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FOREIGN DIRECT INVESTMENT IN THE INDONESIAN MINING SECTOR
ITS MYTHS AND FACTS
(unedited English version)
By: Emmy Hafild, Director,
WALHI/Friends of The Earth Indonesia

POLITICAL CONTEXT OF FOREIGN DIRECT INVESTMENT IN MINING SECTOR

Foreign Direct Investment in the Indonesian mining sector is implemented through a concession which is called the Contract of Work (COW). The COW, in the eyes of the affected people, is the product of Suharto regime, disregards human rights, indigenous people ancestral and landsrights, environmental protection, and most of all, full of corruption and nepotism. Large scale mining areas are the sources of conflicts, which was oppressed when Suharto was still in power. After Suharto stepped down however, mining concession everywhere in the country are being attacked by the local people, mostly alluvial miners and indigenous peoples.

History of Contract of Work started at the early days of Suharto regime. In September 1965, Suharto, supported by the Indonesian army, took over the leadership of the country from Sukarno, the first President since 1945. It is important to note that it is publicly known now that Suharto took over the power with the "indirect" support of CIA under the cold war era geopolitics. The coup was later be legalized through a hand picked People Assembly meeting in 1966 which installed Suharto as the temporary President until election in 1971. Through a manipulated elections, Suharto was able to rule the country until 1998, when he was forced to step down following a wide spread protests by students and riots by peoples. The process of stabilizing his power and maintaining it, had sacrificed almost one million of Indonesian lives, millions others had to live through atrocities in jails (without proper legal process), tortures, intimidations, and terrors.

One of Suharto's legacy was economic development that was hailed by TNC, IMF, OECD, The World Bank and G-7 as one of the miracles of economic development in the developing world. ¹Once he took over the leadership, he opened up the economy to foreign direct investment of large trans national companies, opening a new era of economy which until then was managed under a pseudo social system. Suharto enjoyed support from G-7 and was able to maintain his dictatorship through this support.

The first FDI that Suharto signed after becoming the President was the investment of copper and gold mining company, Freeport McMoran, in 1967 in West Papua. Freeport McMoran was granted a large

¹ This miracle was proven wrong when the financial crisis hit Asia, and the country income plunged from US\$ 1100 in 1996 to less than US \$ 300 in 1998.

mining concession (Contract of Work) in remote areas of West Papua.² Freeport McMoran mining concession located in (used to be) a pristine area of tropical alpine ecosystem, with a distinct and mostly unknown endemic flora and fauna species. This was still a stunningly beautiful wilderness with minimum disturbance from human activities. Currently, Freeport production capacity is around 300 thousand tons of ore per day, which means about almost the same amount are discharged daily into three river ecosystems and to Arafura see in the form of tailing. The tailings mud spread over 50 km wide to the west and east of the rivers and 10 km off shore to the Arafura see. Some villages are inundated by tailing floods and the people are forced to be relocated.

Their concession area covers about 2,5 million hectares. Affected areas range from tropical alpine up at the highland, lowland montane forests below, hilly forest on the dry lowland, freshwater swamps and mangrove, river ecosystem, down to coastal and marine ecosystem. This is now one of the largest single deposit copper mine in the world. The concession has turned a small mining company into one of the largest in the world.

Mining industry has been criticized by many environmental and human rights groups, as well as indigenous people on their destructive role to the environment and social conflicts. Mining industry have answered this through a large scale public relation efforts in an attempt to improve its tarnish image. Through this activity, they have created myths of its role in a country's economic and poverty alleviation efforts. Myths on mining have been created to inflate the benefits and to hide the cost of mining industry to a country. Even more, the industry has concocted the term "sustainable mining", which misuse and mislead public about sustainable development. I would like to reveal some of these myths and argue that mining is not the answer to sustainable development and should not be expanded and used as the basis of economy of a country.

Here are some myths and the facts that I would like to put forward in this paper.

MYTHS OF FDI IN THE MINING SECTOR

1. FDI in the mining sector will bring the best mining technology that can minimize environmental damage, and bring in world class expertise.
The **FACT** is, mining industry still uses "minimum cost and let nature take over" approach of environmental management.
Evident :
Freeport McMoran "river tailing transportation system", P.T KEM water cover tailing pond and "ultra violet cyanide process", Newmont submarine tailing disposition, Indo Muro Kencana tailing disposition system, and many others, are amongst the most backward system of tailing disposition and waste management in the world. This system is not allowed in the U.S, Canada, Australia. (Picture 1).
2. FDI in mining is not the cause of environmental problem, it is the alluvial miners (the so called illegal miners) are the biggest source of environmental problem (for river and toxic waste pollution), or the bomb or cyanide fishing (for STD), or logging activities (for deforestation).
The **FACT** is: while small scale mining indeed create serious environmental problems, but large scale mining causes even larger scale of river pollution, responsible for tropical alpine lake disappearances, forest destruction, large scale open pits, acid mining drainage, all of these in a scale hundreds time much larger than the environmental damage created by small scale miners altogether (Picture 2). The environmental problem from STD worsen the already difficult problem created by bomb or cyanide fishing. On the other hand, the nature of deforestation from logging is totally different from deforestation created by mining, which is irreversible and more destructive.
3. Mining industry contribute to economic development and job creation.
The **FACT** is, it only contributes to 2- 3% of Indonesian GDP between 1991-1998, only less than 0,1% of employment creation, a boom and bust economy, and only a fair amount of state income. Most technology are imported, did not build in country capacity, the highest paid job

² Many political analysts stated that, the concession was a secret deal between the US government and Suharto in return for U.S government support to handover West Papua from the Dutch to Indonesia. Indeed, the concession was signed before the referendum on West Papua took place, when West Papua was still under the supervision of the United Nations. Since then, conflicts with local community has never ended.

are mostly for foreigners while local employment are mostly for low paid job. There is discrimination of treatment between local employees and expatriates. Expatriates get a better house facilities, much higher salaries, much higher benefits than the same level local job. Infra structure that were built mostly for the mining needs, and many times irrelevant to future economic needs of the area. Economy was built around the mining industry, and will collapse once the mineral have been totally exploited. The local economy will boom during mine life, and will bust when mining stop. (Table 1 and 2).

Table 1. Sectoral Contribution of GDP (%)

Base on 1993 constant price

SECTOR	1991	1992	1993	1994	1995	1996	1997	1998
1. Agriculture, animal husbandry, forestry and fishery	19,03	18,86	17,88	16,72	16,12	15,38	14,79	17,2
2. Mining and Quarry	10,45	9,91	9,55	9,38	9,25	9,07	,8	9,82
-- <i>Gas and Oil</i>	8,34	7,51	7,01	6,69	6,18	5,87	5,47	6,25
-- General mining	2,11	2,39	2,54	2,69	3,07	3,29	3,33	3,57
3. Manufacturing Industry	20,9	21,48	22,3	23,3	23,88	24,68	25,05	25,3
-- <i>Oil and Gas Refinery and Industry</i>	3,23	3,16	2,97	2,9	2,56	2,62	2,42	2,89
-- <i>other Manufacturing Industry</i>	17,07	18,32	9,34	21,41	21,33	22,05	22,63	22,41
4. Electricity, Gas and Water	0,95	0,96	1	1,04	1,12	1,17	1,25	1,52
-- <i>Electricity</i>	0,79	0,8	0,82	0,86	0,92	0,96	1,03	1,25
-- <i>City gas</i>	0,03	0,03	0,03	0,04	0,05	0,05	0,06	0,06
-- <i>Clean water</i>	0,13	0,13	0,14	0,15	0,15	0,15	0,16	0,21
5. Building	6,1	6,4	6,83	7,29	7,61	7,94	8,08	5,64
6. Trade, hotel and restaurant	16,27	16,7	16,77	16,78	16,74	16,74	16,87	15,9
7. Transportation and Communication	6,99	7,03	7,05	7,1	7,12	7,17	7,43	7,49
8. Financial, Rental and Company services	8,48	8,51	8,51	8,71	8,94	9,02	9,04	7,57
9. Services	10,83	10,48	10,12	9,67	9,23	8,83	8,7	9,57
Produk Domestik Bruto	100	100	100	100	100	100	100	100

Sources: BPS, Dept. EMR and others

Table 2. STATE INCOME FROM CONTRACT OF WORK

1990--1998

(In thousands US\$)

YEAR	TAX	NON TAX	TOTAL
1990	56,929	31,454	88,384
1991	41,687	29,726	71,413
1992	102,783	41,293	144,077
1993	104,088	41,230	145,318
1994	49,192	52,721	101,913
1995	258,566	75,625	334,191
1996	224,265	60,326	284,591
1997	142,984	40,630	183,614
1998	342,295	33,576	375,870

4. FDI in mining contribute to poverty alleviation and social and economic development. The **FACT** is large scale mining impoverish local community, and create social conflicts that can lead to arms and political conflicts. Evident:
- More than 7000 Kelian people, in the upper Mahakam river in East Kalimantan, were impoverished due to Rio Tinto subsidiary, P.T KEM gold mining activities. The back bone of the original local economy was alluvial mining, but were forced to be abandoned to allow P.T KEM to operate. Thousands of them were relocated by force and military intimidation, since then, they have lost income which has never been recovered. Employment by the company cannot absorb the work force released from the alluvial mining.
 - More than 2000 local people of Puruk Cahu, Central Kalimantan, the location of Aurora Gold subsidiary, P.T Indo Muro Kencana mining concession, have been impoverished due to forest and garden destruction, lost of income from alluvial mining, and from river pollution. Again, job available is not enough for local people.
 - Local fisher folks in Buyat Bay in North Sulawesi have lost their income from falling fish population due to submarine tailing disposal of Newmont Minahasa Raya. Most local people are not employed by the company.
 - The Amungme and the Komoro of Freeport concession area were impoverished due to habitat and cultural value destruction and social destabilization caused by Freeport activities. The mountains that was and are being mined are sacred mountains of the Amungme. The scarce arable land that Freeport built their housing, office and mills complex was the land where the Amungme grew their staple food, yams and sweet potatoes. Their sacred lakes are used by Freeport as their waste rock dumping site.
 - The rivers where Freeport dumps its tailings were rich river ecosystems and were the sources of livelihood for the Komoro people in the lowland. Freeport tailing have killed most of the aquatic life around the rivers. Many of their sago trees, the staple food for the Komoro, are now dead. The fishes and other biota have gone some where else or disappeared. The lowland forest that used to be the source of protein and other livelihood needs of the people, are now almost empty. Local people now have to go far away to hunt the animals who used to be abundant in their surrounding.
5. Mining has social responsibility and contribute to community development program. The **FACT** is: mining contribute to social conflicts and the community decohesiveness. Some examples are:
- The Amungmes have been fighting the company since the very beginning of Freeport arrival in the area. A Free Papua Organization (OPM) of this region was created due to the company's activities. Many protests, peaceful and violence, have been expressed by the people. The company then requested military protection for their investment. In 1974, local people blasted the slurry pipe which transported the slurry to the Port on the sea side, causing the company to stop their operation for quite some time. In retaliation, the army attack the villagers and pursued them to far away villagers towards Akimuga. Many villagers were shot to death and tortured. For two decades afterwards, the people still struggled to get rid of the company.

Because of this situation, West Papua (at that time was called Irian Jaya) was declared as Military Operation Area (DOM). The army special force was then dispatched to this area by the central government. The army became the supreme law in this province. Gross human rights violation in term of killings, kidnappings, disappearances, tortures, rapes, etc have been proven by many reports, including those of the National Human Rights Commission. Most recently is the killing of Theys Elluway in October last year, the President of Papuan People Congress and the disappearance of his driver.

- There were more than 7000 alluvial miners inhabited the upper Kelian river before P.T KEM--subsidiary of Rio Tinto--was granted Contract of Work by the Indonesian government. From 1990 – 1994, these alluvial miners were forced to resettle with miniscule compensation. Relocation involved military intimidation, violence, torture and even arsons. Promises made during relocation was not met by the management. High level managers involved in sexual harassment, one of the survivors has to bear having a child without the father. After Suharto stepped down, and through strong campaign, Rio Tinto then agreed to negotiate the compensation and on human rights

abuses and sexual harassment. Negotiation has taken place, and payment of compensation are being done.

The problem however are far from resolved, because within 4 years from now, P.T KEM will cease its operation, which means the problem that has been created will stay in the community. The social structure of the community have been destroyed, and there is very limited capacity of the people to rebuild that social structure. The community is now faced by the reality that economic activities are going to be sharply reduced, they have to deal with the highly acidic open pit, three waste pond (one for tailing, one for acid mining drainage from the open pit and another one is the cyanide collection pond). All of these will be left and have to be maintained forever. P.T KEM mine closure plan is only for 3 years, which is far than enough to minimize the problem.

- The people of Puruk Cahu, concession area of Indo Muro Kencana, subsidiary of Aurora Gold, have been living out of traditional alluvial mining. This had to be stopped when Aurora Gold came with Contract of Work. Since then, the people have been struggling to get their alluvial mining activities back, but to no success. Several times they staged protests, some of them were jailed. When Suharto stepped down, the people then reclaimed their land and alluvial mining sites. They attacked the base camp, occupied three out of four pits, and were unstoppable by local police. Protes by the mining companies have resulted in police raid, four people were shot. Up to now, the conflict have not been resolved.
- Many other conflicts that cannot be listed one by one. But most Contract of Work have conflicts, with local people and with alluvial miners. During Suharto, conflicts were oppressed, but after he stepped down, people have the courage to stand up and even reclaim their area, as it was shown by the people of Dayak Siang, in Puruk Cahu.

IS THERE ANY FUTURE FOR FDI IN THE INDONESIAN MINING SECTOR?

Currently, mining investment is being promoted as one important sector to lure FDI into the country. While many economist regards Indonesia needs to pump in foreign direct investment in order to come out of its economic crisis, I object the idea of the country is for sale to the mining investors.

The facts that counter the myths of FDI in the Indonesian mining sector described above have shown that mining is not the answer to sustainable development. On the contrary, mining should be reduced if a country is to take a sustainable path. FDI in mining is also proven not to increase wealth and far from being a driving force for economic development in the surrounding areas. Mining sector is a boom and bust economy, creating large scale environmental damage and social conflicts, while bringing insignificant amount of wealth to the country and local people. The case of Indonesia described above is a true example to the findings of the study made by OXFAM on the extractive industry including mining. The study concludes that mining industry mostly operate in poor countries, with poor governance and lots of conflicts. The study also shows that mining sector in many countries in the world have not contributed to poverty alleviation, or income generation in most developing countries. Their operation is not proven to improve the country's situation, but in many cases have worsen the condition of local people.

At the moment, there are about 200 Contract of Works that have been granted by Suharto regime. All of them have environmental and social problem. The environmental problem is most severe, and the current system of Contract of Work does not guarantee that when the mining cease, the environment will be rehabilitated so that future environmental disaster can be prevented. Local governments, whom under the new autonomy system have to be responsible to protect the environment, do not have the capacity to deal with the problem, neither does the central government. This situation was strongly shown during the collapse of Freeport waste rock dumping sites in lake Wanaghon, the central and local government did not have any capacity to deliver its task as regulators and law enforcer. At the current system, the Indonesian people have to endure the current and potential problem of large scale mining industry.

IS THERE ANY SOLUTIONS TO THE PROBLEM?

Following the demand from local people and environmental groups, the Indonesian government tried to revise the Contract of Works, for instance, but failed due to strong resistance by the companies who are backed by their governments and of course IMF and the World Bank. The Trans National Companies requested the government to honor all contracts that were signed by Suharto and demand protection to their investment, even though the people of Indonesia want the government to revoke it.

They revoked the DOM status of West Papua, but failed to discipline the army and unsuccessful in continuing the negotiation process. Shootings, killings, under the name of bringing order, are still taking place in West Papua and other places of conflict. Some companies are trying to buy peoples hearts by doing green wash campaign. Freeport for instance, is trying to buy the sympathy of the West Papuan people by giving support to the West Papuan Congress. They also now try to implement community program, scholarship, local development activities, in order to clean wash their responsibility in the past. Their environmental program has caused millions of dollars, but failed to prevent the pollution in the rivers and lakes, or rehabilitate the damaged area. Millions of dollars have been poured in to buy the support of the Amungme and Komoro people leadership. For the time being, the situation is calm, but the conflict is still not resolved.

Real conflict resolution needs more than green wash and public relation. It needs revisiting of the whole projects and rebuilding the social contracts between the government of Indonesia with the affected people, between the Government of Indonesia with Trans National Companies and between the Companies and The people. Business as usual attitude demanded by the TNCs, will lead to a deepening conflicts.

Worse, the Trans National Companies, backed by IMF, the World Bank and G-8, are campaigning for good governance, but only to cater to their interest. Their demand of good governance are in terms of opening the country's market to foreign direct investment, providing equal treatments to investors, guaranteeing free competition, honor and protect investors, but ignores peoples demand and aspiration. To do that, laws and regulation are being amended. Restrictive laws that hamper mining investment is being changed. For instance, the Forestry law which ban mining in a conservation areas, now is being revisited. Government regulation on water pollution, on toxic waste, are another regulations that are being reviewed through the demand of mining industry. All of this will worsen the already bad situation of environmental protection and social cohesiveness.

Current situation has to be improved if Indonesia to succeed in its transition to democracy. Conflict resolution path that had been taken by Rio Tinto needs to be followed by a more meaningful mine closure program. Other companies needs to follow this example by trying to resolve conflicts than hiding behind the Indonesian government and military/police. The Contract of Work needs to be amended to accommodate better environmental protection, indigenous peoples rights, and complete mine closure plan. Failing to do this, will deepen the conflicts and will block our transition into democratic system. Mining industry has two choices: to be protected by democratic mechanism or by military. If you choose the latter one, you will bring wars to our country.

Indonesia is the largest Moslem society in a single and democratic country in the world. We are working to build our democratic system. We cannot fail, because if we do, democratic system are at stake. Social injustice, inequality and environmental degradation, are the most fertile ground for violence and radicalism. New business of sustainable development have to be translated into the business of answering to the people's demand. That is the only way to bring peace to the world.

Paris, February 7th, 2002