

Investor Briefing

FREPORT: SERIOUS HUMAN RIGHTS VIOLATIONS IN INDONESIA

October 2017



Over 4,200 workers at the Grasberg gold and copper mine in West Papua, Indonesia have been fired this year for going on strike. Grasberg is majority-owned by American mining multinational Freeport-McMoRan (Freeport) and operated by its Indonesian subsidiary PT Freeport Indonesia (PTFI). The mine has been the site of very recent clashes, with hundreds of striking mineworkers **blockading the mine** in late August to try and force the company into negotiations. In August, IndustriALL Global Union undertook a solidarity mission to Indonesia and found that workers are in a desperate situation after being fired for exercising their right to strike. Workers and their families have been without income, access to credit, accommodation, education or medical care for four months, and several people are believed to have died as a result. The labor strife at Grasberg constitutes a human rights issue, but as this briefing indicates, also one that brings potential risks to the company: operational, financial and security-related. For these reasons, the way in which Freeport addresses this problem is of material concern to investors.

As outlined in [a recent exchange between Freeport-McMoRan and IndustriALL](#), IndustriALL has taken issue with the company's behavior and statements.

- IndustriALL rejects the company's claim that its termination of thousands of workers complies with Indonesian law and the Collective Labor Agreement (CLA);
- Labor union CEMWU SPSI, an IndustriALL affiliate, has asked for arbitration to settle the labor dispute that led to the strike;
- Freeport has rejected this request for arbitration as well as the union's request for negotiations, saying it prefers to take the matter to court;
- The Indonesian Human Rights Commission (KOMNAS HAM) has stated that Freeport's actions constitute [serious workers' rights violations](#).

IndustriALL is calling on the company to negotiate a fair resolution of its conflict with CEMWU SPSI, including reinstating the fired workers. So far, the company has refused to agree to this reasonable demand, claiming it is not obliged to negotiate. There is concern that the strife could escalate, with a potential for further violence.

Details of recent developments are provided below, as well as suggested actions for investors.

Background to the strike

The strike is the result of a long-term dispute between Freeport and the Indonesian government over control of the Grasberg mine, which [accounts for](#) almost 98 percent of Freeport's gold production and 25 percent of its copper production globally. The Indonesian government had been demanding a 51 per cent stake in the mine, and had cancelled Freeport's export permits when the company refused. In response, Freeport slowed production and began laying off workers, triggering the strike. Specifically, [PTFI put approximately 10% of its workforce on furlough](#) (long-term leave) to cut costs. CEMWU (the Chemical, Energy and Mines Workers Union) began a strike action against the company's imposition of the furlough policy, which violates the collective agreement, and in protest against the company's repeated refusal to negotiate over basic labor matters such as compensation and job security. Freeport refused to recognize the legality of the strike and said it would consider the striking workers to be absent without leave. Workers absent for over five days would be deemed by the company to have accepted "voluntary resignation." As of late June, PTFI [had dismissed 4,220 workers](#) when the company deemed they had "voluntarily resigned" by participating in the strike. In addition, about 300 workers were fired after striking in January at PT Smelting in Gresik, of which PTFI owns 25%.

Members of IndustriALL's [solidarity mission](#) to Indonesia in August learned that after firing the workers at Grasberg, PTFI had forcibly ejected them from company housing, denied them access to company hospitals and company schools, and worked with local banks to restrict workers' access to credit. The mission was also told several workers and their family members who were denied medical care had died as a result. Many of the workers who lost their housing are now living in tents or the union's offices. A number of the workers from the mine live in nearby communities, which adds to the strain with the company. If the tensions that flared between the mine and its workers in August were to continue or escalate, this could bring about a new security risk for the company.

Dismissing workers for taking strike action violates ILO [core labor conventions](#), which Indonesia has ratified. IndustriALL has written to Freeport, appealing to the company urgently to intervene with PTFI and to reinstate the workers who were dismissed unfairly. IndustriALL has also asked the ILO to intervene. The Governor of Papua has publicly called on Freeport to reinstate the strikers. The local government has tried to resolve the situation by calling conciliation meetings. Freeport failed to respond to two of these meeting requests. As of early September, the Indonesian Human Rights Commission, KOMNAS HAM, which has stated that Freeport's actions constitute serious workers' rights violations, had undertaken a fact-finding mission to Freeport and planned to issue recommendations in the coming weeks.

In late August, several sources reported that Freeport had [signed a new contract with the government](#) in which the company agreed to divest some of its ownership so that the government would hold a 51% stake in PTFI. As of this writing, there was no timeline for Freeport's divestment,

but one report indicated that the company would ["retain control over operations and governance"](#) of PTFI even after this divestment. Freeport agreed to other concessions that the government had demanded, such as building a smelter. The government, in turn, agreed to extend the company's contract at the mine from 2021 to 2041.

It is worth noting that the status of West Papua is contested, with an independence movement accusing Indonesia of plundering resources. The Indonesian army has been paid by Freeport to [provide security](#) for Grasberg mine, and violence has broken out in the past.



Importance to investors and suggested actions:

The developments at Freeport's Indonesia operations are potentially material to the company. In its [most recent 10K](#), Freeport discusses potential risks associated with labor unrest in these operations. It notes that productivity at Grasberg has been affected by recent labor disruptions and that labor productivity issues "could be heightened by the workforce reductions that began in February 2017." Its treatment of workers also calls into question its approach to human capital management, which in turn [can affect company performance](#). Given reports that Freeport will maintain operational control over PTFI and the mine at Grasberg, IndustriALL is requesting that, as a responsible shareholder in Freeport-McMoRan, you consider:

- Entering into dialogue with Freeport-McMoRan and engaging it on the alleged human rights abuses at its Grasberg mine;
- Asking Freeport how it is ensuring that the rights of workers at PTFI are respected and the company's social license to operate is not compromised;
- Asking the company why it is not reinstating the workers that its subsidiary, PTFI, fired for exercising their right to strike;
- Asking the company how it is ensuring that its mass firing and the attendant loss of income and basic services for thousands of families doesn't generate a humanitarian crisis.