Newmont Mining: Foreign investments & politics

Ronald C. Cambre

Ronald C. Cambre is president and chief executive officer of Newmont Mining Corp./Newmont Gold Co. He joined Newmont in November 1993 after a 30-year career with Freeport-McMoRan, another natural resources company. Cambre served as president and chief executive officer of Freeport-McMoRan Resource Partners, and as chairman of Rio Tinto Minera. A native of New Orleans, he graduated from Louisiana State University with a degree in chemical engineering.

About Newmont: Newmont Mining was founded in 1921 as a holding company to invest in worldwide mineral, oil, and related companies. Newmont operates in 29 countries of the world, with major activities in Nevada, Peru, Uzbekistan and Indonesia.

In 1997 Newmont acquired Santa Fe Pacific Gold Corporation in a stock-for-stock transaction, making Newmont the world's second largest gold producer and the largest in North America.

What happens to foreign investments in a country that is in political and economic turmoil? Ron Cambre addressed this issue relative to Newmont Mining Company's projects in Indonesia.

Newmont has two major investments in Indonesia. One is in Sulawesi where the company has invested about $180 million in the last three to four years. The second is a $1.9 billion project under development on the island of Sumbawa, an underdeveloped area of Indonesia, east of Irian Jaya.

"The political risk is great," Cambre said. "If we were starting the project today, would we go forward? Probably not. We'd delay to see how things would go." But with the project 22 percent completed and $500 million already invested, it is hard to pull the plug. There is also a responsibility to the more than 5,000 people employed at the site.

"This is a huge project," said Cambre, adding that Japan's Sumitomo Corp. is Newmont's partner, along with the U.S. Ex-Im Bank, Germany's Kreditanstalt fur Wiederaufbau, and Japan's Ex-Im Bank.

Sumitomo is coming on board for half of Newmont's $1.9 billion project. "But this is a drop in the bucket for Sumitomo," said Cambre. "The company has billions of dollars invested in Indonesia."

Currency crisis

Cambre predicts that in five years there will be tremendous inflation in the Southeast Asian countries that have devalued their currencies. "The foreign investor is gaining cheaper labor right now, but I think that is a temporary phenomenon."

Newmont has not been hurt by the currency crisis in the region. Most of the company's transactions for exports of its products and imports of capital goods are done in U.S. dollars. The component that is paid in rupiahs is labor, which is a small percentage of total expenditures.

Sulawesi is a remote island with about 1,000 native fishermen. "They don't know that there is a currency crisis in Asia. All they know is that if they get a job with us, they can make five or 10 times more than they've ever made in their lives."

But the fishermen are not unaffected by the currency crisis. They are seeing their cost of living go up in the price of rice, petrol, and other imported products that are vital to their standard of living, said Cambre.
Jakarta hurting

Most of the political and economic turmoil is centered in Jakarta, where people are suffering due to the downturn of local investments.

"The large Indonesian investors, virtually all of whom are associated with the Suharto family, have overextended themselves with huge U.S. dollar loans for domestic businesses," said Cambre. "They are so far under water that there isn't a hope of them being saved."

The primary investors have been seven Chinese entrepreneurs, merchants who are charged with taking care of the Suharto family's affairs. These entrepreneurs have invested in everything from power plants to timber and plywood. If these facilities are shut down, hundreds of thousands of people will lose their jobs.

Indonesia's Chinese population has become the scapegoats in the upheaval. "The Indonesians are attacking Chinese shop owners today because the price of rice is too high, and they know that President Suharto has used the Chinese as his main business representatives."

Although Indonesia is now in turmoil, the country has had a long period of stability under Suharto. The average citizen's quality of life, income and educational opportunities have improved.

Suharto's quality of life also has improved -- greatly. "Along the way, the ruling family has gotten very greedy and enriched themselves," said Cambre.

Contracts honored

Only 18 months ago, Newmont came close to walking away from the Sumbawa project. The government was demanding a 10 percent equity interest in addition to the taxes and royalties stipulated in the contract. Newmont refused and the project was put on hold for six months.

Cambre sought help from Suharto, telling him that Newmont would not be able to do business in Indonesia if the government did not abide by the contract. Suharto said, "Indonesia is a fine country in which to invest. We keep our contracts; if you have a contract, we will abide by it to the word."

"To my knowledge, in 30 years they have never breached a contract."

Indonesia

Indonesia is an archipelago of about 13,700 islands. The main islands are Sumatra, Java, Kalimantan, Sulawesi, and Irian Jaya. Java is home to Jakarta, the capital of Indonesia.