

## *Freeport and the Suharto Regime, 1965–1998*

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In functioning democratic economies a structural balance must be found between state and capital. In Suharto's autocratic state, however, a third variable upset this equation: patronage. By using access to resources and business as the major lubricant of his patronage style of leadership Suharto actively encouraged the involvement of all powerful groups within the economy. Eventually, the military, politicians, and the bureaucracy became intimately involved in the most lucrative business ventures to the point that to be successful in Indonesian business one required an influential partner in at least one of these institutional groups, preferably with direct access to Suharto.

When Freeport began negotiations with the new military regime in Jakarta in 1967 to mine the copper in West Papua, the American transnational with the valuable political connections was the more powerful of the negotiating parties, enabling it to dictate the terms of its contract. As Suharto's political confidence grew and as the American company's financial investment in the province increased—and by association its vulnerability—the balance of power shifted in Jakarta's favor. Eventually Freeport became another lucrative source of patronage for the president.

### EARLY HISTORY OF FREEPORT IN WEST PAPUA

In 1936, while on an expedition to the center of the island of West New Guinea, a Dutch geologist working for Shell Oil, Jean-Jacques Dozy, was struck by the sheer magnificence of a 180-meter barren black rock wall covered in green splotches standing above an alpine meadow.<sup>1</sup> Realizing he had discovered a huge copper outcrop Dozy knew that its inaccessibility meant “It was just like a mountain of gold on the moon” (Mealey

1996, 71). The advent of the Second World War and the physical impossibility of accessing the site in the rugged and inhospitable Carstensz Range meant that Dozy's report of the discovery of Ertsberg, or ore mountain, lay forgotten for years.<sup>2</sup>

Freeport Sulphur Company (now Freeport-McMoRan Copper and Gold Incorporated of the United States), became interested in Ertsberg in 1959 when a company geologist, Forbes Wilson, first heard of Dozy's report from a friend who, through his company Oost Borneo Maatschappij (OBM), had taken out a concession for the area from the Dutch government. Persuading the company to send him to West New Guinea in 1960, Wilson was so excited by what he saw and sampled that he predicted correctly that Ertsberg would prove to be the largest above-ground copper deposit discovered at that time. Having recently had its nickel-mining projects in Cuba expropriated by Castro, Freeport was nervous about making a substantial investment in the unstable region. Moreover, the only way for a mining concern to access the site was via helicopter, and even with the most powerful helicopter available at the time it would take months to move just one small drill rig and crew to the remote site. Thus, technical problems and political concerns saw Freeport shelving the Ertsberg project in the early sixties.

### FREEPORT'S ENTRY INTO WEST PAPUA

In the boom times of the sixties, mining was the magnet for speculative international capital, and the company did not forget the possibilities it glimpsed in West New Guinea. In early November 1965, just a couple of weeks after a military coup sidelined Indonesian President Sukarno, two Texaco executives from Indonesia with close associations to the new military regime approached Freeport. They informed the company that the time was right to open negotiations with the generals in Jakarta over Ertsberg (Wilson 1981, 155). Freeport's subsequent decision to commit well over a hundred million dollars to the risky project seemed extraordinary given the political instability in Indonesia at the time. Freeport's confidence, however, may be understood in the context of its connections to the highest echelons of power in Washington, the United States' expanding military power in the region, and its interest and influence in the events unfolding in Indonesia.

The chairman of Freeport Sulphur was, for a time, powerful Republican John Hay "Jock" Whitney. Jock had founded the *New Republic*,

became editor-in-chief of the *New York Herald Tribune*, owned a company that had contracts with the Defense Department, and had financially supported the Eisenhower presidential campaign. He is also reputed to have maintained ties with the Central Intelligence Agency after having worked alongside business partner Nelson Rockefeller for the Office of Strategic Services (OSS) (Pease 1996; Colby 1995; Reich 1996, 216–217). Another board member, Robert Lovett, was an influential cold war leader of the Washington establishment, having served under four presidents—as assistant secretary of war for Roosevelt, undersecretary of state for Truman, deputy secretary of defense under Eisenhower, and adviser to President Kennedy on appointments. He also served as a member of Kennedy’s secret Executive Committee of the National Security Council during the Cuban missile crisis (Isaacson 1992, 357; Pease 1996; Reeves 1991, 222; Colby 1995, 221; Schlesinger 1965, 116, 128, 685). Another influential board member was Admiral Arleigh Burke who was a fervent anticommunist and one of the architects of the Bay of Pigs invasion (Wilson 1981, 186–187; Schlesinger 1965, 181).

Augustus (Gus) Long, one of the two persons who originally approached Freeport suggesting it open negotiations with Jakarta in 1965, held a position on President Johnson’s Foreign Intelligence Advisory Board and was involved in the planning of covert operations. The other, Julius Tahija, was a Texaco-Caltex executive and former military man, whose close links with Sukarno and the military had enabled him to keep Caltex and Texaco property safe during the fifties, when Sukarno was in the process of expropriating foreign assets. At the time Caltex was jointly owned by Texaco and Rockefeller’s Standard Oil of California. Tahija, Long, Hay, and Lovett all boasted close links to the Rockefellers, while two Rockefeller family members, Jean Mauze and Godfrey Rockefeller, held seats on the Freeport board, as did Rockefeller associate Benno C Schmidt.

Given such connections, it is not implausible that the company was privy to information which satisfied it that, with backing from Washington, the generals in Indonesia, who were at the time overseeing the slaughter of Indonesian communists, would be able to ensure political stability. As well, advancements in helicopter technology stimulated by the Vietnam War now made the operation technically feasible.

While Freeport’s connections must have given it a measure of assurance, the messages coming out of Jakarta were also viewed as positive. In 1966, with the country facing bankruptcy, one of the main priorities of the military regime was to gain international recognition and political support

while attracting foreign aid and investment to foster stability, legitimacy, and development. To entice western capital the regime promoted a decidedly pro-western, pro-foreign investment alignment, which included purging the communists from within its ranks and the nation at large, and employing a group of Indonesian economists trained in America who, together with International Monetary Fund and World Bank experts, drew up a restructuring plan for the economy.

Although over time the balance of power would change between Freeport and Jakarta, in 1967 the American mining company with the influential connections was the most powerful of the two, and there was little the anxious generals in Jakarta would not do for Freeport. With new legislation yet to be passed to define foreign investment and the company rejecting the old rules, Jakarta requested that Freeport produce its own contract. In April 1967, Freeport became the first foreign company to sign with the new government and the only one to sign under such favorable conditions.<sup>3</sup> As noted by a member of the Freeport negotiating team, given the fact that Indonesia did not have sovereignty over the area at the time “the legal basis for an agreement was vague” (Mealey 1996, 84). Moreover, regulations at the time stipulated that Indonesia was not open for foreign mining investment; the contract did not have the president’s signature, but rather that of Lieutenant General Suharto as minister for defense and security and head of the Presidium of the Ampera Cabinet (KEREBOK 2000).

Forbes Wilson believed that Jakarta was probably under political pressure from the United States to accept Freeport’s contract; however, an Indonesian cabinet minister at the time, Professor Dr Mohammad Sadli, claimed in 1998 that the acceptance of the contract was a political decision by Jakarta to exploit the “unsubtle connection” between letting foreign companies in and securing international support (Sadli 1998). That is, by signing with Freeport the generals believed they were cementing ties with the largest economy and most powerful state in the world. Given the level of Freeport influence in Washington, the connection Jakarta made through Freeport was impressive and its objectives feasible. Moreover, as noted by retired Minister of Mines Soetaryo Sigit, the importance of the Freeport contract was also that it indicated “to the world that Indonesia [was] serious about trying to accommodate foreign investment” (Soetaryo 1998).

The mutually supportive relationship that Jakarta hoped to nurture was evident from the beginning. At an international conference convened in Geneva in November 1967 to sell the new government’s business creden-

tials, Freeport actively lobbied on its new partner's behalf. With Freeport symbolizing the new-frontier image Indonesia wished to promote internationally, and with pressure from Washington, there followed a flood of technical expertise and foreign capital—\$1,226 million by 1969. This inflow was not only crucial in keeping the regime afloat in the early years, but its continuation assisted Suharto in maintaining power for another three decades.

In return for its services at such a critical time, Freeport's needs were fulfilled by Jakarta: it got a highly favorable contract, the riches of Ertsberg, and the Indonesian military to protect it. Under the contract, Freeport was given mining rights for thirty years within a 250,000 acre concession with a three-year corporate tax holiday. There were no Indonesian equity requirements, and Freeport was not under any obligation to the traditional Papuan owners of the land, the Amungme and Kamoro peoples. The company was not required to pay compensation to the traditional landowners, nor was it obliged to participate in local or provincial development. Finally, there were no environmental restrictions.

Because only small towns and oil exploration sites on the coast existed in West Papua in the late sixties the project took five years to complete. The first task was to cut an access road through the inhospitable terrain; the road accounted for almost one-third of total mine expenditure and took twice as long to build as all the other infrastructure combined. Bechtel, the American engineering company contracted to build the project for Freeport, claimed that the access road was the most difficult project it had ever undertaken (Wilson 1981, 192). Most bizarre of all, given the surroundings, was the company town of Tembagapura (Copper Town). Built ten kilometers below the mine complex in a highland valley surrounded by jungle, it is a completely self-contained western dormitory-style town. While the construction of the mine itself in the central mountains of West Papua was an extraordinary engineering accomplishment, the company also built a port and an airstrip in the lowlands. The company provided all goods, services, infrastructure, and utilities for Tembagapura and the mine, including such basic necessities as water, power, roads, medical support, transportation (air, road, and sea), accommodation, schooling, recreation, food, and waste disposal.

The building task was so daunting that in 1970 the problems Bechtel was experiencing and the extent to which the budget had been exceeded (expectations of around \$120 million were exceeded by approximately \$80 million) saw Freeport's funding at risk, forcing the company to

threaten to cancel Bechtel's contract (McCartney 1989, 157). In response Bechtel offered to guarantee financing and called on the services of its friend Henry Kearns who, as a close friend of Richard Nixon and head of the Export-Import Bank, ignored the bank's objections and had the Freeport loan approved. Despite the financially advantageous contract, the enormous construction costs and falling copper prices meant that a profit was not realized until 1974.

#### THE BEGINNINGS OF THE RELATIONSHIP WITH THE INDONESIAN ELITE.

Initially both Tahija and Texaco had been given a small interest in the company (Sadli 1998; Tahija 1995, 161), and on Tahija's advice Freeport had engaged the legal services of former senior bureaucrat Ali Budiardjo to assist with contract negotiations. Budiardjo was also given a financial interest in the operation.

By the mid-seventies, having invested around \$300 million in the project, the company was losing its previous advantage of capital mobility, and by association its power was waning. At the same time Suharto had become politically more secure on both the domestic and international stages. Needing to service the rising debt of the oil company Pertamina<sup>4</sup> and bolstered by nationalist sentiment at home, Suharto requested that Freeport, which had just begun to realize a profit, forego the last eighteen months of an agreed tax holiday. The president also requested that the company give the government an 8.9 percent equity in the operation. Given that Freeport Indonesia was an unlisted company and had, at that stage, invested approximately \$300 million in the project, an 8.9 percent interest should have been valued at approximately \$29 million. Instead the government's share was valued at \$9 million. At the same time Budiardjo was given the presidency of Freeport Indonesia.

A few years later Jakarta came to its new partner's aid. With copper prices plummeting and Japanese buyers pressuring the company to cut prices or close down the operation, Freeport was faced with serious problems. Jakarta responded by protecting the Freeport operation and, by association, its own investment, by threatening the supply of Indonesian oil to Japan (Tahija 1995, 164). At this stage, as noted by Ron Grossman from Freeport's financial department, "nothing was accomplished unilaterally, it was give and take. It was a very, very good relationship" (Mealey 1996, 85).

## DISCOVERY OF GRASBERG AND THE NEW CONTRACTS

For nearly twenty years Freeport operated quietly in West Papua, until by the late eighties Ertsberg had all but died, leaving behind an open pit over 360 meters deep and 2 kilometers wide, filled with green, copper-impregnated water. During its life Ertsberg had produced approximately 32 million tonnes of copper, gold, and silver and had succeeded in generating an average annual revenue of \$300 million for the company. In 1988 Freeport announced that about 2.2 kilometers away from Ertsberg it had discovered its El Dorado, Grasberg. However, there had been rumors of the discovery more than a decade before. Why the company decided to withhold the announcement until 1988 is open to conjecture. Because OBM, the original leaseholders, still retained a 5 percent interest in Freeport Indonesia, the company may have waited until Ertsberg was exhausted to buy out its partner cheaply. Moreover, during the late seventies to mid-eighties the decidedly unattractive Indonesian third-generation mining contracts, which restricted foreign ownership of companies to an eventual 49 percent, were in force. It would appear that it was in Freeport's interest to delay the announcement.

After Freeport bought out its partner and the law was changed, Freeport signed two new contracts for Grasberg in 1991 and 1994. Julius Tahija described how, at the time, the company presented a proposition to the government that he believed it could hardly refuse. While a number of companies had been given exploration permits around the original Freeport concession, none had the capital to proceed with the costly operations. Freeport proposed that Jakarta give it permission to explore these areas, and in return it would spend \$20 million on exploration while making the results available to the government. Jakarta was then free to give the concessions to whomever it wished. The government agreed, canceling the exploration permits it had given to other companies (Tahija 1995, 178). Not surprisingly, Freeport was eventually given the mining rights to this land. In total the two contracts gave Freeport exploration rights for approximately nine million acres across the spine of West Papua and the right to mine any discoveries for a further fifty-year period. Once again, Freeport was not forced to operate under restrictive environmental laws or to compensate the traditional landowners for loss of land.<sup>5</sup>

Positioned along the "ring of fire" (the geological zone where the Indo-Australian and Pacific plates collide), the Freeport mining concessions are in potentially one of the highest mineralized zones in the world. Referred

to in the industry as “an elephant”—a geological term for an extremely rich mineral deposit—Grasberg dwarfed Ertsberg in every respect. Not only was it physically more imposing, but Ertsberg’s productivity pales into insignificance compared with the riches unearthed at Grasberg. In 1999 alone Grasberg produced more than double the ore recovered from Ertsberg during its life. What can be considered the Grasberg complex (the Grasberg mine and the surrounding above- and below-ground mines) constitutes the world’s largest known deposit of gold (91.4 tonnes of gold compared to its nearest rival, Freegold in South Africa at 60.44 tonnes<sup>6</sup>), currently holds the world’s third-largest open-pit copper reserves (32 million tonnes), and at extraction rates of less than 10 cents per pound has the lowest extraction rates for copper in the world. Estimates of Grasberg’s worth continue to increase; despite all predictions, the final worth of the mine is impossible to establish for it is classified as “open at depth,” a euphemism for a bottomless pit, and yields a greater percentage of gold per tonne the deeper the mine goes. Estimates of Grasberg’s eventual worth have ranged from \$54 billion to \$80 billion.

Similarly impossible to establish is the potential of the Freeport concession. Exploration on over 6,000 sites has identified about seventy potential mining sites, and drilling has commenced on a number of them.<sup>7</sup> At its peak, Ertsberg processed 25,000 tonnes of ore per day; currently Grasberg is daily moving approximately 700,000 tonnes of earth and discarding over 230,000 tonnes of it into the local river system as tailings. Grasberg moves more tonnes of earth per day than any other mine. For comparison, at its height Bougainville discharged around 140,000 tonnes per day and Ok Tedi less than 100,000 (Earthbeat 1996). The open-pit Grasberg mine is so large and located at such a high altitude that, except for early morning, the site is continually shrouded in cloud, necessitating satellite tracking of the huge mining trucks that operate 24 hours a day, 365 days a year.

Once a company has committed large amounts of capital to a project, the host nation is in a much stronger bargaining position. Between 1967 and 1991 the power relationship between the Indonesian state and foreign capital shifted a number of times, whereas between the regime and the company it had shifted significantly in the state’s favor. No longer was Suharto plagued by political insecurities or desperate to please as he had been in 1967. Instead twenty-four years of authoritarian rule allowed him to exploit incoming foreign capital to support the patron–client relationship that characterized the state. Conversely, once it had invested heavily in the province, Freeport’s lack of mobility tended to undermine its bar-



gaining position and it was willing to concede much to the state to secure the mining rights to Grasberg as well as further exploration rights. Notwithstanding the parading of Freeport “heavies,” Suharto drove a hard bargain.

In January 1991, a year before the signing of the new contract, the government had increased its own holding in PT Freeport Indonesia from 8.9 percent to 10 percent for \$18.1 million. As was standard procedure with the Suharto government, Jakarta was not required to outlay capital. Instead, the transnational skirted the US Foreign Corrupt Practices Act while managing to finance a foreign government into the company by negotiating “carried interest.” That is, Freeport-McMoRan agreed to withhold 40 percent of the dividends owed to Jakarta for its shares in Freeport Indonesia until the purchase was paid for. Higher payments to the government, restrictive exploration conditions, incorporation in Indonesia, further Indonesian equity in the company, and an unwelcome commitment to build a smelter on Java, were just some of the contract conditions demanded by Jakarta.

The smelter in Gresik, east Java, represented a significant financial burden for Freeport, which, with partners Mitsubishi Materials Corporation (60.5 percent), Mitsubishi Corporation (9.5 percent), and Nippon Mining (5 percent), completed the project in 1999. During construction, costs skyrocketed from an estimated \$300 million to \$700 million. To ensure the completion of the project Freeport agreed to “support an after-tax return of 13 percent to the larger partner, if necessary, for the first twenty years of commercial operations, [while] the 10 percent partner was given an option . . . to require the parent company, Freeport-McMoRan Copper and Gold Inc, to purchase the 10 percent interest at a 10 percent annual return” (Freeport 1994, 33). Apparently Suharto’s notorious charity, Nusamba,<sup>8</sup> partnered Mitsubishi Materials in this lucrative venture (Shari 1998).

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. As in 1967, this second contract saw Freeport as the first company to sign under a new Foreign Investment Law that gave preference to foreign mining companies like Freeport investing in the nation’s underdeveloped eastern provinces. These companies were allowed to retain 100 percent ownership of their operation while foreign companies investing in the other provinces were required to gradually divest up to 51 percent of their shares to Indonesian nationals. Despite this law,

Suharto took the opportunity to extend his patronage by demanding further Indonesian equity in the Freeport operation.

Ginandjar Kartasasmita, the minister of mines and energy and a patron of the indigenous business community, informed Freeport-McMoRan that it was required to divest 20 percent of its Freeport Indonesia equity within ten years to Indonesian nationals and thereafter another 25 percent in 2.5 percent lots. Moreover, should it fail to sell at least another 20 percent of this second allotment of shares on the Jakarta Stock Exchange, it would be required to divest 51 percent of Freeport Indonesia shares to Indonesian nationals (COW 1991). There seems to be no record of this second, unpalatable clause being made public at the time.

With 90 percent of PT Freeport Indonesia held by Freeport-McMoRan and approximately 10 percent held by the government, an Indonesian buyer had to be found for another 10 percent within the next nine years. The group that Freeport-McMoRan sold this 10 percent to was the Indonesian conglomerate Bakrie Brothers headed by the minister's friend, Aburizal Bakrie. At the time Bakrie was Indonesia's most prominent indigenous businessman and, along with Ginandjar, had been a member of Suharto's notorious Team 10.<sup>9</sup> At the time he was also close enough to Suharto to be considered a family member (Aditjondro 1998). All parties involved in the negotiations have publicly stated that Freeport's decision to sell to Bakrie was purely a business decision, with no pressure from the government. In 1996 Paul Murphy, the executive vice president of PT Freeport Indonesia, related an entirely different version of events.

Murphy claimed that when the company was informed of the contractual obligations, Freeport-McMoRan was thinking of listing the Freeport Indonesia shares on the Jakarta Stock Exchange. Given that at the time the total value of the Jakarta Stock Exchange was reported to be only \$60 million, the suggestion that Freeport-McMoRan was considering listing over \$200 million of PT Freeport Indonesia shares is questionable. According to Murphy, however, this option was thwarted by Ginandjar, who told the company that the government would send three potential partners from which the company could make a choice. In late 1990 Aburizal Bakrie paid a private visit to Freeport's Chief Executive Officer Jim Bob Moffett, in Louisiana, informing him that he was the partner Freeport required (Borsuk 1994, 1). To Murphy's knowledge Freeport-McMoRan had no choice, with Bakrie the only potential partner ever sent by Jakarta. He described the decision to sell to Bakrie years before it was contractually required as a "sign of good faith" between the company and the Suharto government, although director general of mines at the

time, Kosim Gandataruna, is reported to have claimed that Ginandjar recommended to Freeport to sell immediately (Murphy 1996; Waldman 1998).

According to Freeport-McMoRan's 1991 annual report, on 31 December 1991, just one day after signing the contract with Jakarta, Freeport-McMoRan issued 10 percent of PT Freeport Indonesia to Bakrie Brothers. Freeport-McMoRan was then paid \$212.5 million on 6 January 1992 for the stock, but Bakrie only ever supplied \$40 million of this. Freeport-McMoRan and Freeport-McMoRan Copper and Gold jointly guaranteed the remaining \$173 million of the payment to itself on behalf of the Indonesian businessman with important connections (Freeport 1991, 30–31). The first loan repayment by Bakrie Brothers was due exactly one year later, in December 1992. Bakrie never made this repayment because just one week before this date it sold 49 percent of its PT Freeport Indonesia shares back to Freeport-McMoRan for approximately \$211.9 million (Borsuk 1994). There appear to be problems with this deal.

Freeport's 1991 contract stipulated that it must have a 20 percent Indonesian share holding; therefore Freeport-McMoRan could not directly buy back 4.5 percent of its own shares from Bakrie Brothers as this would increase its direct holding in PT Freeport Indonesia to approximately 85 percent. In an attempt to overcome this legal impediment Bakrie Brothers listed its holding of Freeport shares on the Jakarta Exchange through a company it created expressly for this purpose, PT Indocopper Investama. Indocopper's only asset at the time was the Freeport shares. Freeport-McMoRan then purchased 49 percent of this Indonesian company on 23 December 1992 for just short of \$211.9 million. Given the terms of the new contract (20 percent Indonesian equity), Freeport-McMoRan's indirect purchase of shares through PT Indocopper Investama violated the terms of the 1991 contract. Thus, exactly one year after purchasing the 10 percent interest in Freeport, for \$212.5 million, and precisely when Bakrie Brothers was due to make its first installment on the Freeport shares, Freeport-McMoRan paid Bakrie close to the original purchase price for half the number of shares.<sup>10</sup> Not only was Bakrie saved from making its first payment, but the twelve-month deal gave Bakrie 5.5 percent of Freeport for virtually nothing, with Bakrie making over \$200 million on an outlay of \$40 million.

Even though the original purchase by Bakrie Brothers officially occurred on 31 December 1991, when the market price of Freeport-McMoRan Copper and Gold shares was approximately \$32.88, the company has claimed that the purchase price for the deal had been negotiated twelve

months earlier, in January 1991. At that time Freeport-McMoRan Copper and Gold's Class A common stock—the shares on which the deal was calculated—were trading at approximately \$19.50. Thus, with the stock rising to \$43.76 (adjusted for share splits) by December 1992—when Freeport-McMoRan bought back the Freeport stock from Bakrie—the company could justify paying Bakrie double the purchase price. However, if the purchase price had been calculated on the official date of the transaction, that is 31 December 1999, Bakrie would have needed to pay \$73 million more for the share holding. Not only are the financial calculations questionable, but if Freeport-McMoRan had agreed in January 1991 to sell 10 percent of PT Freeport Indonesia, the shareholders of Freeport-McMoRan and the market were legally entitled to be informed.

In March 1997 it would appear that Bakrie, no longer in Suharto's favor, was forced by the president to sell his remaining Freeport shares, held by PT Indocopper Investama, to Suharto's *yayasan*, Nusamba, for \$315 million. Nusamba supplied \$61 million of the purchase price, while Freeport underwrote the balance of \$254 million. Just one month before this deal was finalized Freeport had been offered a 15 percent interest by the president in what appeared at the time to be the biggest gold find in history, Busang.<sup>11</sup> With Freeport agreeing to subsidize interest payments on the Nusamba loan, by 2000 the company had apparently lent the Suharto *yayasan* \$43.7 million (Bryce 2000). At the end of July 2001, Freeport announced a \$525 million offering of convertible senior notes that, in part, may be used to pay the balance of the \$254 million loan taken out on behalf of Nusamba should Nusamba default. The loan is guaranteed by Freeport-McMoRan and due to mature in March 2002.<sup>12</sup>

Before Suharto was forced from office, the original deal brokered between Bakrie, Freeport-McMoRan, and the Suharto minister would never have been allowed to make front-page news, but in late 1998, with the issues of corruption, collusion, and nepotism dominating the political agenda, the ethics of this deal were questioned by American academic Jeffrey Winters when he suggested that Ginandjar's involvement in the deal was worthy of investigation (Catan 1998). It was also claimed at the time that Ginandjar's son, Agus Gumiwang Kartasasmita was given a waste disposal contract with Freeport. Ginandjar, Bakrie, and Freeport responded by denying Ginandjar had any involvement in the deal. The minister also claimed that none of his children had a contract with Freeport. As noted previously, Murphy stated in 1996 that Ginandjar sent Bakrie to partner Freeport-McMoRan, while in the same year a company

publication noted that its sewerage treatment systems would be privatized and run by PT Agumar Rust Indonesia, of which the minister's son Agus is a 30 percent shareholder (PTFI 1996, 23:16). Members of Ginandjar's immediate family have also been employed by the company.

### OUTSOURCING AND PURCHASING AN INSURANCE POLICY

After the signing of the contract, Freeport's actions were dictated by the time constraints built into the contract, which in turn exacerbated existing financial problems. Freeport needed to acquire as much capital as quickly as possible to expeditiously complete an extensive exploration and expansion program. Eventually Freeport was forced to outsource or privatize most of its nonmining activities.

Freeport's restructuring program saw it subcontracting the building of new, nonmining infrastructure to outside companies and selling off nonmining or nonoperating assets such as service industries (eg, electricity, shipping, residential, and so on). In all instances, it would appear that the assets were sold to Indonesians with close associations with the Suharto family, and Freeport maintained a minor partnership. The purchaser guaranteed that it would operate these assets and provide the goods and services back to Freeport and in return Freeport would provide a fee and a guaranteed income. By giving individuals with power, wealth, and political influence a risk-free interest in the continued operation and profitability of Freeport, the outsourcing program effectively strengthened the company's political insurance policy with the Suharto regime. Although Freeport liked to argue that its outsourcing program was devised to redefine its role in the community and accumulate wealth by selling off assets, the arrangements made were economically lucrative for the Indonesians and of dubious economic value to the company. Nevertheless, at the time such deals appeared to be politically astute moves.

The biggest winner in the outsourcing program was Dr Abdul Latief who became Suharto's minister for manpower and, like Bakrie and Ginandjar, was one of the favored members of Suharto's Team 10. According to Peter Waldman, Latief was also introduced to Freeport by Ginandjar, although Ginandjar has denied this (Waldman 1998; Robinette 1998). Freeport and Latief became joint partners in an operating principal called PT ALatieF Nusakarya Corporation (ALatieF), which bought housing and shopping complexes in Tembagapura and the Sheraton Inn in Timika from Freeport. As was usual business practice, the Suharto favorite was well

looked after by the company, for not only did Freeport-McMoRan guarantee a minimum rate of return on Latief's investment (15 percent after tax), but Freeport-McMoRan raised and guaranteed most of the finance for the purchase.

By 1993 ALatieF had purchased from Freeport nonmining assets worth approximately \$270 million, with Freeport—the 33 percent partner—guaranteeing 66 percent of the purchase price totaling \$180 million through the parent company, Freeport-McMoRan Copper and Gold. Abdul Latief, with a 66 percent share of ALatieF, was required to provide only \$90 million. By 1998 ALatieF purchases from Freeport had risen to \$370 million, with Freeport carrying \$255 million or 66 percent of the debt and Abdul Latief assured of 66 percent of the profits.

In 1994, when Freeport wanted to extend its exploration area, another new contract saw it taking another influential Indonesian partner. PT Setdco Ganesha (Setdco) and PT Indocopper Investama were each given a 10 percent interest in the new area. While Bakrie shared ownership of Indocopper with Freeport-McMoRan, the Setdco Group was owned by Setiawan Djody who was also introduced to Freeport by “someone in the Ministry” (Waldman 1998). Djody was not only friends with two of Suharto's sons, Sigit and Tommy, but was a partner in a number of Suharto family ventures. By his own admission Djody's success rested on his association with the Suhartos, especially Tommy.<sup>13</sup>

Julius Tahija, through a subsidiary called Austindo Nusantara Jaya, was also given a 10 percent interest in a joint venture between Duke Energy Corporation (30 percent), PowerLink Corporation (30 percent) and Freeport (30 percent). This joint venture called Puncak Jaya Power entered into an agreement with Freeport where for approximately \$215 million it would purchase and expand Freeport's existing power-generating project and sell the electrical power service back to the company. As usual, in return Freeport was required to guarantee Puncak Jaya Power “a minimum rate of return and [was] obligated to make minimum payments sufficient to allow the joint venture to meet its debt service” (Freeport 1994, 32). Ginandjar's brother, also Agus Kartasasmita, sought a partnership in the joint venture running Freeport's power system but was rejected, apparently because his company refused to provide any capital.<sup>14</sup> He was, however, afforded a share in the company's airline through his small conglomerate PT Catur Yasa. Moreover, it has been claimed that two of the Suharto children, Bambang Triatmodjo (Freeport cargo ships) and Tommy (power) also held, or continue to hold, contracts with Freeport. Finally, on

the recommendation of Ginandjar, a Golkar party<sup>15</sup> faithful, Prihadi Santoso, was employed by Freeport and currently holds the powerful position of executive vice-president responsible for government relations.

By 1997 it was rumored that Suharto was upset by the extent of Ginandjar's friends' lucrative contracts with Freeport and a number of these were retracted and given to Suharto's closest friend and business partner, Bob Hasan, through his company PT Pangansari Utama. Pangansari remains a major catering contractor to Freeport in West Papua.

What was reported by Freeport as an asset-raising exercise simply resulted in further debt for the cash-strapped company, with journalist Peter Waldman calculating that between "1991 and 1997 Freeport made at least \$673 million of loan guarantees to finance three Indonesians with close ties to Mr Suharto or his ministers" into the company (Waldman 1998). By selling its nonmining assets to influential Indonesians, Freeport was making expensive payments on an insurance policy and doing business the Suharto way.

#### THE IMPORTANCE OF FREEPORT TO JAKARTA

From the very beginning Freeport had been considered by the government to be one of the nation's most valued assets and, according to Suharto, essential to the economy. Initially, Freeport's importance arose from the political ramifications of the 1967 contract. Throughout the seventies and eighties, however, Freeport's continued capital investment, its ability to extract the precious metals, and its political importance to the regime increased the company's stature. Not only did the company become the principal developer and de facto administrator of the area around its mine in West Papua, but the company and its associates have the distinction of being one of the most successful and outspoken Indonesian lobby groups in the United States. With the discovery of Grasberg the potential political and economic worth of the Freeport operation to the government became incalculable.

From 1975 to 1986 Freeport paid the government, on average, \$28.2 million per year and in 1988–89 it became the nation's largest taxpayer. By 1995, with a rise in copper prices and increased extraction rates, Freeport paid direct to the government \$295 million in dividends, taxes, and royalties out of gross revenues of \$1.48 billion. In the same year the company claims that indirect benefits totalled another \$997 million. However, by 1999, with a fall in resource prices, direct payments to the government

fell to \$173 million in taxes and royalties and \$29 million toward local development. In total, between 1991 and 2000 Freeport paid direct benefits to Jakarta of \$1.6 billion. But direct benefits were always outstripped by indirect benefits, which in the same period totalled approximately \$7 billion, although this last figure is inflated by the inclusion of funds reinvested in company operations (PTFI 2000). In sum, since the company began operating, it has calculated that by the end of 1999 it had paid directly and indirectly a total of \$10.2 billion to Indonesia, with 87 percent of total revenues “remain[ing] in and benefit[ing] Indonesia” (PTFI 1999, 3). Given that the company claims it has invested \$4 billion in the mine and infrastructure, how much of the \$10.2 billion has benefited Indonesians or Papuans and how much has been reinvested in the company? Freeport also became one of the largest private employers in Indonesia and, by its own account, runs one of the largest social-economic development projects in that country. Paradoxically, with falling copper prices at the end of the century resulting in a dramatic decline in Freeport’s contributions to the government, the company’s financial importance to Jakarta only increased. The rupiah crash in 1997–98, which saw the majority of Indonesian conglomerates insolvent or technically bankrupt, meant that Freeport’s foreign currency earnings increased its relative value.

Freeport dominates the economy of West Papua, with its operations and offshoots making it the largest purchaser and employer in the province (LABAT-Anderson 1997, 1-1). In 1996, by its own account, it was responsible for over 50 percent of gross national product, while the *Jakarta Post* credits its royalties as accounting for 70 percent of gross national product between 1985 and 1998 (*JP*, 22 Feb 1999). Moreover, in 1995 Freeport accounted for 86.52 percent of total imports to the province from outside Indonesia (Elmslie 2000, 104). In the first half of 1997 alone, Freeport’s increased copper-concentrate production was said to have accounted for 88.8 percent of a \$56.6 million rise in West Papuan exports (*IT*, 18 Sept 1997). Theoretically, Freeport’s exploitation of the copper and gold in West Papua should have benefited the province greatly, for Indonesian mining law stipulates that 80 percent of royalties and land rents are to be channeled back to the province of origin (UNCTAD 1994, 12). In practice the province benefited little from the taxes Freeport paid direct to Jakarta, and little was ever constructively returned.

The Suharto regime focused development on the west of the country, most specifically Java, and accumulated wealth at the center in order to support the patron–client state. Rather than supporting social and eco-



conomic programs in West Papua, Jakarta's focus was on the exploitation of the province's natural resources and the control and dispossession of the Melanesian population through the militarization and "Indonesianization" of the area. Around the Freeport mine site, Jakarta delegated responsibility for any social and economic development to the company, so that Freeport assumed the inappropriate role of developer and administrator of its project area. Until the mid-nineties Freeport assumed this role not simply because the central government was not interested in accepting its responsibilities, but because it suited the company to do so. In the absence of any recognizable bureaucratic presence, what Freeport essentially created in and around its project area was its own fiefdom, with Jakarta supplying the military to protect it.

When Freeport arrived in West Papua, it was a remote and isolated backwater. By 2000 the company had invested approximately \$4 billion in the area and had become the largest single American investor in Indonesia. Without any notable aid or assistance from the government, in thirty years the company created an extensive road system around the mine (to United States standards) and built an international airport, a four-star hotel, two hospitals, telephone systems, power stations, a deep water port, and two American-style towns. After the company faced criticism over its social and human rights policies, it committed large amounts to social and community services, spending \$153 million between 1992 and 1999 on schools, scholarships, health care, and housing. The company also maintained its own water, electricity, sanitation, and garbage utilities and, in the later years, assisted the local government with these services for the people in the project area.

The company's purchasing power and its ability to employ large numbers of people made it a magnet for population transfer (approximately 3,000 residents in the sixties to over 100,000 by the end of the century). It also made the area one of increasing economic activity, both legal and illegal, and an obvious high-profile target for anti-Indonesian protest from within the province. In response to these changes, together with the increasing economic importance of the company to Jakarta, the military presence increased; in the same period the occasional foot patrol had been extended so far that the Freeport contract area had become one of the most militarized zones in the archipelago. Despite these enormous social changes, the bureaucratic presence remained inadequate, with the area traditionally being considered the lowest rung of the civil-service ladder.

Jakarta has always relied on the presence of the military to secure the

interests of foreign capital by controlling unrest, yet because the center was never able, or indeed willing, to adequately fund this institution, the Indonesian Defense Force or TNI (which until 1998 included the police), was encouraged to rely on access to business—either through direct support or direct engagement—to perform its operations. This destructive military-business alliance has thrived around the Freeport concession, for not only does the military openly participate in most of the business in Timika and the surrounding villages—much of which is illegal—but it is logistically and financially reliant on Freeport support.

Until the mid-nineties Freeport appeared content to have the military to protect it and virtually no bureaucracy to interfere in its activities. If the local population proved difficult, the company could rely on the military to maintain order. In 1995, however, two damaging human rights reports were released, detailing the killing of the indigenous people in and around the project area (ACFOA 1995; Catholic Church 1995). These reports were closely followed by riots targeting company property, and international attention was sharply focused for the first time on Freeport's operations and its relationship with the military. In response, the company claimed that it was being unfairly held accountable for the violent actions of this institution and the appalling conditions in which many of the traditional landowners lived. The blame, it stated, lay firmly with the government. Supported by the United States ambassador to Indonesia, Freeport claimed that it was time Jakarta accepted its responsibilities, suggesting that the bureaucratic presence be increased and more of its tax dollars be invested in the development of the local area. Suharto responded by suggesting that the company needed to build better relations with the people living in its project area—effectively returning the responsibility for any social problems to the company. The ACFOA report also caused Freeport to attempt to place some distance between itself and the military. But with Freeport committing tens of millions of dollars to supply infrastructure to the military in the hope it would refrain from using Freeport's facilities, the company simply succeeded in further strengthening ties between the two, especially in the eyes of the traditional landowners.

Although in theory Indonesian law recognizes customary land rights under *adat* or customary law, in practice traditional land rights carry no legal weight, as the Indonesian legal system is based on cultural values not sympathetic to the Papuans' spiritual relationship with the land and their hunter-gatherer existence (Ondawame 1997). What this means in practical terms is that should valuable resources be found on traditional lands,

or should the state determine that it requires such land, then it automatically becomes *tanah negara* (state-owned land). The expeditious and widespread use of this law was instrumental in building the wealth and sustaining the power of the Suharto regime for over thirty years. Accordingly, when Freeport discovered copper and gold in the Carstenz Range, the indigenous people (who practiced stewardship, or a customary form of land use and ownership which ensured that the land was passed down through the generations) lost all rights to their land and its wealth in favor of what Jakarta defined as the greater good of the nation. Little compensation was required, and what wealth was generated did not belong to the customary owners but to the state. By providing the expertise and funding that Jakarta could not to exploit the resources found on traditional lands, foreign companies such as Freeport became exceptionally wealthy at the expense of Indonesia's most disenfranchised peoples.

However, the traditional landowners of the Freeport concession have not accepted the company's right to occupy their land, or the destruction of their environment, and have continually challenged its presence. In the early years Freeport cared little for these people's concerns, but the discovery of Grasberg and the understanding that the company might remain in the province for another fifty years saw it making a commitment to address the traditional people's development concerns. Moreover, Freeport was sensitive to the fact that local resentment had closed down the nearby copper mine on Bougainville, and that at the Ok Tedi mine the local landowners had launched a highly publicized, damaging, and ultimately successful lawsuit against Broken Hill Proprietary, the Australian mine operator.<sup>16</sup> Not until the release of the ACFOA report and its claims of human rights violations involving the company did Freeport become serious in its efforts and commit itself to spending at least 1 percent of its annual gross revenue, or approximately \$15 million over each of the next ten years.

At approximately the same time as Freeport announced this commitment, Amungme leader Tom Beanal, with the assistance of Indonesian and international nongovernment organizations, lodged a \$6 billion class action suit against Freeport in the United States courts, claiming that the mine's operations had led to the violation of human rights, environmental destruction, and cultural genocide. Eventually the presiding judge ruled against Beanal, and a second suit that followed two years later, stating that both complainants had failed to prove their cases (*Times-Picayune* 1998).<sup>17</sup>

With Freeport providing funds for housing, schools, medical facilities, and job training schemes, there has been a marked improvement in health, education, and employment opportunities in the area. However, while traditional tribal life was difficult and dangerous, before the company came everybody had a job, a home, land, and most important, a strong, spiritual culture as a point of reference. Today the negative effects of development are evident everywhere within the concession as the social fabric of Papuan life disintegrates. Unemployment, lawlessness, AIDS, drug abuse, and social, spiritual, and economic dislocation are evident. As the government established twelve transmigration camps<sup>18</sup> in and around the Freeport concession and the area became a magnet for migrants, the traditional landowners were displaced and marginalized, becoming a minority within a minority on their own land.<sup>19</sup> Moreover, with the concession now awash with Freeport development funding, disagreements within and between once relatively harmonious indigenous tribes over the payment of compensation and access to development funding have divided the community and marred development programs, threatening to create a welfare-dependent society.

While Freeport has been critical of the government's neglect and disenchanted with the sociodevelopment role it has been forced to accept, it is not surprising that the Suharto regime regarded the company highly: The parent company in the United States acted as a high-profile public relations agent for the Suharto regime and became part of one of America's most outspoken and successful Indonesian lobby groups.

In the last decade the disintegration of the communist threat removed part of the legitimizing rationale of western support for authoritarian regimes such as Suharto's. At the same time the increasing political activism of nongovernment organizations has meant that these regimes have been forced to adopt "informal diplomacy," that is, the hiring of high-profile public relations firms and the manipulation of lobby groups to protect their interests. In this regard the Suharto regime was able to rely on its powerful corporate and bureaucratic friends.

Financial support of politicians in the United States usually compels them to support the interests of their benefactors. Between 1991 and 1995 Freeport and its company affiliates officially gave \$650,000 to politicians (South and Haurwitz 1996, 11). One politician generously supported by Freeport was home-town Senator Bennett Johnston, who was so successful in promoting Indonesia that in late 1995 he was described as "the most pro-Indonesian member of the US Congress" (Schwarz 1995) and had the

dubious distinction of being Washington's biggest supporter of American arms sales to Indonesia. By 1998 Johnston was retired from politics and on the board of Freeport-McMoRan. In the last twelve months the company has given \$262,703 to politicians (EMCBC 2000) making it the second largest contributor from the mining industry.

Freeport is also a member of the US-Indonesia Society—a group that works actively to maintain the Jakarta-Washington relationship. Formed in 1994 to counter threats posed to the Indonesian business community due to the lobbying efforts in Washington of nongovernment organizations and trade unions, the society has today become an influential pro-Indonesia group. Reflecting the level of American investment in Indonesia, its membership has been impressive. Business community representatives include Freeport-McMoRan, Texaco, General Electric, Mobil, Chevron, American Express, Edison Mission Energy, Hughes Aircraft, and Merrill Lynch, all of which have or had business associations with the Suharto family or influential Indonesians under the Suharto regime.<sup>20</sup> Former ambassadors and senior bureaucrats in the society have included Paul Wolfowitz, Edward Masters, George Benson, and George Schultz. Indonesian elite under Suharto also took defining roles in the society, including members of Suharto's extended family.

The society claims it is not a lobby group and plays no advocacy role, describing itself as a nonpartisan educational organization. This assertion is worth questioning. With nongovernment organizations having sway in Washington, the US-Indonesia Society's job has been to counter their influence by downplaying the issues of human and labor rights. During the Suharto years the society promoted the concept that it was more productive to work with Jakarta than to confront it over these issues. In this way it lobbied Washington to ensure that political and financial support to the dictatorship and its military was maintained and, by association, its own investments protected by the elite in Jakarta.

The most persuasive argument an American corporation can make in Washington is not necessarily the overt promotion of a foreign government's interests per se but the assertion that the company's interests, and by association those of the host nation, are identical to the home government's national interest. In this way American companies promote their own interests, and if those interests coincide with those of the host nation—as Freeport's did with Suharto's—then they are effectively promoting the interests of the host nation to their own government. However, the adoption of this promotional role by Freeport and the society was never

purely altruistic. By working for the Suharto government in Washington to ensure that the state-to-state relationship remained stable, Freeport was reaffirming its political worth to Jakarta and safeguarding its investment. Given the public nature and depth of the Suharto–Freeport relationship, it was essential to Freeport’s own welfare to keep its friend secure in the Merdeka Palace. However, for those within Freeport who apparently possessed greater foresight than the flamboyant Moffett, the closeness of the relationship between the company and the Indonesian dictator foreshadowed uncomfortable complications. With the fall of Suharto, as predicted, these complications manifested themselves.

Just two months after Suharto was forced to resign in May 1988 the Indonesian publication *Prospek* ran a story claiming that in 1996 and 1997 Freeport paid \$20.3 million directly to Suharto through one of his *yayasans* and that, in exchange for the 1991 contract and the president’s protection, the company paid “tribute” each year of approximately \$5–\$7 million to Suharto (*Prospek* 1998). In late 1998 Freeport again made front-page headlines in Indonesia when it was suggested that those committed to fighting corruption should investigate the Bakrie-Freeport-Ginandjar relationship. Politicians flexing their muscle in the new democracy took the opportunity to establish nationalist credentials by attacking the high-profile company now devoid of its powerful protector. Demands quickly escalated to the cancellation of the Freeport contract. Belatedly realizing how damaging such a move would be to the Indonesian economy, the politicians settled for calls to renegotiate the contract with a greater distribution to Indonesians.

In response to threats in the Indonesian parliament, Moffett resorted to what had always worked in the past and in January 1999 flew to Jakarta to pay a private visit to President Habibie. Shortly afterward Henry Kissinger, who had been a member of the Freeport-McMoRan board and an employee of the company through Kissinger Associates since the eighties, paid a private visit to President Wahid. In response Wahid informed his ministers by letter that they were to give the company every assistance. For a short time it appeared that Freeport had been able to assert its influence in the new Indonesian democracy.

## CONCLUSION

Although the relationship between the president and the company remained amicable and mutually beneficial for thirty-two years, a shift in the balance of power was reflected in the company’s contracts. In 1967

Freeport's contacts in the United States and the promises of riches the company offered the struggling new government meant that Freeport could dictate the terms of its investment. In 1991, with a change in the balance of the power within the relationship, Suharto was better able to define terms and to demand a much higher price from the American mining company for rights to the largest gold mine on earth, the lowest extraction-price copper mine, and exploration rights to nine million acres. With Jakarta content to provide the political and physical security for the company, by the nineties Freeport had become part of the president's patronage system.

Given its vast wealth of natural resources, the western half of the Papuan island is considered an economic treasure chest that Jakarta can ill afford to lose. Moreover, unlike East Timor where Indonesia's claim of sovereignty had never been internationally sanctioned, West Papua, with its active separatist movement, has always been regarded as a political test case of Jakarta's ability to control ethnic tensions within the diverse republic. With the military reliant on the company to perform its operations around the Freeport concession and the company's presence helping to justify the "Indonesianization" and control of the province, the mine has become intimately linked to the military and its continued incorporation of West Papua into the Indonesian archipelago. Freeport's economic and political importance to Jakarta only serves to reinforce the province's significance to the center, so that the company will continue to be central to both Jakarta and Jayapura's political aspirations. Today, because of its past associations, Freeport is vulnerable.

Until the fall of Suharto, Freeport had been able to operate in West Papua with relative impunity because it had a close, multifaceted, and mutually beneficial relationship with the government, the military, and, in the later years, with the Suharto elite. But today it has become a potential pawn in the volatile West Papuan political situation.

The provincial government in West Papua wants a stake in the company, and in an attempt to appease the troublesome province the director general of mining in Jakarta has supported this claim. The traditional landowners also continue to blame Freeport for the human rights abuses committed by the military and remain disillusioned by the disparities of wealth that exist within the concession. Many of the Amungme and Kamoro view the imposition of what they consider questionable development programs as consolation prizes and a pittance compared to the riches Freeport continues to extract from their land. Should the province's fight for independence turn violent, the company would be an obvious political

and economic target for the Organisasi Papua Merdeka (OPM), activists who alternately want the company's operation closed down or support from Freeport for their claim of independence. At the same time, should Jakarta appear to be losing its struggle in West Papua, the Indonesian military, which also expects the company's continued support, would be loath to leave such an asset in the hands of the West Papuans. Today Freeport is attempting to court both sides. Not only does it continue to support the military in its concession, but it is financially supporting the Papuan Congress, whose goal is independence (Joku 2001). The future of Freeport is inextricably linked to the future of West Papua and fraught with difficulties.

### *Notes*

1 Dozy (1993, 12). By the turn of the century the Dutch and other major powers were aware of the probability of vast natural resources in West New Guinea. As early as 1907 a Dutch geological exploration had surveyed the northern region of the island and discovered oil seepages, which led to the merging of Dutch and British Petroleum interests into the Royal Dutch Shell Company. Moreover, just prior to World War One, pressure from expanding United States interests in the western Pacific had forced Holland to grant limited concessions in the border regions of the island to the Americans and the Japanese. Although exploitation of the rugged and untapped central region of the island was repeatedly refused by the Dutch administration, it was later discovered that early agricultural concessions granted to the Japanese had been used for oil exploration (Budiardjo 1988, 3).

2 This rock was part of the Carstensz Range, which runs through the spine of West Papua and contains Carstensz Top or Mount Jaya, the highest peak between the Himalayas and the Andes. The mountain range also holds two of the world's five remaining equatorial glaciers, Carstensz and Meren. The first recording of the siting of the glacial mountain was from the Arafura Sea in 1623 by the Dutch navigator, Jan Carstensz.

3 Seven months after signing with Freeport, Indonesia enacted the new Foreign Investment Law (1967) and a new mining law, ushering in more restrictive conditions for mining contracts.

4 Pertamina was the state-run oil company used by Suharto as a rich source of funding to secure the loyalty of the military. What should have been an extremely lucrative business was eventually left holding debts of approximately \$10 billion when Suharto's trusted friend General Ibnu Sutowo was forced to leave in 1976. Sutowo was never called to account for outstanding mismanagement of Pertamina or for overt corruption, as an investigation would have led



directly to the president. For descriptions of the uses made of Pertamina by Suharto see Winters (1996) and Backman (1999).

5 As with the 1967 Foreign Investment Laws, Jakarta provided guarantees that it would neither nationalize nor expropriate the company's mining operations, and provision for international dispute arbitration was also included (Freeport 1993, 22). Under the terms of the new contracts Freeport agreed to progressively relinquish up to 75 percent of this area over a set period, although it is allowed to mine potential areas of mineralization (Freeport 1991; 1992). The 1991 contract superseded the original 1967 contract and covered not only the existing 24,700 acres (Block A) of the original Ertsberg mine but another contiguous area of approximately 6.5 million acres (Block B) encompassing the new Grasberg mine site and other areas. In 1994 a contract was signed by a PT Freeport Indonesia subsidiary, PT IRJA Eastern Minerals Corporation (PT IRJA), for another 2.6 million acres. This new contract encompasses three separate areas of land which are referred to as the Eastern Mining Block and are next to Freeport's A and B Block operations. These three blocks (Block A, Block B, and the Eastern Mining Block) gave Freeport a total of 9 million acres of exploration leases with a guaranteed thirty years of operating and the option of two ten-year extensions.

6 However, Freeport is not the largest gold-producing company in the world. Anglo American in South Africa has mines producing a total of 294.83 tons of gold. In 1999 it was reported that Freeport was the fourth largest, behind Anglo American, Newmont (124.62 tons), Placer Dome (106 tons), and Barrick (99.91 tons) (*Drillbits* 1999).

7 In May 2001 Freeport announced its latest discovery, called the Ertsberg East Surface, which promised up to 1.1 billion pounds of copper and 2.5 million ounces of gold.

8 Suharto's "charities" (*yayasans*) were created by the president and his wife, Tien, to supposedly address the disparities of wealth within Indonesia. Commonly referred to as his "retirement funds," about ninety-five *yayasans* were directly linked to Suharto, his family, or cronies. With Indonesian individuals or companies required to "donate" a percentage of their earnings to the *yayasans*, the lack of accountability and transparency meant that these organizations became just another vehicle for the accumulation of untraceable wealth. The highest profile of these *yayasans* was Nusantara Ampera Bakti or Nusamba, formed in 1982.

9 As part of Suharto's affirmative action on behalf of *pribumi* (indigenous businesses), in 1980 he established a highly favored group called Team 10 "to oversee government purchases of goods and services" on behalf of ministries, government bodies, state-owned companies, and eventually, the military. After successive presidential decrees, each affording it greater power, Team 10 was finally disbanded in 1988, but not before it made its ten indigenous members exceedingly rich, gave the Suharto children a helping hand in business, and successfully dis-

posed of \$48 billion of government procurements. As confided to Adam Schwarz by a Team 10 member, "It was Team 10 under Sudharmono that made Bakrie big, it made me big, it made a lot of us big" (Schwarz 1994, 118-119). While the economic objectives of Team 10 were well stated, the formation of this group had an underlying political agenda, as its membership and the political positions they were to hold clearly demonstrated. The *pribumi* businessman who for a long time was closest to Suharto, became the unofficial leading member of Team 10, and eventually became head of the Indonesian Chamber of Commerce and Industry (KADIN) was Aburizal Bakrie. In effect Team 10 became just another vehicle for Suharto's patrimonial style and a loyal pool from which to choose senior bureaucrats and cabinet members. For more information on Team 10 see Schwarz (1994, 118-119) and Winters (1996, 125-141); for further information on Bakrie see O'Kane (1993).

10 In its 1991 annual report Freeport-McMoRan did not record a profit on the original sale because payment for the shares was made in January of the following year, the same year in which 50 percent of the shares were repurchased.

11 In 1996 what became known as the Busang, or Bre-X, fraud rocked the foundations of the erstwhile stable Indonesian mining industry and sent shock waves through the wider international mining community. A year earlier a small Canadian mining company, Bre-X Minerals Limited, announced that it had found economically viable gold deposits at its Busang site in East Kalimantan. Over a period of eighteen months, Bre-X continually reevaluated the gold reserves at the Busang site until it claimed it had proven reserves of 70 million ounces, valuing the find at \$30 billion. Eventually, Bre-X hinted at the unheard-of possibility of 200 million ounces, which would have made it one of the largest gold deposits in the world. Before long, Suharto's golfing partner, Bob Hasan, had realigned the ownership of the Busang lease on behalf of the president. The original leaseholders were given a 30 percent interest; however, through Nusamba, Suharto took 25 percent of this 30 percent share, the government was given 10 percent, Bre-X was left with only a 45 percent interest, and Freeport, which was to provide all the financing for the exploration and be the sole operator, was afforded 15 percent. The government and Nusamba paid nothing for their interest. Eventually, Busang was discovered to be nothing but a very elaborate fraud.

12 Freeport-McMoRan "has agreed that if [Nusamba] defaults on the loan, [Freeport-McMoRan] will purchase the [PT Indocopper Investama] stock or the lenders' interest in the commercial loan for the amount then due" (Freeport-McMoRan 1997).

13 "If I failed to arrange meetings with ministers, I had to ring up either Sigit or Tommy. In running shipping companies, I have received help from Sigit, and in the automotive business, Tommy has helped me much" (Schwarz 1994, 150). When Djody failed to carry his share of exploration costs the company confiscated his interests.

14 Agus Kartasasmita's company, PT Catur Yasa, was then given a 20 percent interest in a Duke-Fluor Daniel venture. Although this joint venture has approximately two hundred employees and Catur Yasa contributes only one employee, Ginandjar's brother claims his company was chosen because of its professionalism (Waldman 1998).

15 The Golkar Party was formed by the military during the Sukarno years. It eventually came under the control of Suharto and by continually "winning" elections was used by the ex-president to validate his democratic credentials and control parliament.

16 The Ok Teki landowners eventually settled out of court in 1996 for approximately \$500 million.

17 What was most significant for the Amungme, and indeed for Freeport and all other American transnationals, was that the judge supported previous rulings that the United States court had jurisdiction to hear a lawsuit brought by a foreign person against an American company for alleged wrongful acts committed outside the United States. Today Tom Beanal sits on Freeport's Board of Commissioners, apparently on behalf of the Amungme.

18 Transmigration was first introduced by the Dutch in 1905 when they moved impoverished Javanese peasants to the less-populated areas, supposedly to allow them to start a new life. In reality Dutch transmigration served primarily to supply cheap labor to foreign-owned plantations. The Suharto regime's transmigration policy, which systematically moved large numbers of migrants from the more crowded islands such as Java and Sulawesi to the outer resource-rich provinces where they were given about two acres of traditional land and supplied with grain, clean water, and a house, was not dissimilar to the Dutch experiment.

Until recent years transmigration was successfully promoted internationally as a socioeconomic program aimed at relieving the population pressure on the densely populated main islands and received extensive financial support from the World Bank and multinational groups channeling aid into Indonesia. Yet Jakarta's transmigration policy has always concealed hidden agendas.

Under Suharto transmigration was an integral part of the central government's policy of "Indonesianization" and focused on incorporating areas resistant to Jakarta's rule, such as East Timor, Aceh, and West Papua. At the same time, as with Dutch transmigration, Indonesian transmigration has focused on ensuring a supply of cheap and readily accessible labor to foreign enterprises operating in the most remote regions of the archipelago. Thus, transmigration had a political purpose (the control of the indigenous minorities), a cultural purpose (the alienation and destruction of traditional cultures), and an economic purpose (support for direct foreign investment).

19 The traditional landowners are a minority within a Papuan minority in the concession area; Indonesians are by far the largest ethnic group there.

20 A society member was so supportive of the regime that it was apparently

willing to break United States law. According to the *Progressive Magazine*, society trustee Roy Huffington—who heads the United States oil company Huffco and has lucrative contracts with Pertamina—was caught illegally shipping torture equipment to the regime; he was subsequently fined \$250,000 by the Department of Commerce (Press 1997; Shorrocks 1996).

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## *Abstract*

In 1967 the transnational mining company Freeport was the first foreign company to sign a contract after Sukarno was sidelined by Suharto. Eventually, Freeport-McMoRan Copper and Gold, through its subsidiary PT Freeport Indonesia, came to operate the biggest gold mine and lowest extraction-price copper mine in the world in the isolated mountains of the Indonesian province of West Papua. It also became politically and economically significant to the Suharto regime. In the absence of the central government, the American mining company became the de facto developer and administrator of its concession in West Papua while in the United States it served as an important political lobby group for Jakarta. With Freeport becoming the largest taxpayer in Indonesia, one of the largest employers, and eventually running one of the largest socioeconomic programs in the

republic, it was described by Suharto as essential to the nation's economy. Freeport's importance encouraged the development of mutually beneficial and supportive relationships between the company, the Indonesian president, his military, and the nation's political elite. In return, Freeport was politically and physically protected by the regime. Eventually, Freeport's financing of the president and his cronies' interests in the company threatened to see Freeport violating the United States' Foreign Corrupt Practices Act.

Today Freeport's past relationship with Suharto has made it a high-profile target for anticorruption reformers in Indonesia. Because of the pivotal economic role the company continues to play in Jakarta and West Papua, any question of future independence for the province will be inextricably linked to the company.

**KEYWORDS:** corruption, Freeport, Indonesia, mining, Suharto, West Papua