

## **CHAPTER II**

### **THE OIL PRODUCTION OF INDONESIA BEFORE JOINING OPEC IN 1962**

This second chapter elaborates the condition of Indonesia's oil production before Indonesia decided to join OPEC for the first time in 1962. This chapter explains that Indonesia was capable to fulfill the domestic demand of oil at that time. This chapter helps readers to understand the chronology of Indonesia's dynamic in oil sector better.

#### **A. Indonesia as an Oil Producing Country**

Indonesia, officially the Republic of Indonesia, is a country that is located in the South East Asia. Indonesia is one of the largest countries in the world in terms of population and territory, with 243 million populations and 1.9 kilometers of land territory. The United Nations' data shows that Indonesia's population reached 260 million people in 2016. Indonesia is an archipelagic country which has 5 big islands and 13.466 small islands. Furthermore, Indonesia is the country that has the most Moslem population, with more than 220 million Moslems. Indonesia is a country of diversity. It consists of hundreds of different ethnicities, hundreds of local languages, and religions. This diversity is represented in the national slogan of Indonesia, "Bhinneka Tunggal

Ika”, which means that Indonesia is united despite of these differences.<sup>13</sup> The United Nations summarizes Indonesia’s general profile in its official website as follows:

**Table 2.1. UN Data Summary Statistics: Indonesia.<sup>14</sup>**

Region	South-Eastern Asia
Surface Area (sq km)	1910931
Population (proj., 000)	260581
Population Density (per sq km)	143.8
Capital City	Jakarta
Capital City Population (.000)	10323
Currency	Rupiah (IDR)
UN Membership Date	28 September 1950

Source: United Nations Country Profile

<http://data.un.org/CountryProfile.aspx?crName=indonesia#Environment>

Geographically, Indonesia has direct borders with Singapore and Malaysia in the north, Australia in the south, Papua New Guinea and East Timor in the east. Having these neighbor countries also become a problem for

<sup>13</sup> Kementerian Sekretariat Negara Republik Indonesia. (2017). Identitas Nasional. Retrieved 8 8, 2017, from Indonesia.go.id: [http://indonesia.go.id/?page\\_id=5447](http://indonesia.go.id/?page_id=5447)

<sup>14</sup> United Nations. (2017). Country Profile. Retrieved 8 8, 2017, from Data.UN.org: <http://data.un.org/CountryProfile.aspx?crName=indonesia#Environment>

Indonesia. Indonesia frequently has problems in determining the exact borderline between these countries, especially with Malaysia. Sometimes Indonesia claims an island of which another country, Malaysia for instance, believes that they are the true owner. Several borderline cases have been solved through the International Court of Justice, but most of them are still unresolved until today.

Besides, Indonesia is located between two continents, Australia and Asia. This geographical position significantly impacts Indonesia's cultural, social, and economical condition. This position makes Indonesia to become the Sea Lanes of Communication and Sea Lanes of Oil Trade between the two regions. Indonesian territory also becomes one the most important routes for international and regional trades because it is passed by more than 50% commercial trade ships that conduct trade with ASEAN countries.

Indonesia is a democratic country that acknowledges multi-parties. As the other democratic states, Indonesia also acknowledges *Trias Politica*, which is a governance system that is run by three main organs, such as: legislative, executive, and judicative. The legislative house is ruled by *Majelis Permusyawaratan Rakyat/MPR* (People's Consultative Assembly). Executive body is centered on a President and Vice-President whom are selected through general election once in 5-years, while the Judicative body is run by the courts.

Indonesia is very rich of its natural resources, including oil and gas. Indonesia was a net oil exporter, which means that Indonesia had oil production that exceeded the domestic needs. Today, Indonesia is still an oil producing country, but the production rate unfortunately cannot fulfill the domestic demand due to the fast industrial development. The map of Indonesia's oil can be seen in Figure 2.1.

**Figure 2.1. Indonesia's Oil Map<sup>15</sup>**



Source: Dirjen Minyak dan Gas Bumi, Kementerian ESDM RI.  
<http://migas.esdm.go.id/post/category/petadandata/petacadangan>

## **B. The History of Indonesia's Oil Sector**

In Indonesia, the first oil digging was conducted by the Dutch in 1871 in Cirebon, West Java. It was conducted by a Dutch entrepreneur namely Jan

<sup>15</sup> Kementerian ESDM RI. (n.d.). Peta Minyak Indonesia. Retrieved from <http://migas.esdm.go.id/post/category/petadandata/petacadangan>

Reerink. He obtained a concession from the Dutch government. However, the first oil well which successfully produced oil was Telaga Said Well in North Sumatera that was digged in 1883. The first concession of the oil management for Telaga Tiga area was given by Sultan Langkat to Aeilko J. Zijlker.<sup>16</sup>

The finding of the new commercial oil production then became a turning point for the establishment of Royal Dutch Company in Brandan base in 1885. Since that day, the exploitation and exploration of oil in Indonesia began. After Telaga Said Well's oil production ran, the oil industry of Indonesia developed. Inventions and discoveries of oil appeared one by another. It was the moment when Indonesia was still under the colony of Dutch. When the East Asia War occurred, the oil production was troubled. As the result, during Japan's colonization era, the efforts that could be done were only rehabilitating and repairing the destroyed oil fields and wells.

In 1912, an American oil company came to Indonesia. A company namely N.V Standard Vacuum Petroleum Maatschappij (SVPM) was created. This company has a branch office in South Sumatra which was known as NVNKPM (*Nederlandsche Koloniale Petroleum Maatschappij*). The name of the company changed into PT. Stanvac Indonesia after the war ended. This company found the largest oil field in Indonesia in 1921.

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<sup>16</sup> Litbang Kompas. (2015). Riwayat Kebijakan Minyak di Indonesia. Retrieved from Kompaspedia: <http://kompaspedia.kompas.com/Riset/Kronologi/Mei-2015/Riwayat-Kebijakan-Minyak-di-Indonesia.aspx>

During the war seeking for Indonesia's independence, the oil production stopped. But after the war was over, Indonesia started to run good maintenances, all oil fields and wells that were left by the Dutch and Japan were managed by the government. Until 1950, a lot of new oil field and oil wells was found in East Java, South Sumatera, North Sumatera, and East Kalimantan.

In order to manage the owned oil assets, the government of Indonesia established a national oil company in December 10<sup>th</sup>, 1957. The company's name was PT. Pertambangan Minyak Nasional Indonesia (PERMINA). The company then merged with PT. Pertambangan Minyak Indonesia (PERTAMIN) and created a new company namely PERTAMINA in 1968.

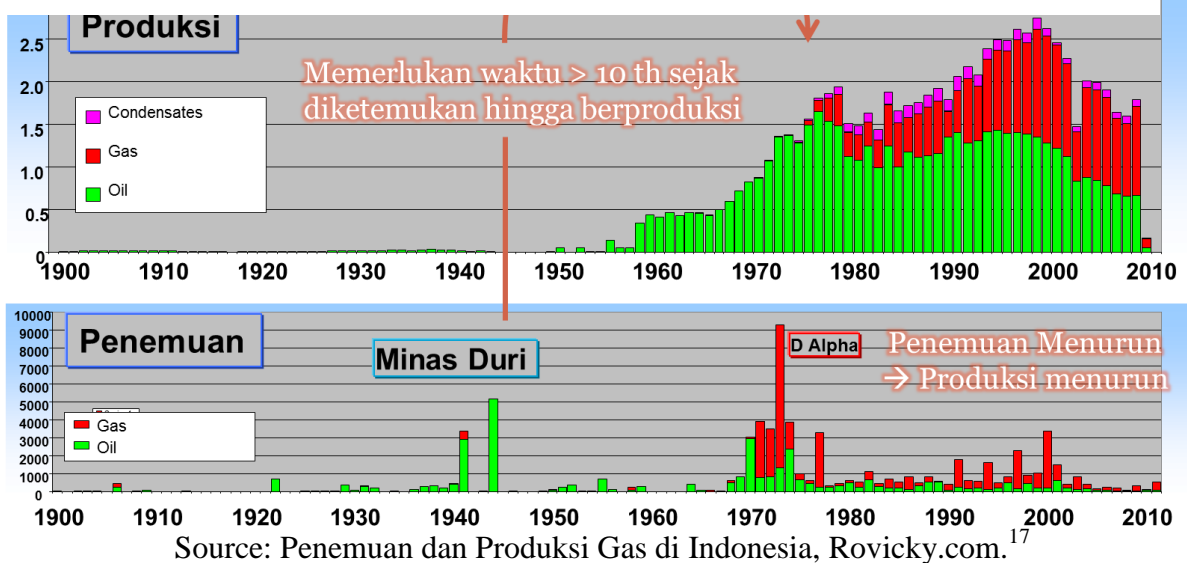
### **C. Indonesia's Oil Production before 1962**

In 1920, two American oil companies came into Indonesia, they are Standard Oil for California and Texaco. Then in 1930, these two big companies merged into PT. Caltex Pacific Indonesia (now PT. Chevron Pacific Indonesia). This big oil company conducted massive explorations in Sumatera. The company's exploration found Sebangga field in 1940 and Duri field in 1941. Furthermore, they found a giant oil field, Minas field, in 1944, which was then digged in 1950.

Having found a lot of new oil fields in 1940-1950 did not make Indonesia's oil production suddenly increased. The government of Indonesia

needed to build the oil refineries to take the oil from the fields and it needed time. Since the discoveries of the great oil fields in 1940-1950, the production finally came into fruition in 1960 and reached the peak of oil production in 1977. As seen in figure 2.2, the upper chart shows the production rate while the lower chart shows the oil field discovery rate. Significant discoveries were found in 1940, especially Minas Duri oil field. However, the oil was obtained after 20-30 years of preparation.

**Figure 2.2. Indonesia's Oil Production and Discovery 1900 – 2010**



<https://rovicky.com/2014/09/05/menyiapkan-penyediaan-energi-dengan-akselerasi-kegiatan-eksplorasi/>

Since 1957, the result of the oil refineries finally came into fruition.

Indonesia started to produce abundance of oil and the production rate was

<sup>17</sup> Rovicky.com. (n.d.). Menyiapkan penyediaan energi dengan kegiatan eksplorasi. Retrieved from <https://rovicky.com/2014/09/05/menyiapkan-penyediaan-energi-dengan-akselerasi-kegiatan-eksplorasi/>

gradually increasing. The good oil production of Indonesia became one of the determining factor of why Indonesia finally decided to join the Organization of Petroleum Exporting Countries (OPEC) in 1962.