



CIA/RR CB 65-1
January 1965

Copy No. 199

INTELLIGENCE BRIEF

IMPENDING TAKEOVER OF US RUBBER ESTATES
IN INDONESIA

DIRECTORATE OF INTELLIGENCE
Office of Research and Reports

GROUP 1
Excluded from automatic
downgrading and
declassification

W A R N I N G

This material contains information affecting the National Defense of the United States within the meaning of the espionage laws, Title 18, USC, Secs. 793 and 794, the transmission or revelation of which in any manner to an unauthorized person is prohibited by law.

C-O-N-F-I-D-E-N-T-I-A-L

IMPENDING TAKEOVER OF US RUBBER ESTATES
IN INDONESIA

President Sukarno allegedly has approved a plan for the takeover of US and Belgian rubber estates. According to this plan, Indonesian labor groups will create disturbances on the estates, thereby setting the stage for intervention and takeover by the government of Indonesia on the pretext of maintaining control. The takeover presumably would follow the lines taken against the Dutch estates (in 1957-58), the Belgian estates (in 1961*), and the British estates (in 1964).

Sizable plantations of two major US firms and small holdings of a third US company are affected, representing together an estimated investment of about US \$85 million** and second only to the heavy US private investment in the oil industry of Indonesia. In spite of considerable harassment, these estates have operated at a relatively high rate and have made modestly important contributions to total rubber output and earnings in Indonesia. In 1963 they are estimated to have produced 26,000 metric tons of rubber, which netted about \$13.3 million, or 6 percent of Indonesia's total earnings of foreign exchange from natural rubber.

If the takeover of US rubber interests results in the sudden departure of the present managers and technical personnel of the estates, the Indonesians may encounter problems in operating the US estates. Moreover, should the takeover lead to an economic estrangement between the US and Indonesia, the Indonesian rubber industry may face a serious setback. The US is the leading buyer of Indonesian rubber, having purchased about 38 percent of total rubber exports in recent periods. Such imports of Indonesian rubber, however, account for only about 11 percent of US consumption of rubber. US stockpiles of natural rubber are sufficient to forego purchases from Indonesia for an extended period. Moreover, it is questionable whether the Communist countries would take up the gap in buying created by US withdrawal from the Indonesian rubber market.

* Indonesian "protective custody" over the Belgian estates ended in May 1963.

** Dollar values are given in US dollars throughout this publication.

C-O-N-F-I-D-E-N-T-I-A-L

1. Indications of the Impending Takeover

Action reportedly has been initiated for the impending takeover of US and Belgian rubber estates by the government of Indonesia. President Sukarno allegedly met Indonesian officials on 8 December 1964 and approved plans calling for labor groups to create disorders on the US estates so that the Indonesians would be "forced" to take control. 1/ By so doing Sukarno could obtain control of the estates without formal nationalization and thus obscure the question of future compensation. Similar tactics were employed in gaining control of the Dutch estates in 1957-58, the Belgian estates in 1961, and the British estates in early 1964. In the case of the Dutch and British holdings, the Indonesians followed up their takeovers by ousting the foreign personnel and assuming full managerial control.

As in the previous cases, the impending takeover of US and Belgian rubber estates is linked closely to developments on the international scene. In the present instance the takeover is associated with the recent US-Belgian relief action in the Congo and with the US support for Malaysia and South Vietnam. 2/ On 11 December a US official sought reassurance from Sukarno that the government of Indonesia would block a takeover of US estates but received instead a warning that the US Government should be "careful in its relations with Asian-African countries." 3/ Furthermore, anti-US sentiment, manifested by the recent damaging of two US cultural centers, includes demands by the PNI and PKI* that Sukarno take action against the US estates.

2. Background of the Threat to US Holdings

Although the impending takeover may be sparked by recent political events, the threat to US rubber holdings has been building up for some time, dating back to the ouster of the Dutch in 1957-58 and to Sukarno's pledge to carry out nationalization of the remaining foreign interests in Indonesia. The modestly successful efforts in managing the Dutch rubber estates probably have made the Indonesians confident of similar successes with other foreign investments in rubber. In September 1960 the government of Indonesia decreed that all foreign rubber estates with concessions expiring by 1965 would on

* The PNI is the Indonesian National Party, and the PKI is the Indonesian Communist Party.

expiration revert to the government. 4/ Those concessions expiring after 1965 were subject to negotiation. The US Rubber Company reached an early accord with the Indonesians and, in return for ceding about 46 percent of its area to the government, obtained concession rights that extend to 1972. 5/ The Goodyear Tire and Rubber Company -- the other major US firm with rubber estates in Indonesia -- agreed in 1963 to exchange its large Wingfoot estate (see the map) for two smaller government rubber estates that abutted Goodyear's holdings in Dolok Merangir. 6/ The Indonesians, however, have held off implementation of the agreement and have permitted one of its companies prematurely to take over part of the Wingfoot estate. 7/ This perfidy brought strong reaction from Goodyear, and the ensuing differences may have prompted the rumor that the impending takeover is aimed primarily at the Goodyear estates. 8/

It is clear, however, that all US and other foreign holdings are targets for eventual takeover by the Indonesians. On 17 August 1964, President Sukarno stated that "fundamentally and eventually no imperialists' capital will be allowed to operate on Indonesian soil." The procedure to be followed, according to Sukarno, may vary: "It can be nationalization with compensation; it may also be confiscation without compensation." 9/

3. Significance of the US Holdings

The US rubber estates consist of the two major holdings of US Rubber and Goodyear and a small estate owned by Hawaiian Sumatra Plantations. 10/ All of the US estates are located on the northeast coast of Sumatra (see the map) and comprise about 100,000 acres. In total size the US estates are smaller than the British but larger than the Belgian rubber holdings in Indonesia.* Information concerning the individual US estates is given in the accompanying table.

The US rubber holdings have an estimated value of about \$85 million** and, although considerably below the US investment in oil

* British rubber estates comprise roughly 150,000 acres. The Belgian estates, represented principally by Société Financière des Caoutchoucs (SOCFIN), by Anglo-Sumatran Estates Agency (SIPEF), and by Guthrie and Co., Ltd., are estimated to be somewhat over 50,000 acres. 11/

** In addition to its rubber estates, Goodyear owns a tire plant at Bogor that is valued at \$5 million.

C-O-N-F-I-D-E-N-T-I-A-L

Indonesia: Rubber Estates Owned by US Companies
1964

<u>US Company</u>	<u>Location</u>	<u>Acreage ^{a/}</u>	<u>Estimated Value ^{b/}</u>
US Rubber Company	Kisaran	54,700	\$50 million
Goodyear Tire and Rubber Company	Dolok Merangir	44,500 ^{c/}	\$34 million
Hawaiian Sumatra Plantations	Kwala Goenoeng	3,000	\$ 1.5 million

a. Rounded to the nearest hundred acres.

b. These values are estimated to approximate investment and are well in excess of the book and current market values of the various estates.

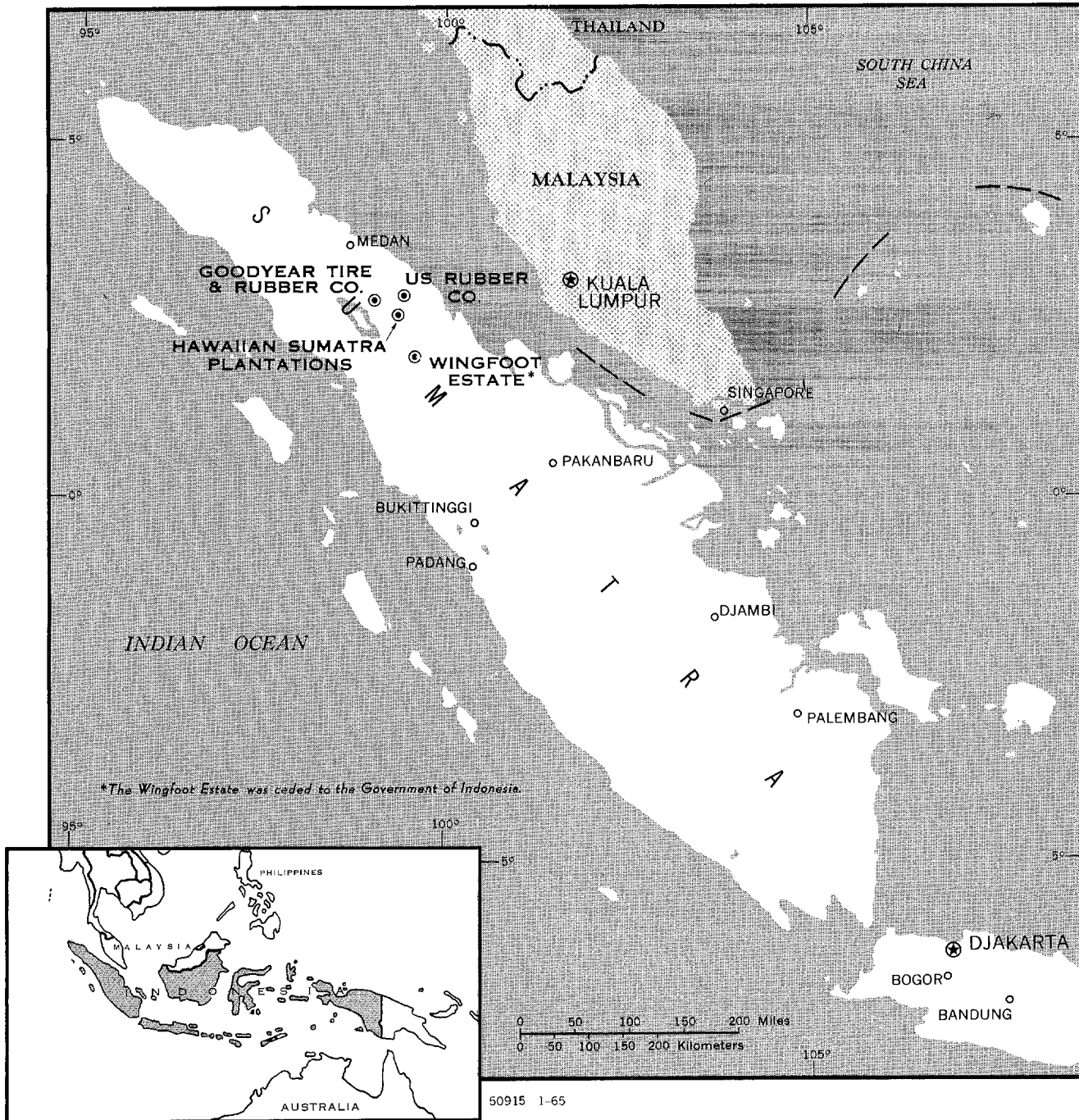
c. Including two estates that the government of Indonesia has agreed to cede to Goodyear in exchange for Goodyear's Wingfoot estate of 40,000 acres.

(\$380 million), represent the second most important financial stake of US private capital in Indonesia. ^{12/} Most of these investments are in fixed assets such as buildings, processing equipment, and rubber trees and therefore cannot be transferred out of the country. Moreover, given the current political and economic climate in Indonesia, it is doubtful that foreign buyers would be found for the US estates. Accordingly, the current market value of the US estates is well below \$85 million.

The US estates, together with other rubber estates, form a relatively small but highly efficient sector of the Indonesian natural rubber industry. Estate rubber, in contrast to that supplied by Indonesia's smallholders, is of high quality and is marketed directly to various foreign countries. In 1963 the US estates are estimated to have produced 26,000 metric tons of natural rubber, or about 4 percent of Indonesia's total output. The sale of US estate rubber brought an estimated \$13.3 million, or about 6 percent of Indonesia's total foreign exchange earnings from natural rubber in 1963. The government of Indonesia, however, derived only about \$6 million in revenue from the US rubber estates in 1963. The contribution of US estates

C-O-N-F-I-D-E-N-T-I-A-L

US Rubber Estates in Indonesia



C-O-N-F-I-D-E-N-T-I-A-L

to Indonesia's national income also is modest but is of some significance to Sumatra. In addition to employing an estimated total of 16,000 workers, the two large US estates indirectly support approximately 40,000 people. 13/

4. Possible Effects of the Takeover

Indonesian takeover of the US rubber estates may have damaging, although not necessarily disastrous, consequences for operations. Assuming that the present administrators and technical personnel are not suddenly dismissed or forced to leave, it seems quite possible that output and earnings on the estates will continue at a relatively high rate. By forestalling the departure of the trained personnel, the Indonesians would gain time to acquaint their personnel with operations of the estates and to train adequate replacements.

If, however, Indonesia immediately ousts the present staff and replaces them with favored but ill-trained personnel, such as reportedly is happening on British estates, it appears quite likely that operations on the US estates will take an immediate turn for the worse.

Moreover, should the Indonesian actions lead to an economic estrangement with the US, it seems possible that the over-all rubber industry of Indonesia will suffer. At present, the US is the leading customer for Indonesian rubber, buying about 38 percent of its total rubber exports. Since such imports account for only about 11 percent of US consumption of rubber and there are abundant stocks of natural rubber in the US, the US could forego buying rubber from Indonesia for an extended time. Indonesia, on the other hand, might have problems marketing the additional rubber, particularly because there is some question whether the Communist countries would be willing to increase their purchases sufficiently to take up the gap created by US withdrawal from the Indonesian rubber market. Additional purchases by the USSR, moreover, would not necessarily bring badly needed foreign exchange to Indonesia, because they might be applied against the large outstanding debt that Indonesia owes the USSR.

C-O-N-F-I-D-E-N-T-I-A-L

C-O-N-F-I-D-E-N-T-I-A-L

Sources:

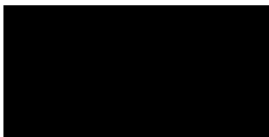
1. State, Djakarta. T-1108, 14 Dec 64. C.
State, Djakarta. T-1086, 10 Dec 64. C.
State, Djakarta. T-1099, 11 Dec 64. C.
State, Djakarta. T-1005, 30 Nov 64. OFF USE.
2. Ibid.
3. State, Djakarta. T-1099, 11 Dec 64. C.
4. State, Medan. Airgram A-7, 27 Aug 64, p. 1-2. C.
State, Medan. Airgram A-6, 24 Jul 62, p. 1-3. OFF USE.
5. State, Medan. Airgram A-6, 24 Jul 62, p. 1. OFF USE.
6. State, Medan. Airgram A-7, 27 Aug 64, p. 2. C.
7. State, Djakarta. T-800, 30 Oct 64. C.
8. State, Djakarta. T-1108, 14 Dec 64. C.
9. State, Djakarta. Airgram A-148, 21 Aug 64, p. 2. C.
10. State, Djakarta. Airgram A-340, 4 Nov 64. U.
11. State, Medan. Airgram A-94, 7 May 63, p. 1. U.
12. State, Djakarta. Airgram A-39, 10 Jul 64, p. 2-3. OFF USE.
13. State, Djakarta. Airgram A-885, 13 Mar 64, p. 2. OFF USE.
State, Djakarta. Airgram A-854, 13 Mar 64, p. 1. OFF USE.

Analyst:



25X1A

Coord:



OCI
ORR
ORR

25X1A

C-O-N-F-I-D-E-N-T-I-A-L

Approved For Release 2001/03/22 : CIA-RDP79T01003A002200010001-5
CONFIDENTIAL

CONFIDENTIAL
Approved For Release 2001/03/22 : CIA-RDP79T01003A002200010001-5

Analyst: [REDACTED] R/CH

(Project 22, 5210)

Approved For Release 2001/03/22 : CIA-RDP79T01003A002200010001-5

OFFICE OF RESEARCH AND REPORTS

25X1A

St/P/RR - Control Section

Control Sheet

CONFIDENTIALGROUP 1
Excluded from automatic
downgrading and
declassificationSeries Number CIA/RR CB 65-1

Classification _____

Date of Document January 1965Number of Copies 280

Copy No.	Recipient	Date	Returned
33	AD/RR	25X1A	6 Jan 65
34	DAD/RR	"	19 Jan 65
84	[REDACTED] R/CH	"	26 Jan 65
173	DAD/RR	7 Jan 65	
174	CGS/HR/Ops, 1G81, Hq.	8 Jan 65	
175	[REDACTED] St/P	25X1A	"
176	[REDACTED] OCR	"	13 Jan 65
177	[REDACTED]	8 Jan 65	
178 - 181	[REDACTED]	"	
182	[REDACTED]	"	
183	[REDACTED]	"	
184 - 186	[REDACTED]	"	
187	[REDACTED]	"	25X1C
188	[REDACTED]	"	
189	[REDACTED]	"	
190	[REDACTED]	"	
191	[REDACTED]	"	
192	[REDACTED]	"	
193	[REDACTED]	"	
194	[REDACTED]	"	
195	[REDACTED]	"	
196	[REDACTED]	"	
197	[REDACTED]	"	
198	[REDACTED]	Not Sent	9 Feb 65
199 - 201	[REDACTED]	"	
203 - 230	Filed in St/P/C	8 Jan 65	
203 - 235	See attached memo	14 Jan 65	25X1A
236	[REDACTED]	14 Jan 65	
231 - 236	Rec'd from Records Center	18 Jan 65	25X1A
69	Rec'd from O/DI	19 Jan 65	
199	Rec'd in St/P/C	29 Jan 65	
1434	[REDACTED] I/LA	31 Mar 65	3 Jan 65
33, 69, 176, 229, 236	Records Center	18 May 65	25X1A
198	[REDACTED] A/L	13 Jul 65	
227	[REDACTED]	6 May 66	6 May 66
200, 201, 220, 228	ROC	14 Jul 67	

Approved For Release 2001/03/22 : CIA-RDP79T01003A002200010001-5

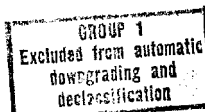
SUBJECT: Distribution of Current Support Brief No. 65-1,
Impending Takeover of US Rubber Estates in Indonesia --- January
1965 (CONFIDENTIAL)

Copy No.

1	O/DDI, Room 7E32, Hdqtrs.	25X1A
2 - 3	NIC	
4 - 12	OCI Internal	
13 - 15	ONE	
16 - 21	St/CS/RR [REDACTED]	25X1A
22	O/DDI - [REDACTED]	
23 - 31	NSA/[REDACTED]	
32	NSAL	
33 - 280	ORR Distribution, St/A/Document Support Section, Room GH0915, Hdqtrs. (sent direct to St/A/DS, 8 Jan 65).	

(Distributed by OCR)

~~CONFIDENTIAL~~



CONFIDENTIAL

Approved For Release 2001/03/22 : CIA-RDP79T01003A002200010001-5

St/A/DS Distribution of Current Support Brief No. 65-1, Impending

Takeover of US Rubber Estates in Indonesia --- January 1965

(CONFIDENTIAL)

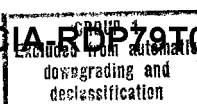
Copy No.

Recipient

33	AD/RR	
34	DAD/RR	
35	Ch/E	
36	St/PR	
37 - 42	D/A (1 each branch)	
43 - 48	D/MS (1 each branch)	
49 - 54	D/R (1 each branch)	
55	MRA	
56 - 60	D/P (1 each branch)	
61 - 66	D/F (1 each branch)	
67	St/PS	
68 - 76	D/I (1 each branch)	
77 - 78	D/GG	
79 - 80	D/GC	
81	D/GX/X	
82	RID/AN, Unit 4, Room 1B4004, Hq.	
83, 85-87	St/P/A	
88	St/P/A	
89	St/FM	
90	AD/RR	
91	GR/CR	
92	BR/CR	
93	FIB/SR/CR, Room 1G27, Hq.	
94	Library/CR	
95	IPI/CR	25X1A
96	[REDACTED]	
97	AD/OO	
98	Chief, OCR/FDD	
99	CD/OO	
100	OCI/SA/R, Room 5G19, Hq.	25X1A
101	DDI/CGS, Room 7F35, Hq.	
102 - 103	DDI/CGS/HR, Room 1G81, Hq.	
104 - 106	OSI	
107	OBI	
108	DD/S&T/SpINT	
109 - 110	OTR/IS/IP, Room 532, Broyhill Bldg., 1000 Glebe (1 - OTR/SIC)	
111	NPIC/CSD/REF, Room 1S518, [REDACTED]	
112	Commandant National War College, Ft. Leslie McNair, Attn: Classified Records Section, Rm. 26, Nat'l War College Bldg., Washington, D. C.	
113 - 114	Assistant Secretary of Defense, ISA, Room 4D825, Pentagon	
115 - 153	Defense Intelligence Agency, DIAAQ-3, A Bldg., Arlington Hall Station	
154 - 157	USIA, Warren Phelps, IRR/D, Room 812, Walker Johnson Building, 1734 New York Avenue, N. W.	
158 - 169	State, INR Communications Center, Room 7818, State Dept. Bldg.	
170 - 171	Dr. Neilson Debevoise, NSC, Room 365, Executive Office Bldg.	
172 + 202	Frank M. Charrette, Agency for International Development, Chief, Statistics and Reports Division, Room A-204, State Annex #10	
174 - 230	St/P/C/RR, Room 4F41, Hq. (held in St/P/C, 8 Jan 65).	
231 - 280	Records Center	

Approved For Release 2001/03/22 : CIA-RDP79T01003A002200010001-5

CONFIDENTIAL



CONFIDENTIAL

Approved For Release 2001/03/22 : CIA-RDP79T01003A002200010001-5

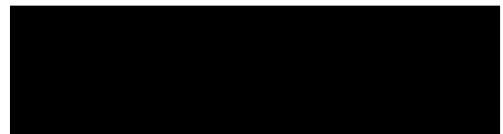
14 January 1965

MEMORANDUM FOR: Chief, Dissemination Control Branch, DD/CR
FROM : Chief, Publications Staff, ORR
SUBJECT : Transmittal of Material

It is requested that the attached copies of CIA/RR CB 65-1,
Impending Takeover of US Rubber Estates in Indonesia, January 1965,
Confidential, be forwarded as follows:

State, INR Communications Center,
Room 7818, State Dept. Bldg.
Suggested distribution for
Embassies in Moscow, Bern, London,
Wellington, Manila, Canberra, Melbourne,
Bangkok, Djakarta, Hong Kong, Rangoon,
Kuala Lumpur, Saigon, Seoul, Singapore,
Taipei, Tokyo, Vientiane, Phnom Pehn,
Colombo, Kabul, Karachi, and Ottawa

25X1A



Attachments:

Copies #203 - #225 of CB 65-1

cc: CGS/RB

ACTION COMPLETED

The dissemination requested by
this memorandum has been completed.

BY: *NOB*

Date: *18 Jan 65*

Approved For Release 2001/03/22 : CIA-RDP79T01003A002200010001-5

CONFIDENTIAL



Project No. 22.5210 Report Series CIA/RR CB 65-1

Title Impending Takeover of US Rubber Estates in Indonesia --- January 1965 (CONFIDENTIAL)

Responsible Analyst and Branch [REDACTED] R/CH 25X1A

RECOMMENDED DISTRIBUTION TO STATE POSTS

<u>Bloc</u>	<u>Far East</u>	<u>ARA</u>
Berlin, Germany	✓ Bangkok, Thailand	Mexico
Bucharest, Romania	✓ Djakarta, Indonesia	Guatemala
Budapest, Hungary	✓ Hong Kong	Panama
✓ Moscow, USSR	✓ Rangoon, Burma	Brazillia, Brazil
Prague, Czechoslovakia	✓ Kuala Lumpur, Malaya	Buenos Aires, Argentina
Sofia, Bulgaria	✓ Saigon, Vietnam	Bogota, Colombia
Warsaw, Poland	✓ Seoul, Korea	Santiago, Chile
	✓ Singapore, British Malaya	La Paz, Bolivia
	✓ Taipei, Formosa	Montevideo, Uruguay
	✓ Tokyo, Japan	Caracas, Venezuela
<u>Europe</u>	✓ Vientiane, Laos	
Belgrade, Yugoslavia	✓ Phnom Penh, Cambodia	<u>Africa</u>
✓ Bern, Switzerland	✓ Colombo, Ceylon	Yaounde, Cameroun
Bonn, Germany		Leopoldville, Congo
Brussels, Belgium	<u>Near East & South Asia</u>	Addis Ababa, Ethiopia
Copenhagen, Denmark	Ankara, Turkey	Accra, Ghana
Frankfurt, Germany	Athens, Greece	Abidjan, Ivory Coast
Geneva, Switzerland	Cairo, Egypt	Nairobi, Kenya
Helsinki, Finland	✓ Damascus, Syria	Monrovia, Liberia
The Hague, Netherlands	✓ Kabul, Afghanistan	Tripoli, Libya
Lisbon, Portugal	✓ Karachi, Pakistan	Rabat, Morocco
✓ London, England	New Delhi, India	Lagos, Nigeria
Luxembourg, Luxembourg	Nicosia, Cyprus	Mogadiscio, Somal
Madrid, Spain	Tehran, Iran	Khartoum, Sudan
Oslo, Norway	Baghdad, Iraq	Tunis, Tunisia
Paris, France	Tel Aviv, Israel	Pretoria, South Africa
Rome, Italy	Beirut, Lebanon	Algiers, Algeria
Stockholm, Sweden	Amman, Jordon	Cotonou, Dahomey
Vienna, Austria	Jidda, Saudi Arabia	Dakar, Senegal
<u>Pacific</u>		Bamako, Mali
✓ Wellington, New Zealand	✓ <u>Ottawa, Canada</u>	
✓ Manila, Philippines		
✓ Canberra, Australia		
✓ Melbourne, Australia		

SECRET

Approved For Release 2001/03/22 : CIA-RDP79T01003A002200010001-5
 (When Filled In)
 RECORD OF REVIEW OF ORR PUBLICATIONS FOR SECURITY/SANITIZATION APPROVAL

SUBJECT

CIA/RR CB 65-1 (22.5210)

BRANCH

P/CH

EXTENSION

SECURITY REVIEW

SANITIZING INSTRUCTIONS

ITEM

DATE

INITIALS

REMOVE

UNEDITED DRAFT

Page 7

25X1A

EDITED DRAFT

DELETE

25X1C

SUBSTITUTE

25X1C

REMARKS

When CB was reviewed for release [REDACTED] the following comment was made by SA/RR and concurred in by AD/RR: "Discusses US-Indonesian relationships and possible policy implications." Consequently, CB was not released

25X1C

Request received from [REDACTED] for release [REDACTED]
 [REDACTED] Turned down [REDACTED] for reason
 above. 11 Mar 65

25X1C

25X1C

25X1C

25X1C

Approved For Release 2001/03/22 : CIA-RDP79T01003A002200010001-5

SECRET

Excluded from automatic
downgrading and declassification