but no deal has taken place.

Mr. Rajasa said the government can't force Freeport to reduce its stake to 49%, as the original contract doesn't require it to do so; it has asked Freeport to raise the royalty it pays on the Grasberg mine to between 5% and 10%, though a presidential decree issued under the mining law calls for royalties closer to 3%. Freeport currently pays 1% on gold and 1.5% to 3.5% on copper.

"They're willing to increase royalties," Mr. Rajasa said. "We're still discussing the amount."

He also said Freeport would "agree to restore much of the land and build a smelter." Freeport is a co-owner of Indonesia's only copper smelter, in Gresik, East Java.

—Deden Sudrajat contributed to this article.

Write to Farida Husna at farida.husna@dowjones.com

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Seeking Alpha $^{\alpha}$

3 Big Reasons To Avoid Freeport-McMoRan

Jun 18 2012, 14:11
by: Vatalyst

| about: FCX, includes: ABX, AU, BHP, VALE

Disclosure: I have no positions in any stocks mentioned, and no plans to initiate any positions within the next 72 hours.

The international mining company **Freeport-McMoRan (FCX)** has really struggled over the past year, with its volatile stock dropping from the mid $50 per share range last July to its current price of about $32 per share. In that time, Freeport-McMoRan saw its stock drop lower than $29 per share in large part due to global economic frailty.

With the global economic struggles continuing, it does not appear Freeport-McMoRan will turn around any time soon. As over 70 percent of its revenue comes from copper, Freeport-McMoRan will continue to struggle as the world demand for copper continues to drop. The price of copper in India has dropped due to lower demand that originated from a slump in industrial production.

Similarly, the sluggish economic outlook of China, which largely determines the global price of copper by the amount it demands, has started to lead to less copper demand. However, CEO Richard Adkerson cited a Brook Hunt report that shows Chinese copper demand should grow from 9 million tons this past year, to 16.4 million tons in 2025. While this would be great news for investors, unless the global economy turns around, this seems an unlikely reality.

Naturally, lower prices and demand for its main product leads to lower revenues for Freeport-McMoRan. Unless the copper market turns around, Freeport-McMoRan may have trouble sustaining its business, just like any consumer goods company would if its most popular product became obsolete.

Freeport-McMoRan is boosting the exploration of the areas near its current mines in order to increase production capacity and in turn grow future revenues. However, in the near term, the company is confronted with higher costs from copper production and lower demands at the same time. This potential continued increased costs and loss of demand for its main product is the first reason I do not recommend buying stock in Freeport-McMoRan.

Freeport-McMoRan production in Asia is facing further issues as well. Violence at Freeport-McMoRan's largest producer and asset, Grasberg copper and gold mine in Papua, New Guinea, may disrupt production and in turn allow Freeport-McMoRan's stock price to plummet. CEO Adkerson admitted concern over the violence, which appears to be about Papau, New Guniea's independence from Indonesia.

Since Grasberg mine is Freeport-McMoRan's largest producer, letting this situation get out of hand can seriously hurt the value of the company. If production is forced to halt, Freeport-McMoRan will be forced to completely overhaul their business model so they can stay profitable. Managements unwillingness to make their plan of action public leads me to believe the situation may be worse than they are willing to admit.

On the other hand, halted production due to violence may not be managements largest concern, with Grasberg mine workers planning a demonstration for later in June. They plan to protest, in which they will completely stop work, over the dismissal of certain employees and security problems.

Yet another problem faces Freeport-McMoRan, this one in the form of the Indonesian government. Its government is putting strict restrictions on the mining industry, including limiting mineral imports to 2009 levels. Furthermore, it is implementing a 20 percent tariff on exports of metal orders. Perhaps the most significant new regulation is one that will force foreign mining companies to sell Indonesian operations to local owners after ten years of business.

This last measure seems unlikely to last, given Indonesia is in negotiations for new contracts with various foreign mine operators including Freeport-McMoRan, **BHP Billiton** (BHP), and **Vale** (VALE).

Whether or not the Indonesian government will successfully implement these restrictions, this market, in which Freeport-McMoRan is so invested, seems to be moving in the wrong direction given that strikes and violence are prevalent. These issues in Asia are another reason that I do not recommend investing in Freeport-McMoRan.

Similarly to Freeport-McMoRan's problems in Indonesia, **AngloGold Ashanti** (AU) has a similar violence problem in the Democratic Republic of Congo. Rebels are mining for gold in the same location AngloGold Ashanti would like to build a gold mine. The rebels, who are armed and organized, seem intent on not moving. With up to as many as 200,000 rebels, it seems likely AngloGold Ashanti would need an army to remove them. This would be very costly for AngloGold Ashanti and this situation could result in damaging AngloGold's gold mining production plans.

However, AngloGold Ashanti, **Barrick Gold** (ABX), and Resolute Mining are benefiting from increased gold production in Tanzania. Production is up 13% in Tanzania, which has produced 40.4 tons of gold in the past fiscal year. This will definitely help increase the value of these companies through higher production and revenue numbers. This increase in gold production may lead to an especially welcome future boost in stock price for Barrick Gold, since it dipped to its 52-week low very recently.

One mining company that seems to be in more trouble than Freeport-McMoRan is Vale. Currently sitting at its 52-week low, Vale recently was presented with health and safety charges over the deaths of two workers in a Canadian mine. In my opinion, this type of publicity can be damaging to a point that is irreversible. Furthermore, Vale declared force majeure at an Australian coal mine, which completely shut down production.

Vale is facing some of the negative turns that this industry is prone to. The company will do its best to bounce back but that process could be slow. Freeport McMoRan and others are poised to pick up some market share as they can speed past Vale, but that shouldn't be any kind of boost for its stock or profit margin.

In summary, there are many problems facing the mining industry. Between violent conflicts and the struggling global economy, I cannot recommend investing in the mining industry at the moment. Freeport-McMoRan, more specifically, is a company I would not invest in, although you could do worse within the mining industry.

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Labor Disruptions Force Freeport To Lower Outlook

Trefis Team, Contributor

Last week, Freeport McMoran lowered its first quarter gold and copper sales volume outlook following labor-related disruptions in a mine in Indonesia. Although work has resumed since March 12, the company expects that full production won't be reached until the second quarter.

Grasberg mine (Photo credit: Wikipedia)

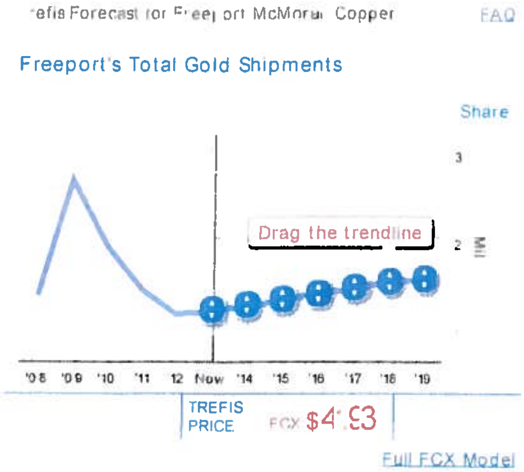
Freeport's stock has slumped about 13% in the past two weeks following a host of issues, including significant labor disruptions and the Indonesian government's decision to limit foreign miners' stakes in mines. Freeport is a global miner with mines in the U.S., South America, Indonesia and Africa and has a product portfolio spanning basic metals like copper, gold and molybdenum. It competes with other mining companies like Vale, Newmont Mining and Barrick Gold.

Our current price estimate for Freeport McMoran stands at $45, implying a premium of about 15% to the current market price.
We may have to revise our forecasts once the company assesses the impact on its full-year operations.

See Full Analysis of Freeport McMoran Here

No medicine for Indonesia Syndrome?

Freeport's operations in Indonesia have been heavily disrupted since October 2011. First, the company faced a three-month labor strike as workers were demanding better wages and bonuses. As a result, Freeport reported a 13% and 26% year-on-year decline in copper and gold volumes in its full year 2011 results. Then in February, fighting among disgruntled workers caused a two week suspension after which the company had to reduce its Q1 gold sales volume estimates by 30%, to 300,000 ounces from 425,000.



The company's estimate for copper sales volumes was reduced by 10% to 795 million pounds. We are maintaining our current estimates for the full year as the company has yet to assess the potential impact on full-year operations. Freeport expects to ramp up production to full capacity in Q2, which could allow it to make up for lost volumes. [1]

According to our estimates, copper mines in Indonesia currently contribute about 20% of our price estimate. Further, gold constitutes about 18% of the company's value, and Indonesia contributed almost 85% of total gold revenues in 2011. If Freeport continues to face similar troubles in Indonesia, it could have a significant impact on our price estimates.

The company has also been facing the risk of losing control of its Grasberg mine in Indonesia following the Indonesian government's announcement that it will limit foreign miners' stakes in Indonesian mines in the future. We discussed the issue in our recent article, Political Risks Weigh on Freeport, Vale & Other Mining Stocks.

Understand How a Company's Products Impact its Stock Price at Trefis

Notes:

1. Update on Grasberg Operations, FCX Press Release, Mar 15 2012 [↩]

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NEWS

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Freeport-McMoran Face New Challenges in Indonesia

admin March 15, 2012 News (http://epcmworld.com/category/news) 0 (http://epcmworld.com/news/freeport-mcmoran-face-new-challenges-in-indonesia#respond) comments | Leave comment

(http://epcmworld.com/news/freeport-mcmoran-face-new-challenges-in-indonesia)

By EPCM World contributor Joe Veroni

Freeport-McMoran Copper & Gold (FCX) (http://www.fcx.com/index.htm) is no stranger to overcoming obstacles when it comes to their Grasberg mine located in the Papua province of Indonesia. Thanks to a continued Chinese demand for copper, the high value of silver, and the cost of gold being what it is, Grasberg is the world's most profitable mine. Freeport's annual report shows that in 2010 Grasberg made $4.1B in operating profit on revenue of $6.4B. At peak production the mine can produce over 610,000 tonnes of copper, 174M grams of silver and 58M grams of gold per year.

Such enormous levels of both production and profit have not gone unnoticed by the Indonesian government. Indonesia is the largest economy in Southeast Asia, and with the help of some new laws the cost of doing business there is starting to rise.

Indonesia has recently placed into effect a law stating that companies mining in Indonesia must give up controlling interest in their projects within 10 years of the start of production. This does not sit well with every company currently mining in Indonesia. However, "For Freeport, the new divestment regulation is already included in our negotiations with the company," says Thamrin Sihite, Indonesia's director general of coal and mining in the ministry of energy and minerals. The Indonesian government is expected to attempt to have this contract changed as Freeport currently owns 90.64% of the mine, with the Indonesian government owning the rest.

Other than localizing controlling interest in Indonesian mines, the Indonesian government also plans to increase taxes on mining companies, effectively doubling the nation's inflow by 2014. Benefits received into Indonesia by Freeport in the fourth quarter of 2011 exceeded $370M. However, with the prices of copper, gold and silver being consistently high for a long period of time (and other countries such as Australia already starting to raise taxes on the mining industry) Indonesia is seizing this opportunity to increase the nation's inflow.

Furthermore, new rules are being put in place that will bar foreigners from working at 19 Indonesian mining posts. The belief is that Indonesians are not gaining enough on the job experience because too many ex-pats

March 2013

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Upcoming events

(http://epcmworld.com/events/canect-2013) nvironmental Conference & Tradeshow (CANECT) (http://epcmworld.com/events/canec 2013)
APR
International Centre 6900 Airport Rd. - Mississauga
09:00 AM

(http://epcmworld.com/events/cim-toronto-2013-mining) Mining & Metallurgy (http://epcmworld.com/events/cim-toronto-2013-mining)
Metro Toronto Convention Centre 255 Front Street West - Toronto
09:00 AM

(http://epcmworld.com/events/isarc-engineering-construction) l – Engineering Construction Event http://epcmworld.com/events/isarc-

are being hired. Foreigners will no longer be allowed to work for wholly owned Indonesian companies. The result will be that many new jobs are going to be held by the Indonesian people.

These changes beg some pretty serious questions, such as whether these changes will ebb foreign interest in mining in Indonesia. Volatile situations, such as in certain African locations, may suddenly start to look more appealing to companies searching for cheaper access to mineral resources.

(http://epcmworld.com/wp-content/uploads/143-papua.gif)

Despite being the worlds' most profitable mine, Freeport's ownership of the Grasberg mine has not been without pitfalls. Located in the remote highlands of the Sudirman Range of Papua, Indonesia, Freeport has been accused on several occasions of not taking the local environment into account. Copper contamination and acid mine drainage into the Papua water system is at the forefront of local concerns. Although the Grasberg project meets with Indonesian standards, Freeport has run into trouble for not willingly complying with stricter North American regulations. Ultimately, due to a seeming lack environmental concern, the Government Pension Fund of Norway excluded Freeport from the Fund's portfolio. Freeport spokesperson Bill Collier later said that this "reflects a misunderstanding."

Other Grasberg issues include outbreaks of violence at the mine as recently as February. Clashes have been reported between protestors and police, resulting in at least one death. There are also reports of infighting between unionized and non-unionized mine workers (disagreements arising after non-union employees continued to work while the union was on strike at the end of 2011).

With no shortage of trouble surrounding the mine, Freeport has recently reduced their expected quarterly output

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Political Risks Weigh on Freeport, Vale & Other Mining Stocks

Trefis Team, Contributor

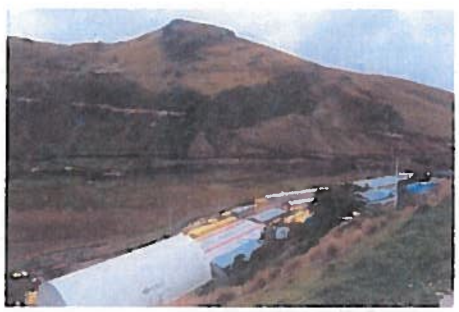

Image by AFP/Getty Images via @daylife

Global miners have recently seen an uptick in political risks that have left investors cautious. Mining stocks like Freeport McMoRan Copper & Gold Inc. and Newmont Mining Corporation dipped following the Indonesian government's decision to restrict foreign investment in natural resource-rich country. In January, China barred Vale's vessels from docking at its port to protect the domestic shipping industry and curb imports of iron ore. On a similar note, a joint venture between Barrick Gold and Antofagasta was refused a mining license in Pakistan last year.

These precedents exacerbate the uncertainties for miners and investors while discouraging investment in the industry. This is a big reason that mining stocks have not replicated the returns generated by their underlying commodities.

See Our Full Analysis for Freeport | Vale | Newmont Mining | Barrick Gold

Freeport vulnerable to Indonesia risk, Newmont less affected

Last week, the Indonesian government announced an amendment in its regulations which would require foreign companies to gradually decrease their stakes in mines and increase domestic ownership to at least 51% by the 10th year of production. The country justified its stand by saying that domestic firms should reap more benefits from the nation's huge mineral wealth.

This surely doesn't bode well for Freeport, which owns the world's largest gold mine (and second largest copper mine), Grasberg in Indonesia. Freeport has faced a host of issues at the mine, including significant labor disruptions and now this regulation. The company is saying that the government will honor its existing contract, which should protect its interests. However, should the government decide to attempt to renegotiate that contract it could have a substantial impact on Freeport's future earnings.

Looking at Freeport's financials, it is evident that the company is much more dependent on its Indonesian mining operations than other geographies. As shown in the chart above, nearly 20% of Freeport's value comes from its Indonesian mines, according to Trefis estimates. In 2011, Indonesia contributed almost 85% and 20% of Freeport's total gold and copper revenues, respectively.

Conversely, the impact of the new regulation on Newmont will likely be minimal as its existing contract covers similar clauses. Further, the company is relatively less dependent on its Indonesian operations.

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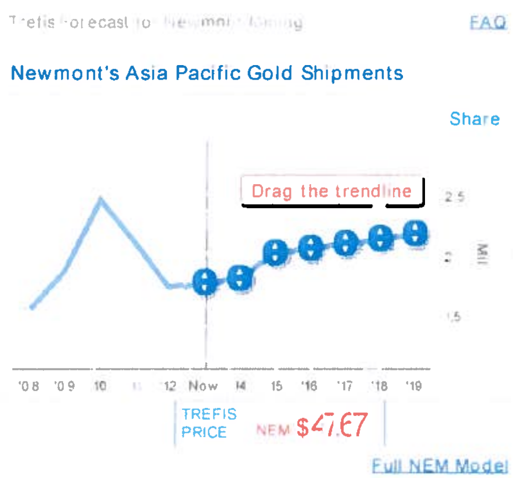

Vale runs into Chinese wall

In January, the Chinese government banned Vale's giant "Valemax" ships from docking at its ports, in what could be another political risk looming over the industry as a whole. Vale's fleet of 400,000 deadweight ton Valemax ships, each costing about $110 million, were constructed in an effort to reduce its shipping costs and compete with better-positioned Australian companies Rio Tinto and BHP Billiton.

However, China slapped a 350,000 deadweight ton limit on vessels docking at its ports to protect its shipping industry and reduce its dependence on imported iron ore. This was partially in response to a complaint from the China Shipowners Association, which claimed that Vale's massive ships would drive freight rates down throughout the industry. As a result, Vale has had to send its giant vessels to costlier trans-shipment hubs in the Philippines and Malaysia and then transfer it to smaller vessels.

Vale is trying to negotiate with the Chinese government to lift the ban. The company is also talking to the governments in Japan and South Korea to allow access to their ports for Valemax vessels. Otherwise, the company may have to wait until 2014, when it completes the construction of a distribution center in Malaysia with a capacity of 30 million tons per annum.

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Full Vale Model

Barrick Gold hits roadblock in Pakistan

Tethyan Copper Company, a joint venture between Barrick Gold and Chile's Antofagasta, also ran into a political roadblock in Pakistan last year, and is currently struggling to save its $220 million investment.

The company spent five years exploring deposits in the Baluchistan state of Pakistan and was planning to invest a total of $3.3 billion before the government surprised it by refusing to grant a mining license. The licenses were then granted to inexperienced Pakistani and Chinese companies. The matter is currently pending with the Supreme Court of Pakistan.

How do miners hedge against these risks?

All of these events help to explain why these mining stocks haven't realized the same returns as many of the underlying commodities. If other governments are prompted to take similar steps, it could have a significant impact on the industry as a whole.

Absent an industry-wide regulatory overhaul we believe that the more geographically diversified miners will be best positioned going forward.

Understand how a company's products impact its stock price at Trefis

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This article is available online at:
http://www.forbes.com/sites/greatspeculations/2012/03/14/political-risks-weigh-on-freeport-vale-other-mining-stocks/

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WSJ.com

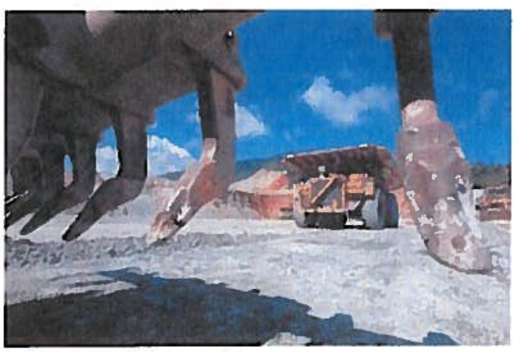
ASIA BUSINESS | March 7, 2012, 5:31 p.m. ET

Indonesia to Pare Foreign Investors' Mining Stakes

By ERIC BELLMAN And DEDEN SUDRAJAT

JAKARTA, Indonesia—In a move that could affect billions of dollars in foreign investment, Indonesia said it would start requiring foreign investors to cut their stakes gradually in mining assets to less than 50%.

Foreign investors had been allowed to hold up to 80% of mining companies, but a presidential decree signed last month requires foreign firms to sell their holdings in stages to 49%, Indonesia's Energy and Mineral Resources Ministry said Wednesday. The policy change hadn't been announced earlier.



Bloomberg News

Indonesia is rich in reserves of gold, copper, tin and coal.

The new regulations will apply only to new mining contracts between the government and foreign companies and to foreign companies that renew current contracts, a mining official said.

While many details about the new restriction were unclear, analysts and companies warned that the plan could crimp much-needed foreign investment into one of the most important sectors supporting Indonesia's recent growth.

"The interest in mining is very strong in Indonesia, but the regulations keep changing, which is paralyzing investment," said Umar Juoro, chairman of the Center for Information and Development Studies, a public-policy think tank here. "It is a very expensive business to get into, so foreign investors don't want to be forced to divest."

Although Indonesia drew a record $20 billion in foreign direct investment last year, its natural-resources sector has struggled to attract some Western companies because of confusion over the country's rules and regulations. Indonesia is rich in reserves of gold, copper, tin and coal. Gold and copper, in particular, need foreign investment because they are especially capital- and technologically intensive to extract.

Some Western analysts and executives have said privately in recent weeks that the country's recent success in attracting investment to other sectors may be giving politicians confidence about imposing restrictions to protect domestic companies. Indonesian officials have denied that.

Under the regulations unveiled Wednesday, foreign investors with 100% ownership of mines will have to sell 20% to domestic investors within six years of the start of production, the ministry said. At least 30% of the mine must be sold to Indonesian investors by the seventh year, 37% by the eighth year, 44% by the ninth year and 51% in the 10th year.

Jero Wacik, Indonesia's resources minister, declined to elaborate on the regulation. Government officials have said they want more mining wealth and control to stay in the country.

Indonesia's economy expanded 6.5% last year, and its large consumer market—the country has the world's fourth-largest population, behind China, India and the U.S.—has helped to make the country attractive for foreign money. Indonesia also is eyeing other restrictions on foreigners' operations. The country's central bank, for example, is considering capping bank ownership.

Last year, the government demanded to renegotiate resource-sector contracts that it deemed "unfair," including with Freeport-McMoRan Copper & Gold Inc. and Newmont Mining Corp., though it didn't lay out specifics. A recent regulation also requires companies to process all commodities in Indonesia before export, which stimulates the domestic economy.

"This contradicts the government's efforts to attract foreign direct investment into the country," said Priyo Pribadi Somarno, former chairman of the Indonesian Mining Association.

Freeport and Newmon said Wednesday that they expected their contracts with the government protect them from having to divest prematurely.

The mining sector contributed nearly 12% to the nation's gross domestic product last year.

—I Made Sentana contributed to this article.

Write to Eric Bellman at eric.bellman@wsj.com and Deden Sudrajat at deden.sudrajat@dowjones.com

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Forbes

Simon Montlake, Forbes Staff
I chart China's economic awakening in uncertain times

INTERNATIONAL | 2/16/2012 @ 11:26PM | 1,646 views

Indonesia Reviews Freeport-McMoRan's Contract For Papua Mine

Indonesia's Energy Ministry said Thursday it would renegotiate Freeport McMoRan's contract for its giant copper and gold mine in Papua province, which has been dogged by security, social and labor problems. The Phoenix-based company has responded with a pro forma statement of its cooperation. Its current contract runs until 2021 but it faces mounting pressure from resource nationalists to sweeten the deal in Indonesia's favour, possibly by selling down equity in its local operating unit. I reported last month on the swirl of controversy at the remote mine and the circling of sharks in Jakarta. Freeport is the world's largest publicly traded copper producer. Its stock is up 10% this year on the back of stronger copper prices.

In a statement, the Energy Ministry said the review of Freeport's mining operations would be conducted for "fairer contracts and agreement for the Indonesian national interest." Bloomberg reports that Energy Minister Jero Wacik met Wednesday with Freeport's new Indonesian CEO, who reportedly agreed to renegotiate the contract. He took over last month after the company ended a crippling three-month strike by thousands of workers. Shipments of copper concentrate were suspended last October after saboteurs cut the pipes from the high-altitude mine to the port. Workers have returned to the mine, but violence around the site has continued, with more attacks on workers and police by suspected armed rebels. Now the company faces protracted contractual negotiations in Jakarta over its prize asset.

This article is available online at:
http://www.forbes.com/sites/simonmontlake/2012/02/16/indonesia-reviews-freeport-mcmorans-contract-for-papua-mine/

Forbes.com

Feature

Cave In

Simon Montlake, 02.13.12, 6:00 PM ET

Sitting on a concrete floor just before the holiday at a modest home in Timika, Indonesia surrounded by dense, mountainous jungle, a warehouseman named Yonatan Iyai invites me to partake in a lunch and hear about life in the Grasberg copper mine. "This is a risky job," says the 33-year-old, in outlining why he and 8,000 colleagues had completed a three-month strike that will result in a phased-in 40% wage hike (Iyai's current pay: $460 a month), "and we deserve a better salary."

Fate underscores his point. As we share fish curry and steamed cassava in the valley, violence erupts in the clouds, where Grasberg, at 14,000 feet elevation, rests in perpetual fog. A helicopter ferrying workers and their families to Christmas vacation runs into a hail of bullets, wounding two women. The company promptly suspends flight services for a week, forcing employers to travel on a 72-mile access road that snakes up the mountainside. Last year at least six workers, including two security personnel, were shot dead along this route, which is off-limits to outsiders. Two more contract workers were killed in another roadside attack on Jan. 9.

Remote locations, labor unrest, violence—this is the fracturing foundation on which the mine's owner, Freeport-McMoRan Copper & Gold, is building its future. "These issues have posed risks for the company throughout its over 40 years of operations in Papua," Freeport's CEO, Richard Adkerson, says via e-mail when I ask him about this. "Freeport has successfully managed these risks and developed the Grasberg mine as a highly profitable operation. We have confidence in our ability to manage the current issues." And even though the stock cratered 37% in 2011, as once booming copper prices slumped on fears of a slowdown in China, many analysts predict a share price turnaround for Freeport, which mines copper, gold and molybdenum on four continents. It earned $4.6 billion last year, up from $4.3 billion in 2010. "In my view the stock is significantly undervalued," says David Gagliano of Barclays Capital.

That's easy to say from New York or Phoenix, where Freeport is officially based. But make no mistake: Freeport is an Indonesian company—it derives 45% of its income from there. And as I crisscrossed the region I came away with an impression very different from Adkerson's or Gagliano's, one that has nothing do with higher wages for workers like Iyai and that will remain even if the price of copper rebounds.

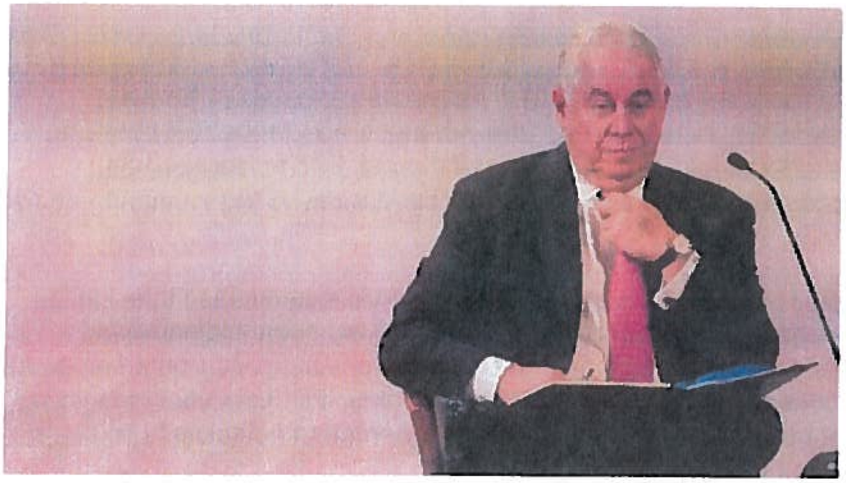
Boiled down, Freeport has a Papua problem. Indonesia tries mightily to pry eyes away from this heavily militarized home of the Grasberg mine. It's difficult for foreign journalists to report freely from Timika or for tourists to get a permit to visit; restrictions for Jakarta-based diplomats were recently tightened. Locals who speak their mind run a risk: Human Rights Watch says that 90 are currently in jail for peaceful political activities.

But the company's story is interwoven with that of this tenuous territory, a former Dutch colony in the western half of New Guinea, the world's second-largest island. (The eastern half is now Papua New Guinea.) The native population is racially and culturally distinct from the rest of Indonesia, more akin to Pacific Islanders than East Asians.

Until the 1930s tribes in Papua's rugged interior lived a Stone Age existence, unknown to the Europeans who stuck to the mangrove-ringed coastline. Yet their remote highlands held a glittering prize, which a Dutch geologist discovered in 1936: a mountain of ore at 14,000 feet, just shy of the highest peak (16,000 feet) east of the Himalayas. It was like finding "a mountain of gold on the moon," he wrote. And there the ore stayed for 30 years.

It took the technical know-how, political savvy and risk appetite of Freeport to crack open the safe. By then Papua had been handed over to Indonesian rule with the support of President Kennedy and the promise of a popular referendum. Australian Prime Minister Robert Menzies warned Kennedy that it would be "the substitute of brown colonialism for white colonialism." But a self-ruled Papua, a dream that persists today, wasn't in the cards. In 1966 General Suharto ousted left-leaning president Sukarno and began courting foreign investors. Freeport was the first to sign a contract, the start of a long and deep relationship with the regime. Papuans living around the mine had no say in the matter. A farcical UNobserved 1969 referendum to confirm Indonesia's sovereignty unfolded "like a Greek tragedy, the conclusion preordained," cabled a U.S. diplomat.

Freeport brought rapid development to Papua, building roads, schools and hospitals in the poverty-stricken area. But tax revenues largely stayed in Jakarta, where Suharto and his clan hosted Freeport executives and cooked up a back-scratching deal. Now democracy has unleashed Papuan resentment at the exploitation of their resources and their paltry return. "This is their worst crisis in over 40 years," says Kevin O'Rourke, a political analyst in Jakarta. "And that's saying something."



Reuters/Victor Fraile/Getty Images

Much of Freeport's workforce, and the majority of senior staff, are Indonesians from other islands. Laborers like Iyai complain that they're stuck on the bottom rung. Former employees say racism is common among Javanese managers, who see Papuans as primitive. Company spokesman Eric Kinneberg says over 500 staff-level managers are Papuans.

For every job at the mine, another 37 are added locally. But Papuans say this mostly benefits carpetbaggers, not the native-born who make up roughly half of the 3 million people in the California-size territory. The rest are newcomers, including migrants resettled by the government from other islands. "Migrants dominate the economy, and locals are marginalized on their own land," says Socratez Sofyan Yoman, the chairman of Papua's Alliance of Baptist Churches.

While officials blame separatist rebels for attacks like the helicopter shooting, many Papuans point the finger at Indonesian paramilitary police and military units who are paid by the company to guard the mine. The apparent motive: squeeze more money from Freeport by justifying their deployment in the area. "If there's no conflict, there's no money," says Reverend Yoman. "It's like an ATM."

Indonesian forces have been implicated in a sabotage of Freeport's pipelines last October. The pipelines, which transport copper and gold slurry, were cut at multiple points parallel to the access road to Timika. Sources close to Freeport say that aerial photos show Indonesian troops supervising the cutting by gangs of illegal miners, who then extract the concentrated gold. When engineers later went out to repair the pipelines they came under fire. In some cases, these sources say, acts of sabotage occurred within earshot of police checkpoints, yet no arrests were made.

A military spokesman in Jakarta denied any military involvement in the violence. He noted that armed civilian groups often wear army fatigues. He said swift action would be taken against any soldiers if there were firm evidence against them, and he invited human rights groups to report their findings to the military. "If we find our men were guilty, we'll take action. We will enforce the law. We will send them to military court," says Rear Admiral Iskandar Sitompul.

Whoever is doing the shooting and looting, Freeport's security budget is rising. As well as paying Indonesian troops for protection, a controversial yet common practice in the mining industry, Freeport spent $28 million in 2010 on its own security force, up from $22 million in 2009. It has also brought in Triple Canopy, a private security firm staffed by former U.S. Special Forces that replaced Blackwater in guarding U.S. missions in Iraq. While such costs are relatively small compared with the lode emerging from those mountains, it's hard to have security certainty if security expenditures just lead to more chaos.

Freeport must also deal with the freelancers. In the last decade thousands of small-scale miners have flocked to the area, tracking the upward march of gold. Timika, a dusty town of 120,000 people, has over 40 gold shops where specks are weighed and sold. While some miners pan for grams in lowland rivers, others travel closer to the mine, where higher concentrations are found in the waste rock. Far from deterring the trade, Indonesian security forces allegedly organize the transport of miners and supplies to camps inside restricted zones, taking their cut from the rich pickings.

For Freeport the surge in illegal miners adds the risk that they will start using mercury for extraction, posing a severe health risk to themselves and to the river system. Some gold shops already use mercury. Freeport is working with local authorities to discourage the practice and educate miners and merchants about the dangers, according to Kinneberg. It has installed monitoring devices in Timika and along the river.

Arguably the biggest risk of all emanates from Jakarta, 2,000 miles and two time zones away. As Indonesia's economy revs up, politicians are playing hardball with foreign companies in the resources sector. Under a 2009 mining law foreign entities must divest to local partners 20% of equity in new mines within five years of production. Government officials now propose raising this level to 51%, effectively handing over control to the locals. They argue that the law also allows for the renegotiation of existing contracts to bring them into line, which is anathema to mining executives.

RobHuibera/PANOS

As Indonesia's largest taxpayer, Freeport should enjoy some goodwill in Jakarta. Since 1991 it has paid over $12 billion into Indonesian coffers. But as with its security headaches, money can't buy you love. To its critics Freeport remains a tainted symbol of foreign privilege under the 32-year dictatorship of President Suharto, which ended in 1998. Environmentalists accuse it of despoiling a pristine landscape. Rights activists in Papua see it as a partner of an occupying military. And politicians are jumping on the bandwagon, calling on Freeport to stop complaining and start renegotiating.

"We're not Bolivia or Venezuela. We're quite nice. We just ask them to be nicer than before," says Satya Yudha, a lawmaker on a mines and energy commission. One provision in the mining law that could apply to Freeport requires miners to process more metals at the source. "Let them keep it and be the operator. No nationalization. But in return for that, build a smelter here," says Hashim Djojohadikusumo, a blue-blooded tycoon whose brother leads an opposition party.

In fact Freeport already smelts 25% of its copper at a plant in Indonesia. What really perks up politicians and their backers is the prospect of a compulsory divestment of the mine. A troubled asset could be on the market, with a potential windfall for the lucky buyer. "Everyone is using [the mine] as a battleground," says Tony Wenas, an executive of the Indonesian Mining Association and former legal counsel for Freeport.

Kinneberg says Freeport isn't required to divest equity in two locally incorporated units, though it has offered to sell shares in one unit to Papua's provincial government (the central government has a 9% stake in the other). He says Indonesia has "consistently indicated" that it will honor existing contracts. "We believe our contract is fair to all parties," Kinneberg says via e-mail.

Surrender is not an option. Grasberg's copper and gold reserves are so immense that Freeport is spending $600 million a year to build a vast network of tunnels below its open-pit mine. It knows it can keep digging profitably in Papua for decades. The richness of the ore explains its low production costs: $0.60 per pound of copper in Papua, compared with $1.25 in Peru and Chile. "The geology is the easy part. The regulatory side is multidimensional chess, with electrical shocks for the wrong move," says a Jakarta-based consultant to U.S. corporations.

The vice minister of mines and energy, Widjajono Partowidagdo, insists that Freeport must be flexible on buying local content and equity divestment. He acknowledges, though, that foreign companies don't want to give up control. "Fifty-one percent [divestment] is our first position, and then we can go in the middle. We have to acknowledge the needs of our nation, and we should also consider the needs of foreign investors," he says.

There's a precedent for this game of chicken. In 1991 Freeport signed a new 30-year contract, with options for two 10-year extensions, subject to government approval. ("They have a very good deal," notes Widjajono.) The agreement was sealed shortly after the company sold a 10% stake in the mine to the politically connected Bakrie family for $213 million, of which $173 million was financed by Freeport. A year later the Bakries sold half of the shares back to Freeport for $212 million, effectively giving them a free 5% stake that they sold in 1996 at a substantial profit.

Could this formula work again? O'Rourke says that the highly leveraged Bakries may be ready to buy another cheap stake in Freeport, in return for using its political clout to resolve its regulatory risk. Analysts say the Bakries would face competition from other tycoons in the resources sector, if Freeport took this route. Asked if any Indonesian companies had made approaches, Kinneberg declined to comment.

A discounted equity sale would be bad for Freeport shareholders. It's also not clear that it would end the insecurity at the mine, which remains hostage to political and ethnic tensions. The sins of the past, some of which Freeport had a hand in, many of which it did not, now represent a risk premium on the company's stock. At this point, there isn't much Freeport can do but keep digging and hope for the best.

Reuters/Muhammad Yami

One evening I slip out of my hotel to visit Sudiro, the mechanic who led the strike. It's nearly midnight, and several burly guards wait just inside the gate. Inside the house I meet a trim, soft-spoken 43-yearold Javanese in shorts and a black Freeport polo shirt. As a TV plays in the background, he describes his journey from tae kwon do champion to union firebrand who defied a mighty U.S. corporation.

Born into a military family, Sudiro (one name) joined Freeport in 1992. One of his trainers at the mine was a U.S. pilot from the Vietnam War, who praised him for his work ethic. He rose to the highest grade as a mechanic, worth $615 a month in basic pay. In October 2010 he was elected union leader and began researching wages at Freeport's South American mines. He decided that Indonesians were being underpaid, and last July he made a dramatic demand: an eightfold wage hike. When Freeport brushed him off, he staged a walkout of 8,000 workers in September.

Three months later Sudiro sat across from Freeport CEO Richard Adkerson in a Jakarta boardroom to discuss a revised pay deal. Adkerson, who had called the initial demands “excessive and unreasonable,” adopted a friendly tone, says Sadiro. “He told us, ‘Please help our company to survive.’” Sudiro replied that he hoped Adkerson had come “to provide a solution to our problems.” The deal was signed later that day, and Sudiro flew overnight to Timika, where thousands of Papuans were waiting at the airport to give him a hero’s welcome.

Why did the strike succeed? Sudiro says he drew on his strict military upbringing to lead the workers and press their demands. A Muslim from Java, he invoked Jesus to rally Papuans, who are mostly Christian. His ethnicity also made it harder for authorities to label unionists as separatists and crack down, though shots were fired at his house and car. “If the strike was started by Papuans it would have been crushed a long time ago,” says a rights activist in Jakarta. One miner offers his own explanation. “We had the power of God behind us,” he says. Freeport should be so lucky. –S.M.

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Jun 23, 2004

Freeport shareholders on the war path

By Tim Shorrock

Freeport McMoRan Copper & Gold Inc, the New Orleans corporation operating the world's largest copper and gold mine in the Papua region of Indonesia, is facing a wave of shareholder opposition to its relationship with the Indonesian military, known as the TNI.

Owners of Freeport stock are demanding the company withhold its annual multi-million dollar payments to the TNI until the Federal Bureau of Investigation (FBI) completes an investigation into a deadly ambush on Freeport property in 2002 that left two Americans and one Indonesian dead. The victims were teachers working at an international school for Freeport's expatriate staff.

Sources familiar with the investigation into the shooting in Timika say there is credible evidence that the intended targets were two Freeport executives who drove down the road moments before the teachers in two sport utility vehicles clearly marked with Freeport insignia.

Some US diplomats and lawmakers are convinced that the TNI, who provide security for Freeport's vast holdings near the town of Timika, organized the ambush. The Papuan police initially raised their suspicions, saying evidence pointed to the TNI.

The Indonesian government has strongly denied the army's involvement, but Congress has nonetheless withheld funding for a US military training program for TNI officers until the case is resolved.

During Freeport's annual meeting in May, 8% of the company's shareholders supported a resolution to suspend Freeport's payments to the TNI. That was more than enough to place the measure before next year's meeting, and activists involved said they plan to return to the 2005 meeting.

"The company knows we'll be around for some time on this," Patrick Doherty, a manager at the New York City Office of the Comptroller, told Asia Times Online. The comptroller's office manages investments for the New York City Employees' Retirement System, which includes New York's police and fire departments, as well as the New York City Teachers' Retirement System.

The New York City and teachers' funds collectively own 530,000 shares of Freeport stock worth $21 million, which Doherty labelled "a significant holding".

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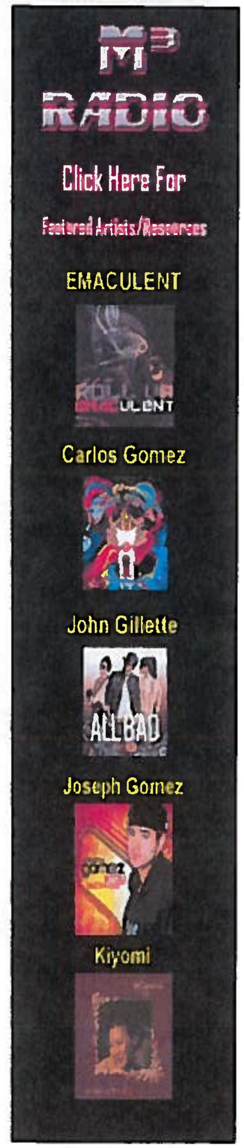

Through shareholder votes, the New York funds have previously challenged management decisions at Conoco-Phillips, Halliburton, General Electric and Disney, on issues ranging from Third World sweatshops to sexual orientation discrimination.

Freeport has been mining in Papua since the 1960s and is the largest private employer in West Papua. Its annual taxes, totaling $329 million in 2003 alone, make Freeport a major contributor to Indonesia's budget.

With close ties to the Indonesian military and the old Suharto regime, however, Freeport has long been a target of human rights activists. The company's mining on land appropriated from indigenous people and its poor environmental record in the Papua region have also drawn criticism. Shareholders began filing resolutions challenging this record in 1994.

Freeport has built a network of powerful friends linked to Suharto. Former Louisiana Senator J Bennett Johnson, one of Suharto's most vocal supporters in Washington during the 1980s and 1990s, is a current Freeport director. Henry Kissinger, another Suharto ally who gave the green light to Indonesia's invasion of East Timor during a 1975 visit to Jakarta, is also a former member of Freeport's board and is now listed as a "director emeritus". Likewise, J Stapleton Roy, one of Kissinger's partners at Kissinger Associates Inc, retired in May as a director and is currently a senior adviser to Freeport.

The New York retirement funds first filed a shareholder resolution in 2002, calling on Freeport to disclose how much it pays the TNI. Freeport opposed the resolution and successfully challenged it before the Securities and Exchange Commission (SEC). In a filing to the SEC, however, the company disclosed it paid the Indonesian military $5.6 million in 2002 and $4.7 million in 2001.

The latest resolution to suspend funds to the TNI was triggered by the ambush in Timika and the subsequent press reports of possible involvement by the Indonesian military.

Specifically, the resolution urged management "to halt all payments to the Indonesian military and security forces, until the government of Indonesia and the Indonesian armed forces take effective measures, including full cooperation with the US Federal Bureau of Investigation, in conducting a full investigation of the August, 2002 attacks against company employees, and to criminally prosecute the individuals responsible for those attacks."

The New York funds have met with non-governmental organizations and human rights groups concerned about the political and social situation in Papua, said Doherty. The fund trustees approved the Freeport resolution, he added.

Freeport's board of directors unanimously recommended a vote against the resolution. In a proxy statement filed with the SEC, the company said it was "fully cooperating with the Indonesian government and the FBI", and explained its relationship to the TNI.

"The Indonesian military and police provide security for our mining operations in a remote and logistically challenging area of Indonesia, and our longstanding view has been that such security is of utmost importance to the continuing safety of our workforce and the protection of our facilities," Freeport said.

Freeport described the shareholders' proposal as "misguided", adding it "suggests actions that would undermine our relationship with the Indonesian government".

with the Indonesian government."

Doherty said investors have a right to be concerned about Freeport actions that could "embarrass" the company and cause financial losses to shareholders.

When he addressed the shareholders' meeting, Doherty expressed concerns about Freeport's potential liability to the Alien Claims Torts Act, an obscure law that has been used by human rights groups in recent years to file lawsuits against US multinationals on behalf of people harmed by company practices abroad. By paying the TNI, Freeport "could share liability" with the military over human rights abuses under the law.

In addition, Doherty said his funds are concerned Freeport could face possible prosecution under the Foreign Corrupt Practices Act (FCPA), which prohibits bribery and extortion payments. Although the FCPA includes an exception for security payments, "I don't think the scale of Freeport's payments to the TNI were contemplated by the act," he said.

The May resolution was also supported by shareholders from several unions in the American Federation of Labor - Congress of Industrial Organizations (AFL-CIO) and a Mennonite church in Seattle. The Teachers Insurance and Annuity Association College Retirement Equities Fund (TIAA-CREF), an influential institutional investor, abstained from the vote. Ironically, all of the American schoolteachers who survived the 2002 shooting are TIAA-CREF investors. One of the survivors, Patsy Spier, lost her husband Rick in the attack, and wrote an open letter to TIAA-CREF urging a yes vote on the resolution.

"By voting 'yes,' you will be supporting the investigation and help stop such lawlessness from happening again," Spier wrote.

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Capital One 360

Gunmen Kill Indonesian and 2 Americans

Published: September 1, 2002

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JAKARTA, Indonesia, Aug. 31— Gunmen armed with automatic weapons ambushed a convoy headed to a huge gold mine run by an American corporation today, killing two Americans and an Indonesian in troubled West Papua Province.

Fourteen others, including seven Americans, were wounded in the attack near the world's largest gold mine.

No group claimed responsibility, though the Papua police chief said it was possible that the separatist Free Papua Movement was involved. Government forces and separatist rebels have been fighting intermittently for almost four decades.

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The convoy of cars was headed from the town of Timika to the Grasberg mine, an immense open-pit dig that many local residents consider a symbol of unwanted Indonesian rule.

The mine's operator -- PT Freeport Indonesia, an affiliate of New Orleans-based Freeport-McMoran Copper-and-Gold Inc. -- has been accused by human rights advocates of cooperating with Indonesian security forces in suppressing a local effort to achieve independence. Freeport denies any human rights abuses.

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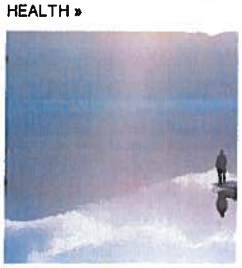

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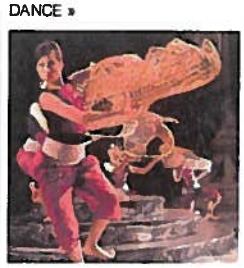

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