

## Lessons From Indonesian Mines May Help Freeport With Phelps

Congo Is Major Challenge, But Acquirer Has Tackled Insurrections, Turmoil

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For nearly two decades, [Freeport-McMoRan Copper & Gold](#) Inc. has kept the Grasberg mine in Indonesia churning out metals amid insurrections and political turmoil. Whether these management skills can be transferred halfway around the world to Congo will help determine whether its \$25.55 billion bid for [Phelps Dodge](#) Corp. is a long-term success.

High copper prices, surging demand from China and a dwindling number of easy-to-execute megamines are leading companies back into unstable nations like the Democratic Republic of Congo in search of new supplies. Figuring out how to operate in these nations without running afoul of either local militias or U.S. anticorruption laws can be a formidable challenge.

Freeport President and Chief Executive Richard Adkerson said the years in Indonesia should help the New Orleans company develop Phelps Dodge's Congo prospect: the largest undeveloped copper-and-cobalt prospect in the world. "Our experiences in discovering the Grasberg, developing it and operating it in a challenging environment will be applicable to the Tenke project."

Shares of Phelps Dodge, based in Phoenix, were up 27%, or \$25.45, to \$120.47 as of 4 p.m. in composite trading yesterday on the New York Stock Exchange because of Freeport's cash-and-stock offer. Freeport's shares fell \$1.77 to \$55.63 on the Big Board, valuing its offer at \$125.27 per Phelps Dodge share.

Freeport has kept the big Grasberg mine on the Indonesian province of Papua operating despite terrorism, local activism, armed conflict, a low-level guerilla insurrection and criticism from political activists and environmental groups. In 2004, Freeport's corporate offices in Jakarta were relocated after a car bomb detonated nearby. Earlier this year, a protest near the remote mine led to a four-day shutdown at the mine.

But Congo could present a tougher challenge. Nearly five million people have died in the Congo, home to the largest current U.N. peacekeeping force, in the past six years from war and war-related famine and disease, says Philippe de Pontet, a country-risk analyst for the Eurasia Group. On top of security issues, fear of corruption has kept Western countries away from Congo, he says. "It's a bit of the wild, wild West," he says.

**Alex Gorbansky**, managing director of **Frontier Strategy Group**, a Cambridge, Mass., advisory firm, says Freeport's experience in Indonesia would help speed the development

of the Congolese mining concession, which needs an estimated investment of \$650 million to open. Freeport "has a much higher risk tolerance" than Phelps Dodge and "that type of mentality will actually be very helpful," **Mr. Gorbansky** says.

Freeport first arrived in Indonesia -- a nation that has scored poorly in the annual rankings of Berlin anticorruption group Transparency International -- in 1967 and in 1988 discovered the massive Grasberg gold and copper deposit. Over the years, the company developed close ties to the regime of former President Suharto, who led Indonesia for nearly three decades before resigning in 1998. Freeport Chairman James R. Moffett struck friendships with Mr. Suharto and several high-ranking associates, including some who survived the dictator's departure.

Human-rights groups have long accused Freeport of supporting military suppression of tribal uprisings in the Grasberg area. In filings, Freeport has acknowledged contributing money to security efforts but says its conduct has been entirely proper.

Freeport is also a frequent target of environmental groups. Freeport said in its latest annual report that the area's aquatic biology is tested regularly and that areas downstream from the mine's tailings, or waste, area are "functioning ecosystems."

Earlier this year, the miner said U.S. and Indonesian government agencies have made informal inquiries into Freeport's practice of paying Indonesia military to provide security at the Grasberg mine. "The Indonesian government has looked to the company to provide logistical and infrastructure support and supplemental funding for these necessary services, because of the limited resources of the government and the remote location and lack of development" in the area, Freeport says in its sustainable-development reports.

The New York City comptroller, on behalf of city pension funds invested in Freeport, earlier this year said the payments "raise serious questions concerning possible violations of the Foreign Corrupt Practices Act." The company says the payments were legal and its conduct appropriate.

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