



Vehicles used for transporting workers to the Grasberg copper mine operated by Freeport McMoRan Inc are seen at the Gorong-Gorong terminal in Timika, Mimika, Papua province. (Reuters Photo/Muhammad Yamin)

By : Fergus Jensen | on 2:27 PM July 14, 2018

Jakarta. Freeport-McMoRan agreed on Thursday (12/07) to sell a majority stake in the world's second-biggest copper mine to the Indonesian government via a series of complex deals worth \$3.85 billion, potentially ending a long-running dispute on mining rights.

That agreement, which could still collapse, will have Freeport give up majority control but remain operator of the Grasberg copper mine, located in the country's eastern province of Papua, as Jakarta seeks to gain greater control over its mineral wealth.

Here are some questions and answers on the agreement:

What has been agreed between the parties?

Freeport and Rio Tinto have agreed on a structure and pricing for a series of transactions to transfer majority ownership of the Grasberg project to Indonesia's state-owned mining holding company, Inalum.

Inalum will pay \$3.5 billion for Rio Tinto's 40 percent participating interest which Freeport will then convert into an equity holding in local unit Freeport Indonesia. Inalum will also pay \$350 million for the share of Grasberg held by Indocopper Ivestama to take the country's total holding to 51.38 percent in Freeport Indonesia.

Is this agreement binding?

Heads of agreements are typically non-binding. However, Indonesia's State Owned Enterprises Minister Rini Soemarno said the agreement is binding while Rio Tinto and Freeport both said the heads of agreement is just a step and not binding.

What are the main issues still outstanding?

Freeport's divestment of ownership of Grasberg is one of the steps the miner must take as it transfers rights to the mine from its current Contract of Work to a special mining permit, to satisfy rules set out in Indonesia's 2009 Mining Law.

Details on exactly how the new permit will differ from the Contract of Work are yet to be revealed, but in essence, it is expected to establish financial and operational guarantees for Grasberg up to 2041.

Indonesia issued Contracts of Work before 2000 and usually royalties or taxes are fixed for the

duration of the contract and are generally not subject to government regulation. In contrast, new mining permits are subject to current regulation and places the mining company at a lower status than the government.

Freeport is also required to build a second smelter in line with Indonesia's mining rules, which require mineral ores to be processed domestically to increase the value of the country's exports. According to Freeport, it will have five years to complete a \$3 billion smelter project once Inalum has acquired a majority stake.

How can Freeport retain operational control of the mine without retaining majority control?

Freeport is expected to form a joint venture agreement with Inalum that will establish rules on how the mine and the company will be managed on a daily basis, and that agreement is expected to cover shareholder voting rights and capital investment responsibilities.

With the risk of meddling due to the many vested interests swirling around Grasberg, Freeport has insisted it needs operational control before committing to a multi-billion-dollar investment for underground mining at Grasberg instead of its current open-pit form.

How have investors in Freeport and Rio Tinto responded to the agreement?

The market response to the agreement has been muted so far, particularly compared to a 14 percent drop in Freeport's shares on April 24 after the company revealed environmental demands by the Indonesian government.

Freeport shares on Thursday rose 2.5 percent in pre-market trade on news of the agreement, but closed 0.7 percent lower at \$17.29.

Rio shares trading in London were down 0.1 percent at 4,014 pence as of 1010 GMT on Friday.

What is expected to happen next after Thursday's signing ceremony?

Inalum, Freeport and Rio need to finalize sale and purchase agreements for the planned transactions, along with shareholder agreements.

The government needs to issue Freeport and Inalum with a special mining permit for Grasberg, which provides for long-term stability of its operations.

Environmental matters, including government requirements for Grasberg's management mine wastes known as tailings, need to be resolved.

What have the main parties involved said about the agreement?

Indonesian President Joko Widodo has said the agreement is a "leap forward" for the country and will mean greater returns from taxes, royalties and dividends.

Freeport chief executive Richard Adkerson said the company does not expect the new agreement to make "a material change" to its taxes, royalty payments or cash flows from Grasberg, but acknowledged Indonesia will benefit from greater dividends resulting from its increased ownership.

Referring to a discount Freeport had agreed to accept for its Indocopper stake, Adkerson said "so we put some money on the table to help facilitate this happening."

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