

CHAPTER I

INTRODUCTION

1.1 Background

A multinational corporation (MNC) is a company which has facilities and other assets in at least one country other than its home country.¹ Such companies have offices or factories in different countries and usually have centralized head office where they organize global management. Very large multinationals have budgets that exceed those of many small countries.

There are several possible definitions of multinational corporations (MNCs) or transnational corporations (TNCs) as they are increasingly called nowadays. The broadest definition of an MNC is a corporation with operations in two or more countries. However, many of the issues associated with MNCs are characterize by corporations of a different type. These are corporations whose corporate activities extend beyond the national boundaries of several sovereign states, and whose global corporate strategy and large economic resources make them tremendously a competent capitalist institutions as well as private institutions with extreme economic, and possibly political, influence.²

The last few decades have become the period when the activities of MNCs rise rapidly all over the world, particularly in the developing countries. The

¹ Staff, Investopedia. "Multinational Corporation - MNC." Investopedia. December 05, 2014. Accessed April 24, 2017. <http://www.investopedia.com/terms/m/multinationalcorporation.asp>.

²Ike, Nnia. *Conflicts Encourntered By Multinational Corporations In Cross-Cultural Communication And Its Solutions*. Ebook. 1st ed. American Research Institute for Policy Development, 2015. Accessed April 24, 2017. <http://dx.doi.org/10.15640/jibe.v3n1a10>.

development of MNC has raised various issues for both home and host countries, mainly because of two unique characteristics of these activities. First, MNC investment decisions are made in the context of an overall investment strategy aimed to maximizing the corporation's global profit and other objectives. For example, the earnings from the operation of a partner in a host developing country may not be the major consideration in the investment decision.

Some conflicts can arise between the MNCs and the host countries, for a variety of reasons, especially when the host country is a developing country.¹ In a developing country conflict that often arises is about some form of friction, disagreement, or discord arising within a group when the beliefs or actions of one or more members of the group are either resisted by or unacceptable to one or more members of another group.²

Because both parties have their own interest and need to achieve it, sometimes conflict occur. Major conflict between MNC and government is when host government changes their policies. Example case is when Cuba decided to nationalize US companies without compensation in 1960.

It is such a huge movement by the Cuban government that really has a huge impact for multinational corporations in Cuba. Castro nationalized all U.S owned businesses, including oil refineries, factories and casinos. This made The United States end diplomatic relations and impose a trade embargo to fight back.

¹ M. Afzalur, Rahim. "Managing Conflict in Organizations." Google Books. Accessed April 24, 2017. https://books.google.co.id/books?id=qauUIGypkhEC&pg=PA17&redir_esc=y#v=onepage&q&f=false..

² *Ibid.*

The US President Dwight D. Eisenhower's administration made an aggressive move to reduce Cuba's sugar quota.

According to that case, we can see that political situation in host country really affect the MNC. And sometimes, MNC also intervene politics in the host country. Problem in developing countries are the government that are political corrupt and bribery. There have been a number of situations where influential persons in key positions in the governments of host countries have been bribed for unfair advantage to the MNCs.

Indonesia is one of the developing country which has very rich of natural resources. Indonesia is known as a country that rich of oil and natural gas, tin, copper and gold. Having a forest of thousands hectares of land, it makes Indonesia as the lungs of the world. Indonesia is also rich in various spices. No wonder Indonesia is exporting many spices abroad. No less with its natural resources.

One of the major island in Indonesia is Papua. Papua is the largest Indonesian province located in the central part of Papua Island or the easternmost part of Indonesia's Papua region. The province of Papua used to cover the entire western part of Papua, but since 2003 it has been divided into two eastern provinces with the name Papua while the western part is West Papua. Papua is the second largest island in the world and the first largest in Indonesia.

Papua is very rich of copper and gold, it is famous for its largest gold production in the world and its mines and natural resources. This makes Papua as a place of mining company activity, which aims to extract its natural resources.

Many companies both domestically and abroad have shares in mining in Papua. The results they get are also very proportional to the capital they spend and even the results will be greater.

Indonesia with the largest amount of natural resources in the world caused many foreign investors are interested to do international trade and even invest in Indonesia.³ One of the largest overseas companies that manage the mining in Papua is PT Freeport.

PT Freeport Indonesia is an affiliate of Freeport-McMoRan. PTFI mines, processes and explores ores containing copper, gold and silver. It operates in Mimika, Papua Province, Indonesia.⁴ Freeport market concentrates containing copper, gold and silver to all corners of the globe. The company is the largest taxpayer to Indonesia through the Grasberg mine. Freeport Indonesia has conducted exploration in two places in Papua, each Estberg mine (from 1967) and the Grasberg mine (since 1988), in the Copper Pura area, Mimika Regency, Pupua Province.

The Amungme people in Timika call Grasberg, Mount Tenogome. This land about 40 years ago becomes very meaningful for copper mining worth trillions of rupiah in the future. The mine started from a very small location. This is the biggest inspiration after the gold rush on the Laloki River.

Laloki has become a magnet for the world expedition team to find other gold sources. Finally they found it in Papua. This inspiration also made the Dutch

³ Santander Trade Portal. "Indonesia: Foreign investment." Foreign investment in Indonesia - Santandertrade.com. Accessed June 14, 2017. <https://en.portal.santandertrade.com/establish-overseas/indonesia/foreign-investment>.

⁴ "Tentang Kami." PT Freeport Indonesia. Accessed April 24, 2017. <http://ptfi.co.id/id/about/overview>

government first to give expedition permission to Forbes Wilson and Mozes Kilangin Tenbak to pick up rocks at Ertsberg. The rocks that have led America to trillions of dollars per year and eliminate the same values for the Indonesian government.

Grasberg is at the heart of a very abundant mineral territory, where exploration activities provide an opportunity to continue adding to the long-term reserves. The Grasberg gold mine is not only the largest that Freeport mines has. But it is also the world's largest gold mine in terms of production. According to Freeport-McMoran Inc. financial statements, as of December 2016, the company has reserves in Papua for copper of 26.9 billion pounds and gold of 25.8 million ounces.⁵ While, the amount of Freeport's copper reserves in Indonesia is third after mines in North America and South America.

The Grasberg mine is owned 90.64% by PT Freeport Indonesia, including 9.36% owned through its wholly owned subsidiary, PT Indocopper Investama. The government of Indonesia owns the remaining 9.36% of PT Freeport Indonesia.⁶

Freeport-McMoRan (FCX) is the premier international mining company with headquarters in Phoenix, Arizona, United States. FCX manages large, long-term assets that are geographically dispersed over four continents, with proven and measurable significant reserves of copper, gold and molybdenum. From the

⁵Abdul Malik, and Vindry Florentin. Tempo.Co. "Tambang Emas Freeport di Papua Terbesar di Dunia." Tempo News. Accessed April 24, 2017. <https://m.tempo.co/read/news/2017/02/22/090848935/tambang-emas-freeport-di-papua-terbesar-di-dunia>.

⁶"Tentang Kami." PT Freeport Indonesia. Accessed April 24, 2017. <http://ptfi.co.id/id/about/overview>

equatorial mountains of Papua, Indonesia to the deserts of the Southwest of the United States, magnificent volcanoes in Peru, the traditional copper-producing region of Chile and exciting new opportunities in the Democratic Republic of Congo, Freeport are at the forefront of the much-needed metal supply in this world.

FCX operates under an agreement with the government of Indonesia, which allows Freeport to conduct exploration, mining and production activities in a 27,400-acre area (Block A). It also conducts exploration activities in an 413,000-acre area (Block B).⁷ All of Freeport's proven and probable mineral reserves and current mining operations are located in Block A.

Freeport has done a great impact for Indonesia especially people of Papua. There are two patterns of PT Freeport Indonesia's contribution to Indonesia. First, direct contributions to state revenues in the form of taxes, royalties, and dividends. Second, indirect contributions include salary or wages of employees, domestic purchases, regional development, and domestic investment. Freeport Indonesia's management claims that throughout 1992-2014 the company contributed US \$ 15.8 billion to direct state revenues. Meanwhile, the contribution of an indirect profit of US \$ 29.5 billion.⁸

In terms of development, Freeport's management also claims to have helped build Papua. Vice President of Freeport Indonesia Napoleon Sawai mentioned that there are 27% or approximately 30,000 local residents who work

⁷ *Ibid.*

⁸ Dikky Setiawan, "Menghitung kontribusi Freeport bagi bumi pertiwi," Menghitung kontribusi Freeport bagi bumi pertiwi | Liputan Khusus Freeport, , accessed October 03, 2017, <http://lipsus.kontan.co.id/v2/freeport/read/302/Menghitung-kontribusi-Freeport-bagi-bumi-pertiwi>.

in PT Freeport Indonesia. Of that number, 50 of them sat in managerial staff positions and 7 indigenous Papuans became Vice President (VP) of Freeport.

⁹ Freeport Indonesia has helped some indigenous Papuans to welfare local residents by providing jobs. Therefore, it is true that Freeport's management claims its contribution is not small for Indonesia.

Freeport has operate in Indonesia since 1967, certainly not a short time considering Freeport has been involved in Indonesia since the early of Indonesia's independent. Of course, up to now, there are a lot of problems with Freeport in various aspects. For example in the aspects of the environment, human rights, economy, politics, industrial side, security in Papua, the welfare of the people of Papua and many more.

Real example of human rights abuse in Papua by Freeport is the killing of Amungme community member Naranebalan Anggaibak. There is also a rape case according to LEMASA, Indonesian soldiers from Battalion 732 raped five Papuan women in Agandi and Hoesa in June 1995.¹⁰ From Abigail Abrash research, there are still many human rights abuse done by Freeport such as torture, indiscriminate and extrajudicial killings, disappearances, arbitrary, detention, surveillance and intimidation, employment discrimination, and severe restrictions on freedom of movement, etc.

The contract of Freeport copper and gold company will expire in 2021. Supposedly, the contract renewal decision is given two years before the contract expires. But Freeport wants to speed up its decision this year. For the extends of

⁹ *Ibid.*

¹⁰ Abigail Abrash. "Human Rights Abuses by Freeport in Indonesia." *Human Rights Documents online.*

Freeport's contract, Indonesia government want to revoke the contract of work that Freeport has and replace it to "IUPK" or permits for mining.

The contract of work is the only thing that protects Freeport's interests in Indonesia and giving it up without a fight would have been outright silly. The existing contract of work gives the company the ability to stay in Indonesia for 20 years after 2021.

There is a lot of different perspective on this contract renewal, there are many pro and cons about this issue. As we all know, Freeport really affects the Indonesia's condition either politically, economics, or the welfare of the people in Papua. Different interests between the two sides has caused this become an unfinished prolong problem.

Freeport has its interest and do not want to lost the mine but Indonesia government also want bigger incentive from Freeport. Indonesia government needs to analyze how far the presence of Freeport in helping our nation's economy and how it will impact in the future. Therefore, this contract renewal become a problems nowadays.

Most conflict that occurs between Freeport and government of Indonesia are structural conflicts which solution can be achieved by understanding between the two parties and find an appropriate or unanimous solution. Freeport's issue also has some of the most problematic issues that have to do with politics, economics, social, culture and the environment. What has been disqualified by all people in Indonesia is how far the presence of Freeport in helping our nation's economy and how it will impact in the future.

This topic has often been emerges in the public. But most people haven't aware of it. Therefore, this research is important for the people to easily understand, know more and discussed further about the conflict happened between Freeport and government of Indonesia.

1.2 Statement of the Problem

This thesis describes the working permit extension disputes between Freeport and government of Indonesia 2015-2017. The study focuses on the contract renewal between Freeport and central government of Indonesia regarding the Freeport's contract will be expires in 2021. Based on the focus above, the research questions are as follows:

1. What are the main disputes between Freeport and the central government of Indonesia in 2015-2017?
2. What efforts are being made to resolve the problem?
3. What are the outcomes that have been achieved regarding the disputes?

1.3 Research Objectives

The purpose of this study is to explore and understand the working permit extension disputes between Freeport and government of Indonesia 2015-2017 and to increase the knowledge of the readers about Freeport's conflict. Particularly to explain the history of Freeport, the main disputes between Freeport and central government, and to elaborate the efforts and outcomes about Freeport's conflict.

1.4 Research Contributions

This research is expected to give contribution to the International Relations field in enriching the study that discusses about working permit extension disputes between Freeport and central government of Indonesia. It also help to understand the MNC's operation in developing country. For the society, it intended to share information about this conflict and for the author are to add author knowledge and to develop author perception related to conflict between Freeport and central government of Indonesia.

1.5 Structure of Writing

The structure of thesis is divided into five chapters. Each chapter is divided into sub-sections which are intended to facilitate the understanding of the overall results of the study. The framework of this paper is as follows:

CHAPTER I INTRODUCTION

Chapter 1 contain an introduction that begins with background research on the topic raised by the author followed by the formulation of the problem, research objectives, the research contributions, until the establishment of a systematic writing.

CHAPTER II LITERATURE REVIEW

Chapter II is the part where researchers will explain the whole concept or theory that is used and is associated with

the topics raised during this study, which will be preceded by some literature. Set of concepts and theories will be used to help researchers analyze the issues raised. This framework will use the perspective of national interest and a variety of concepts such as conflict, dispute settlement theory, and government policy on mining.

CHAPTER III RESEARCH METHODS

Chapter III is the section that will explain the method used in this study. This section begins with a description of the approach used, as well as the types, source of data and collection techniques to data analysis techniques.

CHAPTER IV DISCUSSION

This chapter will provide the outline of final results obtained from the research that has been done. The result from the data set was analyzed using analysis techniques that have been selected. First it describes the history of PT Freeport Indonesia. Second, it explain the chronology of contract of work. And the review focused on the contract extension between Freeport and government of Indonesia this year. This chapter will also answer all the problems that have been formulated using the collection of data that has been obtained through a variety of sources.

CHAPTER V CONCLUSION

Chapter V is a chapter that will end or cover the entire report of this research. This section contains the conclusions and recommendations drawn from the overall report and will be given the author of the parties contained in the discussion of this research.