Pertamina's Progress

EXCLUSIVE

The Rise Of A Third World Super-Corporation And Its Fall By The Hand Of Wall Street

A bitter irony is being played out in Indonesia today. A coterie of the most prestigious international banking houses, including Kuhn Loeb and Co., Lazard Frères et Cie., and S.G. Warburg and Company Ltd., joined by the World Bank and the International Monetary Fund, are now busily upholding the honor and good name of the Indonesian government against an array of "profit hungry" oil companies and "predatory" tanker charterers who seek to attach over $1 billion worth of Indonesia's national assets in lieu of contract payments said to be in default by the Indonesial State Oil Company, Pertamina. But, of course, the banking firms are upholding more than Indonesia's national honor. At stake is $12-15 billion in foreign debts *owed to them* and their clients by Pertamina and the Indonesian Government and Central Bank, a sum that otherwise appears less and less collectable with every passing week. The issue is *who* gets paid — at Indonesia's expense.

The irony is made the bitterer by the fact that these bankers and their clients such as Morgan Guaranty, Indonesia's principal banker, are directly responsible for the (probably) uncollectable status of these loans. They began financial warfare against the Pertamina industrial empire in the early 1970s, which culminated in a forced default of the conglomerate in March, 1975. (See Chart 1 for partial listing of Pertamina's partners and subsidiaries.) This had the effect of transforming a situation of a few billions in debts *backed by industrial projects* (whose eventual commercial operation would repay the loans), into one in which many more billions in debt stand unsecured by anything except the Indonesian government's ability to gut what remains of those industrial projects.

This bankrupting of Pertamina was no error on the part of Messrs. Wall Street usurers. Pertamina represented a dangerous — they might say "cancerous" — political current within Indonesia which was insisting on industrial development, and this in collaboration with the Japanese and Western Europeans, free of the control of Rockefeller's Caltex oil company and the banks, "bears" on the Indonesian economy who have seen little potential there for anything but petroleum extraction and debt collection. Most dangerous of all was Pertamina's president, Ibnu Sutowo. As the driving genius of the company, he was the leading symbol of the industrial development faction in Indonesia.

In 1973 and 1974, Sutowo, joined by other leaders of the nationalist faction in the military, including top presidential aide Ali Murtopo and even President Suharto himself, engaged in a flurry of official visits abroad — tc other countries in the region. Japan and Europe, and even the United States — seeking to consolidate agreements by which Indonesia would receive high-technology plants for its industrialization drive, in return for guaranteeing oil supplies to Europe, Japan and U.S. independent oil companies. Sutowo also began arranging the tanker deals now being used against him, in order to prevent potential sabotage of the new contracts and bypass the control of Caltex and the U.S. majors over the carrying trade in Indonesian crude.

Sutowo pushed full steam ahead on the multi-billion dollar Krakatau steel project, and on many others in

Chart 1

Projects and Pertamina Subsidiaries and Joint Ventures

P.T. Elnusa— Integrated oil communications system to link offshore oil operators with mainland, as well as overseas.

P.T. Pelita— Pertamina airline with air fields ranging from Darwin, Australia to North Sumatra.

P.T. Permina Tonkang and Ocean Petrol Ltd. — Handles Pertamina's tanker fleet.

Far East Oil Trading Company—Handles oil marketing, 50% owned by Pertamina and 50% by Japanese independent oil companies, utilities and industrial users.

Japan Indonesia Petroleum Co. Ltd.— Oil marketing company. 50% owned by Pertamina and 26% by Toyota and 24% by Japanese Utilities and refiners.

Tugu Insurance— 50-50 joint venture between Pertamina and several private investors to handle insurance for Pertamina, its contractors and others.

Perama Oil Marketing Company— Joint venture with private American investors for marketing Indonesian oil on the West Coast of the U.S., with ties to former Calif. Gov. Edmund Brown, Sr.

P.T. Pertamina Gulf Industrial Processing— Joint venture with Gulf oil for processing fertilizer.

Indonesian LNG Project— The largest liquified natural gas project in the world jointly with Japanese utility companies. Involves Badak field in East Kalimantan under production sharing contract with Huffco and the Arun field in Aceh, Sumatra, under production sharing agreement with Mobil. The Japanese utilities include Chubu Electric Power Co., Kyushu Electric Co., Kansai Electric Power Company, Nippon Steel, Osaka Gas Company.

petrochemicals, oil refining, and related industries. His activities became a focal point for Indonesian resistance to the World Bank, the New York banks, and their so-called "technocrat" faction within Indonesia.

For these activities, Sutowo and Pertamina were intolerable to Indonesia's New York bankers, posing the threat of nationalization of the oil as soon as Indonesia had built up the expertise to run the industry itself. Pertamina thus came to represent a form of "state sector," private in form, but strongly nationalist and dedicated to the rapid development of the national economy. It so thoroughly belied the platitude that "non-Western peoples lack a flair for entrepreneurship" that it threatened to become a model for emulation by Third World nationalists and capitalists on three continents.

The Dismantling of Pertamina...

A half-decade of intense financial warfare coordinated by the International Monetary Fund finally bore fruit in March 1975. Pertamina, which had been forced onto the short-term capital markets by IMF barring of medium-term loans, was trapped in a liquidity squeeze exacerbated by the 1974 recession, and fell behind on its payment schedule on some loans. Undoubtedly with backing from New York and Washington, the First Republic Bank of Dallas announced that Pertamina had defaulted on $40 million in loans. That was the signal for massive calling in of loans, which pulled the plug on the company.

The progressive dismantling of the conglomerate proceeded in several stages. (See Chart 2.) After several weeks of uncertainty, the Central Bank of Indonesia, under "technocrat" control, announced it would assume all of Pertamina's debt as obligations of the government. The Central Bank then drew down the nation's reserves from $1.8 billion to under $500 million to make the debts good, and to reassure Morgan and the others of Indonesia's "good faith." In January, 1976 the World Bank, which ran the Intergovernmental Group on Indonesia (IGGI), providing nearly $2 billion in aid a year, threatened a total aid cutoff if Sutowo stayed on. This culminated a year of intensive pressures from the "technocrats" inside and the banks outside, forcing Suharto to fire Sutowo as president of the company in March, 1976. Since then, a massive "Watergating" of the company, focusing particularly on the tanker deals, has attempted to portray Pertamina as nothing but a hollow shell of speculation and shady deals, and Ibnu Sutowo as a fast-talking shyster with his hands in the till. The March placing of Sutowo under house arrest along with his former Pertamina associates for alleged financial malfeasance, marks the latest victory of the banks in their campaign to restore Indonesia's honor — and "credit-worthiness."

Remarks made by Sutowo in mid-March, two days before his arrest, in an interview with the monthly *Le Laki*,

Chart 2

Dismantling Of Pertamina 1975-77

March 1975— Financial collapse of Pertamina forced when First Republic of Dallas brought default charges against Pertamina for $40 million in loans. Creditors began calling in most of Pertamina's outstanding loans.

April 1974— Bank of Indonesia took responsibiltiy for Pertamina's debts, eventually causing Indonesia's reserves to plummet from $1.4 billion in Dec. 1974 to a low of $441.9 million in Sept. 1975.

1975— The Central Bank took over the finances of most other state enterprises.

1975— Technocrats were called in to reorganize Pertamina.

1975— The Indonesian government engaged merchant bankers Kuhn Loeb and Co., Lazard Frères et Cie., and S.G. Warburg and Co. Ltd. as financial advisors. The Arthur Young accounting firm was engaged to prepare Pertamina financial statements.

June 1975— Morgan Guaranty organized a consortium of North American, European and Australian banks for a loan of $425 million . Bank of Tokyo organized a consortium of Japanese banks for a $150 million loan.

Sept. 1975— General Piet Harjono became Pertamina Finance Director and Technocrat Wijarso became General Affairs Director. Sutowo forced to "vacation" in the U.S.

Nov. 1975— Morgan Guaranty organized a second $425 million consortium loan. Bank of Tokyo organized a second consortium for $50 million.

Jan. 1976— The World Bank threatened to cut off all aid if Ibnu Sutowo was not fired as Pertamina President Director.

Feb. 1976— The then Vice-President Nelson Rockefeller visited Indonesia while the Sutowo scandal probe went into high gear.

March 1976— Sutowo was dismissed as Pertamina head, replaced by General Piet Harjono. Pertamina was put under "tutelage" of technocrat Mining Minister Mohammed Sadli.

March 1976— The World Bank issued a confidential report for the April meeting of the Inter-Governmental Group on Indonesia calling for "implementation of appropriate foreign debt management policies" and retrenchment of state sector industries.

June 1976— Under IMF initiative, the Indonesian Government renegotiated production sharing contracts with foreign oil companies that cut the profit split from 65/35 to 85/15 and eliminated the 40 percent write-off for company production costs.

July 1976— Exploration collapsed as the oil companies withdrew their rigs.

March 1977— Ibnu Sutowo was put under house arrest with 30 other Pertamina officials for allegedly illegal business practices concerning Pertamina's tanker chartering.

demonstrate why Sutowo is still considered dangerous. He said that he disagreed with "(Economic Affairs Minister) Widjojo and company and believed that Indonesia was still in the age of assembling and packeting, not that of real industrialization... If we want to develop and make headway we must have a strategy and set intermediate and final targets." Sutowo made the statement while on a visit to one of Pertamina's capital-intensive rice estates, in the course of organizing support for his concept of industrial development.

...and the Demise of the Development Program

The economic effects on Indonesia have been catastrophic.

Most of the projects directly sponsored by Pertamina have been either drastically scaled down, such as Krakatau steel (reduced 67 percent to half a million tons capacity), or cancelled outright such as the mechanized rice estate and the oil transhipment terminal. (See Chart 3.)

Pertamina's collapse has absorbed a major portion of the development funds the Government was to have allocated to its Five-Year Plan. (See companion article in this issue.)

Moreover, as Table 1 shows, by conservative estimate, Indonesia will have a rapidly dwindling net inflow of foreign development capital. Thr sharp jump in debt service payments results from the expiration of the debt moratoria from the late 1960s, which places a rising burden of debt repayment on the years beginning 1978. On top of that, the Government incurred $4-6 billion in additional official debt, most with a five-year grace period that is now running out.

Pertamina's default, representing an additional $10 billion burden, is seriously worsening even this gloomy picture. Of the $10 billion, $3-4 billion in short-term loans have been paid off, rolled over or converted into medium-term loans to the debit of the Central Bank. About $2 billion is owed domestically, some to internal creditors, the rest in royalties past due to the government. Upwards of $3 billion is nominally due a host of tanker charterers on contracts now being contested by the Government — with the full support of the New York banks.

An oil-rich but wretchedly poor country receiving sub-

Table 1
Indonesia: Capital Aid and Debt Service*

	Development Loans** in $ Billions	Debt Service in $ Billions	As %***	Net Capital Imports in $ Billions
1976	3.4	0.81	13.8	1.90
1977	2.1	1.19	16.6	0.64
1978	2.0	1.60	18.6	0.20
1979	2.4	1.89	19.5	0.13
1980	2.9	1.98	18.5	0.33
1985	5.8	3.16	16.4	1.66

*Government and State Enterprises.
**Still to be approved.
***Debt service as percentage of export earnings.

Source: *Neue Zuercher Zeitung*, Oct. 31, 1976.

Chart 3
Pertamina Projects Either Cancelled Or Stripped From Its Control

P.T. Krakatau Steel— Southeast Asia's first steel mill, to be built with West German financing. Scaled down from 2 million tons to 500,000 tons. Siemens of West Germany, to construct 400 megawatt station; Ferrostaal of Gutehoffnungshuette, to build the steel smelter; Japanese engineering companies to construct a gas pipeline from the Pertamina Jatibarang field in West Java to fuel the smelter.

Rice Estates— Fully mechanized 20,000 hectare rice estates in South Sumatra with a capacity of 200,000 tons annually. Cancelled.

Fertilizer Plants— A fertilizer project in South Sumatra and a floating fertilizer plant in Kalimantan to have used British financing and British and West German machinery. The former was transferred to the Ministry of Industry; the latter has been cancelled and replaced with a proposal for a conventional land-based plant.

Petrochemicals— A petrochemical complex with emphasis on synthetic fibers and plastics in Gresik, East Java, has been transferred to the Ministry of Industry. Other complexes have had West German backing: also cancelled.

Aromatics Plants— To have been built in South Sumatra with Japanese backing: cancelled.

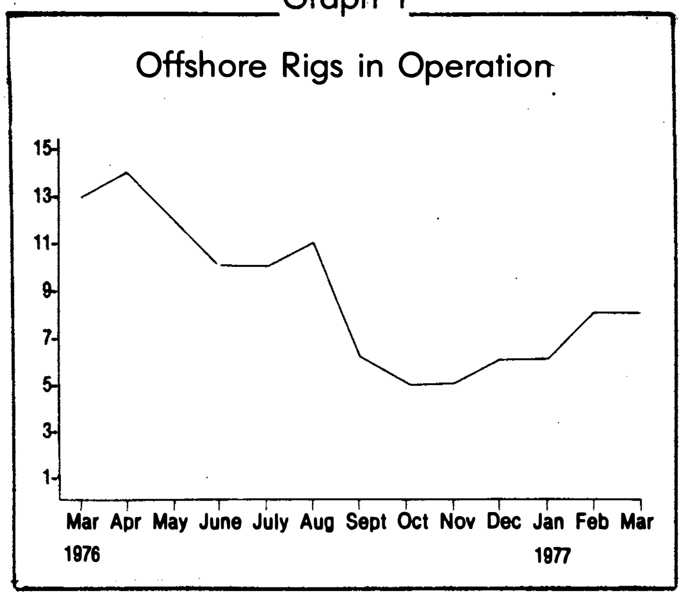
Batam Island Development— Project was to have been a regional center for oil related industries, including metal fabricating industries or rig building; a Japanese backed oil refinery, shipbuilding repair facilities, oil transhipment center. A city of 100,000 was planned. Its chief executive, Colonel Abihasan Said forced into retirement, entire project sealed down.

Oil Transhipment Terminal— A $1 billion crude transhipment station in the Gulf of Semangka, South Sumatra to have been built with Saudi and Japanese financing: Cancelled.

Tanker Fleet— An international tanker fleet involving $2 billion worth of charters involving European and Japanese interests. It is now the major point of controversy in Indonesia. The Government refuses to recognize the validity of the bulk of the charters made with Geneva-based tanker charterer and friend of Ibnu Sutowo, Bruce Rappaport.

stantial outside aid has been reduced to the role of debt guarantor, with its oil as security — but even its oil production is in jeopardy. The prime thrust of Pertamina and Sutowo's efforts from the 1950s to build oil production up was to tremendously increase production and exploration for new fields. Since Caltex refused to explore, being content to scoop out the profits from its existing, very rich fields in Sumatra, Sutowo brought in U.S., Canadian and European independents who became the mainstay of the country's exploration efforts. But since 1975, under "technocrat" control, the former encouragement to these companies has been turned into official roadblocks. In order to reap higher rates of return to ensure payment of the debts, the production-sharing contracts with the independents were renegotiated and a 65-35 government-company percentage split became 85-15. Worse, the cost recovery plan by which the independents could rapidly write off exploration costs — the only way they could profitably explore at all — was scrapped.The number of operating rigs plummeted from 15 last year to six or eight now (see Graph 1). Natomas, one of the top independents, slashed its exploration budget to a nominal $700,000, enough for 2 weeks' drilling. Oil production, at over 1.6 mil. barrels per day, is the highest in the country's history, but without new exploration, this will soon start falling off, insuring that the 1980s will be increasingly barren for the industry.

Graph 1



That's not the end. Indonesia's industrial sector, already a midget in global terms, is being hit very hard. To avoid runaway inflation while paying the debt, the Central Bank has maintained a very tight policy for internal lending. Even so inflation has topped 20 percent. The private sector is now capital-starved.

A recent New York Times article revealed that default on payment of revenues owed by Pertamina to domestic companies and banks is threatening to cause the collapse of many of these. Added to this is the direct contraction of industrial activity associated with cancellation or reduction of most of Pertamina's direct enterprises. (See Chart 1).

A final irony to this situation is that the New York banks who caused it may yet lose their shirt because of it. According to the New York Times, many of endangered Indonesia's firms hold large loans from the U.S. banking houses among others. They are so shaky that Chase Manhattan and other New York banks are now rolling over millions in order to forestall otherwise certain defaults. Other sources indicate that these banks are seeking to syndicate up to a billion or more in further rollovers in Europe and Japan — so far without takers. The extraordinarily precarious situation of the Wall Street banks means that a major default by Indonesia could pull the plug on Chase, Morgan, etc., and begin a chain collapse of the entire speculative bubble of Eurodollar finance.

The Real Battle of Pertamina

The real story behind the myths and half-truths now being disseminated about the fall of Pertamina and Sutowo's personal responsibility for the disaster lies hidden in the events of the crucial years 1973-74 when Sutowo's expanding organizing activities ran up against the Rockefellers' world-wide manipulation of the oil price and supply to break up an emerging Europe-Japan-Third World economic and political alliance free of Wall Street control.

In 1973, Indonesian nationalist leaders made a series of trips within the region, to Japan and to Europe to firm their economic ties. In June 1973, Sutowo traveled to Malaysia where he advised government officials on how to establish a state oil company on the Pertamina model. Later that year he traveled to the Philippines, Burma, India and Bangladesh to explain the method of joint oil company-government cooperation called ***production sharing***, which he pioneered in Indonesia and by which oil companies take the exploration risks in return for a portion of the oil pumped as payment (the remainder of the oil being under government control). He also invited additional U.S., European and Japanese independents to search for oil under such arrangements.

During the same year, President Suharto paid a visit to Japan to strengthen the traditional ties between Indonesia and Japan, while Ali Murtopo, Suharto's top aide visited Australian Prime Minister Gough Whitlam in October of 1973 to explore the possibility of closer economic ties. (Whitlam was just beginning to define his break with the anti-Third World, Rockefeller-influenced policies of the former government, including asserting control over the country's natural resources.) Indonesian Foreign Minister Adam Malik toured the Soviet Union and Eastern Europe to renew dormant ties with the socialist countries predating 1965, enhancing Indonesia's non-aligned status and increasing the nation's independence from the U.S.

On November 6, 1973, speaking in New York on the sixth anniversary of the opening of Pertamina's NewYork office, Sutowo spelled out his oil policy: to double production of the high quality Indonesian oil so badly needed in the West.

> In this time of shortage, I want you to know that Indonesia is endeavoring to increase its petroleum production and exports... Indonesia, the 8th largest oil exporting country in the world, one of the oldest oil producing countries in the world, is largely over-

looked. Indonesian crude, with its particularly low sulphur content that is so urgently sought in your country for environmental reasons, is largely forgotten. Indonesia's capacity to more than double production and exports of petroleum the next several years and its capacity to supply your petrochemical producers and consumers with critically short products are all largely ignored... For reasons I cannot comprehend, almost no one in all these studies, speeches and reports ever thinks of Indonesia.

During the same year, Sutowo made known his plans to create a nuclear power industry to provide for the day when the country's oil would run out. Sutowo envisioned that nuclear energy might eventually provide up to 30 percent of domestic energy requirements. In the meantime, he aimed to export oil as fast as possible, up to a rate of 3 million barrels per day.

Then came the manipulation of the Arab OPEC nations by the Rockefeller controlled majors in the Great Oil Hoax of late 1973-early 1974, which quadrupled oil prices and sent world consumption levels plunging. Pertamina's project to increase production was a threat to this Rockefeller's rigging of the oil trade. In January 1974, before the full effects of the oil hoax were comprehended, Sutowo made a visit to West Germany preparing to sign a deal for West German technology to construct a petrochemical complex, in return for a guarantee of five million barrels a month of crude for Germany. This was the sort of cooperation that the oil hoax was intended to forestall; the deal was not concluded.

However, the increase in oil prices also promised to give both Pertamina and the Indonesian government a great deal more revenue to continue development projects. To forestall this, the Indonesian government itself was destabilized through an operation conducted by the CIA-associated agents and the "technocrat" faction. In January, on the occasion of the visit of Japanese Prime Minister Kakuei Tanaka, a mass riot broke out in Jakarta that was later shown to have been prepared by an agent of the "technocrats" in the military, General Sumitro, and carried out by students under the influence of the banned Masjumi (Moslem) and Socialist (PSI) parties, both with ties to the CIA dating from before 1957.

In response to the riots, which served both to poison Japanese-Indonesian relations and set back efforts toward joint economic projects, Indonesian "Mufakat" (consensus) politics, where substance is lost in the shadows of byzantine maneuver, were replaced with open attacks by the nationalists on their opponents at home and abroad.

Ali Murtopo, leader of Suharto's Council of Special Assistants (ASPRI), Suharto's counter to the technocrats in the Cabinet, charged in the weekly Ekspres that the riots reflected "the well-known hand of the CIA" whose other recent activities included riots in Thailand, Korea and Chile; he pointed the finger at the Masjumi and PSI. B.M. Diah, editor of the pro-nationalist Merdeke, denounced "the clever executives from the western nations" who were forcing Indonesia to drive down its population's living standards. IMF-World Bank meddling was so apparent that the Far Eastern Economic Review reported on February 4 that "a number of close observers" attributed the student decision to attack the ASPRI "to a visit to Jakarta in early December of IGGI head Jan Pronk." And Murtopo's Ekspres made the argument explicit on January 8: "One road for Indonesia leads via the technocrats to a free flight and laissez faire pattern of development in the Western and American fashion, and another trend takes the form of cooperation with Japan on the basis of one's own strength without loans from the IGGI and the world bank with Pertamina as a guarantee."

The battle lines were drawn. No amount of post hoc "revelations" about Pertamina can alter the real substance of what was at stake, as presented by the participants themselves at the time — two diametrically opposed development strategies, one tied to IGGI-World Bank-IMF-Wall Street banks based on debt collection, the other based on Pertamina, rapid industrial expansion, and cooperation with Japan, Europe, etc.

Throughout 1974, Sutowo battled to survive. The world recession severely damaged his development projects and simultaneously caused oil demand to stagnate. It also doomed his project to develop an independent tanker fleet. The IMF edict to the world financial community banning any loans with durations between 1 year and 15 years forced Pertamina to take out large numbers of very dangerous short-term loans.

More broadly, the retreat of Europe and Japan before Rockefeller's oil hoax doomed the nationalists' ability to sustain the open fight begun in early 1974, and began a process of slow retreat that continues to this day. Nonetheless, most of Suharto's top aides except for Sutowo remain in position, headed by Ali Murtopo, and the fight continues. A debt moratorium for the Third World, and a renewal of the strong European push for cooperative deals that has been in partial abeyance since 1973, can instantly restore nationalist strength.

Pertamina: Epitome of "Generation of 45" Nationalism

As late as the spring of 1975, just after the default of Pertamina, an embattled Lt.-Gen. Ibnu Sutowo related to the *Far Eastern Economic Review's* Derek Davies his conception of development and the way to go about it:

> I believe in private enterprise... The Japanese miracle is a good example of how a government has extended facilities and banking to private enterprise — which has wrought an economic miracle. Some people lay much too much stress on control and planning and not enough on building up the country. What would there be to control if nobody built anything? Some say corruption must be eradicated. But unfortunately corruption infests every society to some degree or other. You cannot stop working because of it. Build something first.

For the leaders of the nationalist movement, Japan had been something of a model as far back as World War II, at least in respect to Japan's anti-Western nationalism and promise to liberate Indonesia from the Dutch. But even after gaining independence in 1949, Indonesia remained tied for years to Dutch and later Wall Street interests. The resounding defeat of the two pro-Western and CIA-linked parties, Masjumi and the PSI, in the 1956 elections brought to power an uneasy alliance of nationalist officers, the Communist Party and the Indonesian Nationalist Party (PNI). In 1957 the government nationalized the Dutch holdings in the country, a shipping company, plantations and other investments worth over $1 billion — and most of them were taken over by the army. Pertamina was born in 1957 when Dr. Sutowo, then a colonel, was assigned to take over the oil fields abandoned by Royal Dutch Shell after World War II. The crushing of the CIA-sponsored "Outer Islands Rebellion" in 1958 was followed by the creation of the Ministry of Oil and Natural Gas to begin a nationalist resources program. The national oil industry was split into three companies, Permina under Sutowo and the Army, Permigan under the Indonesian Communist Party (PKI), and Pertiman under the control of the technocrat "civil servants" — a division reflecting the political realities of the day.

Indonesia's oil industry has been dominated since the 1950s by Caltex, a joint operation of Texaco and Standard of California. Stanvac (Standard Oil of New Jersey, i.e., Exxon, and Socony Vacuum Oil, ie., Mobil of New York) were a distant second, followed by Royal Dutch Shell. To ensure their total control over Indonesia's oil Caltex and Stanvac conspired to deny the country its own refining capacity. Indonesia's crude is waxy, with a pour point of 100°; it must be transported through heated pipelines and on heated tankers and refined in special refineries. In 25 years, Stanvac has yet to increase the capacity of its prewar refinery, and Caltex has yet to build one, despite intense government pressure to do so. *Many* were built, but in Japan, Malaysia, Singapore, the Philippines and the Caribbean.

Sutowo set to work after 1957 to develop a national oil industry. In 1957 he made contact with one Harold Hutton, and signed a contract with Hutton's Refining Associated of Canada in 1958. Japanese oilmen, including several people who had been stationed in Indonesia during the War, were invited in. One Mr. Nishijima and Sutowo formed the North Sumatra Oil Development Company, along with other Japanese interests, to start shipping oil from North Sumatra.

The government passed a law in the early 1960s stating that the state companies had sole authority to exploit oil; foreign companies would have to become contractors to the state. Caltex resisted signing a new contract on this basis until 1963, when then-President Sukarno issued an ultimatum. The oil companies were terrified of the implications for their operations in the Middle East if this practice were to spread. The situation was so tense that President Kennedy had to send top Rockefeller oil lawyer J. Walter Levy as a personal emissary to resolve the issue in 1963 — and the companies gave in.

Their fears were realized when Sutowo went on a tour of Saudi Arabia, Venezuela, Iraq and Iran in 1961, and voiced his production-sharing idea to receptive ears. One year later, Indonesia joined OPEC.

Sutowo continued his international organizing. In 1962 he signed a contract with Asamara of Canada, and in 1963 a preliminary agreement with Union Oil of California. He also attempted to set up a marketing company in Japan to circumvent the multinational oil companies, and made contact with the independent Japanese power companies who wanted Indonesia's low sulphur crude.

In response both to Sukarno's increasingly anti-IMF stance, which culminated in his March 1965 declaration of a debt moratorium and withdrawal from the IMF, and to Sutowo's independent oil organizing, the CIA organized the October 1965 coup-countercoup scenario and the subsequent bloodbath against the Indonesian Communist Party (PKI). The hope was to install the "technocrat" faction to manage an austerity economy, restore the nation's credit-worthiness, and run a Brazil-style looting operation.

However, by 1967, nationalist general Suharto assumed full control over the Government with the downfall of Sukarno, denying the technocrats a free hand. The technocrats, largely the "Berkeley Mafia" of economists trained at Berkeley, Harvard and Cornell, were led by Ali Wardhana, Widjojo Nitisastro, Mohammad Sadli and others who took over most economic posts in the cabinet. They immediately called in the Harvard Development Advisory Service to design the government's budget and development program — to be implemented after an IMF austerity regimen. But the Army faction also gained added leverage over the economy, and took over the extensive economic assets of the PKI.

Sutowo stepped up his own organizing. In 1966, he signed his first production-sharing contract with the Independent Indonesian American Petroleum Company (IIAPCO). This was followed by a second contract in October, and a third with the Japanese independent Kyushu Oil Company, led by a leader of Japan's nationalist "resource faction," in November.

In 1968, Sutowo, having taken over the PKI's Permigan in 1965, forced a merger with the technocrat-run Pertamin under his own control. Pertamina was born.

In 1968, the new Pertamina acquired the remainder of the facilities of Royal Dutch Shell, making Pertamina a fully integrated national oil company. Contracts were signed with more independents, including Italy's ENI, Petromer Trend, and many others. Distribution facilities were acquired, while Pertamina began operating its own shipping fleet for domestic inter-island transport, and its own airline for company and related business.

By 1970, Pertamina under Sutowo had caused a revolution in the Indonesian oil industry. Total oil production had skyrocketed to almost 900,000 barrels per day and was still rising (reaching 1.4 million by 1974). (See Table 2.) The share held by the independents had grown to sizeable magnitudes from nothing (see Table 3 for 1976 breakdown.) Caltex had been pressured into more than tripling its 200,000 barrels per day (b-d) which rose to a high of one million b-d in 1974 (see Table 4.) Several dozen independent oil companies had begun operations in the country (see Chart 4). And Pertamina had already developed a substantial refining capacity, which reached over half a million b-d by 1976 (see Table 5).

In 1971 Suharto's top aides Ali Murtopo, Sudjono Humardani and Panglaykin, set up their own "think tank," the Center for Strategic and International Studies (CSIS), and immediately began turning out studies on the programs necessary to speed the country's development, all

Table 2
Oil Production in Indonesia

	Total (barrels per day)	Pertamina's Oil Production (barrels per day)
1965	482,600	34,695
1966	467,221	104,169
1967	510,221	100,578
1968	602,498	101,805
1969	742,331	96,706
1970	853,567	87,013
1971	892,186	88,164
1972	1,083,726	84,821
1973	1,338,457	100,320
1974	1,374,898	109,980
1975	1,306,452	89,590

Source: Indonesian Industry of Mines.

Table 3
1976 Oil Output, by Company
(in barrels per day)

Pertamina	85,118
Caltex	850,000*
ARCO	114,745
IIAPCO	140,000
Union	127,870
Petromer Trend	68,394
Total—Japex	80,839
Other	63,034**
Total	1,530,000*

*Estimate
**Interpolated, exact figures not available

Source: *Oil And Gas Journal*, Dec. 27,1976

Table 4
Caltex Production
(barrels per day)

1952	Began exporting nominal amounts
1954	43,000
1960	200.000
1969	600,000
1973	879,911
1974	1,000,000

Source: *Oil And Gas Journal*, Dec. 27, 1976

Chart 4
Oil Companies in Indonesia Linked to the Major Oil Companies

P.T. Caltex Pacific Indonesia— Joint venture between Standard Oil of California and Texaco

P.T. Stanvac— Joint Venture between Mobil and Exxon

Shell— Royal Dutch Shell group

European State Oil Companies

AGIP Spa. Indonesia	Italian
BP Petroleum Development of Indonesia	Britain
Total Indonesia - CFP	French

Independents

American Indonesia Inc.	USA
AMOCO Indonesia Petroleum Co.	USA
ARCO	USA
Asamera Oil Ltd.	Canada
Ashland Petroleum Indonesia Inc	USA
Associated Australian Resources N.L.	Australia
Continental Oil Co. Of Indonesia	USA
IIAPCO	USA
Cities Service	USA
Sun Oil Co.	USA
International Oil Ltd.	USA
JAPEX	Japan
North Sumatra Oil Company	Japan
Petromer Trend	USA
Phillips Petroleum Co.	USA
Refining Associates	Canada
Roy M. Huffington Inc.	Canada
Union Oil Co.	USA
Gulf Oil	USA

Table 5
Pertamina Refineries
(barrels per day)

Balikpapan, Kalimantan	75,000
Dumai, Central Sumatra	100,000
Pangakalan Brandan, North Sumatra	4,500
Plaju, South Sumatra	111,200
Sungei Gerong, South Sumatra	79,000
Sungei Pakning, Central Sumatra	50,000
Wonokromo, East Java	4,000
Cilacap, Central Java	100,000

in strong contrast to the DAS-World Bank labor-intensive schemes pushed by the technocrats. The expansion of Sutowo's activities in the 1970s primarily involved implementation of the CSIS-developed conceptions.

The Soviet-aided Krakatau steel project, begun under Sukarno and abandoned in 1965, was taken over, and started up again with a target capacity of 1.5 million tons based on estimated domestic demand by 1975. West German financing was secured for the project, and West German companies began engineering work on it. Far from an "extravagance" for an underdeveloped country like Indonesia, the project was to serve as the central point for an entire industrial city, "Kota Baja," where the steel plant would have been the basis of an entire metallurgical industry.

A similarly conceived super-project on Bataam Island was to be centered around an oil refining and petrochemical complex, serviced by a city of 100,000 and a work force of 40,000. Sutowo also began construction or planning of projects for LNG production, and for a huge aluminum complex at Asahan in North Sumatra. This project is still on the books, with funding provided by the Japanese. And in stark contrast to the World Bank's labor-intensive agricultural and transmigration plans, Pertamina began setting up several huge rice estates, to be fully mechanized, highly efficient and productive super-farms in virgin land on Sumatra. Pertamina also contracted for construction of hundreds of millions of dollars in infrastructure, mainly roads, to service the projects.

Today, these projects are under attack as boondoggles, pork barrels and extravagances, or worse. Such criticism suspiciously overlooks the fact that Chase Manhattan Bank is today intrinsically more unsound in financial terms than Pertamina ever was. That is why Pertamina is being sucked dry by Chase.

Had Pertamina, say, received a debt moratorium in 1975 instead of forced collapse, some of its industrial projects would already be starting to pay for themselves. A debt moratorium and a new start on a crash development program is still the only answer for Indonesia. Without that, today's economic contraction will become tomorrow's famine and total collapse.